LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD OF PKO BP S.A.,

Dear Ladies and Gentlemen,

I am happy to inform you that 2006 turned out to be a highly successful year in the history of PKO Bank Polski, a just reward for all the hard work the Bank's personnel put in. Over the course of the year we spared no effort to strengthen our market position, improve the quality of our services, and ensure that our daily business was carried out more efficiently and productively.

As a result, we are once again able to report the best performance figures in the Polish banking market: this time not only gross profit (as was the case in the previous year) but also net profit broke the two billion zloty barrier, the first time this has been achieved in the Polish banking system. In 2006 PKO Bank Polski generated gross profit of PLN 2,502.1 million, that is PLN 428.8 million or 20.7 percent more than in the previous year, while net profit reached PLN 2,047.4 million, surpassing the figure of 2005 by PLN 370.6 million or 22.1 percent. Our balance-sheet total also increased: on December 31st, 2006 it amounted to PLN 99.1 billion, an increase on the previous year of PLN 8.7 billion or 9.7 percent.

In 2007 we intend to continue the rapid growth in profits and steady improvement in customer service quality which we have enjoyed for the past few years, which is sure to be welcome news for our customers and shareholders. Our good financial condition will allow us to pay our shareholders a solid dividend. The Management Board has recommended a dividend for 2006 of PLN 980 million, that is PLN 0.98 per share.

Despite growing competition, PKO BP has maintained its lead in many areas, in some cases even strengthening its position e.g. in the areas of e-banking, the housing market, payment cards, and municipal bond issues.

The bank remains a leader in the market for savings-giro accounts, of which it operates over 6 million, and in the e-banking market where it serves more than 2 million customers. The PKO Inteligo service is now used by over 20 percent of savings-giro account holders and as much as 40 percent of Partner account holders from the SME sector. This means that every month millions of banking operations are performed outside our branches.

PKO BP has also strengthened its position as the leader of the payment card market: we have now issued 7 million cards, over 900,000 of which are credit cards.

Last year also saw more records being broken in the housing loan market. In 2006 we granted housing loans worth a total of PLN 11 billion, that is 45 percent more than in the previous year.

As a universal bank PKO BP is developing its relations with business customers, of which it now serves over 400,000. In this segment the largest group are owners of small and medium-sized businesses. Another important source of clients for the Bank is the large companies and corporations sector. Last year we offered such clients new products and services including prestige payment cards.

We are delighted to see that our customers are responding enthusiastically to our European Programme, which provides a comprehensive service for projects supported by the EU. In 2006 alone PKO BP provided support for around 600 EU funded projects, committing in excess of PLN 1.2 billion for that purpose.

We also substantially developed our fruitful cooperation with local government and state-funded bodies, our proven partners, for which we offer an individually tailored service and new products. In 2006 PKO BP arranged 49 municipal bond issues, an area in which we are still the clear leader, with a 40 percent share in the market.

We are currently working hard on a new strategy for the years 2007-2012, the main assumptions of which we will announce shortly. Our management hope to create the conditions necessary to accelerate the bank's development, thus enabling it to become an institution which operates according to the highest global standards, develop its relations with its clients to the highest level, provide its staff with the opportunity to fulfil their professional ambitions, secure satisfactory investment returns for its shareholders, and act as a creator of solutions and point of reference for the banking market on the basis of its financial results and effectiveness indicators. That is why we need a new strategy to guide our development over the next six years, determine the way in which we accomplish that development, and enable us to maintain our leading position in Poland as well as strengthen our position in the region.

Raising the standard of customer service is another of our priorities for the coming years. The branch modernisation programme which we are currently implementing will go some way to helping us achieve this. The programme is a major challenge when you consider that our branch network consists of 1,239 outlets, not counting almost 2,300 agencies. In 2006 we began modernisation work in 470 branches; by the end of this year we plan to complete the modernisation of more than 600 branches. The work involves improving the equipment and technical installations as well as the arrangement and appearance of the spaces. In some cases we also carry out complete refurbishment.

This year we will also implement the decisive phase in the deployment of an Integrated Computer System, which will involve almost all our branches and clients. When the system is completed it will be a powerful weapon in the fight for market share, allowing us to more rapidly and effectively tailor our offers to the needs of our clients and thus achieve even better results. Once the new computer system has been fully deployed our clients will also benefit from more efficient service, as all our front desk positions will be providing the same services.

In 2007 we will develop our cooperation with entities in the PKO BP Capital Group and other external partners. In September of last year we concluded a contract, together with Bank Pocztowy, with Poczta Polska. Poczta Polska's approximately 8,000 post office outlets will allow our organisations to create the largest retail network for popular banking products. As PKO BP takes up its position in Bank Pocztowy and in post offices, the released synergy will bring us extra revenue and accelerate our expansion in the market.

We owe our good financial condition and last year’s successes to the creativity and determination of the members of our Management Board and management staff, to whom I would like to extend my warmest thanks. I would also like to thank the members of the Supervisory Board for their cooperation and support. Of course, the success of our operations and our chances of achieving our goals depend above all on the commitment and enthusiasm of PKO BP’s entire 32,000 strong workforce, to each and every one of whom I would like to offer my sincerest gratitude.

Marek Głuchowski
Acting President of the Management Board of PKO Bank Polski

Warsaw, March 2006

The annual consolidated financial statements of Powszechna Kasa Oszczędności Bank Polski SA Group for the year ended 31 December 2006

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

SECURITIES AND EXCHANGE COMMISSION

The annual consolidated report RS 2006

(according to § 86 section. 1 point 2 of the Decree of Minister of Finance, dated 19 October 2005, Journal of Laws No 209, item 1744)

(for banks)

for the year 2006 covering the period	from 2006-01-01 to 2006-12-31
containing consolidated financial statements in accordance with	International Financial Reporting Standards
currency	PLN
date of submission:	03-04-2007

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna

(full name of issuer)

	PKO BP SA	
02-515	(abbreviated name of issuer)	**Warszawa**
(postal code)		(city)
Puławska		**15**
(street)		(number)
(22) 521-71-12	**521-71-11**	
(telephone)	(fax)	(e-mail)
525-000-77-38	**016298263**	**www.pkobp.pl**
(NIP)	(REGON)	(www)

	in PLN thousand		in EUR thousand	
SELECTED FINANCIAL DATA	**Period from 01.01.2006 to 31.12.2006**	**Period from 01.01.2005 to 31.12.2005**	**Period from 01.01.2006 to 31.12.2006**	**Period from 01.01.2005 to 31.12.2005**
Net interest income	3 808 745	3 544 475	976 835	880 987
Net fees and commission income	1 722 561	1 217 882	441 788	302 707
Operating result	2 705 193	2 143 514	693 805	532 775
Net profit (loss) (including minority interest)	2 207 449	1 755 621	566 148	436 363
Net profit (loss)	2 149 052	1 734 820	551 171	431 193
Equity assigned to the shareholders of the holding company	10 078 306	8 731 206	2 630 587	2 262 088
Total equity	10 180 580	8 774 990	2 657 282	2 273 431
Net cash flow from operating activities	8 554 882	(3 256 545)	2 194 085	(809 421)
Net cash flow from investing activities	(5 324 963)	1 686 917	(1 365 702)	419 287
Net cash flow from financing activities	(457 369)	(975 985)	(117 302)	(242 583)
Total net cash flow	2 772 550	(2 545 613)	711 080	(632 718)
Basic earnings per share	2.15	1.73	0.55	0.43
Diluted earnings per share	2.15	1.73	0.55	0.43
Basic funds (Tier 1)	7 200 719	6 472 056	1 879 494	1 689 303
Supplementary funds (Tier 2)	3 834	(8 136)	1 001	(2 124)

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

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

	Note	2006	2005
Interest income	9	5 571 159	5 662 012
Interest expense	9	(1 762 414)	(2 117 537)
Net interest income		**3 808 745**	**3 544 475**
Fees and commission income	10	2 088 600	1 537 579
Fees and commission expense	10	(366 039)	(319 697)
Net fees and commission income		**1 722 561**	**1 217 882**
Dividend income	11	3 604	16 112
Result from financial instruments at fair value	12	(90 849)	31 706
Result from investment securities	13	50 356	276 856
Foreign exchange result	14	544 493	612 101
Other operating income	15	1 021 737	868 271
Other operating expenses	15	(237 625)	(101 748)
Net other operating income		**784 112**	**766 523**
Result on impairment allowances	17	(651)	(161 090)
General administrative expenses	16	(4 117 178)	(4 161 051)
Operating result		**2 705 193**	**2 143 514**
Share in net profits (losses) of associates	19	(3 705)	23 531
Gross profit (loss)		**2 701 488**	**2 167 045**
Income tax expense	20	(494 039)	(411 424)
Net profit (loss) (including minority interest)		**2 207 449**	**1 755 621**
Profit (loss) attributable to minority shareholders		58 397	20 801
Net profit (loss) attributable to the holding company		**2 149 052**	**1 734 820**

Earnings per share:	21		
– basic earnings per share		2.15	1.73
– diluted earnings per share		2.15	1.73

The accompanying notes to the financial statements presented on pages 9 - 108 are an integral part of these financial statements.

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

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

	Note	31.12.2006	31.12.2005
ASSETS			
Cash and amounts due from the Central Bank	23	4 628 134	3 895 331
Amounts due from banks	24	13 430 590	12 663 295
Financial assets held for trading	25	392 380	851 003
Derivative financial instruments	26	1 199 556	1 137 227
Other financial instruments at fair value through profit or loss	27	11 360 064	20 059 683
Loans and advances to customers	28	58 906 607	46 874 629
Investment securities, including:	29	6 763 188	1 881 378
Available for sale		6 763 188	1 881 378
Shares in associates and jointly controlled entities	30	180 162	184 345
Intangible assets	32	944 028	688 770
Tangible fixed assets	33	2 655 041	2 643 551
Current tax receivables	20	326	87
Deferred tax asset	20	33 454	29 101
Other assets	34	767 683	704 781
TOTAL ASSETS		**101 261 213**	**91 613 181**

LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank	36	1 387	766
Amounts due to other banks	37	4 193 090	2 083 346
Derivative financial instruments	26	1 098 863	1 257 384
Amounts due to customers	39	82 900 142	76 747 563
Liabilities arising from securities issued	40	43 722	68 470
Other liabilities	41	2 220 347	1 862 480
Current tax liabilities	20	170 960	436 766
Deferred tax liability	20	23 922	41 519
Provisions	42	428 200	339 897
TOTAL LIABILITIES		**91 080 633**	**82 838 191**
Equity			
Share capital	46	1 000 000	1 000 000
Other capital	47	7 165 597	5 850 063
Currency translation differencies from foreign operations		(13 672)	(4 082)
Retained earnings	47	(222 671)	150 405
Net profit for the period		2 149 052	1 734 820
Equity assigned to shareholders of the holding company		**10 078 306**	**8 731 206**
Minority interest		102 274	43 784
TOTAL EQUITY		**10 180 580**	**8 774 990**
TOTAL EQUITY AND LIABILITIES		**101 261 213**	**91 613 181**

The accompanying notes to the financial statements presented on pages 9 - 108 are an integral part of these financial statements.

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

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

For the year ended 31 December 2006	Assigned to the shareholders of the holding company								Total	Minority interest	Total Equity
	Share capital	Other capital items				Currency transaltion differences from foreign operations	Retained earnings	Net profit (loss)			
		Reserve capital	Revaluation reserve	General banking risk fund	Other reserves						
Balance as at 1 January 2006	**1 000 000**	**3 297 614**	**(4 054)**	**1 000 000**	**1 556 503**	**(4 082)**	**150 405**	**1 734 820**	**8 731 206**	**43 784**	**8 774 990**
Transfer of retained earnings	-	-	-	-	-	-	1 734 820	(1 734 820)	-	-	-
Transfer from net profit to reserve capital	-	1 232 524	-	70 000	5 122	-	(1 307 896)	-	(250)	-	**(250)**
Transfer from net profit to dividends	-	-	-	-	-	-	(800 000)	-	(800 000)	-	**(800 000)**
Change in fair value of available for sale investments adjusted for deferred tax	-	-	7 888	-	-	-	-	-	7 888	-	**7 888**
Movement in minority interest	-	-	-	-	-	-	-	-	-	58 490	**58 490**
Movement in exchange rates	-	-	-	-	-	(9 590)	-	-	(9 590)	-	**(9 590)**
Net profit (loss) for the period	-	-	-	-	-	-	-	2 149 052	2 149 052	-	**2 149 052**
Balance as at 31 December 2006	**1 000 000**	**4 530 138**	**3 834**	**1 070 000**	**1 561 625**	**(13 672)**	**(222 671)**	**2 149 052**	**10 078 306**	**102 274**	**10 180 580**

For the year ended 31 December 2005	Assigned to the shareholders of the holding company								Total	Minority interest	Total Equity
	Share capital	Other capital items				Currency transaltion differences from foreign operations	Retained earnings	Net profit (loss)			
		Reserve capital	Revaluation reserve	General banking risk fund	Other reserves						
Balance as at 1 January 2005 *	**1 000 000**	**2 790 299**	**160 673**	**1 000 000**	**1 495 495**	**(11 472)**	**212 223**	**1 506 505**	**8 153 723**	**65 849**	**8 219 572**
Transfer of retained earnings	-	-	-	-	-	-	1 506 505	(1 506 505)	-	-	-
Transfer from net profit to reserve capital	-	507 315	-	-	10 000	-	(517 315)	-	-	-	-
Transfer from net profit to dividends	-	-	-	-	-	-	(1 000 000)	-	(1 000 000)	-	**(1 000 000)**
Net profit (loss) for the period	-	-	-	-	-	-	-	1 734 820	1 734 820	-	**1 734 820**
Change in fair value of available for sale investments adjusted for deferred tax	-	-	(164 727)	-	-	-	-	-	(164 727)	-	**(164 727)**
Appropriation of retained earnings to reserve capital in the subsidiary	-	-	-	-	51 008	-	(51 008)	-	-	-	-
Movement in minority interest	-	-	-	-	-	-	-	-	-	(22 065)	**(22 065)**
Movement in exchange rates	-	-	-	-	-	7 390			7 390		**7 390**
Balance as at 31 December 2005	**1 000 000**	**3 297 614**	**(4 054)**	**1 000 000**	**1 556 503**	**(4 082)**	**150 405**	**1 734 820**	**8 731 206**	**43 784**	**8 774 990**

*Adjustments to the opening balance due to implementing IAS/IFRS were presented in note 52 of consolidated financial statements of the PKO BP SA Group for the year ended 31 December 2005, for the first time.

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

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

	Note	2006	2005
Cash flow from operating activities			
Net profit (loss)		2 149 052	1 734 820
Adjustments:		6 405 830	(4 991 365)
Profits/losses attributable to minority shareholders		58 397	20 801
Depreciation and amortisation		317 911	466 540
(Profit) loss from investing activities	48	(23 798)	15 638
Interest and dividends	48	(261 439)	(899 268)
Change in loans and advances to banks	48	1 273 901	(2 346 556)
Change in financial assets held for trading and other financial instruments valued at fair value through profit or loss	48	9 158 242	(582 989)
Change in derivative financial instruments (asset)		(62 329)	225 152
Change in loans and advances to customers	48	(11 491 259)	(7 483 633)
Change in deferred tax asset		(4 353)	(2 457)
Change in other assets		(63 141)	(71 037)
Change in amounts due to banks	48	1 815 571	1 010 792
Change in derivative financial instruments (liability) and other financial liabilities at fair value through profit or loss		(158 521)	463 645
Change in amounts due to customers	48	6 100 758	3 710 095
Change in liabilities arising from debt securities issued		(24 748)	47 394
Change in provisions	48	(512 081)	(532 932)
Change in other liabilities	48	360 543	644 268
Income tax paid		(782 023)	(404 016)
Current tax expense		516 217	840 571
Other adjustments	48	187 982	(113 373)
Net cash from operating activities		**8 554 882**	**(3 256 545)**
Cash flow from investing activities			
Inflows from investing activities		**80 486**	**2 375 002**
Sale of shares in associates		-	200
Sale of investment securities		-	2 311 722
Sale of intangible assets and tangible fixed assets		2 502	34 224
Sale of assets classified as held for sale according to IFRS 5		74 380	-
Other investing inflows		3 604	28 856
Outflows from investing activities		**(5 405 449)**	**(688 085)**
Purchase of a subsidiary, net of cash acquired	50	(87 689)	(2 440)
Purchase of shares in jointly controlled entities	30	(44 371)	(17 498)
Purchase of shares in associates	30	(4 248)	(5 555)
Purchase of investment securities		(4 654 113)	-
Purchase of intangible assets and tangible fixed assets		(615 028)	(662 592)
Net cash used in investing activities		**(5 324 963)**	**1 686 917**
Cash flow from financing activities			
Dividends paid to holding company shareholders		(800 000)	(1 000 000)
Other financing inflows / outflows		342 631	24 015
Net cash generated from / (used in) financing activities		**(457 369)**	**(975 985)**
Total net cash flow		**2 772 550**	**(2 545 613)**
Cash and cash equivalents at the beginning of the period		11 390 608	13 936 221
Cash and cash equivalents at the end of the period	48	**14 163 158**	**11 390 608**
- including those with limited disposal	35	5 487	2 479

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as at 31 December 2006

1. General information

The consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski SA Group ("the PKO BP SA Group", "the Group") have been prepared for the year ended 31 December 2006 and include comparative data for the year ended 31 December 2005

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

The holding company was established in 1919. The holding company was incorporated on the basis of the Decree of the Council of Ministers dated 18 January 2000 on the transformation of Powszechna Kasa Oszczędności bank pańStwowy (a state-owned bank), into a state-owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (Journal of Laws No 5, item 55) with its registered office located in Warsaw, Puławska Street 15, in Poland.

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

The Bank's shareholding structure is as follows:

Name	Number of shares	Number of votes	Nominal value of 1 share	Percentage of share capital
		%		%
As at 31 December 2006				
State Treasury	514 959 296	51.50	PLN 1	51.50
Other shareholders	485 040 704	48.50	PLN 1	48.50
Total	**1 000 000 000**	**100.00**	**---**	**100.00**
As at 31 December 2005				
State Treasury	515 711 446	51.57	PLN 1	51.57
Other shareholders	484 288 554	48.43	PLN 1	48.43
Total	**1 000 000 000**	**100.00**	**---**	**100.00**

The Bank is a public company quoted on the Warsaw Stock Exchange. According to the Warsaw Stock Exchange Bulletin *(Cedula Giełdowa),* the Bank is classified to the macro-sector "Finance", sector "Banks".

Bank's business activities

The Bank's activities correspond to the following activities set forth in the Polish Classification of Activities (PKD):

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

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

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

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

The Bank conducts its activity on the following markets:

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

In addition, Group's subsidiaries conduct also activities relating to leasing, factoring and real estate development as well as render other financial services. Range of activities of particular companies comprises the Group is presented in this note in the table "Structure of the Group".

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

Going concern

The consolidated financial statements of the PKO BP SA Group have been prepared on the basis that the Bank and the entities from the PKO BP SA Group will be a going concern during a period of at least 12 months from the balance sheet date, i.e. 31 December 2006. As at the date of signing these consolidated financial statements, the Bank's Management Board is not aware of any facts or circumstances that would indicate a threat to the continued activity of the Bank or the entities from the PKO BP SA Group in at least 12 months following the balance sheet date due to an intended or compulsory withdrawal or limitation by the Bank or other entities from the PKO BP SA Group of their activities. In 2006, PKO BP SA signed a new agreement on cooperation with Inteligo Financial Services SA defining its tasks in PKO BP SA Group.

Reporting periods covered by these consolidated financial statements

The consolidated financial statements of the PKO BP SA Group are presented for the year ended 31 December 2006, and include comparative financial data for the year ended 31 December 2005. The financial data is presented in PLN thousands.

Information on the members of the Management and Supervisory Boards of the Group's holding company

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

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

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

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

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

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

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

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

At the same meeting, the Supervisory Board of PKO BP SA passed resolutions appointing:
- Mr Wojciech Kwiatkowski to the position of Deputy President of the Bank’s Management Board as of 1 November 2006,
- Mr Jarosław Myjak to the position of Deputy President of the Bank’s Management Board as of 2 October 2006.

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

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

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

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

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

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

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

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

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

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

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

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

Changes in composition of the Management Board and Supervisory Board after 31 December 2006 are described in note 52.

Internal organisational units of PKO BP SA

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

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

Structure of the Group

The PKO BP SA Group is formed by PKO BP SA and the following subsidiaries:

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

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

Information regarding changes in the share capital of subsidiaries is presented in note 50.

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

Other entities (associates and jointly controlled entities) presented in the consolidated financial statements:

Jointly controlled entities

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

*The company was sold on 8 August 2006

Associated entities

Moreover the holding company has a significant influence on the following associated entities:

Lp.	Name	Registered office	Activity	Percentage of share capital (%)	
				31.12.2006	31.12.2005
Direct associated entities					
1	Bank Pocztowy SA	Bydgoszcz	Financial services	25.0001	25.0001
2	Kolej Gondolowa Jaworzyna Krynicka SA	Krynica	Construction and operation of cable railway	37.53	37.83
3	Ekogips SA – in bankruptcy	Warsaw	Production of construction elements	60.26	60.26
4	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Poznań	Sureties in accordance with civil law and bill of exchange law	33.33	33.33
5	Hotel Jan III Sobieski Sp. z o.o.**	Warsaw	Construction and operation of Jan III Sobieski Hotel	-	32.50
6	Agencja Inwestycyjna CORP SA	Warsaw	Office premises management	22.31	22.31
Indirect associated entities					
An associate of Bankowe Towarzystwo Kapitałowe SA					
7	FINDER Sp. z o.o.	Warsaw	Car location and fleet management	46.43	42.31
8	INTER FINANCE Polska Sp. z o.o.	Suchy Las near Poznań	Investing in sector of financial intermediation services on the Ukrainian market	45.00	-

**The company was sold on 31 October 2006

Approval of financial statements

These consolidated financial statements of the PKO BP S.A Group have been approved for publication by the Bank's Management Board on 27 March 2007.

2. Accounting policies

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

In accordance with the Accounting Act of 29 September 1994 ("Accounting Act"), as of 1 January 2005 the Group had the obligation to prepare consolidated financial statements in accordance with International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and their interpretations promulgated in the form of European Commission regulations (together referred as "IFRS"). At present, taking into account the process of implementation of IFRS in the European Union and the Group's activities, there are no differences between IFRSs and the IFRSs endorsed by the European Union as regards the accounting policies applied by the Group.

On the basis of the Art 45, section 1c of the Accounting Act and Resolution No 28/2005 of 19 May 2005, the General Shareholder's Meeting decided that the Bank will prepare its standalone financial statements in accordance with IAS/IFRS from 1 January 2005.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) endorsed by the EU in line with the status as at 31 December 2006.

Changes in accounting policies

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

IAS 39 Financial Instruments: Recognition and Measurement

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

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

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

IFRIC Interpretation 4 - Determining whether an arrangement contains a lease

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

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

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

- Amendment to IAS 1 *Presentation of Financial Statements*, Disclosures on capital (effective for annual periods beginning after 1 January 2007),
- IFRS 7 *Financial Instruments: Disclosures* (effective for annual periods beginning after 1 January 2007),
- IFRS 8 *Operating Segments* (effective for annual periods beginning after 1 January 2009),
- IFRIC Interpretation 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* (effective for annual periods beginning after 1 March 2006),
- IFRIC Interpretation 8 *Scope of IFRS 2* (effective for annual periods beginning after 1 May 2006),

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

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

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

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

The Bank and entities directly dependent from the Bank with their headquarters in Poland run their accounts in accordance with International Financial Reporting Standards from 1 January 2006.

All items presented in the financial statements of the Group entities, including KREDOBANK S.A. and UKRPOLINWESTYCJE Sp. z o.o, are valued in functional currency i.e. in the currency of the basic economic environment in which the given entity operates.

Polish zloty is the presentation currency of these consolidated financial statements. The functional currency of the holding company and other entities included in the financial statements, except for KREDOBANK S.A and UKRPOLINWESTYCJE Sp. z o.o. is Polish zloty. The functional currency of KREDOBANK S.A. and UKRPOLINWESTYCJE Sp. z o.o is Ukrainian hrivna.

The Group uses the average NBP rate effective as at that balance sheet as the closing exchange rate used in order to translate the assets and liabilities denominated in foreign currency at balance sheet date.

Principal accounting policies and methods applied by the PKO BP SA Group

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

The principal accounting policies and methods applied by the PKO BP SA Group

a) Basis of consolidation

The consolidated financial statements include the financial statements of PKO BP SA and the financial statements of its subsidiaries, prepared for the year ended 31 December 2006. The financial statements of the subsidiaries cover the same reporting period as the holding company's financial statements. Consolidation adjustments are made in order to eliminate any differences in the accounting policies applied by the Bank and its subsidiaries.

The consolidated financial statements of the Group were prepared based on the financial statements of the holding company and the financial statements of the following subsidiaries:

- for the year ended 31 December 2006:
  - Bankowy Fundusz Leasingowy SA,
  - Powszechne Towarzystwo Emerytalne BANKOWY SA Group,
  - Centrum Finansowe Puławska Sp. z o.o.,

- Centrum Elektronicznych Usług Płatniczych „eService" SA,
- Inteligo Financial Services SA,
- KREDOBANK SA,
- Bankowe Towarzystwo Kapitałowe SA,
- PKO Inwestycje Sp. z o.o. Group,
- PKO Towarzystwo Funduszy Inwestycyjnych SA.

▪ for the year ended 31 December 2005:

- Bankowy Fundusz Leasingowy SA,
- Powszechne Towarzystwo Emerytalne BANKOWY SA Group,
- Centrum Finansowe Puławska Sp. z o.o.,
- Centrum Elektronicznych Usług Płatniczych „eService" SA,
- Inteligo Financial Services SA,
- KREDOBANK SA,
- Bankowe Towarzystwo Kapitałowe SA,
- PKO Inwestycje Sp. z o.o. Group.

The full method consolidation of financial statements of subsidiaries involves adding up the full amounts of the individual items of the balance sheet, profit and loss account of the subsidiaries and of the Bank, and performing appropriate consolidation adjustments and eliminations. The carrying amount of the Bank's investments in subsidiaries and the equity of these entities are eliminated at consolidation. The consolidated cash flow statement was prepared on the basis of the consolidated balance sheet and consolidated profit and loss account as well as the additional notes and explanations.

The following items are eliminated in full at consolidation:

▪ inter-company receivables and payables, and any other settlements of a similar nature, between the consolidated entities,
▪ revenue and costs of business transactions conducted between the consolidated entities,
▪ gains or losses which arose from business transactions conducted between consolidated entities, included in the value of the assets of the consolidated entities, except for losses that indicate impairment,
▪ dividends calculated or paid by the subsidiaries to the holding company and to other consolidated entities,
▪ inter-company cash flows in the cash flow statement.

Subsidiaries are consolidated from the date on which control was acquired to the day when it ceased.

The results of the subsidiaries are included in the consolidated financial statements for that part of the reporting period in which they were controlled by the Group.

b) Minority shares purchase

If the Group increases/decreases its share in the net assets of its controlled subsidiaries, the excess of the cost over the acquirer's interest in the net assets of the acquired entity is recognized as goodwill. Impairment of goodwill is tested annually

c) Estimates

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

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

The Group presents the type and the magnitude of the changes in estimated values, if the change causes effect in the current period or if such result are anticipated in the future periods.

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

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

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

- Impairment of financial assets

At each balance sheet date, the Group assesses whether there is any objective evidence that the value of a given financial asset or a group of financial assets is impaired. Evidence indicating impairment are events or groups of events which occurred after the date of the initial recognition of the asset/group of assets and which indicate that the expected future cash flows to be derived from the given asset or group of assets may have decreased. When evidence of impairment is found, the Group estimates the amount of impairment allowance.

The Group uses three methods for the estimation of impairment:

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

The Group expects that the methodology used for estimating impairment allowances will be developed in line with the increasing possibilities of acquiring impairment data from the existing and implemented information systems and applications. As a consequence, any new data obtained by the Group might affect the level of impairment allowances in the future.

- Impairment of investments in associates and jointly controlled entities

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

- Impairment of other non-current assets

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

- Goodwill impairment

Goodwill arising on acquisition of a business entity is recognized at the acquisition cost, being an excess of the costs of acquiring control over the entity over the share of the holding company in the net fair value of the identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is stated at acquisition cost, less any cumulative impairment losses. The test for impairment is carried out on an annual basis.

Impairment is calculated by estimating the recoverable amount of the cash-generating unit to which the given goodwill relates. In the case where the recoverable amount of the cash-generating unit is lower than the carrying amount, an impairment write-down is recognized. In the case where goodwill represents part of a cash-generating unit and part of operations conducted within this unit is sold, when calculating the gain or loss on the disposal of these operations, the goodwill related to sold operations is included in the carrying amount of these operations. Goodwill sold in such circumstances is valued on the basis of the relative value of the operations sold and the value of the remaining part of the cash-generating unit.

- Valuation of derivatives and unquoted debt securities available for sale

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

- Calculation of provision for retirement benefits and jubilee bonuses

The provision for retirement benefits and jubilee bonuses is created individually for each employee on the basis of actuarial valuation calculated on the balance sheet date by an independent actuary. The basis for calculation of these provisions are internal regulation especially the Collective Labour Agreement ("Zakładowy Układ Zbiorowy Pracy") being in force at the Bank. Valuation of the employee benefits provisions is performed using techniques and actuarial assumptions in accordance with International Financial Reporting Standards and International Accounting Standards, especially IAS 19. The calculation of the provision includes all bonuses and retirement benefits that may be paid in the future. The provision was created on the basis of a list including all the necessary details of the employees, in particular the length of their service, age and gender. The provisions calculated equals discounted payments to be made in the future taking into account turnover of staff and regard the period till the balance sheet date. Profits or losses resulting from actuarial calculations are recognised in the income statement.

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

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

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

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

d) Cash and cash equivalents

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

e) Financial assets

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

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

- Financial assets at fair value through profit or loss

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

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

Equity instruments

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

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

Debt instruments

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

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

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

Derivative instruments

Derivative financial instruments are recognized at fair value at the date of transaction and are subsequently carried at fair value as of the balance sheet date. In the case where the estimated fair value is lower or higher than the fair value as of the preceding balance sheet date (for transactions concluded in the reporting period - acquisition cost or the sale price of the instrument), the difference is charged respectively to the result on financial instruments at fair value through profit or loss or foreign exchange result (FX swap, FX forward and CIRS transactions), in correspondence with “Derivative financial instruments”.

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

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

Embedded derivative instruments

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

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

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

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

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

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

- Financial assets available for sale

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

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

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

<u>Equity instruments</u>

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

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

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

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

Debt instruments

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

1) For those debt instruments for which there is an active market – with reference to market price,
2) For those debt instruments for which there is no active market – with reference to other value accepted as the fair value and determined using one of the following methods:
   a) reference asset value method,
   b) the yield curve method based on market interest rates, adjusted for risk margin equal to the margin determined in the terms of the issue.

The results of changes in fair value in relation to the carrying amount of an instrument stated at amortized cost are taken to revaluation reserve, except for impairment losses, which are charged to profit and loss account. Interest income and discounts calculated using the effective interest rate are presented as interest income, and the gain or loss recorded in the revaluation reserve is the difference between the fair value determined at the balance sheet date and the value of these assets at amortized cost.

- Loans, advances and other receivables

Loans and receivables comprise financial assets that are not quoted on an active market, which are featured with fixed or determinable payments, and which are not derivative instruments, other than:

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

This category includes loans, advances and other receivables acquired and granted. Loans and receivables are valued at amortized cost using the effective interest rate, with an allowance for impairment losses.

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

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

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

- Financial assets held to maturity

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

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

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

f) Accounting for transaction

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

g) Sale and repurchase contracts

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

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

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

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

h) Impairment of financial assets

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

The following are considered by the Group as loss events:

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

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

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

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

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

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

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

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

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

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

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

In the case of impairment of a financial asset classified as available for sale, the amount of the impairment loss is charged to the profit and loss account, which results in the necessity to transfer the effects of its “downwards” valuation from the revaluation reserve to the profit and loss account. Impairment losses recognized against unquoted equity instruments are not reversed through profit and loss account.

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

i) Derecognition of financial instruments

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

Usually the Group derecognizes loans when they have been forgiven, when the period of limitation expired, when the loan is not recoverable. Loans and other amounts due are written off against the impairment allowances that were recognized for these accounts. In the case where no allowances were recognized against the account or the amount of the allowance is less than the amount of the loan or other receivable, before the loan or receivable is written off, the amount of the impairment allowance is increased by the difference between the value of the receivable and the amount of the allowances that have been recognized to date.

j) Tangible fixed assets, intangible assets

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

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

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

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

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

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

Tangible assets	**Periods**
Buildings, premises, cooperative rights to premises	2-60 years
Leasehold improvements (buildings, premises)	2-10 years (or term of the lease if shorter)
Plant and machinery	3-15 years
Computer hardware	2-10 years
Motor vehicles	3-5 years
Intangible assets	**Periods**
Licences for computer software	2-10 years
Copyright, including rights to computer software	2-5 years
Other intangible assets	1-5 years

Goodwill arising on acquisition of a business entity is initially recognized at the acquisition cost, being an excess of the costs of acquiring control over the entity over the share of the holding company in the net fair value of the identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is stated at acquisition cost, less any cumulative impairment losses. The test for impairment is carried out on an annual basis.

Goodwill arising on the acquisition of subsidiaries is recognized under intangible assets, and goodwill arising on acquisition of associates is recognized under "Investments in associates and jointly controlled entities".

As of the date of acquisition, the acquired goodwill is allocated to each cash-generating unit, which can take advantage of combination synergies. Impairment is calculated by estimating the recoverable amount of the cash-generating unit to which the given goodwill relates. In the case where the recoverable amount of the cash-generating unit is lower than the carrying amount, an impairment loss is recognized. In the case where goodwill represents part of a cash-generating unit and part of operations conducted within this unit is sold, when calculating the gain or loss on the disposal of these operations, the goodwill related to sold operations is included in the carrying amount of these operations. Goodwill sold in such circumstances is valued on the basis of the relative value of the operations sold and the value of the remaining part of the cash-generating unit.

k) Investment property

Initially, investment property is measured at its cost, which includes transaction costs. After initial recognition, investment property is measured using the cost model (i.e. at cost less accumulated amortization and impairment losses). Investment property is de-recognized when disposed of or permanently withdrawn from use and no future benefits are expected from its disposal. Gains or losses on derecognition of investment property are recognized in the income statement for the year in which such derecognition took place.

l) Non-current assets held for sale

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

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

m) Investments in associates and jointly controlled entities accounted for using the equity method

The equity method involves valuation of shares and investments in other entities at the amount of the Group's share in the net assets of the given entity. The value of the Group's investment in net assets of an associate or jointly controlled entity, including any non-amortizable goodwill arising on acquisition, is tested for impairment at least once a year.

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

If the share of the Group in the losses incurred by an associate or jointly controlled entity is equal to or higher than the carrying amount of the investment, the value of the investment is shown at nil, and any further losses (below the carrying amount equal to nil) are recorded only, at an amount of payment made or committed by the Group on behalf of the associate or jointly controlled entity in order to fulfill the obligations of this entity that the Group guaranteed or otherwise committed to fulfill.

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

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

o) Exchange rates used in preparing consolidated financial statements

For translation of balance sheet and off-balance sheet items as at 31 December 2006 into euro, the Group used the rate of 3.8312 PLN/EUR, which is the average NBP rate at the balance sheet date, whereas for translation of the balance sheet and off-balance-sheet items as at 31 December 2005 into euro, the Bank used the rate of 3.8598 PLN/EUR, which was the average NBP rate at the balance sheet date.

The main items of the income statement and cash flow statement for the year ended 31 December 2006 have been translated into euro using the rate of 3.8991 PLN/EUR, which is the arithmetical mean of the average NBP rates at the last day of each month covered by the financial statements. The financial data concerning the income statement and cash flow statement for 2005 have been translated into euro using the rate of 4.0233 PLN/EUR, which was the arithmetical mean of the average NBP rates at the last day of each month covered by the comparative financial data.

EUR	**2006**	**2005**
Rate prevailing on the last day of the period	3.8312	3.8598
Rate representing the arithmetical mean of the rates prevailing on the last days of each month of the period	3.8991	4.0233
The highest rate in the period	4.0434	4.2756
The lowest rate in the period	3.7726	3.8223

For translation of the balance sheet and off-balance sheet items as at 31 December 2006 into UAH, the Group used the rate of 0.5760 PLN/UAH which is the average NBP rate at the balance sheet date, whereas for translation of the balance sheet and off-balance-sheet positions as at 31 December 2005 into UAH the Group used the rate of 0.6465 PLN/UAH, which is the average NBP rate at the balance sheet date.

The main items of the profit and loss account and of the cash flow statement for 2006 have been translated into UAH using the rate of 0.6129 PLN/UAH which is the arithmetical mean of the average NBP rates at the last day of each month, covered by the financial statement. The financial data concerning the income statement and the cash flow statement for the year ended 31 December 2005 have been translated into UAH with the rate of 0.6386 PLN/UAH, the arithmetical average of the average NBP rates at the last day of each month covered by the comparative financial data.

UAH	**2006**	**2005**
Rate prevailing on the last day of the period	0.5760	0.6465
Rate representing the arithmetical mean of the rates prevailing on the last days of each month of the period	0.6129	0.6386
The highest rate in the period	0.6420	0.6729
The lowest rate in the period	0.5721	0.5570

p) Off-balance sheet liabilities granted

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

- a possible obligation depending on whether some future event occurs, whose existence will be confirmed only at the time of the occurrence or non-occurrence of one or more uncertain future events not fully controlled by the Group;

- a present obligation resulting from past events, but not recognized in the balance sheet, as it is not probable that the outflow of cash or other assets in order to fulfill the obligation is necessary, or the obligation amount cannot be determined reliably.

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

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

q) Deferred income tax

Due to timing differences between the moment income is recognized as earned and cost as incurred according to the Accounting Act and to tax regulations, the Group recognizes deferred tax liabilities (provisions) and deferred tax assets. The amount of deferred tax is determined, using the balance sheet method, as a change in the balance of the following items - deferred tax assets and deferred tax liabilities. Deferred tax assets and deferred tax liabilities are presented in the balance sheet respectively as assets or liabilities. The change in the balance of a deferred tax liability or a deferred tax asset is included in taxation charge, except for the effects of valuation of financial assets recognized in revaluation reserve, where changes in the balance of a deferred tax liability or deferred tax asset are accounted for in correspondence with revaluation reserve. The calculation of deferred tax takes into account the balance of the deferred tax asset and deferred tax liability at the beginning and at the end of the reporting period.

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

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

r) Financial liabilities at fair value

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

s) Financial liabilities at amortized cost

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

t) Accruals and deferred income

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

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

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

u) Prepayments and deferred costs

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

v) Provisions

Provisions are liabilities of uncertain timing or amount.

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

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

w) Financial result

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

- Interest income and interest expenses

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

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

- Fees and commission income and expenses

Fees and commission income is generally recognized on an accruals basis at the moment when the service is performed. Fees and commission income includes one-off amounts charged by the Group for services not related to the internal rate of return on loans and other receivables, as well as amounts charged by the Group for services performed over a period exceeding 3 months.

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

- Foreign exchange result

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

- Other operating income and expenses

Other operating income and expense include income and costs not related directly to banking activity. Other operating income mostly includes income from third party assets management, income from lease/rental of properties, recovered expired, forgiven and bad debts, income from sale or liquidation of non-current assets and assets seized in exchange for debts, received compensation, fines and penalties. Other operating expense mostly includes costs of sale or liquidation of non-current assets, including assets seized in exchange for debts, costs of third party assets management, donations given and costs of damages, penalties and fines.

Other operating income and expense also include - in subsidiaries - net income from sale of finished goods, goods for resale and raw materials and the corresponding costs of its production.

x) Current income tax

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

In calculating taxable income, the Bank took into account the provisions of the Decree of the Minister of Finance dated 28 March 2003 on the extension of deadlines for payment of corporate income tax advances and corporate income tax by banks granting housing loans from the Mortgage Fund.

y) Shareholders' equity

Shareholders' equity comprises the share capital and funds created by the Group companies in accordance with the binding legal regulations and the Articles of Association. Shareholders' equity includes retained earnings and accumulated losses from previous years. The part of shareholders' equity of subsidiaries, other than share capital, which corresponds to the interest held in the subsidiary by the holding company, is added up with the appropriate components of the equity of the holding company. The shareholders' equity of the Group only includes that part of the shareholders' equity of the subsidiaries that was created after the date of acquisition of shares by the holding company. In particular, this applies to a change in equity due to acquired profits or incurred losses as well as revaluation of financial assets available for sale.

- share capital comprises only the share capital of the holding company and is stated at nominal value, in accordance with Articles of Association and the Register of Entrepreneurs,
- reserve capital is created according to the Articles of Associations of the Group companies, from the appropriation of net profits and from share premium,
- revaluation reserve comprises the effects of remeasurement of financial assets available for sale and the amount of the deferred tax. In the balance sheet, the revaluation reserve is presented net,
- other reserves as envisaged by the Articles of Association are created by appropriation of profits,
- the component of the equity – exchange differences – comprises exchange differences resulting from the translation of the net profit generated by the foreign entity using the weighted average rate established at the balance sheet date with reference to the average NBP rate,
- General banking risk fund in PKO BP SA is created from profit after taxation according to the Banking Law dated 29 of August 1997.

Shareholders' equity also includes:

- net profit (loss) under the approval process, decreased by planned dividends,
- dividends declared after the balance sheet date but not paid.

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

z) Social Fund [Zakładowy Fundusz Świadczeń Socjalnych]

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

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

3. Objectives and principles relating to financial risk management

Risk management is one of the most important internal processes both in the Bank and the PKO BP SA Group's entities. The objective of risk management is to ensure the proper level of safety and profitability of loan activity in the changing legal and economic environment. Risk management comprises management of credit risk, market risk and operational risk.

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

Credit risk

The objective of creation an effective credit risk management is to increase safety and profitability of services delivered.

The Bank and the Group companies, where credit risk is generated follow the following principles:

- each loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk relating to potential and concluded loan transactions is measured on a cyclical basis taking into consideration changing external conditions and changes in the financial standing of the borrowers,
- credit risk assessment is subject to additional verification by credit risk assessment forces independent of the business forces,
- credit risk is diversified geographically, by industry, by product and by clients,
- credit decisions may be taken only by authorized persons,
- the Bank and other PKO BP SA Group companies hedge against credit risk by creating specific provisions for the impairment of loan exposures.

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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 regulation.

Furthermore, in 2006, the Company concluded and agreement on cooperation with The National Debt Register of Bureau of Economic Information, resulting in more effective identification of unreliable debtors. In this way, BFL SA protects from concluding lease agreements with unreliable debtors.

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

Concentration of credit risk

The Banking Law specifies maximum concentration limits for the bank. According to Article 71.1 of the Banking Law, the total value of Bank's exposures, off-balance sheet liabilities granted or shares in other entity owned by the Bank directly or indirectly, additional payments into a limited liability company as well as contributions or limited partnership sums – depending what is higher – in a limited partnership or limited joint-stock partnership for one entity or for a group of entities related by capital or management, cannot exceed 20% of the Bank's own funds if the entity is related to the Bank, or 25% of the Bank's own funds if the entity is not related to the Bank.

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

As at 31 December 2006, the exposure of PKO BP SA towards one entity amounted to PLN 3,418,034 thousand (including PLN 2,054,034 thousand in respect of balance sheet items). According to Article 71.3 of the Banking Law, concentration limits do not apply to these exposures.

a) Concentration of credit risk by borrowers:

as at 31 December 2006

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

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

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

The other exposures resulted from transactions concluded with:

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

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

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

as at 31 December 2005

Exposure of the Bank towards 10 biggest borrowers			
No.	**Borrower**	**Total exposure***	**Percentage of the Bank's loan portfolio****
1	Borrower B1	2 408 699	4.94%
2	Borrower B2	1 744 825	3.58%
3	Borrower B3	753 278	1.55%
4	Borrower B4	495 965	1.02%
5	Borrower B5	397 612	0.82%
6	Borrower B6	387 400	0.80%
7	Borrower B7	222 229	0.46%
8	Borrower B8	204 517	0.42%
9	Borrower B9	199 942	0.41%
10	Borrower B10	198 556	0.41%

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

b) Concentration of credit risk by capital groups:

as at 31 December 2006

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

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

Out of the total amount of exposure towards the groups listed above, 40.7% of the total exposure provided the basis for recognizing individual and collective impairment allowances for balance sheet exposures. Based on the Bank's methodology, none of these exposures is individually impaired, but for all of them there is an evidence of collective impairment, and an impairment allowance has been determined on a collective basis.

as at 31 December 2005

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

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

c) Concentration of credit risk by industry:

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

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

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

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

Market risk

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

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

1) identification of risk factor,
2) risk measurment,
3) system risk management,
4) risk monitoring,
5) risk reporting.

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

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

These reports relate to the market risks which can affect the Bank. Additionally, a report on the market risk in the PKO BP SA Group is attached to the monthly and quarterly reports at the end of each quarter.

The companies in the PKO BP SA Group which, due to their activities, are characterized by a high level of market risk, have their own internal regulations (submitted to the Bank for approval) for management of each type of risk These regulations define, among others, the procedure for the reporting of market risk to the Management of these companies.

Interest rate risk

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

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

The main tools used in interest rate risk management include:

1) internal procedures for interest rate risk management

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

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

Methods of interest rate risk management in the Group companies are defined by their internal regulations implemented by the Group companies, which are characterised by high values/levels of interest rate risk measures. The regulations are developed after consultation with the Bank and take into account recommendation of the Bank.

In the process of interest risk management of the Group companies the following measures are utilized:

1) measures of interest rate risk set by the Group companies,
2) measures of interest rate gap and price sensitivity (BPV), set by the Bank.

Measures of interest rate gap and price sensitivity for the Group companies are determined in the similar methods as for the interest rate gap and price sensitivity for the Bank, taking into account the specific economic activity of the Group companies.

Currency risk

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

The Bank adopted the Value at Risk model to measure currency risk.

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

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

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

Methods of currency risk management in the Group companies are defined by their internal regulations implemented by the Group companies, which are characterised by high values/levels of currency risk measures. The regulations are developed after consultation with the Bank and take into account recommendation of the Bank.

In the process of interest risk management of the Group companies the following measures are utilized:

1) measures of currency risk set by the Group companies,
2) measures of currency position, defined by the Bank.

Measures of currency position the Group companies are determined using the similar methods as for the currency position for the Bank, taking into account the specific economic activity of the Group companies.

Derivative instrument risk

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

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

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

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

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

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

Methods of derivative instrument risk management in the Group companies are defined by their internal regulations implemented by the Group companies, which take position in derivative instruments or plan to take positions in such instruments. The regulations are developed after consultation with the Bank and take into account recommendation of the Bank.

In the process of derivative instrument risk management of the Group companies the following measures are utilized:

1) measures of derivative instrument risk set by the Group companies,
2) positions taken by the Group companies in particular derivative instruments, defined by the Bank.

Positions taken by the Group companies in particular derivative instruments are determined using the similar methods as for positions taken by the Bank in such instruments, taking into account the specific economic activity of the Group companies.

Capital adequacy risk

The objective of capital adequacy risk management is to ensure that the Bank and the PKO BP SA Group follow prudence regulations concerning capital adequacy requirements due to risk exposure, expressed as capital adequacy ratio.

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

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

The Bank calculates capital requirements relating to the following market risk:

1) currency risk for banking and trading books jointly,
2) equity securities price risk for the trading book (general and specific risk),
3) general interest rate risk for the trading book,
4) specific risk related to the prices of debt securities in the trading book,
5) counterparty risk and delivery/settlement risk for the trading book.

The companies in the PKO BP SA Group do not generate capital adequacy requirement connected to market risk.

Price risk of equity securities in the trading portfolio

The objective of equity securities price risk management is to shape the Bank's balance sheet structure to ensure the adequacy of the Bank's price profile to the nature of its business activities and to reduce the impact of unfavourable changes in share prices on the Bank's financial result.

Limits for equity price risk are set separately for particular sub-portfolios of the trading book. The items that are subject to limits are open positions, daily losses and options' sensitivity.

Liquidity risk

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

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

The Bank uses the following tools for liquidity risk measurement:

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

The main tools for liquidity risk management in the PKO BP SA Group are:

1) procedures regarding liquidity risk management,
2) limits and treshlds restraining liquidity risk,
3) deposit, investment and derivative transactions, including structural currency transactions and sell or buy transactions of securities.

To ensure adequate liquidity level, the Bank and the PKO BP SA Group companies set limits and thresholds for liquidity risk. The limits and thresholds are used to measure both the current liquidity and the medium and long-term liquidity.

Methods of liquidity risk management in the Group companies are defined by their internal regulations implemented by the Group companies, which are characterised by high values/levels of liquidity risk measures. The regulations are developed after consultation with the Bank and take into account recommendation of the Bank.

In the process of interest risk management of the Group companies the following measures are utilized:

1) measures of liquidity risk set by the Group companies,
2) measure of „contractual liquidity gap”, determined by the Bank.

Measure of “contractual liquidity gap” for the Group companies is determined using the similar methods as for the ‘contractual liquidity gap” for the Bank, taking into account the specific economic activity of the Group companies.

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

31 December 2006

Interest rate risk

Financial assets and liabilities subject to fair value risk connected with interest rate[1]

	31.12.2006
Bank - Debt securities	15 021 274
Bank - Loans and advances based on fixed interest rates	734 753
Bank - Deposits from customers based on fixed interest rates	(14 660 248)
Bank - Inter-bank and negotiable deposits	(16 655 690)
Bank - Inter-bank receivables	12 946 291
Group Entities - Assets	1 697 896
Group Entities - Liabilities	(960 265)
TOTAL	**(1 875 989)**

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

	31.12.2006
Bank - Debt securities	4 039 820
Bank - Loans and advances based on variable interest rates	59 491 751
Bank - Deposits from customers based on variable interest rates	(51 585 402)
Group Entities - Assets	1 013 404
Group Entities - Liabilities	(2 013 503)
TOTAL	**10 946 070**

Off-balance sheet transactions – fair value[1, 2]

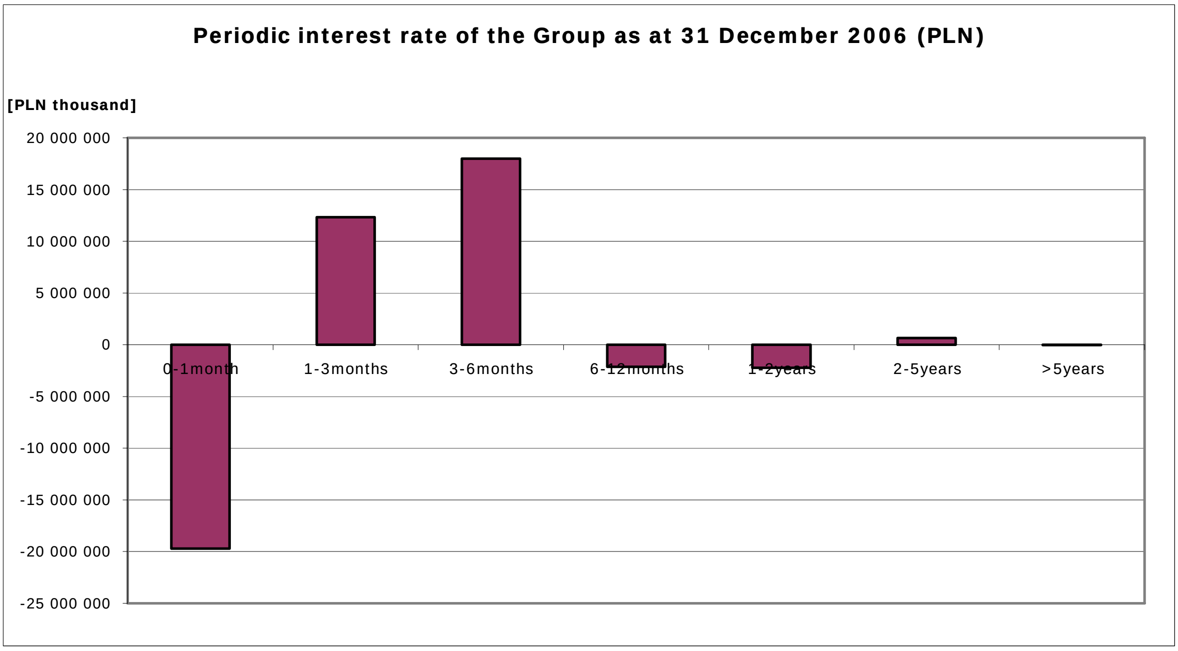
	31.12.2006
Bank - Derivatives	107 362
Group Entities – Derivatives	(195)
TOTAL	**107 167**

PLN Repricing Gap	**0-1 month**	**1 - 3 months**	**3-6 months**	**6-12 months**	**1- 2 years**	**2– 5 years**	**> 5 years**	**Total**
Bank - Periodic gap	(19 599 952)	12 463 891	18 015 885	(2 146 871)	(1 965 852)	635 915	(34 780)	7 368 236
Bank - Cumulative gap	(19 599 952)	(7 136 061)	10 879 824	8 732 953	6 767 101	7 403 016	7 368 236	x
Group Entities - Periodic gap	(93 437)	(128 772)	(35 415)	26 932	(243 651)	15 929	212	(458 202)
Group Entities - Cumulative gap	(93 437)	(222 209)	(257 624)	(230 692)	(474 343)	(458 414)	(458 202)	-
TOTAL - Periodic gap	**(19 693 389)**	**12 335 119**	**17 980 470**	**(2 119 939)**	**(2 209 503)**	**651 844**	**(34 568)**	**6 910 034**
TOTAL - Cumulative gap	**(19 693 389)**	**(7 358 270)**	**10 622 200**	**8 502 261**	**6 292 758**	**6 944 602**	**6 910 034**	**-**

[1] Total for all currencies.

[2] Fair value

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



At the end of 2006, the PKO BP SA Group had a negative cumulative PLN gap in a time horizon up to 3 months and a positive cumulative gap for longer horizons. At the end of 2006, the exposure of the PKO BP SA Group to interest rate risk mainly consisted of the Bank's exposure. The PLN interest rate risk generated by the other Group companies had no significant influence on the interest rate risk of the whole Group and therefore it did not affect its risk profile.

USD Repricing Gap (in USD ths.)	**0-1 month**	**1 - 3 months**	**3-6 months**	**6-12 months**	**1- 2 years**	**2– 5 years**	**> 5 years**	**Total**
Bank - Periodic gap	(378 458)	181 384	99 566	86 261	-	-	52 374	41 127
Bank - Cumulative gap	(378 458)	(197 074)	(97 508)	(11 247)	(11 247)	(11 247)	41 127	-
Group Entities - Periodic gap	(66 536)	(49)	(37 351)	(33 044)	23 388	60 047	69 157	15 612
Group Entities - Cumulative gap	(66 536)	(66 585)	(103 936)	(136 980)	(113 592)	(53 545)	15 612	-
TOTAL - Periodic gap	**(444 994)**	**181 335**	**62 215**	**53 217**	**23 388**	**60 047**	**121 531**	**56 739**
TOTAL - Cumulative gap	**(444 994)**	**(263 659)**	**(201 444)**	**(148 227)**	**(124 839)**	**(64 792)**	**56 739**	**-**

The exposure of the Group to interest rate risk in USD consists for the most part of the Bank's exposure and KREDOBANK's exposure. The subsidiaries' interest rate risk increased the Group's interest rate risk in the time horizons: up to 1 month and above 1 year. The subsidiaries' interest rate risk decreased the interest rate risk in the time horizons from 1 month to 1 year.

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

EUR Repricing Gap (in EUR ths.)	0-1 month	1 - 3 months	3-6 months	6-12 months	1- 2 years	2– 5 years	> 5 years	Total
Bank - Periodic gap	(497 048)	401 894	(5 310)	78 608	26 377	1 022	7 355	12 898
Bank - Cumulative gap	(497 048)	(95 154)	(100 464)	(21 856)	4 521	5 543	12 898	-
Group Entities - Periodic gap	(3 162)	(544)	(16 227)	(5 474)	9 597	15 964	1 483	1 637
Group Entities - Cumulative gap	(3 162)	(3 706)	(19 933)	(25 407)	(15 810)	154	1 637	-
TOTAL - Periodic gap	**(500 210)**	**401 350**	**(21 537)**	**73 134**	**35 974**	**16 986**	**8 838**	**14 535**
TOTAL - Cumulative gap	**(500 210)**	**(98 860)**	**(120 397)**	**(47 263)**	**(11 289)**	**5 697**	**14 535**	**-**

The exposure of the Group to interest rate risk in EUR consists for the most part of the Bank's exposure and KREDOBANK’s exposure. The EUR interest rate risk which is generated by other Group companies has no significant influence on the Group's interest rate risk and therefore does not affect its risk profile.

CHF Repricing Gap (in CHF ths.)	0-1 month	1 - 3 months	3-6 months	6-12 months	1- 2 years	2– 5 years	> 5 years	Total
Bank - Periodic gap	2 547 713	(2 430 896)	(966)	(1 553)	(2 565)	-	-	111 733
Bank - Cumulative gap	2 547 713	116 817	115 851	114 298	111 733	111 733	111 733	-
Group Entities - Periodic gap	(86)	-	-	-	-	-	-	(86)
Group Entities - Cumulative gap	(86)	(86)	(86)	(86)	(86)	(86)	(86)	-
TOTAL - Periodic gap	**2 547 627**	**(2 430 896)**	**(966)**	**(1 553)**	**(2 565)**	**-**	**-**	**111 647**
TOTAL - Cumulative gap	**2 547 627**	**116 731**	**115 765**	**114 212**	**111 647**	**111 647**	**111 647**	**-**

The exposure of the Group to CHF interest rate risk consists mainly of the Bank's exposures. The CHF interest rate risk generated by the Group companies does not have a significant influence on the Group's interest rate risk and therefore does not affect its risk profile.

The Group's interest rate risk exposure remained within the approved limits.

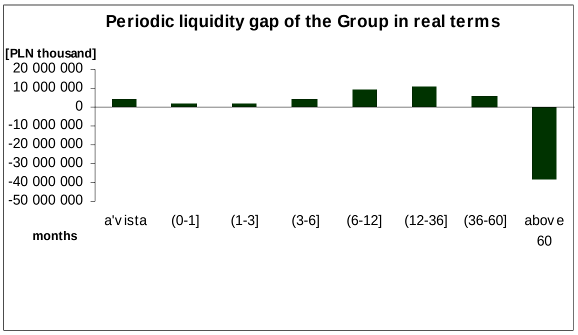
The interest rate risk in the Group was on a low level. As at 31 December 2006, the interest rate VaR for the holding period of 10 days amounted to PLN 4,813 thousand, which constituted ca. 0.07% of Bank's own funds[3]. The interest rate risk was generated mainly by the risk of a mismatch the repricing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

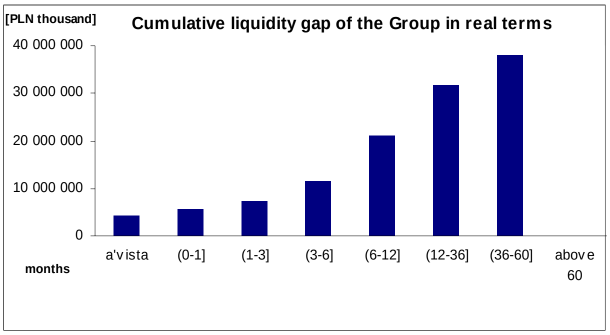
Liquidity risk of the PKO BP SA Group

Liquidity gap	a’vista	(0 - 1] months	(1 - 3] months	(3 - 6] months	(6 - 12] months	(12 - 36] months	(36 - 60] months	over 60 months
Bank - Periodic gap	4 088 906	1 755 373	1 766 932	4 465 463	9 578 027	10 481 513	5 654 981	(37 791 195)
Bank - Cumulative periodic gap	4 088 906	5 844 279	7 611 211	12 076 674	21 654 701	32 136 214	37 791 195	-
Group Entities - Periodic gap	113 540	(181 729)	(347 069)	(16 426)	(44 315)	93 344	558 791	(176 136)
Group Entities - Cumulative periodic gap	113 540	(68 189)	(415 258)	(431 684)	(475 999)	(382 655)	176 136	-
TOTAL - Periodic gap	**4 202 446**	**1 573 644**	**1 419 863**	**4 449 037**	**9 533 712**	**10 574 857**	**6 213 772**	**(37 967 331)**
TOTAL - Cumulative periodic gap	**4 202 446**	**5 776 090**	**7 195 953**	**11 644 990**	**21 178 702**	**31 753 559**	**37 967 331**	**-**

[3] Taken into account in the capital adequacy calculation

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





In all time horizons, the Group's cumulative periodic liquidity gap stated in real terms[4] was positive. This means a surplus of assets receivable over liabilities payable.

Concentration of credit risk – inter-bank market

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

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

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

[4] The liquidity gap in real terms of the PKO BP SA Group was calculated as the sum of the liquidity gap in real terms of the Bank and contractual liquidity gaps of the other companies from the PKO BP SA Group.

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

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

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

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

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

	Up to 1 month	1 – 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Impairment allowances	Total
Assets:							
Cash and balances with the Central Bank	4 628 134	-	-	-	-	-	**4 628 134**
Amounts due from banks	8 019 055	1 550 355	3 703 989	157 520	-	(329)	**13 430 590**
Financial assets held for trading	6 515	88 616	134 645	38 987	123 617	-	**392 380**
Other financial instruments at fair value through profit or loss	223 355	154 689	2 286 520	5 583 504	3 111 996	-	**11 360 064**
Loans and advances to customers	10 614 323	1 708 330	9 294 876	20 192 246	19 543 854	(2 447 022)	**58 906 607**
Securities available for sale	33 312	190 478	1 206 153	2 447 291	2 916 005	(30 051)	**6 763 188**
Other	673 677	1 099 980	204 042	852 945	3 172 427	(222 821)	**5 780 250**
Total assets:	**24 198 371**	**4 792 448**	**16 830 225**	**29 272 493**	**28 867 899**	**(2 700 223)**	**101 261 213**
Liabilities:							
Amounts due to the Central Bank	1 387	-	-	-	-	-	**1 387**
Amounts due to banks	1 864 458	878 280	968 649	379 493	102 210	-	**4 193 090**
Amounts due to customers	54 175 022	11 267 072	15 776 427	1 585 783	95 838	-	**82 900 142**
Liabilities arising from securities issued	-	-	43 722	-	-	-	**43 722**
Other liabilities	1 462 685	1 613 440	471 570	86 613	307 984	-	**3 942 292**
Total liabilities:	**57 503 552**	**13 758 792**	**17 260 368**	**2 051 889**	**506 032**	-	**91 080 633**
Equity:	**-**	**-**	**-**	**-**	**10 180 580**	-	**10 180 580**
Total:	**57 503 552**	**13 758 792**	**17 260 368**	**2 051 889**	**10 686 612**	-	**101 261 213**
Liquidity gap	**(33 305 181)**	**(8 966 344)**	**(430 143)**	**27 220 604**	**18 181 287**	**(2 700 223)**	**-**

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

Currency risk

In 2006, currency risk remained at a low level. The tables below present currency exposure broken by separate types of assets, liabilities and off-balance sheet liabilities.

	Currency translated to PLN – 31.12.2006				
ASSETS, of which:	**PLN**	**EUR**	**CHF**	**Other**	**Total**
Cash and balances with the Central Bank	4 322 996	133 162	7 380	164 596	**4 628 134**
Loans and advances and other amounts due from financial sector	9 437 950	1 078 344	93 410	3 191 213	**13 800 917**
Loans and advances to non-financial sector	39 744 236	2 566 686	10 798 565	1 812 220	**54 921 707**
Loans and advances to public sector	6 051 015	6 463	52	4 394	**6 061 924**
Securities	15 030 362	2 601 655	-	913 666	**18 545 683**
Non-current assets	7 578 025	-	-	154 815	**7 732 840**
Other assets and derivatives	1 982 683	29 852	1 684	64 535	**2 078 754**
TOTAL (GROSS) ASSETS	84 147 267	6 416 162	10 901 091	6 305 439	**107 769 959**
DEPRECIATION/AMORTISATION/ IMPAIRMENT	(6 329 841)	(42 485)	(22 975)	(113 445)	**(6 508 746)**
TOTAL (NET) ASSETS	77 817 426	6 373 677	10 878 116	6 191 994	**101 261 213**
LIABILITIES, of which:					
Balances with the Central Bank	1 387	-	-	-	**1 387**
Amounts due to financial sector	1 609 439	1 470 045	25 922	1 373 776	**4 479 182**
Amounts due to non-financial sector	71 922 592	3 181 078	63 663	4 284 023	**79 451 356**
Amounts due to public sector	3 146 805	10 518	-	5 371	**3 162 694**
Liabilities arising from securities issued	43 722	-	-	-	**43 722**
Provisions	427 350	583	-	267	**428 200**
Other liabilities and derivatives and deferred tax liability	3 374 690	6 211	29 151	104 040	**3 514 092**
Equity	10 140 452	-	-	40 128	**10 180 580**
TOTAL LIABILITIES	90 666 437	4 668 435	118 736	5 807 605	**101 261 213**
OFF-BALANCE SHEET LIABILITIES GRANTED	**21 887 535**	**1 813 917**	**898 870**	**299 366**	**24 899 688**

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

31 December 2005

Interest rate risk

Financial assets and liabilities subject to fair value risk connected with interest rate [5]

	31.12.2005
Bank - Debt securities	19 869 505
Bank - Loans and advances based on fixed interest rates	572 690
Bank - Deposits from customers based on fixed interest rates	(16 123 514)
Bank - Inter-bank and negotiable deposits	(14 029 005)
Bank - Inter-bank receivables	12 730 534
Group Entities - Assets	978 413
Group Entities - Liabilities	(1 000 247)
TOTAL	**2 998 376**

Financial assets and liabilities subject to cash flow risk connected with interest rate[5]

	31.12.2005
Bank - Debt securities	1 928 368
Bank - Loans and advances based on variable interest rates	48 007 343
Bank - Deposits from customers based on variable interest rates	(46 318 895)
Group Entities - Assets	978 413
Group Entities - Liabilities	(1 000 247)
TOTAL	**3 594 982**

Off-balance sheet transactions – fair value[5, 6]

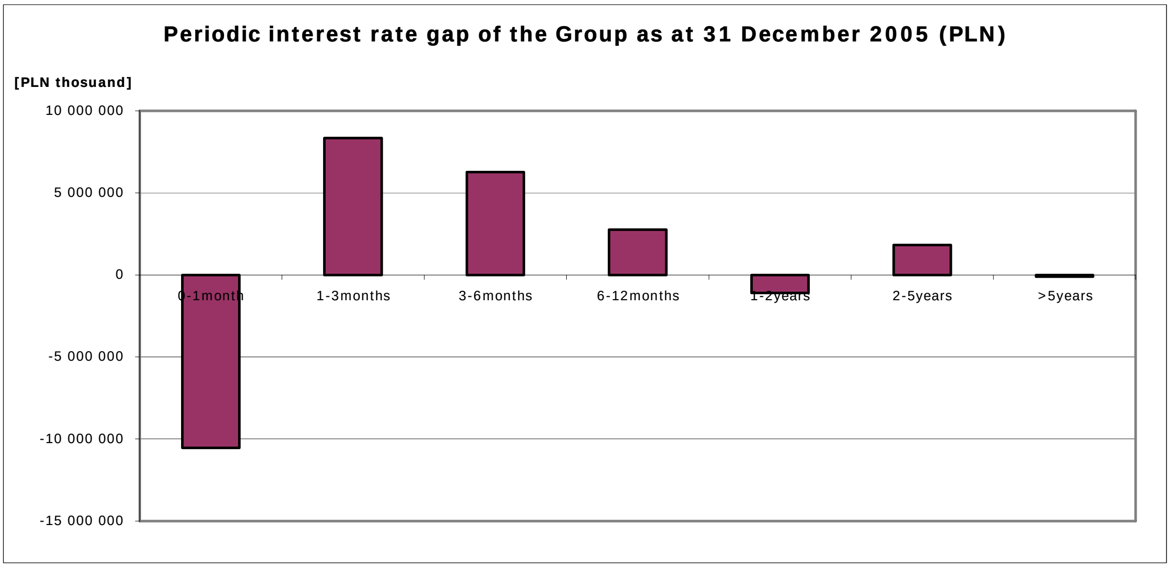
	31.12.2005
Derivatives	(126 795)

PLN Repricing Gap	**0-1 month**	**1 - 3 months**	**3-6 months**	**6-12 months**	**1- 2 years**	**2– 5 years**	**> 5 years**	**Total**
Bank - Periodic gap	(10 910 303)	8 810 966	6 163 358	2 740 066	(1 100 302)	1 812 781	(115 177)	7 401 389
Bank - Cumulative gap	(10 910 303)	(2 099 337)	4 064 021	6 804 087	5 703 785	7 516 566	7 401 389	-
Group Entities - Periodic gap	374 043	(466 692)	98 517	12 290	-	-	653	18 811
Group Entities - Cumulative gap	374 043	(92 649)	5 868	18 158	18 158	18 158	18 811	-
TOTAL - Periodic gap	**(10 536 260)**	**8 344 274**	**6 261 875**	**2 752 356**	**(1 100 302)**	**1 812 781**	**(114 524)**	**7 420 200**
TOTAL - Cumulative gap	**(10 536 260)**	**(2 191 986)**	**4 069 889**	**6 822 245**	**5 721 943**	**7 534 724**	**7 420 200**	**-**

[5] Total for all currencies

[6] Fair value

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



At the end of 2005, the PKO BP SA Group had a negative cumulative PLN gap in a time horizon up to 3 months and a positive cumulative gap for longer horizons. At the end of 2005, the exposure of the PKO BP SA Group to interest rate risk mainly consisted of the Bank's exposure. The PLN interest rate risk generated by the other Group companies had no significant influence on the interest rate risk of the whole Group and therefore it did not affect its risk profile.

USD Repricing Gap (in USD ths.)	0-1 month	1 - 3 months	3-6 months	6-12 months	1- 2 years	2– 5 years	> 5 years	Total
Bank - Periodic gap	(579 563)	85 884	201 295	249 475	-	-	10 402	(32 507)
Bank - Cumulative gap	(579 563)	(493 679)	(292 384)	(42 909)	(42 909)	(42 909)	(32 507)	-
Group Entities - Periodic gap	(20 383)	(46 321)	(5 859)	7 325	70 369	-	-	5 131
Group Entities - Cumulative gap	(20 383)	(66 704)	(72 563)	(65 238)	5 131	5 131	5 131	-
TOTAL - Periodic gap	**(599 946)**	**39 563**	**195 436**	**256 800**	**70 369**	-	**10 402**	**(27 376)**
TOTAL - Cumulative gap	**(599 946)**	**(560 383)**	**(364 947)**	**(108 147)**	**(37 778)**	**(37 778)**	**(27 376)**	-

The exposure of the Group to interest rate risk in USD consists for the most part of the Bank's exposure. The subsidiaries' USD interest rate risk increased the Group's interest rate risk in the time horizons: up to 1 month, from 6 to 12 months, from 1 to 2 years. The subsidiaries' interest rate risk decreased the interest rate risk in the time horizons from 1 to 3 months and from 3 to 6 months.

EUR Repricing Gap (in EUR ths.)	0-1 month	1 - 3 months	3-6 months	6-12 months	1- 2 years	2– 5 years	> 5 years	Total
Bank - Periodic gap	(339 915)	399 937	(14 350)	(28 312)	-	65	3 818	21 243
Bank - Cumulative gap	(339 915)	60 022	45 672	17 360	17 360	17 425	21 243	-
Group Entities - Periodic gap	14 483	(14 961)	(2 929)	(4 190)	13 596	-	-	5 999
Group Entities - Cumulative gap	14 483	(478)	(3 407)	(7 597)	5 999	5 999	5 999	-
TOTAL - Periodic gap	**(325 432)**	**384 976**	**(17 279)**	**(32 502)**	**13 596**	**65**	**3 818**	**27 242**
TOTAL - Cumulative gap	**(325 432)**	**59 544**	**42 265**	**9 763**	**23 359**	**23 424**	**27 242**	-

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

The exposure of the Group to interest rate risk in EUR consists for the most part of the Bank's exposure. The EUR interest rate risk which is generated by Group companies has no significant influence on the Group's interest rate risk and therefore does not affect its risk profile.

CHF Repricing Gap (in CHF ths.)	**0-1 month**	**1 - 3 months**	**3-6 months**	**6-12 months**	**1- 2 years**	**2– 5 years**	**> 5 years**	**Total**
Bank - Periodic gap	1 739 315	(1 690 895)	(200)	(204)	-	-	-	48 016
Bank - Cumulative gap	1 739 315	48 420	48 220	48 016	48 016	48 016	48 016	-
Group Entities - Periodic gap	33 352	(28 776)	-	-	-	-	-	4 576
Group Entities - Cumulative gap	33 352	4 576	4 576	4 576	4 576	4 576	4 576	-
TOTAL - Periodic gap	**1 772 667**	**(1 719 671)**	**(200)**	**(204)**	**-**	**-**	**-**	**52 592**
TOTAL - Cumulative gap	**1 772 667**	**52 996**	**52 796**	**52 592**	**52 592**	**52 592**	**52 592**	**-**

The exposure of the Group to CHF interest rate risk consists mainly of the Bank's exposures. The CHF interest rate risk generated by the Group companies does not have a significant influence on the Group's interest rate risk and therefore does not affect its risk profile.

The Group’s exposure to interest rate risk remained within the accepted limits.

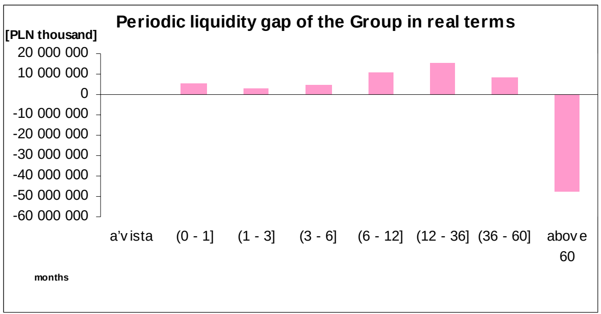
The interest rate risk in the PKO BP SA Group remained at a low level. As at 31 December 2005, the interest rate VaR for the holding period of 10 days (10-days VaR) amounted to PLN 27,164 thousand, which accounted for approximately 0.45% of the Bank's funds[7]. The interest rate risk was generated mainly by the risk of a mismatch between the repricing dates of assets and liabilities.

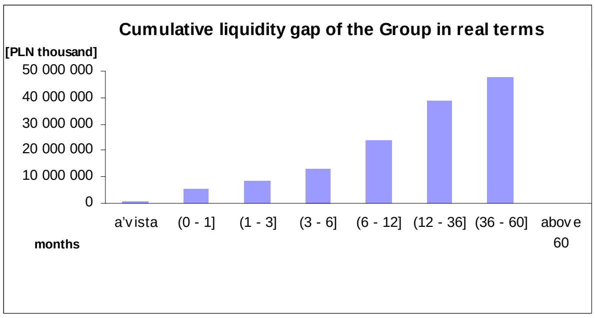
[7] Taken into account in the capital adequacy calculation.

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

Liquidity risk of the PKO BP SA Group

Liquidity gap	a'vista	(0 - 1] months	(1 - 3] months	(3 - 6] months	(6 - 12] months	(12 - 36] months	(36 - 60] months	over 60 months
Bank - Periodic gap	432 997	4 700 737	2 787 318	4 876 571	10 659 508	15 083 781	8 736 540	(47 277 452)
Bank - Cumulative periodic gap	432 997	5 133 734	7 921 052	12 797 623	23 457 131	38 540 912	47 277 452	-
Group Entities - Periodic gap	(118 517)	453 596	(57 363)	(102 000)	(59 188)	187 517	(226 307)	(77 738)
Group Entities - Cumulative periodic gap	(118 517)	335 079	277 716	175 716	116 528	304 045	77 738	-
TOTAL - Periodic gap	**314 480**	**5 154 333**	**2 729 955**	**4 774 571**	**10 600 320**	**15 271 298**	**8 510 233**	**(47 355 190)**
TOTAL - Cumulative periodic gap	**314 480**	**5 468 813**	**8 198 768**	**12 973 339**	**23 573 659**	**38 844 957**	**47 355 190**	**-**





In all time horizons, the cumulative liquidity gap of the PKO BP SA Group in real terms[8] was positive. This means a surplus of assets receivable over liabilities payable.

Concentration of credit risk – inter-bank market

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

[8] The liquidity gap in real terms of the PKO BP SA Group was calculated as the sum of the liquidity gap in real terms of the Bank and contractual liquidity gaps of the other companies from the Group.

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

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

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

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

(in PLN thousand)

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

Balance sheet items	Up to 1 month	1 – 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Impairment allowances	Total
Assets:							
Cash and balances with the Central Bank	3 895 331	-	-	-	-	-	**3 895 331**
Amounts due from banks	6 074 017	1 447 883	5 019 131	76 651	47 391	(1 778)	**12 663 295**
Financial assets held for trading	28 243	81 323	88 700	633 304	19 433	-	**851 003**
Other financial instruments at fair value through profit or loss	2 024 230	1 030 895	5 106 340	7 318 301	4 579 917	-	**20 059 683**
Loans and advances to customers	9 631 708	1 556 880	6 658 047	16 222 258	15 793 477	(2 987 741)	**46 874 629**
Securities available for sale	191 313	269 636	134 147	1 063 208	263 973	(40 899)	**1 881 378**
Other	220 729	1 233 339	152 161	785 960	3 173 447	(177 774)	**5 387 862**
Total assets:	**22 065 571**	**5 619 956**	**17 158 526**	**26 099 682**	**23 877 638**	**(3 208 192)**	**91 613 181**
Liabilities:							
Amounts due to the Central Bank	766	-	-	-	-	-	**766**
Amounts due to banks	1 113 284	516 521	206 610	246 880	51	-	**2 083 346**
Amounts due to customers	46 552 717	12 951 568	15 730 170	1 468 366	44 742	-	**76 747 563**
Liabilities arising from securities issued	-	9 891	58 579	-	-	-	**68 470**
Other liabilities	1 077 260	1 800 672	446 565	175 917	437 632	-	**3 938 046**
Total liabilities:	48 744 027	15 278 652	16 441 924	1 891 163	482 425	-	**82 838 191**
Equity:	-	-	-	-	8 774 990	-	**8 774 990**
Total:	**48 744 027**	**15 278 652**	**16 441 924**	**1 891 163**	**9 257 415**	**-**	**91 613 181**
Liquidity gap	**(26 678 456)**	**(9 658 696)**	**716 602**	**24 208 519**	**14 620 223**	**(3 208 192)**	

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

Currency risk

	Currency translated to PLN – 31.12.2005				
ASSETS, of which:	**PLN**	**EUR**	**CHF**	**Other**	**Total**
Cash and balances with the Central Bank	3 594 096	69 463	2 954	228 818	**3 895 331**
Loans and advances and other amounts due from financial sector	5 572 257	1 054 140	137 193	6 234 210	**12 997 800**
Loans and advances to non-financial sector	31 549 006	2 420 542	7 252 415	1 558 459	**42 780 422**
Loans and advances to public sector	6 730 661	12 861	114	5 585	**6 749 221**
Securities	20 533 434	1 371 147	-	928 382	**22 832 963**
Non-current assets	6 974 963	-	-	111 625	**7 086 588**
Other assets and derivatives	1 804 406	83 160	22 028	73 519	**1 983 113**
TOTAL (GROSS) ASSETS	76 758 823	5 011 313	7 414 704	9 140 598	**98 325 438**
DEPRECIATION/AMORTISATION/ IMPAIRMENT	(6 491 897)	(82 137)	(18 603)	(119 620)	**(6 712 257)**
TOTAL (NET) ASSETS	70 266 926	4 929 176	7 396 101	9 020 978	**91 613 181**
LIABILITIES, of which:					
Balances with the Central Bank	766	-	-	-	**766**
Amounts due to financial sector	265 502	430 598	15 237	1 611 431	**2 322 768**
Amounts due to non-financial sector	66 269 970	2 895 295	59 224	4 097 392	**73 321 881**
Amounts due to public sector	3 147 710	34 683	-	3 867	**3 186 260**
Liabilities arising from securities issued	68 470	-	-	-	**68 470**
Provisions	339 554	74	-	269	**339 897**
Other liabilities and derivatives and deferred tax liability	3 413 547	156 538	8 121	19 943	**3 598 149**
Equity	8 751 912	-	-	23 078	**8 774 990**
TOTAL LIABILITIES	**82 257 431**	**3 517 188**	**82 582**	**5 755 980**	**91 613 181**
OFF-BALANCE SHEET LIABILITIES GRANTED	**16 073 293**	**823 609**	**665 001**	**1 226 588**	**18 788 491**

Exposure to risk

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

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

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

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

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

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

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

Credit and market risk as at 31 December 2006:

Balance sheet items		
Instrument type	**Carrying amount**	**Risk weighted value**
Cash	1 429 379	-
Receivables	72 337 197	48 129 203
Debt securities	15 202 985	265 465
Other securities, shares	192 979	82 409
Non-current assets	3 599 069	2 655 041
Other	5 203 673	3 207 623
Total banking portfolio	**97 965 282**	**54 339 741**
Debt securities	3 294 436	1 282 910
Equity securities held for trading in the trading portfolio of the Bank	1 495	1 495
Total trading portfolio	**3 295 931**	**1 284 405**
Total balance sheet instruments	**101 261 213**	**55 624 146**

Off-balance sheet instruments			
Instrument type	**Replecement cost**	**Credit equivalent**	**Risk weighted value**
Derivatives			
Interest rate instruments:	*137 881 756*	*1 178 589*	*235 718*
FRA	62 075 000	199 614	39 923
IRS	75 806 756	978 975	195 795
Foreign currency instruments:	*15 367 913*	1 134 742	*227 335*
Currency forwards	982 571	34 970	6 994
Forwards - embedded derivatives	3 809	1 181	591
SWAP	3 778 498	184 163	36 833
CIRS	833	50	10
FX futures	10 598 238	914 234	182 847
Options (delta equivalents - purchase of options)	3 964	144	60
Other instruments:	*765 552*	*76 555*	*15 311*
SBB	765 552	76 555	15 311
Other	-	-	-
Total derivatives	**154 015 221**	**2 389 886**	**478 364**
of which:			
banking portfolio	27 923 211	1 217 802	243 916
trading portfolio	126 092 010	1 172 084	234 448

Other off-balance sheet instruments			
Instrument type	**Off-balance sheet value**	**Credit equivalent**	**Risk weighted value**
Lines of credit	23 615 395	3 363 632	2 629 874
Guarantees issued	656 698	401 316	395 706
Letters of credit	237 650	108 929	108 258
Other	3 208 300	835 043	381 150
Total banking portfolio	**27 718 043**	**4 708 920**	**3 514 988**
Underwriting guarantees	809 916	713 916	713 916
Total trading portfolio	**809 916**	**713 916**	**713 916**

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

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

Capital requirements for trading portfolio (market risk)	**Capital requirement**
Market risk	**132 165**
of which:	
Currency risk	-
Commodity price risk	-
Equity securities price risk	214
Debt instruments specific risk	94 618
Interest rate general risk	37 333
Other:	**16 522**
Settlement risk – delivery and contractor	16 522
Other	
Total capital requirement (credit and market risk)	**4 796 579**

Credit and market risk as at 31 December 2005:

Balance sheet instruments		
Instrument type	**Carrying amount**	**Risk weighted value**
Cash	1 267 006	-
Receivables	59 537 924	36 001 229
Debt securities	20 428 876	157 549
Other securities, shares	217 680	28 231
Non-current assets	3 332 321	2 643 551
Other	4 499 807	3 007 179
Total banking portfolio	**89 283 614**	**41 837 739**
Debt securities	2 327 379	855 570
Equity securities held for trading	2 188	2 188
Total trading portfolio	**2 329 567**	**857 758**
Total balance sheet instruments	**91 613 181**	**42 695 497**

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

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

Other off-balance sheet instruments			
Instrument type	**Off-balance sheet value**	**Credit equivalent**	**Risk weighted value**
Lines of credit	18 485 192	2 342 583	1 248 306
Guarantees issued	247 674	173 616	163 584
Letters of credit	154 945	45 244	45 244
Other	2 142 129	446 953	172 418
Total banking portfolio	**21 029 940**	**3 008 396**	**1 629 552**
Underwriting guarantees	664 870	484 348	484 348
Total trading portfolio	**664 870**	**484 348**	**484 348**

	Carrying amount and off-balance sheet value	**Risk weighted value**	**Capital requirement**
Total banking portfolio (credit risk)	**143 382 105**	**43 671 671**	**3 493 734**

Capital requirements for trading portfolio (market risk)	**Capital requirement**
Market risk	**108 522**
of which:	
Currency risk	-
Commodity price risk	-
Equity securities price risk	249
Debt instruments specific risk	66 863
Interest rate general risk	41 410
Other:	
Settlement risk – delivery and contractor	15 474
Underwriting risk	-
Other	-
Total capital requirement (credit and market risk)	**3 617 730**

	31.12.2006	**31.12.2005**
Capital adequacy ratio	**11.81**	**13.90**

4. Objectives and principles of operational risk management

The purpose of operating risk management is to optimize operational efficiency by reducing operating losses, costs streamlining and improving response time and adequacy of the events which have already occurred.

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

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

- operational risk management process is coordinated by the Bank's Credit and Operational Risk Department.
- the Bank passes opinions on the chosen solutions regarding operational risk management in the Group companies.

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 and of the organization and activities of KREDOBANK SA.

BFL SA is currently in the process of organizing its operational risk management system. The company created a separate organisational entity. It is developing internal regulations on operational risk management, which are opined by the Bank.

Other Group entities are in the process of designing internal regulations on operational risk management, which are opined by the Bank. 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 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.

5. Fair value of financial assets and liabilities

The Group holds financial instruments which are not stated at fair value in the balance sheet. The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

As for many financial instruments there is no available market value, their fair values have been estimated using various valuation methods, including estimation of the present value of future cash flows. The market quotations applied for valuation of securities held to maturity do not include any potential adjustments resulting from limited market liquidity or transaction costs.

For certain categories of financial assets valued at the amount due with an allowance for impairment losses, it has been assumed that their fair value equals their carrying amount. This applies, in particular, to cash on hand and balances with the Central Bank, current receivables from and liabilities to clients, as well as other assets and liabilities. Majority of placements on the inter-bank market are short-term placements. The share of fixed interest rate loans and customer deposits in total loans and total deposits is not significant. Majority of such loans and deposits are of short-term nature.

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

The fair value of "Amounts due from banks" as at 31 December 2006 amounts to PLN 13,429,310 thousand (as at 31 December 2005: PLN 12,919,384 thousand). Differences between the fair value and carrying amount of other balance sheet items not significant.

6. Custodial activities

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

7. Assets'securitization

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

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

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

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

The Bank did not receive any securities under these transactions.

8. Segment reporting

The primary segmentation key of the Group is based on business type (business segments) and the secondary - on geographical area (geographical segments).

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

The presented division includes in the business segment not only the activity of the holding company but also activity of subsidiaries, contrary to the approach being in force so far. As a result, not-assigned items decreased.

Data for 2005 were transformed accordingly in order to ensure comparability.

Business segments

Segmentation by business is as follows:

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

The Bank has not separated other segments as a result of not having reached the thresholds set forth in IAS 14, which areas follow:

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

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

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

In the tables below, data concerning revenue and results, also selected assets and liabilities of particular business segment of the Group are presented for the year ended 31 December 2006 and 31 December 2005.

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

	Continued activities					
Year ended 31 December 2006	**Corporate Segment**	**Retail Segment**	**Treasury Segment**	**Investment Segment**	**Housing Segment**	**All activities**
Revenue						
External customer - related revenues	1 200 509	4 167 483	1 522 710	201 141	2 009 746	**9 101 589**
Inter-segment sales	-	43 827	-	-	3 020	**46 847**
Total segment revenue	1 200 509	4 211 310	1 522 710	201 141	2 012 766	**9 148 436**
Result						
Segment result*	270 049	1 392 440	118 612	110 179	535 806	**2 427 086**
Unallocated result together with the result of unseparated segments	-	-	-	-	-	**39 970**
Difference between FX Swap and CIRS results (swap points) reported in B/S and management accounts	-	-	-	-	-	**238 137**
Result from continued activities before taxation	-	-	-	-	-	**2 705 193**
Share in the results of associates	-	-	-	-	-	**(3 705)**
Result before taxation and minority interest	-	-	-	-	-	**2 701 488**
Income tax (tax expense)	-	-	-	-	-	**(494 039)**
Profitss/(loss) of minority shareholders	-	-	-	-	-	**58 397**
Net profit for the year	-	-	-	-	-	**2 149 052**
Assets and equity and liabilities as at 31 December 2006						
Segment assets	19 293 605	19 127 175	28 158 790	1 619 540	25 137 161	**93 336 271**
Investments in associates and jointly controlled entities	-	-	-	180 162	-	**180 162**
Unallocated assets	-	-	-	-	-	**7 744 780**
Total assets	-	-	-	-	-	**101 261 213**
Segment liabilities and segment result	11 003 202	65 003 017	4 078 452	481 796	10 743 159	**91 309 626**
Unallocated liabilities	-	-	-	-	-	**9 951 587**
Total liabilities	-	-	-	-	-	**101 261 213**

Other segment information						
Impairment losses**	73 156	(109 678)	-	15 177	22 277	**932**
Capital expenditure on tangible and intangible fixed assets	-	-	-	-	-	**581 564**
Depreciation of tangible and amortization of intangile fixed assets	-	-	-	-	-	**317 911**
Other non-cash expenditures	-	-	-	-	-	-

* The effect of a significant increase in activity in the real estate market (regarding Housing Segment).

** Does not include result on impairment of segments which are not separated.

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

	Continued activities					
Year ended 31 December 2005	**Corporate Segment**	**Retail Segment**	**Treasury Segment**	**Investment Segment**	**Housing Segment**	**All activities**
Revenue						
External customer - related revenues	1 247 418	3 640 791	1 980 361	484 992	1 884 768	**9 238 330**
Inter-segment sales	-	38 926	-	285	3 281	**42 492**
Total segment revenue	1 247 418	3 679 717	1 980 361	485 277	1 888 049	**9 280 822**
Result						
Segment result	118 972	814 250	234 078	361 654	112 758	**1 641 712**
Unallocated result together with the result of unseparated segments	-	-	-	-	-	**133 769**
Difference between FX Swap and CIRS results (swap points) reported in B/S and management accounts	-	-	-	-	-	**368 033**
Result from continued activities before taxation	-	-	-	-	-	**2 143 514**
Share in the results of associates	-	-	-	-	-	**23 531**
Result before taxation and minority interest	-	-	-	-	-	**2 167 045**
Income tax (tax expense)	-	-	-	-	-	**(411 424)**
Profits/(loss) of minority shareholders	-	-	-	-	-	**20 801**
Net profit for the year	-	-	-	-	-	**1 734 820**
Assets and equity and liabilities as at 31 December 2005						
Segment assets	15 120 877	14 758 971	33 710 060	1 633 433	19 474 081	**84 697 422**
Investments in associates and jointly controlled entities	-	-	-	184 345	-	**184 345**
Unallocated assets	-	-	-	-	-	**6 731 414**
Total assets	-	-	-	-	-	**91 613 181**
Segment liabilities and segment result	9 649 924	60 640 229	2 140 553	505 421	9 111 386	**82 047 513**
Unallocated liabilities	-	-	-	-	-	**9 565 668**
Total liabilities	-	-	-	-	-	**91 613 181**

Other segment information						
Impairment losses *	(8 986)	14 689	-	36 800	(54 051)	**(11 548)**
Capital expenditure on tangible and intangible fixed assets	-	-	-	-	-	**600 596**
Depreciation of tangible and amortization of intangile fixed assets	-	-	-	-	-	**466 540**
Other non-cash expenditures	-	-	-	-	-	-

* does not include result on impairment of segments which are not separated

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

Segmentation by geographical region

Taking into account the fact that the Group's activity is conducted also outside Poland, segmentation by geographical region is a secondary reporting format.

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

Except for Poland, the Group carries out its activities in Ukraine - through KREDOBANK S.A. and UKRPOLINWESTYCJE Sp. z o.o.

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

The tables below present data on revenues and certain types of assets of individual geographical segments for the year ended 31 December 2006 and 31 December 2005.

Year ended 31 December 2006	**Poland**	**Ukraine**	**Total**
Revenues			
Total segment revenues	8 912 993	235 443	9 148 436
Other segment information			
Segment assets	99 293 788	1 787 263	101 081 051
Investments in associates	180 162	-	180 162
Total assets	99 473 950	1 787 263	101 261 213
Capital expenditure on tangible and intangible fixed assets	513 595	67 969	581 564

Year ended 31 December 2005	**Poland**	**Ukraine**	**Total**
Revenues			
Total segment revenues	9 103 882	176 940	9 280 822
Other segment information			
Segment assets	90 193 618	1 235 218	91 428 836
Investments in associates	184 345	-	184 345
Total assets	90 377 963	1 235 218	91 613 181
Capital expenditure on tangible and intangible fixed assets	587 893	12 703	600 596

9. Interest income and expenses

Interest income

	2006	**2005**
Income from loans and advances granted to customers	3 918 884	3 573 404
Income from securities at fair value through profit or loss	762 133	1 256 445
Income from placements with other banks	547 016	601 248
Income from investment securities	259 710	139 506
Income from trading securities	22 696	23 418
Other	60 720	67 991
Total	**5 571 159**	**5 662 012**

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

Interest expenses

	2006	2005
Relating to amounts due to customers	(1 557 248)	(1 924 327)
Relating to placements of other banks	(90 353)	(71 969)
Relating to other placements from the money market	(5 160)	-
Relating to own issue of debt securities	(4 964)	(4 265)
Other	(104 689)	(116 976)
Total	**(1 762 414)**	**(2 117 537)**

In the year ended 31 December 2006, the total amount of interest income, calculated using the effective interest rate method, from financial assets not valued at fair value through profit or loss, amounted to PLN 4,786,330 thousand (respectively PLN 4,212,766 thousand). In the same period, interest expense, calculated using the effective interest rate method, relating to financial liabilities which are not valued at fair value through profit or loss, amounted to PLN (1,695,486) thousand (respectively PLN (1,954,579) thousand in 2005).

10. Fees and commission income and expenses

Fees and commission income

	2006	2005
From accounts' servicing	740 073	593 520
From payments cards	533 736	433 728
From loans and advances granted	224 204	96 080
From operations with securities	68 294	38 787
From guarantees, letters of credit and similar operations	4 518	28 917
From cash transactions	208 612	205 438
From foreign mass transactions servicing	38 216	9 362
Handling fees	7 142	-
From investment funds servicing	56 137	19 153
From sale and distribution of treasury stamps	56 457	39 223
Other*	151 211	73 371
Total	**2 088 600**	**1 537 579**

* Included in "Other" are, among others, income earned from servicing bills of exchange, sale of Treasury stamps, insurance intermediary, substituted operations, rendering strongbox accessible, Home banking, management of borrowers' debt towards the State Treasury.

Fees and commission expenses

	2006	2005
Relating to acquisition services	(121 053)	(116 438)
Relating to payment cards	(203 476)	(156 211)
Due to operations with securities	(96)	(46)
Commissions paid to intermediaries	(8 588)	(17 764)
Commissions for services of other banks	(9 183)	(9 413)
Commissions paid to Polish Post	(6 469)	(8 033)
Relating to settlement services	(786)	(1 439)
Domestic trade commission	(6 880)	(293)
Foreign trade commission	(3 490)	(2)
Other	(6 018)	(10 058)
Total	**(366 039)**	**(319 697)**

11. Dividend income

	2006	2005
Dividend income from the issuers:		
Securities classified as available for sale	3 288	16 087
Securities classified as held for trading	316	25
Total	**3 604**	**16 112**

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

12. Result from financial instruments at fair value

Result from financial assets and liabilities at fair value through profit or loss in the years ended 31 December 2006 and 31 December 2005:

	2006	2005
Debt securities	(127 809)	208 659
Derivative instruments	26 748	(179 796)
Equity instruments	3 803	7 009
Loans and receivables	-	-
Other	6 409	(4 166)
Total	**(90 849)**	**31 706**

2006	Profits	Losses	Net result
Financial assets at fair value through profit or loss	5 386 763	(5 477 612)	(90 849)
Total	**5 386 763**	**(5 477 612)**	**(90 849)**

2005	Profits	Losses	Net result
Financial assets at fair value through profit or loss	5 057 027	(5 025 321)	31 706
Total	**5 057 027**	**(5 025 321)**	**31 706**

Total change in the fair value of financial instruments at fair value through profit or loss determined using valuation models (where no quotations on an active market are available) in the year ended 31 December 2006 was PLN 33,157 thousand (in the year ended 31 December 2005: PLN (183,962) thousand).

Fair value changes in hedge accounting

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

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

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

Financial assets available for sale	2006	2005
Realized profits	63 250	294 506
Realized losses	(12 894)	(17 650)
Result on investment securities	**50 356**	**276 856**

In the year ended 31 December 2006, gains or losses from financial assets available for sale taken directly to equity amounted to PLN 9,809 thousand (in the year ended 31 December 2005: PLN (222,352) thousand).

Gains or losses from financial assets for the year ended 31 December 2006 taken from equity to profit and loss amounted to PLN 50,356 thousand (in the year ended 31 December 2005: PLN 276,856 thousand).

14. Foreign exchange result

	2006	2005
Foreign exchange differences resulting from financial instruments at fair value through profit or loss	257 529	201 291
Other foreign exchange differences	286 964	410 810
Total	**544 493**	**612 101**

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

15. Other operating income and expenses

	2006	2005
Other operating income		
Net sales of finished goods, goods for resale and raw materials	738 912	587 954
From asset management on behalf of third parties	74 539	85 970
Sales and liquidation of fixed assets and intangible assets	28 781	10 781
Auxiliary revenues*	26 442	27 740
Income form sale of investments in associates and jointly controlled entities	20 716	-
Recovery of expired, written-off and unrecoverable receivables	16 705	33 534
Lease income	13 934	13 391
Received compensations, penalties and fines	13 312	5 770
Returns of debt collector advances	2 978	3 572
Revenues from reversal of write-downs against other receivables	2 144	28 083
Result on the sale of collector coins	944	2 013
Lease instalments	-	1 165
Other**	82 330	68 298
Total	**1 021 737**	**868 271**

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

** The item „others” consists of, among others, release of provisions, covering the surplus of paid out non-commission premium, settlements of commission from sale of bonds and mutual funds.

	2006	2005
Other operating expense		
Cost of finished goods, goods for resale and raw materials	(19 639)	(30 127)
Costs of asset management on behalf of third parties	(63 986)	(11 566)
Cost of sale and liquidation of fixed assets, intangible assets and assets for disposal	(30 523)	(11 848)
Donations	(8 651)	(7 503)
Leases	(25 809)	(9 177)
Compensation, penalties and fines paid	(3 877)	(4 265)
Impairment of overdue, written-off and unrecoverable receivables	(919)	(904)
Costs of tangible and intangible assets development with no economic result	(6 343)	
Write-downs against other receivables	-	(1 935)
Bank's auxiliary costs	(4 327)	(4 660)
Paid debt collector advances	(4 078)	(3 509)
Cost of maintenance of property and intangible assets	(1 626)	-
Result on the sale of collector coins	(50)	(69)
Costs due to unexplained cash shortages and damages	(39)	(133)
Court fees	-	
Other*	(67 758)	(16 052)
Total	**(237 625)**	**(101 748)**

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

16. General administrative expenses

	2006	2005
Employee costs	(2 255 255)	(2 052 735)
Non-personnel costs	(1 468 381)	(1 566 865)
Depreciation and amortisation	(317 911)	(466 540)
Taxes and charges	(65 173)	(66 888)
Contribution and payments to Banking Guarantee Fund	(10 458)	(8 023)
Total	**(4 117 178)**	**(4 161 051)**

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

Payroll costs / Employee costs

	2006	2005
Salaries and wages	(1 759 080)	(1 681 573)
Provisions for retirment benefits and jubilee bonuses	(110 625)	(26 651)
Provisions for insurance and severance payments for employees, with whom the employment contracts are terminated for the reasons independent of employees	(37 000)	-
Insurance and other employee benefits	(348 550)	(344 511)
Total	**(2 255 255)**	**(2 052 735)**

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

17. Result on impairment allowances

		Increases			Decreases					
Year ended 31 December 2006	**Impairment allowances at the beginning of the period**	**Impairment losses recognised during the period**	**Foreign exchange differences**	**Other**	**Decrease in impairment allowances due to de-recognition of assets with no effect on P&L**	**Reversal of impairment losses during the period**	**Foreign exchange differences**	**Other**	**Impairment allowances at the end of the period**	**Net impact of recognised impairment allowances on the profit and loss account**
Impairment of the financial assets not at fair value through profit or loss	3 030 418	1 064 389	288	35	489 107	1 063 303	9 143	56 175	2 477 402	(1 086)
Financial instruments carried at cost (unquoted equity instruments and underlying derivative instruments)	15 999	-	-	-	-	850	-	35	15 114	850
Financial assets available for sale carried at fair value through equity	24 900	38	-	35	9 736	296	4		14 937	258
Loans and credits to customers and receivables from banks carried at amortised cost	2 944 787	1 059 247	288	-	479 371 [1)]	1 059 074	9 139	52 587 [2)]	2 404 151	(173)
Finance lease receivables	44 732	5 104	-	-	-	3 083	-	3 553	43 200	(2 021)
Impairment of the investments in associates and jointly controlled entities valued using the equity method	57 015	5 433	-	31 349 [3)]	31 349 [4)]	262	-	-	62 186	(5 171)
Other*	246 831	108 577	83	3 960	725	114 183	595	10 111	233 837	5 606
Total	**3 334 264**	**1 178 399**	**371**	**35 344**	**521 181**	**1 177 748**	**9 738**	**66 286**	**2 773 425**	**(651)**

* Included in "Other" are mainly impairment allowances recognized against other assets, off-balance sheet items, tangible and intangible assets.

Impairment losses were recognized and reversed in the Group's normal course of business.

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

1) Write-off of receivables from loans granted to financial, non-financial and public sector, including approximately PLN 380,000 thousand relating to the sale of receivables to securitization fund.
2) Presentation of revenues from the reversal of the provisions of Company A in the amount of PLN 7,152 thousand and reversal of impairment allowance for the receivable from "Jan III Sobieski" in the amount of PLN 38,697 thousand, as a result on conversion debt into shares.
3) Impairment allowance recognized against the investment in "Jan III Sobieski" as a result of conversion of debt into shares.
4) Write-off of receivable from the investment in "Jan III Sobieski" due to sale of shares in this company.
5)

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

		Increases			Decreases					
Year ended 31 December 2005 (comparative data)	**Impairment allowances at the beginning of the period**	**Impairment losses recognised during the period**	**Foreign exchange differences**	**Other**	**Decrease in impairment allowances due to de-recognition of assets with no effect on P&L**	**Reversal of impairment losses during the period**	**Foreign exchange differences**	**Other**	**Impairment allowances at the end of the period**	**Net impact of recognised impairment allowances on the profit and loss account**
Impairment of the financial assets not at fair value through profit or loss	3 204 221	906 355	7 509	34 164	263 062	857 691	1 017	11 225	3 019 254	(48 664)
Financial instruments carried at cost (unquoted equity instruments and underlying derivative instruments)	27 167	6	4	-	-	11 164	-	11 178	4 835	11 158
Financial assets available for sale carried at fair value through equity	10 398	-	-	15 909	-	1 360	-	47	24 900	1 360
Loans and credits to customers and receivables from banks carried at amortised cost	3 123 344	895 469	7 505	18 255	263 062	835 707	1 017	-	2 944 787	(59 762)
Finance lease receivables	43 312	10 880	-	-	-	9 460	-	-	44 732	(1 420)
Impairment of the investments in associates and jointly controlled entities valued using the equity method	63 400	6 285	-	-	-	9 170	-	3 500	57 015	2 885
Other*	177 058	175 372	873	2 718	346	60 061	91	48 692	246 831	(115 311)
Total	**3 444 679**	**1 088 012**	**8 382**	**36 882**	**263 408**	**926 922**	**1 108**	**63 417**	**3 323 100**	**(161 090)**

* Included in "Other" are mainly impairment allowances recognized against other assets, off-balance sheet items, intangible and tangible assets.

Impairment losses were recognized and reversed in the Group's normal course of business.
Impairment allowances against loans and advances and receivables carried at amortized cost, as well as reversals of such allowances, are included in the income statement under “Result on impairment allowances”.

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

18. Discontinued operations

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

19. Share in profit (loss) of jointly controlled entities and associates

Entity name	**2006**	**2005**
Jointly controlled entities		
Centrum Obsługi Biznesu Sp. z o.o.	(2 999)	(301)
PKO Towarzystwo Funduszy Inwestycyjnych SA (formerly PKO/Credit Suisse TFI SA)	(1 467)	15 346
WAWEL Hotel Development Sp. z o.o.	(1 789)	1 086
Grupa Kapitałowa Centrum Haffnera Sp. z o.o.	(581)	-
Associated entities		
Bank Pocztowy SA	2 185	7 285
Kolej Gondolowa Jaworzyna Krynicka SA	-	-
Ekogips SA (in bankruptcy)	-	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	44	23
Hotel Jan III Sobieski Sp. z o.o.	-	-
Agencja Inwestycyjna „CORP” SA	50	92
Associated entity of Bankowe Towarzystwo Kapitałowe SA		
FINDER sp. z o.o.	852	-
Total	**(3 705)**	**23 531**

Additional information regarding on jointly controlled entities and associates is presented in note 1, General Information.

20. Corporate income tax

	2006	**2005**
Consolidated income statement		
Corporate income tax for the period		
Current income tax expense	522 812	840 570
Deferred tax		
Relating to timing differences arisen and reversed	(28 773)	(429 148)
Tax expense disclosed in the consolidated income statement	**494 039**	**411 424**
Deferred tax charged to revaluation reserve		
Relating to timing differences arisen and reversed	1 850	(38 238)
Tax expense disclosed in the consolidated equity	**1 850**	**(38 238)**
Total	**495 889**	**373 186**

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

	2006	2005
Gross profit before taxation	**2 701 488**	**2 167 045**
Corporate income tax calculated using the enacted tax rate 19% (2005: 19%)	513 283	411 739
Effect of other tax rates, i.e. in Ukraine (25%)*	2 052	648
Permanent differences between accounting gross profit and taxable profit, of which:	**(804)**	**31 429**
Other non-tax-deductible expenses	29 206	64 826
Reversed provisions and revaluation not constituting taxable revenue	(33 310)	(17 578)
Settlement of capitalised interest	(4 792)	(6 493)
Other non-taxable revenue	(5 196)	(7 364)
Dividend income	(3 539)	(5 487)
Other	16 827	3 526
Other differences between gross financial result and taxable income, including donations	**(5 134)**	**(870)**
Temporary difference due to the deferred tax presented in the profit and los account	**(28 773)**	**(429 148)**
Tax according to the enacted tax rate 19% (2005: 19%)	**520 711**	**839 358**
Effect of other tax rates: in Ukraine (25%)	**2 101**	**1 214**
Tax due to the effective tax rate 19%	**18.29%**	**18.99%**
Corporate income tax in the consolidated income statement	494 039	411 424
Income tax from assigned from discontinued operations	-	-
Total	**494 039**	**411 424**

*Current income tax charge of the KREDOBANK SA in 2006 amounted to an equivalent of PLN 8,755 thousand (in 2005 PLN 5,058 thousand).

Liabilities/ receivables due to corporate income tax

	31.12.2006	31.12.2005
Current tax receivables	326	87
Current tax liabilities	170 960	436 766

The Group' companies are a corporate income tax payers. The amount of liability is transferred to Tax Authority depending on the location of the registered office. The final settlement of the Groups' entities liabilities related to corporate income tax is set according to the legal requirements that is till 31 March after the balance sheet date.

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

Deferred tax asset/liability

	Consolidated balance sheet		Consolidated income statement	
	31.12.2006	**31.12.2005**	**2006**	**2005**
Deferred tax liability				
Interest accrued on receivables (loans)	95 630	80 992	14 638	2 340
Interest on securities	39 437	48 977	(9 540)	(34 404)
Settlement of discount from securities (less premium)	(3 416)	9 176	(12 592)	(62 061)
Capitalised interest from restructuring bonds	-	-	-	(112 769)
Interest on operations with the state budget	984	4 781	(3 797)	(2 624)
Capitalised interest on regular housing loans	294 460	314 184	(19 724)	(16 860)
Valuation of derivatives	-	-	-	(71 676)
Valuation of embedded derivatives	217	234	(17)	(67)
Other increases	67 218	52 157	15 061	(6 618)
Valuation of securities, of which:	5 165	20 840	-	-
taken to income statement	3 240	17 778	(14 538)	19 285
taken to equity	1 925	3 062	-	-
Total other taxable temporary differences recognized by the Group companies	21 470	10 168	11 302	6 761
Other adjustments	-	1 591	(1 591)	-
Gross deferred tax liability	**521 165**	**541 509**	**(20 798)**	**(278 693)**
Net deferred tax liability	**23 922**	**41 519**	-	-
Deferred tax asset				
Interest accrued on liabilities	143 349	144 801	(1 452)	(7 480)
Provision for future liabilities to employees	25 891	18 153	7 738	4 406
Provision for jubilee bonuses and retirement benefits	57 764	40 045	17 719	5 064
Cost of accruals	46 547	52 216	(5 669)	(3 951)
Interest on operations with the state budget	-	-	-	-
Valuation of derivatives	44 031	88 595	(44 564)	88 595
Valuation of embedded derivatives	-	-	-	-
Other	26 675	16 528	10 147	16 528
EIR valuation adjustment	132 879	126 793	6 086	47 287
Valuation of securities, of which:	20 107	12 859	-	-
taken to income statement	19 057	8 751	10 306	(1 425)
taken to equity	1 050	4 108	-	-
Total other deductible temporary differences recognized by the Group companies	33 454	29 101	-	-
taken to income statement	33 492	29 210	4 282	2 668
KBU foreign exchange differences	-	-	876	(1 236)
taken to equity	(38)	(109)	-	-
Other adjustments	-	(2 505)	2 505	-
Gross deferred tax asset	**530 697**	**529 091**	**7 974**	**150 455**
Net deferred tax asset	**33 454**	**29 101**	-	-
Total deferred tax (consolidated deferred tax liability – consolidated deferred tax asset)	**(9 532)**	**12 418**	-	-
Total deferred tax in the income statement	**(10 446)**	**14 591**	**(28 773)**	**(429 148)**

As at 31 December 2006, the unsettled tax loss (to be settled in 2007) of the Group companies amounted to PLN 124,239 thousand. This loss may be utilised up to 2011. PLN 53,355 thousand of the above mentioned amount was recognized in the deferred tax asset as at 31 December 2006.

21. Earnings per share

Basic earnings per share

Basic earnings per share are calculated on the basis of profit or loss attributable to ordinary shareholders of the Bank, by dividing their respective profits or losses falling to them by the weighted average number of ordinary shares outstanding during a given period.

Earnings per share

	2006	2005
Net profit attributable to ordinary shareholders (in PLN thousands)	2 149 052	1 734 820
Weighted average number of ordinary shares in the period (in thousands)	1 000 000	1 000 000
Earnings per share (in PLN per share)	2.15	1.73

Earnings per share from discontinued operations

In the years ended 31 December 2006 and 31 December 2005, the Group did not report any material income or cost from discontinued operations.

Diluted earnings per share

Diluted earnings per share are calculated on the basis of profit or loss attributable to ordinary shareholders, by dividing their respective profits or losses falling to them by the weighted average number of ordinary shares outstanding during a given period, adjusted for the effect of all dilutive potential ordinary shares.

There were no dilutive instruments in the Bank in 2006 and 2005.

Diluted earnings per share from discontinued operations

As stated above, in the years ended 31 December 2006 and 31 December 2005, the Bank did not report any material income or cost from discontinued operations.

22. Dividends paid and declared

Dividends declared after the balance sheet date are not recognized by the Bank as liabilities existing as at the balance sheet date.

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

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

As at 31 December 2006, share capital of PKO BP SA amounted to PLN 1,000,000 thousand and was divided into 1,000,000 thousand shares with a nominal value PLN 1 each (as at 31 December 2005: PLN 1,000,000 thousand).

23. Cash and amounts due from the Central Bank

	31.12.2006	31.12.2005
Current account with the Central Bank	1 429 379	2 626 732
Cash	3 196 284	1 265 945
Other funds	2 471	2 654
Total	**4 628 134**	**3 895 331**

The consolidated financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group for the year ended 31 December 2006 (in PLN thousand)

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

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

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

24. Amounts due from banks

	31.12.2006	31.12.2005
Current accounts	246 793	146 223
Placements with other banks	12 367 173	12 466 021
Loans and advances granted	232 673	26 126
Cash in transit	34 386	26 623
Other receivables	549 894	80
Total	**13 430 919**	**12 665 073**
Impairment allowance	(329)	(1 778)
Total net	**13 430 590**	**12 663 295**

As at 31 December 2006, the nominal value of placements with other banks with a fixed interest rate amounted to PLN 12,294,042 thousand (as at 31 December 2005: PLN 12,377,320 thousand). Majority of those placements were short-term placements. The nominal value of placements with other banks with a floating interest rate amounted to PLN 299 thousand as at 31 December 2006 (PLN 103 thousand as at 31 December 2005).

Amounts due from banks, by maturity

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

	31.12.2006	31.12.2005
Current accounts	246 793	146 223
Term deposits with a maturity period:	13 149 740	12 492 227
up to 1 month	7 737 876	5 901 171
from 1 to 3 months	1 550 355	1 447 883
from 3 months to 1 year	3 703 989	5 019 131
from 1 year to 5 years	157 520	76 651
over 5 years	-	47 391
Cash in transit	34 386	26 623
Total	**13 430 919**	**12 665 073**
Impairment allowance	(329)	(1 778)
Total net	**13 430 590**	**12 663 295**

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

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

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

25. Financial assets held for trading

	31.12.2006	31.12.2005
- issued by the State Treasury	390 413	848 456
- issued by local government bodies	468	359
Shares in other entities – listed on stock exchange	1 495	2 188
Shares in other entities – not listed on stock exchange	4	-
Total financial assets held for trading	**392 380**	**851 003**

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

Financial assets held for trading by maturity (carrying amount) as at 31 December 2006

As at 31 December 2006	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
Debt securities	**5 020**	**88 616**	**134 645**	**38 987**	**123 613**	**390 881**
- issued by the State Treasury	5 020	88 616	134 177	38 987	123 613	**390 413**
- issued by local government bodies	-	-	468	-	-	**468**
Shares in other entities – listed on stock exchange	**1 495**	**-**	**-**	**-**	**-**	**1 495**
Shares in other entities – not listed on stock exchange	**-**	**-**	**-**	**-**	**4**	**4**
Total	**6 515**	**88 616**	**134 645**	**38 987**	**123 617**	**392 380**

As at 31 December 2005	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
Debt securities	26 055	81 323	88 700	633 304	19 433	848 815
- issued by the State Treasury	26 055	81 323	88 341	633 304	19 433	848 456
- issued by local government bodies	-	-	359	-	-	359
Shares in other entities – listed on stock exchange	2 188	-	-	-	-	2 188
Total	**28 243**	**81 323**	**88 700**	**633 304**	**19 433**	**851 003**

The average yield of debt securities issued by the State Treasury as at 31 December 2006 amounted to 4.45% for PLN, 4.03% for EUR and 4.71% for USD. The average yield on these securities as at 31 December 2005 was as follows: 4.93% for PLN, 3.02% for EUR and 3.00% for USD.

Portfolio of securities held for trading (nominal value)

	31.12.2006	31.12.2005
Treasury bills	47 810	42 960
Treasury bonds	230 558	624 467
Bonds denominated in EUR	95 780	326
Bonds denominated in USD	14 553	8 642

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

26. Derivative financial instruments

Derivative instruments used by the Group

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

	31.12.2006		31.12.2005	
Type of contract	**Assets**	**Liabilities**	**Assets**	**Liabilities**
IRS	644 385	773 582	705 544	1 076 599
FRA	68 646	76 228	87 934	86 395
FX Swap	104 133	32 737	111 121	38 704
CIRS	376 078	201 314	182 871	12 644
Forward	5 867	11 926	7 620	1 216
Options	45	2 019	42 007	41 376
SBB	402	1 057	130	450
Total	**1 199 556**	**1 098 863**	**1 137 227**	**1 257 384**

Derivative instruments embedded in other instruments

The Group uses derivative instruments which are part of compound financial instruments, i.e. instruments including both a derivative and a host contract, which results in part of the cash flows from the compound instrument change similarly to cash flows from a separate derivative. Derivatives embedded in other instruments cause that part of or all cash flows resulting from the host contract are modified on the basis of a certain interest rate, price of a security, price of commodity, foreign exchange rate, price index or interest rate index, credit rating or credit index or other variable provided that the not financial variable is not specific for any part of the agreement.

Derivatives are also embedded in loan and deposit agreements. The Group has analysed the loan agreements, deposit agreements and non financial agreements in order to determine whether the embedded derivative instruments should be separated and, based on the above, the Group concluded that there deposit agreements with embedded derivatives in its offer. The characteristics of such derivatives are not closely related to those of their respective host contracts i.e. deposit agreements. Such embedded derivatives are separated from their host contracts, classified as held for trading and are subject to valuation. The valuation of such instruments is recognized in the profit and loss account. There are no loan agreements with embedded derivatives, where embedded derivatives should be separated and individually recognized. However, there are non-financial agreements within the Group which include embedded derivatives being subject to separation and individual valuation on the similar principles as in the case of derivatives embedded in the deposits.

Risk involved in derivative financial instruments

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

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

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

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

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

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

Derivative financial instruments as at 31 December 2006

Notional amounts and fair value of derivative financial instruments

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
- Over-the-counter market								
FX Swap	4 356 008	2 032 835	1 100 723	-	-	**7 489 566**	32 737	104 133
Purchase of currencies	2 171 188	1 045 029	562 280	-	-	**3 778 497**		
Sale of currencies	2 184 820	987 806	538 443	-	-	**3 711 069**		
Currency Forward	409 346	439 806	868 158	263 963	-	**1 981 273**	11 926	5 867
Purchase of currencies	204 084	220 356	431 745	130 194	-	**986 379**		
Sale of currencies	205 262	219 450	436 413	133 769	-	**994 894**		
Options	-	7 819	29 575	3 952	-	**41 346**	98	25
Purchase	-	5 223	13 358	2 750	-	**21 331**		
Sale		2 596	16 217	1 202	-	**20 015**		
Cross Currency IRS	965 680	964 480	-	9 601 726	9 506 975	**21 038 861**	201 314	376 078
Purchase	488 840	487 640	-	4 832 050	4 789 709	**10 598 239**		
Sale	476 840	476 840	-	4 769 676	4 717 266	**10 440 622**		
Interest rate transactions								
Interest Rate Swap (IRS)	5 800 000	7 468 000	32 812 100	98 915 326	6 554 960	**151 550 386**	773 582	644 385
Purchase	2 900 000	3 734 000	16 406 050	49 457 663	3 277 480	**75 775 193**		
Sale	2 900 000	3 734 000	16 406 050	49 457 663	3 277 480	**75 775 193**		
Forward Rate Agreement (FRA)	13 300 000	18 825 000	64 900 000	21 350 000	-	**118 375 000**	76 228	68 646
Purchase	6 300 000	9 375 000	34 050 000	12 350 000	-	**62 075 000**		
Sale	7 000 000	9 450 000	30 850 000	9 000 000	-	**56 300 000**		
Other transactions								
SELL BUY BACK	752 619	44 345	3 032	-	-	**799 996**	1 057	402
Purchase	718 174	44 345	3 032	-	-	**765 551**		
Sale	34 445	-	-	-	-	**34 445**		
Futures on WIG	-	833	-	-	-	**833**		
Purchase	-	833	-	-	-	**833**		
Options on WIG	-	119	-	68 701	-	**68 820**	1 921	20
Purchase	-	35	-	-	-	**35**		
Sale	-	84	-	68 701	-	**68 785**		
Total derivative instruments	**25 583 653**	**29 783 237**	**99 713 588**	**130 203 668**	**16 061 935**	**301 346 081**	**1 098 863**	**1 199 556**

(in PLN thousand)

Derivative financial instruments as at 31 December 2005

Notional amounts and fair value of derivative financial instruments

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
- Over-the-counter market								
FX Swap	7 169 207	2 912 339	2 998 854	-	-	**13 080 400**	38 704	111 121
Purchase of currencies	3 607 281	1 453 587	1 517 329	-	-	**6 578 197**		
Sale of currencies	3 561 926	1 458 752	1 481 525	-	-	**6 502 203**		
Currency Forward	15 767	123 111	300 064	-	-	**438 942**	1 216	7 620
Purchase of currencies	7 981	62 744	152 054	-	-	**222 779**		
Sale of currencies	7 786	60 367	148 010	-	-	**216 163**		
Options	-	362 827	237 710	185 036	-	**785 573**	41 376	42 007
Purchase	-	180 109	118 825	92 518	-	**391 452**		
Sale	-	182 718	118 885	92 518		**394 121**		
Cross Currency IRS	-	-	2 998 265	8 018 222	3 632 144	**14 648 631**	12 644	182 871
Purchase	-	-	1 510 985	4 052 951	1 836 080	**7 400 016**		
Sale	-	-	1 487 280	3 965 271	1 796 064	**7 248 615**		
Interest rate transactions								
Interest Rate Swap (IRS)	4 040 000	15 730 000	46 084 000	55 466 440	3 759 170	**125 079 610**	1 076 599	705 544
Purchase	2 020 000	7 865 000	23 042 000	27 733 220	1 879 585	**62 539 805**		
Sale	2 020 000	7 865 000	23 042 000	27 733 220	1 879 585	**62 539 805**		
Forward Rate Agreement (FRA)	14 450 000	29 750 000	57 900 000	16 350 000	-	**118 450 000**	86 395	87 934
Purchase	8 100 000	14 750 000	31 000 000	8 050 000	-	**61 900 000**		
Sale	6 350 000	15 000 000	26 900 000	8 300 000	-	**56 550 000**		
Other transactions								
SELL BUY BACK	1 098 934	3 012	-	-	-	**1 101 946**	450	130
Purchase	936 984	3 012	-	-	-	**939 996**		
Sale	161 950	-	-	-	-	**161 950**		
Futures on bonds	-	5 119	513	-	-	**5 632**		
Purchase	-	5 119	-	-	-	**5 119**		
Sale	-	-	513	-	-	**513**		
Total derivative instruments	**26 773 908**	**48 886 408**	**110 519 406**	**80 019 698**	**7 391 314**	**273 590 734**	**1 257 384**	**1 137 227**

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

	31.12.2006	31.12.2005
Debt securities	11 340 861	20 059 683
- issued by the State Treasury	10 006 870	14 812 090
- issued by central banks	-	4 435 795
- issued by other banks	1 291 148	794 211
- issued by other financial institutions	17 412	5 616
- issued by non-financial entities	25 431	11 971
Shares and stocks in other entities	19 203	-
- not listed	19 203	-
Total	**11 360 064**	**20 059 683**

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

	31.12.2006	31.12.2005
in the holding company		
Treasury bonds	7 560 771	13 376 331
Treasury bills	-	2 449 820
money bills	-	1 779 640
other bonds in PLN	200 000	-
USD bonds	798 059	872 235
EUR bonds	2 471 124	1 254 435
in the subsidiaries		
Treasury bonds (in UAH thousands)	60 646	2 084
other entities' bonds (in UAH thousands)	47 780	24 300
bills of exchange (in UAH thousands)	-	150
investment certificates (in UAH thousands)	10 960	2 038
NBU deposit certificates (in UAH thousands)	-	10 000
treasury bonds (in PLN thousands)	43 450	-
treasury bills (in PLN thousands)	3 690	-
capital instruments (in PLN thousands)	16 343	-

As at 31 December 2006, the average yield of debt securities issued by the State Treasury and Central Bank and included in the portfolio of other financial instruments at fair value through profit or loss was 4.33% for PLN, 4.29% for EUR, 5.14% for USD. As at 31 December 2005, the average yield on such securities was as follows: 4.71% for PLN, 3.77% for EUR, 4.62% for USD.

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

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

As at 31 December 2006	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Debt securities	**223 355**	**154 689**	**2 286 520**	**5 583 504**	**3 092 793**	**11 340 861**
- issued by other banks	202 012	-	44 076	711 026	334 034	**1 291 148**
- issued by other financial institutions	-	-	13 944	2 880	588	**17 412**
- issued by non-financial entities	483	188	2 178	22 582	-	**25 431**
- issued by the State Treasury	20 860	154 501	2 226 322	4 847 016	2 758 171	**10 006 870**
Shares and stocks in other entities – listed and not listed on stock exchange	-	-	-	-	**19 203**	**19 203**
Total	**223 355**	**154 689**	**2 286 520**	**5 583 504**	**3 111 996**	**11 360 064**

As at December 2005	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Debt securities	**2 024 230**	**1 030 895**	**5 106 340**	**7 318 301**	**4 579 917**	**20 059 683**
- issued by the State Treasury	196 660	1 030 895	5 094 257	6 740 368	1 749 910	14 812 090
- issued by central banks	1 778 216	-	-	-	2 657 579	4 435 795
- issued by other banks	49 354	-	6 467	565 962	172 428	794 211
- issued by other financial institutions	-	-	5 616	-	-	5 616
- issued by non-financial entities	-	-	-	11 971	-	11 971
Total	**2 024 230**	**1 030 895**	**5 106 340**	**7 318 301**	**4 579 917**	**20 059 683**

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

28. Loans and advances to customers

Loans and advances:	31.12.2006	31.12.2005
Receivables valued using the individual method	2 599 140	2 207 156
Receivables valued using the portfolio methods	815 526	1 186 908
Receivables valued using the collective methods (IBNR)	56 953 199	45 832 928
Loans and advancese - gross value	**60 367 865**	**49 226 992**
Allowances against exposures with individual impairment	(640 330)	(662 420)
Allowances against exposures with portfolio impairment	(1 237 180)	(1 709 230)
Allowances against exposures with collective impairment (IBNR)	(526 312)	(571 359)
Total allowances	**(2 403 822)**	**(2 943 009)**
Total net	**57 964 043**	**46 283 983**

Structure of loans and advances to customers by maturity

	31.12.2006	31.12.2005
	Carrying amount	**Carrying amount**
Loans and advances granted:		
to state budget entities	6 061 924	6 749 221
up to 1 month	189 959	297 966
from 1 to 3 months	96 509	72 015
from 3 months to 1 year	2 461 667	702 399
from 1 to 5 years	2 195 941	4 790 243
above 5 years	1 117 848	886 598
to financial entities other than banks	369 998	332 727
up to 1 month	68 889	94 501
from 1 to 3 months	42 291	35 697
from 3 months to 1 year	168 420	148 490
from 1 to 5 years	90 398	54 039
above 5 years	-	-
to non-financial entities	53 935 943	42 145 044
up to 1 month	10 272 653	9 210 678
from 1 to 3 months	1 519 194	1 412 862
from 3 months to 1 year	6 447 918	5 645 036
from 1 to 5 years	17 312 085	11 036 596
above 5 years	18 384 093	14 839 872
Total	**60 367 865**	**49 226 992**

Effective interest rate (for the Bank)

as at 31 December 2006

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

Finance and operating leases

Finance lease

The Group runs lease activity through the company Bankowy Fundusz Leasingowy SA

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

The value of gross lease investments and the minimal lease payments resulting from finance lease agreements amounted to:

as at 31 December 2006

Finance lease receivables	**Gross investment in the lease**	**Present value of minimum lease payments**
Gross investment in the lease and minimum lease payments		
Gross lease receivables		
up to 1 year	408 374	350 029
from 1 to 5 years	666 418	593 822
above 5 years	49 398	41 913
Total	**1 124 190**	**985 764**
Impairment allowance	(43 200)	(43 200)
Total after impairment allowances	**1 080 990**	**942 564**

	Gross investment in the lease	**Present value of minimum lease payments**	**Unearned finance income**
up to 1 year	408 374	350 029	58 345
from 1 to 5 years	666 418	593 822	72 596
above 5 years	49 398	41 913	7 485
Total	**1 124 190**	**985 764**	**138 426**

Net investment in the lease	
Present value of minimum lease payments	985 764
of which: un-guaranteed residual value to the lessor	110 965

as at 31 December 2005

Finance lease receivables	**Gross investment in the lease**	**Present value of minimum lease payments**
Gross investment in the lease and minimum lease payments		
Gross lease receivables		
Invoiced receivables	35 075	35 075
up to 1 year	272 069	226 991
from 1 to 5 years	390 286	341 380
above 5 years	40 764	31 932
Total	**738 194**	**635 378**
Impairment allowance (capital)	(18 755)	(18 755)
Impairment allowance (invoiced receivables)	(25 977)	(25 977)
Total after impairment allowances	**693 462**	**590 646**

	Gross investment in the lease	**Present value of minimum lease payments**	**Unearned finance income**
Invoiced receivables	35 075	35 075	-
up to 1 year	272 069	226 991	45 078
from 1 to 5 years	390 286	341 380	48 906
above 5 years	40 764	31 932	8 832
Total	**738 194**	**635 378**	**102 816**

Net investment in the lease	
Present value of minimum lease payments	635 378
of which: un-guaranteed residual value to the lessor	97 659

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

Operating lease

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

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

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

Total value of future lease payments under non-cancellable operating lease	**31.12.2006**	**31.12.2005**
For the period:		
up to 1 year	15 116	7 273
from 1 to 5 years	57 992	31 004
above 5 years	518 382	425 160
Total	**591 490**	**463 437**

Lease and sub-lease payments recognized as an expense in the period from 1 January 2006 to 31 December 2006 amounted to PLN 129,961 thousand (in the period from 1 January 2005 to 31 December 2005: PLN 111,126 thousand).

29. Investment securities

	31.12.2006	**31.12.2005**
Available for sale	**6 793 239**	**1 922 277**
- issued by central banks	2 640 272	-
- issued by other banks	1 162 081	-
- issued by other financial institutions	6 091	8 437
- issued by non-financial entities	801 986	746 145
- issued by the State Treasury	1 256 781	377 503
- issued by local government bodies	926 028	790 192
Impairment allowances	(30 051)	(40 899)
Total net investment securities	**6 763 188**	**1 881 378**

Changes in investment securities

	2006	**2005**
Available for sale		
Balance at the beginning of the period	**1 881 378**	**1 607 350**
Foreign exchange differences	(315)	(499)
Increases	20 381 514	4 527 281
Decreases (redemption)	(15 510 367)	(4 318 691)
Change in the fair value	10 978	65 937
Balance at the end of the period	**6 763 188**	**1 881 378**
Held to maturity		
Balance at the beginning of the period	**-**	**1 893 187**
Increases	-	39 218
Decreases (redemption)	-	(1 932 405)
Balance at the end of the period	**-**	**-**

*

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

Securities available for sale, by maturity (carrying amount)

As at 31 December 2006	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Available for sale securities						
issued by central banks	-	-	-	-	2 640 272	**2 640 272**
issued by other banks	-	-	1 101 852	57 987	-	**1 159 839**
issued by other institutions	-	-	-	-	854	**854**
issued by non-financial entities	826	189 335	2 022	584 315	2 916	**779 414**
issued by the State Treasury	2 435	-	30 680	1 223 031	635	**1 256 781**
issued by local government bodies	-	1 143	71 599	581 958	271 328	**926 028**
Total	**3 261**	**190 478**	**1 206 153**	**2 447 291**	**2 916 005**	**6 763 188**

As at 31 December 2005	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Available for sale securities						
issued by other institutions	-	-	-	-	960	**960**
issued by non-financial entities	150 382	268 793	14 006	176 640	102 902	**712 723**
issued by the State Treasury	-	-	11 196	363 050	3 257	**377 503**
issued by local government bodies	32	843	108 945	523 518	156 854	**790 192**
Total	**150 414**	**269 636**	**134 147**	**1 063 208**	**263 973**	**1 881 378**

The average yield of available-for-sale securities as at 31 December 2006 amounted to 4.93% (as at 31 December 2005: 4.96%).

Portfolio of debt securities available for sale, by nominal value:

	31.12.2006	31.12.2005
in the holding company		
NBP bonds	2 551 112	-
corporate bonds	1 807 792	426 247
Treasury bonds	1 106 000	330 000
municipal bonds	917 990	780 562
commercial bills	166 000	271 500
in the subsidiary:		
Treasury bonds	88 089	22 562

Securities held to maturity, by maturity as at 31 December 2006 (carrying amount)

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

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

30. Investments in associates and jointly controlled entities

a) Carrying amount of the Bank's investments in jointly controlled entities (i.e. their acquisition cost adjusted to the share in net assets changes impairment losses)

Entity name	31.12.2006	31.12.2005
Centrum Obsługi Biznesu Sp. z o.o	14 197	17 197
PKO TFI SA (former PKO/Credit Suisse TFI SA)*	-	27 604
Wawel Hotel Development Sp. z o.o.**	-	19 166
Centrum Haffnera Sp. z o.o. Group***	43 789	-
Total	**57 986**	**63 967**

*The company was included in the Group on 6 April 2006 after the Bank purchased additional shares package.
** The shares of the company were sold on 8 August 2006 .
***The increase in the share capital of the company was registered on 2 June 2006.

b) Carrying amount of the Bank's investments in associates (i.e. their acquisition cost adjusted to the share in net assets changes impairment losses)

Entity name	31.12.2006	31.12.2005
Bank Pocztowy SA	113 000	113 000
Kolej Gondolowa Jaworzyna Krynicka SA	-	-
Ekogips SA (in bankruptcy)	-	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 598	1 554
Hotel Jan III Sobieski Sp. z o.o.*	-	-
Agencja Inwestycyjna CORP SA	226	269
FINDER Sp. z o.o.	7 352	5 555
INTER FINANCE Polska Sp. z o.o.	-	-
Total	**122 176**	**120 378**

* The shares of the company were sold on 31 October 2006

Summary information about associated entities valued using the equity method:

Entity name	Total assets	Total liabilities	Total revenues	Net profit (loss)	% share
31.12.2006					
Bank Pocztowy SA	2 626 784	2 408 993	236 389	24 090	25.0001%
Kolej Gondolowa Jaworzyna Krynicka SA	38 154	6 722	11 996	2 094	37.53%
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	11 056	6 238	177	149	33.33%
Agencja Inwestycyjna CORP SA	3 818	2 255	14 265	374	22.31%
Total	**2 679 812**	**2 424 208**	**262 827**	**26 707**	---
31.12.2005					
Bank Pocztowy SA	1 801 105	1 610 038	239 171	23 927	25.0001%
Kolej Gondolowa Jaworzyna Krynicka SA	37 882	8 914	11 189	2 647	37.83%
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	6 701	2 026	135	70	33.33%
Hotel Jan III Sobieski Sp. z o.o.	132 434	262 629	51 821	21 625	32.50%
Agencja Inwestycyjna CORP SA	4 241	2 518	15 972	525	22.31%
Total	**1 982 363**	**1 886 125**	**318 288**	**48 794**	---

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

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

Summary information about jointly controlled entities valued using the equity method:

Entity name	Total assets	Total liabilities	Total revenues	Net profit (loss)	% share
31.12.2006					
Centrum Obsługi Biznesu Sp. z o.o	126 661	91 862	1 416	(7 376)	41.44%
Centrum Haffnera Sp. z o.o. Group	111 126	22 382	114	(1 105)	49.43%
Total	**237 787**	**114 244**	**1 530**	**(8 481)**	**---**
31.12.2005					
Centrum Obsługi Biznesu Sp. z o.o	63 026	21 359	20	(1 043)	41.44%
PKO TFI SA (former PKO/Credit Suisse TFI SA)	93 039	37 468	92 234	30 154	50.00%
Wawel Hotel Development Sp. z o.o.	172 340	112 901	40 064	4 412	35.40%
Total	**328 405**	**171 728**	**132 318**	**33 523**	**---**

The data presented in the above table derives from the companies' financial statements prepared in accordance with Polish Accounting Standards, the data for Centrum Haffnera Sp. z o.o. Group- from the consolidated financial statements of the Centrum Haffnera Sp. z o.o. Group prepared in accordance with IFRS.

Not recognized share in losses of associated entities, for which the Group stopped recognizing its share amounted to:

31.12.2005	
Hotel Jan III Sobieski Sp. z o.o.	(51 558)

All associates and jointly controlled entities are presented using the equity method in the consolidated financial statements for 2006.

	2006	2005
Investment in associate entities at the beginning of the period	**120 378**	**113 775**
Share in profits (losses)	3 131	7 400
Dividends paid	(93)	(67)
Share in changes recognised directly in the equity of the entity	4 193	5 555
acquisition of shares in FINDER Sp. z o.o.	1 000	5 555
adjustment of acquisition price of shares in FINDER Sp.z o.o.	(55)	-
acquisition of shares in INTER FINANCE Polska Sp. zo.o.	3 248	-
acquisition of shares in Hotel Jan III Sobieski Sp. zo.o.	78 495	-
disposal of shares in Hotel Jan III Sobieski Sp. z.o.o.	(78 495)	-
Investments impairment	(5 433)	(6 285)
Investment in associate entities at the end of the period	**122 176**	**120 378**

	2006	2005
Investment in jointly controlled entities at the beginning of the period	**63 967**	**43 040**
Share in profits (losses)	(6 836)	16 131
Dividends paid	-	(12 702)
Share in changes recognised directly in the equity of the entity	26 994	17 498
acquisition of shares in Centrum Haffnera Sp. z o.o.	44 371	-
acquisition of shares in Centrum Obsługi Biznesu Sp. z o.o.	-	17 498
disposal of shares in Wawel Hotel Develompent Sp. z o.o.	(17 377)	-
Transfer of PKO TFI SA to subsidiaries	(26 139)	-
Investment in jointly controlled entities at the end of the period	**57 986**	**63 967**

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

On 9 January 2006, Bankowe Towarzystwo Kapitałowe S.A. – the Bank's subsidiary - took up 351 shares in the increased share capital of FINDER Sp. z o.o., with a total nominal value of PLN 175.5 thousand. The purchase value amounted to PLN 1 million. Currently Bankowe Towarzystwo Kapitałowe holds 46,43% of shares in the Company's share capital and votes at the Shareholders' Meeting of FINDER Sp. z o.o.

On 11 May 2006, Bankowe Towarzystwo Kapitałowe - the Bank's subsidiary - took up 409 shares in the increased share capital of INTER FINANCE Polska Sp. z o.o., with a total amount PLN 409 thousand. Price for the purchased shares amounted to PLN 3,247.70 thousand. Following the transaction, Bankowe Towarzystwo Kapitałowe holds 45.0% of the share capital of the Company which gives right for 45.0% of votes at the Shareholder's Meeting.

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

The company CENTRUM HAFFNERA Sp. z o.o. has 100% shares (entitling to 100% votes at the Shareholders' Meetings) in the following subsidiaries: 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.

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

On 4 August 2006, an increase in the Kolej Gondolowa Jaworzyna Krynicka S.A.'s share capital was registered with the National Court Register in the amount of PLN 335 thousand. The shares in the increased share capital were taken up by the Krynica Górska Municipality. Following this increase, the Company's share capital amounts to PLN 41,388,150 and consists of 827,763 shares with a nominal value of PLN 50 each. As a result of the share capital increase, the Bank's share in the share capital decreased from 37.83% to 37.53%, and its share in the total votes at the Shareholders' Meeting decreased from 36.85% to 36.71%.

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

On 19 September 2006, the Bank took up 145,361 shares in the increased share capital of its associate, Hotel Jan III Sobieski Sp. z o.o., with a total nominal value of PLN 78,494,940, for a price equal to their nominal value. As a result of this transaction, the Bank held 145,881 shares in the Company's share capital, which accounted for 50.4% of the share capital and gave right to 50.4% of the total votes at the Shareholders' Meeting. On 31 October 2006, PKO BP SA concluded an agreement for the sale of shares in Hotel Jan III Sobieski Sp. z o.o. with its registered office in Warsaw. The Bank sold all of its 145,881 shares in this Company, with a total nominal value of PLN 540 each, to Europa Hawk S.a.r.l. with its registered office in Luxembourg, for a price of PLN 46,571.7 thousand.

31. Investments in subsidiaries

On 24 January 2006, PKO BP SA concluded a conditional agreement with Credit Suisse Asset Management Holding Europe (Luxembourg) SA for the purchase by the Bank of 45,000 registered preferred shares (preference in voting rights), representing 25% of the total votes at the General Shareholders' Meeting and representing 25% of the share capital of PKO Towarzystwo Funduszy Inwestycyjnych S.A. (former PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A. [9]).

On 6 April 2006, upon the fulfillment of all of the conditions of this agreement (including the receipt of the consent of the President of the Consumer and Competition Protection Office [*Urząd Ochrony Konkurencji i Konsumentów*] for the concentration resulting from acquisition of control over the Company by PKO BP SA),

[9] The change of the Company's name was registered with the National Court Register on 20 March 2006 – the former PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A..

the ownership of these shares was transferred to PKO BP SA. The cost of acquisition, including additional transaction costs, was PLN 55,055 thousand. Following this transaction, PKO BP SA holds 75% of the Company's share capital and total votes at the Company's General Shareholders' Meeting. PKO Towarzystwo Funduszy Inwestycyjnych S.A. became part of the PKO BP SA Group. The detailed information concerning the purchase of 25% of PKO TFI SA's shares are presented in the note 50.

In June 2006 the Peczerska Regional National Administration in Kiev (Ukraine) registered increase in share capital of UKRPOLINWESTYCJE Sp. z o.o. with its headquarter in Kiev carried out by increase in nominal value of shares. Following the increase, the share capital of the Company amounts UAH 1,020 thousand (USD 200 thousand) and is divided into 100 equal shares.

PKO Inwestycje Sp. z o.o. – subsidiary of the Bank – after the registration, holds 55 shares in the UKRPOLINWESTYCJE Sp. z o.o., with a total value of UAH 561 thousand (USD 110 thousand), which give right to 55 votes at the Shareholder's Meeting.

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

In case of KREDOBANK SA there are certain restrictions regarding its ability to pay dividends to the investor. According to the decision of Extraordinary General Shareholders' Meeting dated 17 November 2005, moratorium on dividend payment in years 2005-2008 was implemented, in line with the "Dynamic strategy of development of KREDOBANK SA

As at 31 December 2006 and as at 31 December 2005 KREDOBANK SA – the Bank's subsidiary - was consolidated in the consolidated financial statements of the Group using the full method.

On 27 November 2006, Fort Mokotów Sp. z o.o. refunded the additional payments received from PKO Inwestycje Sp. z o.o. in the total amount of PLN 30.09 million.

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

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

32. Intangible assets

Year ended 31 December 2006	Development expenses	Patents and licenses	Goodwill acquired as a result of business consolidation (including goodwill of subsidiary entities)	Other including expenses	Total
Purchase price as at 1 January 2006 including amortisation	963	189 132	156 304	342 371	**688 770**
Full method consolidation of subsidiaries	-	229	49 351	4	**49 584**
Purchase	-	6 848	-	288 013	**294 861**
Disposals and sale	-	(66)	-	(1)	**(67)**
Impairment allowance	-	(29 424)	-	(2 257)	**(31 681)**
Due to foreign exchange differences from translation of foreign entities to presentation currency	-	(204)	-	-	**(204)**
Transfers	-	507 603	-	(507 603)	**-**
Amortisation	-	(51 783)	-	(2 732)	**(54 515)**
Other changes*	(963)	943	-	(2 700)	**(2 720)**
Net carrying amount	**-**	**623 278**	**205 655**	**115 095**	**944 028**
As at 31 December 2005					
Purchase price (gross carrying amount)	1 862	831 134	156 336	353 219	**1 342 551**
Accumulated amortisation and impairment allowance	(899)	(642 002)	(32)	(10 848)	**(653 781)**
Net carrying amount	**963**	**189 132**	**156 304**	**342 371**	**688 770**
As at 31 December 2006					
Purchase price (gross carrying amount)	-	1 340 482	205 655	129 593	**1 675 730**
Accumulated amortisation and impairment allowance	-	(717 204)	-	(14 498)	**(731 702)**
Net carrying amount	**-**	**623 278**	**205 655**	**115 095**	**944 028**

* “Other changes” in “Patents and licenses” includes mainly software transferred from assets under construction.

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

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

Year ended 31 December 2005	Development expenses	Patents and licenses	Goodwill acquired as a result of business consolidation (including goodwill of subsidiary entities)	Other including expenses	Total
Purchase price as at 1 January 2005 including amortisation	750	133 644	106 457	260 096	**500 947**
Purchase	370	2 146	49 847	275 337	**327 700**
Sale	-	(486)	-	(49)	**(535)**
Due to foreign exchange differences from translation of foreign entities to presentation currency	106	187	-	-	**293**
Transfers	-	187 234	-	(187 234)	-
Amortisation	(263)	(133 437)	-	(3 913)	**(137 613)**
Other changes *	-	(156)	-	(1 866)	**(2 022)**
Net carrying amount	**963**	**189 132**	**156 304**	**342 371**	**688 770**
As at 31 December 2004					
Purchase price (gross carrying amount)	1 302	661 347	106 499	267 506	**1 036 654**
Accumulated amortisation and impairment allowance	(552)	(527 703)	(42)	(7 410)	**(535 707)**
Net carrying amount	**750**	**133 644**	**106 457**	**260 096**	**500 947**
As at 31 December 2005					
Purchase price (gross carrying amount)	1 862	831 134	156 336	353 219	**1 342 551**
Accumulated amortisation and impairment allowance	(899)	(642 002)	(32)	(10 848)	**(653 781)**
Net carrying amount	**963**	**189 132**	**156 304**	**342 371**	**688 770**

* "Other changes" in "Patents and licenses" includes mainly software transferred from assets under construction.

Since 1 January 2004 the goodwill has not been amortized and has been annually tested for impairment.

As at 31 December 2006, according to IAS 36 the Bank tested for impairment goodwill of the following companies: Centrum Finansowe Puławska Sp. z o.o., KREDOBANK S.A., Powszechne Towarzystwo Emerytalne BANKOWY S.A., PKO Towarzystwo Funduszy Inwestycyjnych S.A.. The tests did not show necessity for creating impairment allowances of goodwill.

As at 31 December 2006, PKO Inwestycje Sp. z o.o. tested for impairment goodwill of the company Wilanów Investment Sp. zo.o.. The test did not indicated necessity for creating impairment allowances of goodwill.

The Group did not create any patents or licenses itself.

In the period from 1 January 2006 to 31 December 2006, the PKO BP SA Group incurred capital expenditures for the purchase of tangible fixed assets and intangible assets in the amount of PLN 581,564 thousand (in the period from 1 January 2005 to 31 December 2005: PLN 600,596 thousand).

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

33. Tangible fixed assets

Year ended 31 December 2006	**Land and buildings, including investment real estate**	**Plant and machinery**	**Means of transport**	**Assets under construction**	**Other**	**Total**
Gross amount at the beginning of the period	**2 445 703**	**2 570 959**	**54 380**	**225 627**	**364 101**	**5 660 770**
Increases, including;	**25 748**	**167 366**	**19 445**	**1 043 979**	**29 533**	**1 286 071**
Full method consolidation of subsidiaries	390	817	288	-	555	**2 050**
Purchases and other changes	8 778	34 687	19 124	1 043 979	8 287	**1 114 855**
Transfers from expenses to tangible fixed assets	16 580	131 862	33	-	20 691	**169 166**
Decreases, including:	**(18 428)**	**(116 545)**	**(13 272)**	**(974 974)**	**(8 860)**	**(1 132 079)**
Transfer to assets held for sale	-	-	-	-	-	-
Liquidation and sale	(12 042)	(107 005)	(12 618)	(20 281)	(7 081)	**(159 027)**
Transfers to tangible fixed assets				(169 166)		**(169 166)**
Fixed assets leased	-	-	-	(780 069)	-	**(780 069)**
Foreign exchange differences	(6 386)	(3 145)	(400)	(89)	(1 697)	**(11 717)**
Other	-	(6 395)	(254)	(5 369)	(82)	**(12 100)**
Gross amount at the end of the period	**2 453 023**	**2 621 780**	**60 553**	**294 632**	**384 774**	**5 814 762**
Accumulated depreciation as at 1.01.2006	**(547 362)**	**(2 070 810)**	**(35 760)**	-	**(310 756)**	**(2 964 688)**
Increases, including;	**(74 538)**	**(169 506)**	**(7 575)**	-	**(18 846)**	**(270 465)**
Depreciation for the period	(73 117)	(168 519)	(7 363)	-	(15 992)	**(264 991)**
Full method consolidation of subsidiaries	(112)	(649)	(197)	-	(358)	**(1 316)**
Other	(1 309)	(338)	(15)	-	(2 496)	**(4 158)**
Decreases, including:	**4 189**	**102 956**	**11 592**	-	**7 914**	**126 651**
Liquidation and sale	3 329	96 927	11 186	-	6 926	**118 368**
Other	-	4 253	75	-	15	**4 343**
Foreign exchange differences	860	1 776	331	-	973	**3 940**
Accumulated depreciation at the end of the period	**(617 711)**	**(2 137 360)**	**(31 743)**	-	**(321 688)**	**(3 108 502)**
Impairment allowance	-	-	-	-	-	-
Opening balance	(50 221)	(2 310)	-	-	-	**(52 531)**
Increases	(184)	(79)	-	(700)	(35)	**(998)**
Decreases	-	2 310	-	-	-	**2 310**
Closing balance	(50 405)	(79)	-	(700)	(35)	**(51 219)**
Net book value	**1 784 907**	**484 341**	**28 810**	**293 932**	**63 051**	**2 655 041**
Opening balance	**1 848 120**	**497 839**	**18 620**	**225 627**	**53 345**	**2 643 551**
Closing balance	**1 784 907**	**484 341**	**28 810**	**293 932**	**63 051**	**2 655 041**

The carrying amount of machinery and equipment as at 31 December 2006 based on the finance lease agreements and tenancy agreements with purchase option accounted for PLN 17,860 thousand (as at 31 December 2005 PLN 24,243 thousand). In the year ended 31 December 2006 and 31 December 2005 there were no restrictions on the Group's right to use these tangible fixed assets caused by pledging them as collateral.

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

Year ended 31 December 2005	Land and buildings, including investment real estate	Plant and machinery	Means of transport	Assets under construction	Other	Total
Gross amount at the beginning of the period	**2 424 032**	**2 394 880**	**49 831**	**260 809**	**347 126**	**5 476 678**
Increases, including;	**98 164**	**331 423**	**13 480**	**756 846**	**27 260**	**1 227 173**
Purchases and other changes	71 083	10 539	11 484	756 466	25 449	**875 021**
Foreign exchange differences	6 150	3 108	402	380	1 697	**11 737**
Transfers to tangible fixed assets	20 931	317 776	1 594	-	114	**340 415**
Decreases, including:	**(76 493)**	**(155 344)**	**(8 931)**	**(792 028)**	**(10 285)**	**(1 043 081)**
Transfer to assets held for sale	-	(279)	-	-	-	**(279)**
Liquidation and sale	(14 975)	(136 220)	(8 332)	(19 003)	(8 061)	**(186 591)**
Fixed assets leased	-	-	-	(432 610)	-	**(432 610)**
Transfers to tangible fixed assets				(340 415)		**(340 415)**
Other	(61 518)	(18 845)	(599)	-	(2 224)	**(83 186)**
Gross amount at the end of the period	**2 445 703**	**2 570 959**	**54 380**	**225 627**	**364 101**	**5 660 770**
Accumulated depreciation as at 1.01.2005	**(469 706)**	**(1 986 609)**	**(36 538)**	-	**(296 780)**	**(2 789 633)**
Increases, including;	**(94 086)**	**(236 046)**	**(7 521)**	-	**(23 953)**	**(361 606)**
Depreciation for the period	(83 489)	(216 111)	(6 581)	-	(22 746)	**(328 927)**
Other	(9 822)	(18 539)	(628)	-	(456)	**(29 445)**
Foreign exchange differences	(775)	(1 396)	(312)	-	(751)	**(3 234)**
Decreases, including:	**16 430**	**151 845**	**8 299**	-	**9 977**	**186 551**
Liquidation and sale	4 433	135 373	7 810	-	7 909	**155 525**
Other	11 997	16 472	489	-	2 068	**31 026**
Accumulated depreciation at the end of the period	**(547 362)**	**(2 070 810)**	**(35 760)**	-	**(310 756)**	**(2 964 688)**
Impairment allowance	-	-	-	-	-	-
Opening balance	(35 221)	-	-	-	-	**(35 221)**
Increases	(15 000)	(2 310)	-	-	-	**(17 310)**
Decreases	-	-	-	-	-	-
Closing balance	**(50 221)**	**(2 310)**	-	-	-	**(52 531)**
Net book value	**1 848 120**	**497 839**	**18 620**	**225 627**	**53 345**	**2 643 551**
Opening balance	**1 919 105**	**408 271**	**13 293**	**260 809**	**50 346**	**2 651 824**
Closing balance	**1 848 120**	**497 839**	**18 620**	**225 627**	**53 345**	**2 643 551**

In the year ended 31 December 2006, the Group did not receive any compensation from third parties due to impairment or loss of tangible fixed assets, recognized in the profit and loss account.
For the year ended 31 December 2005, compensation from third parties due to impairment or loss of tangible fixed assets, recognized in the profit and loss account amounted to PLN 84 thousand.

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

The item „Land and buildings, including investment real estate" includes land, which is not subject to depreciation. The largest item is the plot of land in Warsaw with the fair value estimated by an independent valuer (as at 30 April 2006), exceeding its carrying value amounting to PLN 27,234 thousand by approx. PLN 16,673 thousand. There are no restrictions relating to Bank's rights to sell these properties, there are also no contractual liabilities concerning them.

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

	2006	2005
Direct average operating costs concerning the investment properties (including maintenance and repair costs) that in the given period did not bring rental income	1 329	1 434

34. Other assets

	31.12.2006	31.12.2005
Stock	255 369	304 046
Amounts due from customers	141 889	75 538
Settlements of transactions carried out using cards	141 417	151 006
Prepayments	58 067	42 104
Settlements of securities trading transactions	40 811	190
Receivables from other banks and non-banking points of sale of treasury stamps	14 332	15 041
Receivables from the State budget due to distribution of Treasury stamps	10 850	15 042
Fixed assets held for sale and discontinued activity	10 250	10 435
Fees and commission receivables	5 509	5 451
Receivables relating to foreign exchange activity	5 244	950
Receivables due to cash collateral given	3 202	9 115
Inter-bank and inter- branch clearing accounts	874	1 686
Other*	79 869	74 177
Total	**767 683**	**704 781**

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

a) Information concerning the value of work in progress, finished products and raw materials

Carrying value of the stock, by type:	31.12.2006	31.12.2005
Work in progress*	241 454	298 858
Finished products	715	4 337
Raw materials	422	851
Goods for sale	12 778	-
Total	**255 369**	**304 046**

Impairment allowances	01.01 - 31.12.2006	01.01 - 31.12.2005
At the beginning of the period	-	(1 575)
Other changes	-	1 575
At the end of the period	**-**	**-**

*The balance comprises mainly expenses incurred for construction projects carried out by the Group entities performing real estate development activities.

In 2006 and 2005 there were no carrying amount of the work in progress, finished goods or raw materials given as collaterals.

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

b) information concerning fixed assets held for sale

Fixed assets held for sale, by type:	**31.12.2006**	**31.12.2005**
Subject of leasing	1 166	2 189
Assets for sale	9 084	7 967
Other	-	279
Fixed assets held for sale at the end of the period	**10 250**	**10 435**

35. Assets pledged as collateral/security for liabilities

The PKO BP SA Group had the following assets pledged as collateral/security for its own liabilities:

<u>Fund for Protection of Guaranteed Money</u>

PKO BP SA creates a fund for the protection of guaranteed money in accordance with Article 25 of the Act on the Bank Guarantee Fund (*Bankowy Fundusz Gwarancyjny*) dated 14 December 1994.

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

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

	31.12.2006	**31.12.2005**
Stock exchange guarantee fund	5 487	2 479

Besides, KREDOBANK SA - the consolidated entity using the full method - had the following assets being the collateral of the own liabilities:

As at 31 December 2006:

- cash pledged as collateral for loans received from foreign financial organizations with a total value of UAH 131,217 thousand (equivalent of PLN 75,581 thousand),
- debt securities of Ministry of Finance of Ukraine pledged as collateral for loans received from foreign financial organizations with a total value of UAH 53,000 thousand (equivalent of PLN 30,528 thousand).

As at 31 December 2005:

- cash pledged as collateral for loans received from foreign financial organizations with a total value of UAH 64,125 thousand (equivalent of PLN 41,457 thousand).

36. Amounts due to the Central Bank

	31.12.2006	**31.12.2005**
Up to 1 month	1 387	766
Total amounts due to the Central Bank	**1 387**	**766**

37. Amounts due to other banks

	31.12.2006	**31.12.2005**
Current accounts	17 945	11 866
Other banks' deposits	3 680 163	1 920 269
Loans and advances received	475 765	139 467
Other deposits from money market	19 217	11 744
Total amounts due to other banks	**4 193 090**	**2 083 346**

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

Structure by maturity

	31.12.2006	31.12.2005
Current accounts	17 945	11 866
Amounts due with maturity period of:	4 175 145	2 071 480
Up to 1 month	1 846 513	1 101 418
From 1 month to 3 months	878 280	516 521
From 3 months to 1 year	968 649	206 610
From 1 year to 5 years	379 493	246 880
Over 5 years	102 210	51
Total	**4 193 090**	**2 083 346**

as at 31 December 2006

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

as at 31 December 2005

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

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

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

39. Amounts due to customers

	31.12.2006	31.12.2005
Amounts due to corporate entities	**12 237 678**	**10 021 677**
Current accounts and overnight deposits	5 528 338	4 488 291
Term deposits	6 618 651	5 506 676
Other	90 689	26 710
Amounts due to state budget entities	**3 162 694**	**3 186 260**
Current accounts and overnight deposits	2 235 107	2 552 775
Term deposits	800 026	496 354
Other	127 561	137 131
Amounts due to individuals	**67 499 770**	**63 539 626**
Current accounts and overnight deposits	24 694 608	20 707 451
Term deposits	42 787 023	42 813 572
Other	18 139	18 603
Total amounts due to customers	**82 900 142**	**76 747 563**

Structure by maturity

	31.12.2006	31.12.2005
Current accounts and overnight deposits	32 458 053	27 748 517
Amounts due with maturity period of:	50 442 089	48 999 046
Up to 1 month	21 716 969	18 804 200
From 1 month to 3 months	11 267 072	12 951 568
From 3 months to 1 year	15 776 427	15 730 170
From 1 year to 5 years	1 585 783	1 468 366
Over 5 years	95 838	44 742
Total	**82 900 142**	**76 747 563**

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

40. Liabilities arising from debt securities issued

As at 31 December 2006 and 31 December 2005, the Group had liabilities arising from debt securities issued.

	31.12.2006	31.12.2005
Liabilities arising from issue of:		
Bonds	43 722	68 470
Total	**43 722**	**68 470**

	31.12.2006	31.12.2005
Liabilities arising from issue with repayment period:		
From 1 month to 3 months	-	9 891
From 3 months to 1 year	43 722	58 579
Total	**43 722**	**68 470**

As at 31 December 2006 and 31 December 2005, average interest rates of the above securities were 4.50% and 5.29%, respectively.

Effective interest rate (for the Bank)
as at 31 December 2006

Deposits	PLN	EUR	USD	GBP	CHF
Individuals' deposits	1.69	1.14	2.04	1.04	0.22
Corporate deposits	2.28	2.39	3.92	3.83	1.02
Individuals' current deposits	0.18	0.30	0.15	0.15	0.10
Individuals' term deposits	2.49	1.56	2.75	1.85	0.37
Individual pension account investment deposits	3.90	0.00	0.00	0.00	0.00
Deposits of enterprises	2.09	2.21	3.92	3.83	1.02

as at 31 December 2005

Deposits	PLN	EUR	USD	GBP	CHF
Individuals' deposits	2.19	0.99	1.02	0.93	0.16
Corporate deposits	3.01	1.67	3.81	3.33	0.73
Individuals' current deposits	0.25	0.30	0.15	0.15	0.10
Individuals' term deposits	2.99	1.29	1.42	1.60	0.23
Individual pension account investment deposits	4.32	0.00	0.00	0.00	0.00
Deposits of enterprises	2.90	1.54	3.85	3.33	0.73

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

41. Other liabilities

	31.12.2006	31.12.2005
Income received in advance	300 904	193 684
Accrued expenses	218 110	167 989
Other liabilities, of which:	1 701 333	1 500 807
liabilities arising from inter-bank and inter- branch transactions	571 812	291 827
liabilities arising from settlements of operations on securities	230 586	414 556
liabilities arising from social and legal transactions	157 881	192 367
liabilities due to suppliers	126 362	109 369
settlement of purchase of machines, tools, materials, works and services regarding building of tangible assets	114 656	82 374
liabilities arising from transactions with non-financial entities	93 591	42 739
liabilities arising from other settlements	85 909	5 665
liabilities arising from foreign currency activities	76 464	181 681
liabilities relating to investment activities and own operations	56 259	19 801
settlement of customers funds for the purchase of participation units issued by investment fund	34 511	-
liabilities arising from repayments of advances to borrowers related with remission of debt against State Treasury	30 895	15 002
liabilities arising from sale of Treasury stamps	20 331	20 926
liabilities due to UOKiK	16 597	-
liabilities arising from guarantees paid by suppliers and from non-cash retail loans for purchase of household products	19 549	9 767
liabilities relating to payments of benefits	9 989	6 967
liabilities due to insurance companies	6 133	468
settlements relating to the substitution service of Poczta Polska	-	3 621
other *	49 808	103 677
Total	**2 220 347**	**1 862 480**

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

42. Provisions

As at 31 December 2006	Provision for disputes	Provisions for jubilee bonuses and retirement benefits	Provision for liabilities and guarantees granted	Other provisions*	Total
As at 1January 2006	**7 538**	**210 794**	**16 912**	**104 653**	**339 897**
Increase/revaluation	1 379	110 625	5 767	42 416	**160 187**
Utilization	(421)	(2)	-	-	**(423)**
Release	(816)	(3 864)	(4 001)	(62 759)	**(71 440)**
Consolidation of subsidiaries	-	7	-	-	**7**
Foreign exchange	-	-	(28)	-	**(28)**
As at 31 December 2006	**7 680**	**317 560**	**18 650**	**84 310**	**428 200**

* As at 31 December 2006, the item „Other provisions" comprises, among others, securitization provision amounting to PLN 38,290 thousand (as at 31.12.2005 PLN 78,614 thousand). More detailed description of this matter can be found in note 7.

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

As at 31 December 2005	Provision for disputes	Provisions for jubilee bonuses and retirement benefits	Provision for liabilities and guarantees granted	Other provisions	Total
As at 1January 2005	**7 110**	**184 151**	**10 375**	**7 137**	**208 773**
Increase/revaluation	445	26 651	57 497	85 051	**169 644**
Utilization	(178)	(8)	-	-	**(186)**
Release	-	-	(51 012)		**(51 012)**
Foreign exchange	-	-	8	-	**8**
Other changes	161	-	44	12 465	**12 670**
As at 31 December 2005	**7 538**	**210 794**	**16 912**	**104 653**	**339 897**

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

43. Employee benefits

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

44. Social Fund *[Zakładowy Fundusz Świadczeń Socjalnych]*

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

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

	31.12.2006	31.12.2005
Loans granted to employees	96 292	90 692
Amounts on the Social Fund account	18 493	9 643

	2006	2005
Contributions to Social Fund in the period	30 117	29 872
Non-refundable expenditure by the Social Fund in the period	15 447	16 681

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

45. Contingent liabilities

As at 31 December 2006, the Bank's underwriting agreements covered the following securities:

Issuer of securities underwritten	Type of underwritten securities	Amount to which the Bank committed in case of realisation of underwriting agreement	Contract period	Sub-issue type
Company A	Corporate bonds	**174 365**	2011-11-30	Bonds Issue Agreement*
Company B	Corporate bonds	**349 720**	2009-12-31	Bonds Issue Agreement
Company C	Corporate bonds	**50 000**	2008-02-27	Bonds Issue Agreement
Company D	Corporate bonds	**2 000**	2010-12-30	Bonds Issue Agreement
Company E	Corporate bonds	**21 000**	2008-06-30	Bonds Issue Agreement
Company F **	Corporate bonds	**22 911**	2009-12-30	Bonds Issue Agreement
Entity C	Commercial bills of exchange	**69 920**	2009-12-30	Commercial Bills Issue Agreement
Entity A	Municipal bonds	**1 000**	2014-12-31	Bonds Issue Agreement
Entity B	Municipal bonds	**2 200**	2018-12-31	Bonds Issue Agreement
Entity C	Municipal bonds	**9 100**	2016-12-31	Bonds Issue Agreement
Entity D	Municipal bonds	**3 000**	2011-12-31	Bonds Issue Agreement
Entity E	Municipal bonds	**2 800**	2014-12-31	Bonds Issue Agreement
Entity F	Municipal bonds	**40 500**	2017-12-31	Bonds Issue Agreement
Entity G	Municipal bonds	**7 650**	2012-12-31	Bonds Issue Agreement
Entity H	Municipal bonds	**11 500**	2011-12-31	Bonds Issue Agreement
Entity I	Municipal bonds	**2 750**	2014-12-31	Bonds Issue Agreement
Entity K	Municipal bonds	**2 100**	2017-12-31	Bonds Issue Agreement
Entity L	Municipal bonds	**10 000**	2016-12-31	Bonds Issue Agreement
Entity M	Municipal bonds	**3 400**	2012-12-31	Bonds Issue Agreement
Entity N	Municipal bonds	**2 240**	2013-12-31	Bonds Issue Agreement
Entity O	Municipal bonds	**2 500**	2020-12-31	Bonds Issue Agreement
Entity P	Municipal bonds	**6 670**	2015-12-31	Bonds Issue Agreement
Entity R	Municipal bonds	**2 550**	2015-12-31	Bonds Issue Agreement
Entity S	Municipal bonds	**6 240**	2020-12-31	Bonds Issue Agreement
Other, with total value not exceeding PLN 2 million	Municipal bonds	**3 800**		Bonds Issue Agreement
Total		**809 916**		

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

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

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

Issuer of securities underwritten	Type of underwritten securities	Amount to which the Bank committed in case of realisation of underwriting agreement	Contract period	Sub-issue type
Company A	Corporate bonds	**25 000**	2006-12-30	Bonds Issue Agreement*
Company B	Corporate bonds	**200 000**	2009-12-31	Bonds Issue Agreement
Company C	Corporate bonds	**4 000**	2010-12-30	Bonds Issue Agreement
Company D	Corporate bonds	**150 000**	2006-01-14	Bonds Issue Agreement
Company E	Commercial bills of exchange	**40 000**	2006-12-30	Commercial Bills Issue Agreement
Entity A	Municipal bonds	**3 000**	2011-12-31	Bonds Issue Agreement
Entity B	Municipal bonds	**2 000**	2014-12-31	Bonds Issue Agreement
Entity C	Municipal bonds	**6 070**	2014-12-31	Bonds Issue Agreement
Entity D	Municipal bonds	**2 000**	2012-12-30	Bonds Issue Agreement
Entity E	Municipal bonds	**3 900**	2015-12-31	Bonds Issue Agreement
Entity F	Municipal bonds	**2 500**	2011-12-31	Bonds Issue Agreement
Entity G	Municipal bonds	**6 000**	2013-12-31	Bonds Issue Agreement
Entity H	Municipal bonds	**2 400**	2009-12-31	Bonds Issue Agreement
Entity I	Municipal bonds	**4 400**	2011-12-31	Bonds Issue Agreement
Entity J	Municipal bonds	**18 300**	2016-12-31	Bonds Issue Agreement
Entity K	Municipal bonds	**8 722**	2011-12-31	Bonds Issue Agreement
Entity L	Municipal bonds	**5 500**	2021-06-30	Bonds Issue Agreement
Entity M	Municipal bonds	**3 500**	2015-12-31	Bonds Issue Agreement
Entity N	Municipal bonds	**2 700**	2014-12-31	Bonds Issue Agreement
Entity O	Municipal bonds	**2 000**	2013-12-31	Bonds Issue Agreement
Entity P	Municipal bonds	**3 000**	2013-12-31	Bonds Issue Agreement
Entity Q	Municipal bonds	**7 000**	2001-12-31	Bonds Issue Agreement
Entity R	Municipal bonds	**2 000**	2014-12-31	Bonds Issue Agreement
Entity S	Municipal bonds	**2 000**	2014-12-31	Bonds Issue Agreement
Entity T	Municipal bonds	**2 110**	2013-12-31	Bonds Issue Agreement
Entity U	Municipal bonds	**40 500**	2017-12-31	Bonds Issue Agreement
Entity V	Municipal bonds	**5 000**	2011-12-31	Bonds Issue Agreement
Entity W	Municipal bonds	**50 000**	2011-12-31	Bonds Issue Agreement
Entity X	Municipal bonds	**2 200**	2014-12-31	Bonds Issue Agreement
Entity Y	Municipal bonds	**3 700**	2008-12-31	Bonds Issue Agreement
Entity Z	Municipal bonds	**4 000**	2015-12-31	Bonds Issue Agreement
Entity AA	Municipal bonds	**5 000**	2012-12-31	Bonds Issue Agreement
Entity BB	Municipal bonds	**5 300**	2014-12-31	Bonds Issue Agreement
Entity CC	Municipal bonds	**6 000**	2017-12-31	Bonds Issue Agreement
Entity DD	Municipal bonds	**6 100**	2012-12-31	Bonds Issue Agreement
Entity EE**	Municipal bonds	**25 745**	2009-12-30	Bonds Issue Agreement
Other, with total value not exceeding PLN 2 million	Municipal bonds	**8 750**		
Total		**670 397**		

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

** Debt securities denominated in EUR after translation into PLN

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

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Potential liabilities

As at 31 December 2006, the total value of court proceedings in which the Bank is a defendant (inbound) was PLN 295,162 thousand (as at 31 December 2005: PLN 453,788 thousand), while the total value of court proceedings in which the Bank filed the claim (outbound) was PLN 84,886 thousand (as at 31 December 2005: PLN 63,017 thousand).

a) Unfair competition proceedings

The Bank is a party to proceedings initiated on the basis of the decision dated 23 April 2001 of the President of the Competition and Consumer Protection Office (*Urząd Ochrony Konkurencji i Konsumentów* - UOKiK) upon request of the Polish Trade and Distribution Organization (*Polska Organizacja Handlu i Dystrybucji - Związek Pracodawców*) against the operators of the Visa and Europay payment systems and the banks issuing Visa and Mastercard/Eurocard/Mastercard banking cards. The claims under these proceedings relate to the use of practices limiting competition on the market of banking card payments in Poland, consisting of applying pre-agreed "interchange" fees for transactions made using Visa and Europay/ Eurocard/Mastercard cards as well as limiting access to this market by external entities. On 29 December 2006, UOKiK decided that the above practices did limit market competition and ordered that any such practices should be discontinued, and imposed a fine on, among others, PKO BP SA in the amount of PLN 16,597 thousand. As at 31 December 2006, the Bank recognized a liability for the above amount, which was presented in the profit and loss account as “Other operating costs”. On 19 January 2007, the Bank submitted an appeal from the decision of the President of UOKiK to the regional court.

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

As at the date of these financial statements, six administrative proceedings are pending to invalidate decisions issued by public administration authorities with respect to properties held by the Bank. These proceedings, in the event of an unfavourable outcome for the Bank, may result in re-privatisation claims being raised against the Bank. Given the current status of these proceedings, it is not possible to assess their potential negative financial effects for the Bank. Moreover, with respect to six properties of the Bank claims were submitted by their former owners. Court proceedings are pending with respect to three properties. With respect to the other three properties, the Bank is still in the process of negotiations in order to settle the legal status of these properties.

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

The consolidated financial statements for the year ended 31 December 2006 does not contain any adjustments connected with the potential liabilities described above.

Financial liabilities granted

	31.12.2006	31.12.2005
Total liabilities granted:	**22 552 006**	**17 312 241**
to the financial sector	1 709 213	1 299 781
to the non-financial sector	19 145 852	13 633 134
to the state budget	1 696 941	2 379 326
including: irrevocable liabilities granted	10 298 419	8 519 942

Guarantee liabilities granted

	31.12.2006	31.12.2005
Amounts due to the financial sector:	12 705	7 674
guarantees	12 705	7 674
Amounts due to the non-financial sector:	2 197 511	1 215 824
guarantees	2 187 280	1 204 420
sureties	10 231	11 404
Amounts due to the state budget:	137 466	252 752
guarantees	137 466	252 752
Total guarantees granted	**2 347 682**	**1 476 250**

Information on provisions for off-balance guarantees and financial liabilities is included in note 42.

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

Contingent liabilities granted as at 31 December 2006 (by maturity dates)

	up to 1 month	1-3 month	over 3 month – 1 year	1-5 years	over 5 years	Total
Financial liabilities granted	4 889 986	1 120 944	7 858 996	6 579 706	2 102 374	**22 552 006**
Guarantees	443 339	96 189	526 452	1 220 916	60 786	**2 347 682**
Total	**5 333 325**	**1 217 133**	**8 385 448**	**7 800 622**	**2 163 160**	**24 899 688**

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

	up to 1 month	1-3 month	over 3 month – 1 year	1-5 years	over 5 years	Total
Financial liabilities granted	4 024 441	723 007	6 888 136	4 804 075	872 582	**17 312 241**
Guarantees	274 092	49 905	610 479	474 771	67 003	**1 476 250**
Total	**4 298 533**	**772 912**	**7 498 615**	**5 278 846**	**939 585**	**18 788 491**

Off-balance sheet liabilities received

	31.12.2006	31.12.2005
Off-balance sheet received liabilities:	**6 304 823**	**5 320 868**
1. Financial	1 258 783	570 767
2. Guarantees	5 046 040	4 750 101

Assets pledged as collateral for contingent liabilities

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

46. Share capital

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

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

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

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

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

47. Other capital items and retained earnings

	31.12.2006	31.12.2005
Reserve capital	4 530 138	3 297 614
Other	4 530 138	3 297 614
Revaluation reserve – valuation of financial assets available for sale	3 834	(4 054)
General banking risk fund	1 070 000	1 000 000
Other reserves	1 561 625	1 556 503
Retained earnings	(222 671)	150 405
Total	**6 942 926**	**6 000 468**

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

48. Notes to the cash flow statement

Cash and cash equivalents

	31.12.2006	31.12.2005
Cash and amounts in the Central Bank	4 628 134	3 895 331
Current receivables from financial institutions	9 535 024	7 495 277
Total	**14 163 158**	**11 390 608**

Cash flow from operating activities – other adjustments

	2006	2005
Valuation, interest accrued, discount, premium on debt securities decreased by deferred tax	41 256	(45 293)
Disposal of tangible and intangible assets	30 369	(33 360)
Valuation, impairment allowances against investments in jointly controlled entities and associates	126 197	(45 103)
Foreign exchange differences	(9 590)	7 390
Financial assets impairment	-	501
Other	(250)	2 492
Total other adjustments	**187 982**	**(113 373)**

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

(Profit) loss from investing activities	**2006**	**2005**
Income from sale and disposal of the tangible and intangible fixed assets	(15 121)	(11 618)
Sale and disposal costs of tangible and intangible fixed assets	12 619	27 256
Result on the disposal of assets held for sale - according to IFRS 5	(21 296)	-
(Profit) loss from investing activities - total	**(23 798)**	**15 638**

Change in loans and advances to banks	**2006**	**2005**
Balance sheet balances change	(767 295)	568 652
Change in reserves for loans and advances to banks	1 449	407
Exclusion of the cash and cash equivalents change	2 039 747	(2 915 615)
Change in loans and advances to banks - total	**1 273 901**	**(2 346 556)**

Change in financial assets held for trading and other financial instruments valued at fair value through profit or loss	**2006**	**2005**
Balance sheet balances change	9 158 242	(20 541 169)
Transfer of the ALPL portfolio to the investment activities	-	19 368 752
Transfer of the securities classified to ALPL portfolio to "Other adjustments"	-	589 428
Change in financial assets held for trading and other financial instruments valued at fair value through profit or loss - total	**9 158 242**	**(582 989)**

Change in loans and advances to customers	**2006**	**2005**
Balance sheet balances change	(12 031 978)	(6 837 425)
Implementation of the assets valuation with amortised cost with the use of effective interest method net of deferred tax (upon conversion to IFRS)	-	(345 006)
Change in impairment allowances on loans and advances due from customers	540 719	(301 202)
Change in loans and advances to customers - total	**(11 491 259)**	**(7 483 633)**

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

Change in amounts due to banks	**2006**	**2005**
Balance sheet balances change	2 110 365	1 085 250
Transfer of the repayments/received long term advances due from banks to financing activities	(294 794)	(74 458)
Change in amounts due to banks - total	**1 815 571**	**1 010 792**

Change in amounts due to customers	**2006**	**2005**
Balance sheet balances change	6 152 579	3 655 689
Implementation of the liabilities valuation with amortised cost with the use of effective interest method net of deferred tax (upon conversion to IFRS)	-	6 512
Transfer of the repyments/received long term advances due from other than banks financial institutions to financing activities	(51 821)	47 894
Change in amounts due to customers - total	**6 100 758**	**3 710 095**

Change in provisions	**2006**	**2005**
Balance sheet balances change	70 706	(414 118)
Implementation of the IFRS impairment of loans and advances due from customers	-	(477 235)
Impairment allowances on receivables due from banks	(1 449)	(407)
Impairment allowances on receivables due from customers	(579 416)	301 202
Change of the deferred tax liability on fair value change of the available for sale portfolio	(1 922)	57 626
Change in provisions - total	**(512 081)**	**(532 932)**

Change in other liabilities	**2006**	**2005**
Balance sheet balances change	357 867	467 363
Adjustment related to the conversion to IFRS regarding capitalized interests of loans from "old" mortgage loans portfolio	-	174 356
Reclassification of interests repayment from loans received from others than banks institutions, revealed in financial activity	2 676	2 549
Change in other liabilities - total	**360 543**	**644 268**

49. Transactions with related parties

Transactions of the holding company with jointly controlled entities and associates valued using equity method

All described above transactions with capital and personally related entities were singed at an arm's length. Terms of repayment are from 1 month to ten years (only entities, which concluded transactions with the Bank within the period covered by financial statements are presented in the table).

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

As at 31 December 2006

Entity	Net receivables	including gross loans	Liabilities	Total revenues	including interest and fees commission income	Total costs	including interest and fees commission costs	Off-balance sheet liabilities granted
Sopot Zdrój Sp. z o.o.	2 059	2 055	234	1 941	1 941	39	39	191 038
Centrum Majkowskiego Sp. z o.o.	8 692	8 605	108	401	401	7	7	30 856
Kamienica Morska Sp. z o.o.	537	534	22	16	16	-	-	2 926
Promenada Sopocka Sp. z o.o.	6 224	6 156	885	461	461	12	12	39 436
INTER FINANCE Polska Sp. z o.o.	-	-	468	1	1	13	13	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	2 365	1	1	197	197	-
Agencja Inwestycyjna „CORP" SA	223	-	-	1 454	-	4 016	52	-
CENTRUM HAFNERA Sp. z o.o.	-	-	8 759	42	42	220	220	3 831
Centrum Obsługi Biznesu sp z o.o.	25 214	25 211	2 368	54	54	49	49	7 169
Bank Pocztowy SA	3	-	8 602	14	-	63	63	-
Kolej Gondolowa Jaworzyna Krynicka SA	2 918	2 000	1	143	143	14	-	586
Total	**45 870**	**44 561**	**23 812**	**4 528**	**3 060**	**4 630**	**652**	**275 842**

As at 31 December 2005

Entity	Net receivables	including gross loans	Liabilities	Total revenues	including interest and fees commission income	Total costs	including interest and fees commission costs	Off-balance sheet liabilities granted
PKO Towarzystwo Funduszy Inwestycyjnych SA	461	-	611	21 499	21 484	26	26	218
Wawel Hotel Development Sp. z o.o.	110 155	105 860	12 974	4 636	4 571	91	90	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	4 349	2	1	146	141	-
Agencja Inwestycyjna „CORP" SA	181	-	26	516	-	2 209	-	-
Hotel Jan III Sobieski Sp. z o.o.	76 289	76 236	-	1 930	1 930	85	4	-
Kolej Gondolowa Jaworzyna Krynicka SA	3 750	3 750	50	1 729	1 728	27	4	-
Centrum Obsługi Biznesu Sp. z o.o.	17 211	16 924	4 241	104	104	14	14	80 945
Total	**208 047**	**202 770**	**22 251**	**30 416**	**29 818**	**2 598**	**279**	**81 163**

Transactions with the State budget

According to the Act dated 30 November 1995 on the state support in the repayment of certain housing loans, the refund of guarantee premium to banks and amendments to certain acts, PKO BP SA receives payments from the State budget for the redemption of interest on housing loans. As part of the realization of statutory obligations by the State budget, during the year ended 31 December 2006 the Bank recognized income in the amount of PLN 155,032 thousand (in 2005: PLN 194,400 thousand) due to temporary redemption by the State budget of interest on housing loans from the "old" portfolio. During this period, the Bank received PLN 135,236 thousand in cash (in the corresponding period of 2005: PLN 166,814 thousand) in respect of temporary redemption by the State budget of interest on housing loans from the "old" portfolio. The difference of PLN 19,796 thousand (in 2005: PLN 27,586 thousand) between income recognized for this period and income received in cash is reflected in the balance sheet of the Bank under "Loans and advances to customers".

PKO BP SA receives commission for settlements relating to the redemption of interest on housing loans. In 2006, PKO BP SA received a commission for the fourth quarter of 2005 amounting to PLN 1,456 thousand and for commission for the three quarters of 2006 amounting to PLN 3,163 thousand (in 2005, commission for the fourth quarter of 2004 amounting PLN 1,715 thousand and commission for the three quarters of 2005 amounting to 2,931 thousand). This commission is included in the profit and loss account under "Fees and commission income".

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

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

In the year ended 31 December 2006, the Bank also recognized commission income of PLN 113 thousand (in 2005: PLN 629 thousand) in respect of its fees for servicing compensation payments for pensioners who in 1991 lost the increases or additions to their pensions payable for performing work in specific conditions or of a specific nature, as well as for public sector employees whose salaries were not adjusted in the second half of 1991 and in the first half of 1992. This amount was included under "Fees and commission income".

The Act on the coverage of repayment of certain housing loans by State Treasury guarantees was passed on 29 November 2000 and came into force on 1 January 2001. The coverage of the "old" portfolio housing loan receivables by the guarantees of the State Treasury resulted in the neutralisation of the default risk of these loans. The State Treasury guarantees are realized when a borrower fails to repay the loan on the dates specified in the loan agreement. The responsibility of the State Treasury is of an auxiliary nature and is effective if the recovery of unpaid part of principal and interest, which the Bank is obliged to commence, before the Bank lays claims to the State Treasury, becomes ineffective. The above-mentioned law covers 90% of unpaid loans taken out by housing cooperatives. As a consequence of the realization of the State Treasury responsibilities as guarantor, to the State Treasury itself enters into the rights of the satisfied creditor (the Bank) and thus becomes creditor towards the borrower, in line with the guarantee term. In 2006 the value of guarantees of the State Treasury relating to the "old" portfolio amounted to PLN 3,940,540 thousand (PLN 4,166,564 thousand in 2005).

Based on the agreement concluded on 11 February 2003, between the Ministry of Finance as the Issuer and PKO BP SA, Dom Maklerski PKO BP SA serves as issue agent for Treasury retail bonds.

In 2006, the Bank reported revenues from offering of securities amounting to PLN 58,336 thousand, including PLN 47,576 thousand with respect to its function as issue agent of Treasury retail bonds.

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

Benefits for the key management of the holding company

a) Short-term employee benefits

Remuneration received from PKO BP SA

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

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

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

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

b) Post-employment benefits

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

c) Other long-term benefits

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

d) Benefits due to termination of employment

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

e) Share-based payments

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

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

	31.12.2006	**31.12.2005**
Employees	612 301	517 665
Members of the Bank's Management Board	352	433
Members of the Bank's Supervisory Board	254	204
Total	**612 907**	**518 302**

Remuneration received by the members of the Management and Supervisory Boards of the Group's subsidiaries

	2006	**2005**
Bank's Management Board		
Short-term employee benefits	6 938	5 703
Bank's Supervisory Board		
Short-term employee benefits	1 153	1 184
Total benefits	**8 091**	**6 887**

50. Business combinations

Acquisition of business entities

As at 31 December 2006 and 31 December 2005, no merger of the holding company or subsidiaries with other entities took place.

In the first half of 2006, PKO BP SA acquired from Credit Suisse Asset Management Holding Europe (Luxembourg) S.A. 45,000 thousand registered shares (preference in voting rights), representing 25% of the total vote at the General Shareholders’ Meeting accounting for 25% share in the share capital of PKO Towarzystwo Funduszy Inwestycyjnych S.A. (former PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.).

On 6 April 2006, upon the fulfillment of all of the conditions of this agreement (including the receipt of the consent of the President of the Consumer and Competition Protection Office [*Urząd Ochrony Konkurencji i Konsumentów*] for the concentration resulting from acquisition of control over the Company by PKO BP SA), the ownership of these shares was transferred to PKO BP SA.

Following this transaction, PKO BP SA holds 75% of the Company’s share capital and total votes at the Company’s General Shareholders’ Meeting.

Data regarding the purchase of 25% of shares in PKO TFI SA

Entity name	PKO Towarzystwo Funduszy Inwestycyjnych SA (in PLN thousand)
Date of acquisition	6.04.2006
Percentage share in the share capital of PKO TFI SA	25%
Acquisition price	55 055
Fair value of assets, liabilities and contingent liabilities as at 31.03.2006, of which:	22 816
- intangible assets	191
- tangible fixed assets	678
- short-term receivables	16 036
- short-term investments	40 575
- other assets	665
- provisions	(900)
- short-term liabilities and other	(34 429)
Fair value of assets, liabilities and contingent liabilities assigned to the shares acquired	5 704
Goodwill at acquisition date	49 351*
Goodwill as at 31.12.2006	49 351

* since the separated units generating cash flow within the Company cannot be excluded, the whole goodwill was assigned to the value of the whole investment project.

Besides, on 14 August 2006, the Bank took up shares in the increased share capital of KREDOBANK SA, with the total value of UAH 54,287,649.11. As a result, PKO BP SA's share in the share capital of this Company and its share in the total vote at the General Shareholders' Meeting increased from 69.018% to 69.933%. The above transaction did not have significant impact on goodwill relating to the purchase of KREDOBANK SA shares by PKO BP SA.

Data regarding goodwill resulting from purchase of shares in the Bank's subsidiaries, in years 2004 and 2005.

Data concerning the purchase of shares in KREDOBANK S.A.

Entity name	KREDOBANK SA (in PLN thousand)	
Date of acquisition	26.08.2004	24.10.2005
Percentage share in the share capital of KBU	66.651%	2.367%
Acquisition price	109 531	2 439
Fair value of net assets at acquisition date	93 047	84 540*
Of which:		
- Cash and amounts due from Central Bank	39 897	
- Amounts due from financial sector	132 240	
- Amounts due from other sectors	583 973	
- Debt securities	52 167	
- Intangible assets	2 505	
- Tangible fixed assets	66 366	
- Other assets	10 538	
- Prepayments and deferred costs	7 344	
- Liabilities	799 784	
- Special funds and other liabilities and equity	1 001	
- Accruals and deferred income, restricted and provisions	1 198	
Share of PKO BP SA in the fair value of net assets of KBU at acquisition date	62 017	2 001
Goodwill at acquisition date	47 514	438**
Goodwill as at 31.12.2006	47 514	438

*For share purchased in 24.10.2005 – carrying amount.
** Since the separated units generating cash flow within KREDOBANK SA cannot be excluded, the whole goodwill was assigned to the value of the whole investment project.

Data concerning the purchase of shares in Wilanów Investments Sp z o.o.

Entity name	Wilanów Investments Sp. z o.o. (in PLN thousand)
Date of acquisition	03.11.2005
Percentage share in the share capital of Wilanów Investments Sp. z o.o.	49%
Acquisition price	66 661
Fair value of assets, liabilities and contingent liabilities as at 31.10.2005, of which:	35 201
- cash and amounts due from Central Bank	13 602
- assets available for sale	
- loans and advances, other receivables	
- interests from financial assets	
- tangible fixed assets	362
- intangible assets	84
- other assets	131 303
- financial liabilities at amortised cost	89 162
- interests from financial liabilities	
- provisions	6
- other liabilities	20 982
Fair value of assets, liabilities and contingent liabilities assigned to the shares acquired	17 249
Goodwill as at 31.12.2006	49 412*

*Since the separated units generating cash flow within the Company cannot be excluded, the whole goodwill was assigned to the value of the whole investment project.

Sale of business entities

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

On 19 September 2006, PKO BP SA took up 145,361 shares in the increased share capital of its associate, Hotel Jan III Sobieski Sp. z o.o., with a total nominal value of PLN 78,494,940, for a price equal to their nominal value. As a result of this transaction, the Bank held 145,881 shares in the Company's share capital, which accounted for 50.4% of the share capital and gave right to 50.4% of the total votes at the Shareholders' Meeting. On 31 October 2006, PKO BP SA concluded an agreement for the sale of shares in Hotel Jan III Sobieski Sp. z o.o. with its registered office in Warsaw. The Bank sold all of its 145,881 shares in this Company, with a nominal value of PLN 540 each, to Europa Hawk S.a.r.l. with its registered office in Luxembourg, for a price of PLN 46,571.7 thousand.

51. Description of differences between the previously published financial statements and the financial statements.

The PKO BP SA Group did not made significant amendments to the financial statements previously published.

52. Events after the balance sheet date

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

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

On 30 January 2007, the Bank signed an agreement with KREDOBANK S.A. resulting in granting a USD 7.5 million subordinate loan to the Company.

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

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

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

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

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

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

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

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

Signatures of all Members of the Management Board

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

Signature of a person responsible for keeping books of account

27 March 2007	Danuta Szymańska	Chief accountant of the Bank	.... (signature)

PKO BANK POLSKI
SPÓŁKA AKCYJNA

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

WARSAW, MARCH 2007

Table of contents:

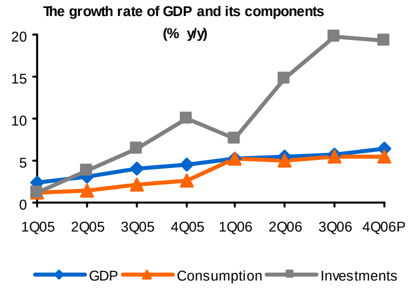
1. INTRODUCTION

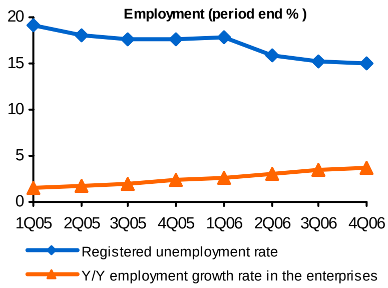
Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ("PKO BP SA", "the Bank") is the holding company of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group ("the Group", "the PKO BP SA Group").

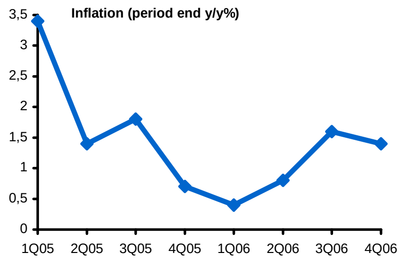
The PKO BP SA Group reported in 2006 a positive net financial result of PLN 2,149 million, mainly due to the performance of PKO BP SA.

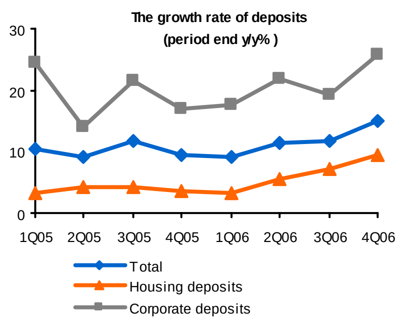
2. EXTERNAL FACTORS AND EVENTS WHICH ARE SIGNIFICANT TO THE GROUP'S PERFORMANCE

2.1 Macroeconomic factors







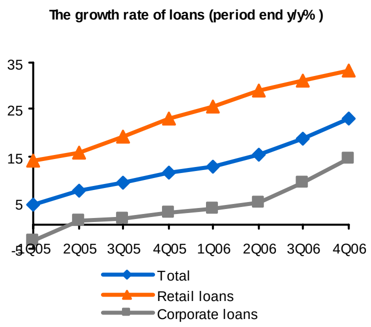


During the year 2006, <u>the economic growth visibly accelerated</u>. According to the preliminary data of the Central Statistical Office (GUS), growth dynamics of GDP in 2006 amounted to 5.8% year-to-year in comparison to 3.5% in 2005. The continued economic revival in real economy was stimulated by 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). <u>The improvement on the labour market</u> 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 <u>inflation rate</u> 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, <u>household deposits</u> 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 <u>increase in the level of corporate deposits</u>. The value of corporate deposits in December 2006 was almost 25% greater than in the corresponding period of 2005.

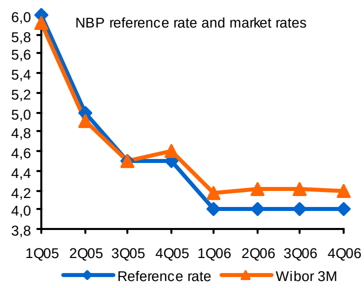


Household loans continued to grow during 2006, especially housing loans, that, among others, was due to the improved financial condition of households and greater willingness of banks to extend loans in the improved economic situation. A smaller increase was noted in the level of consumer loans. The 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:

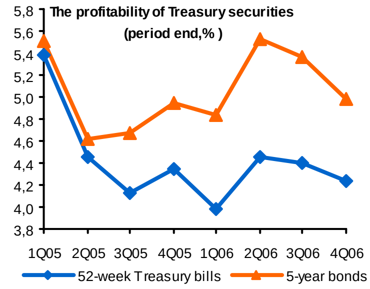
– improved rate of economic growth in Ukraine in 2006, from 2.6 y/y in 2005 to 7% y/y in 2006,
– decrease in the official unemployment rate from 3.1% in December 2005 to 2.7% at the end of 2006, - though,, according, to, estimates, of, international research centres, the real unemployment rate was significantly 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 hrivna,
– 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 it 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.

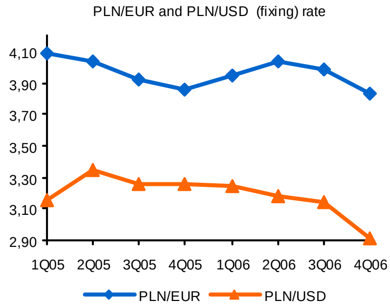
2.3 Financial market



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 2nd 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 4th 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.

<u>Non-banking sector</u>

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	%	
Holding company				
1	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna			
Direct subsidiaries				
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
Indirect subsidiaries				
	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	%	
Jointly controlled entities				
1	CENTRUM HAFFNERA Sp. z o.o.	44 371	49.43	Equity method
2	Centrum Obsługi Biznesu Sp. z o.o.	17 498	41.44	Equity method
Subsidiaries of CENTRUM HAFFNERA Sp. z o.o.				
3	Sopot Zdrój Sp. z o.o.	58 923	100.00	Equity method
4	Promenada Sopocka 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
Associates				
7	Bank Pocztowy SA	146 500	25.0001	Equity method
8	Kolej Gondolowa Jaworzyna Krynicka SA	15 531	37.53	Equity method
9	Ekogips SA – in bankruptcy	5 400	60.26	Equity method
10	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	33.33	Equity method
11	Agencja Inwestycyjna CORP SA	29	22.31	Equity method
Associates of Bankowe Towarzystwo Kapitałowe SA				
12	FINDER 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 [1]

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

[1] 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 11th 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 singing 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 and 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 4th 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 8th 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 12th 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 Racławicka 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 "Kuźmińska"

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).

<u>Bankowe Towarzystwo Kapitałowe SA</u>

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.

<u>KREDOBANK SA</u>

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.

<u>PKO Towarzystwo Funduszy Inwestycyjnych SA</u>

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 4th 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 [2]

<u>CENTRUM HAFFNERA Sp. z o.o.</u>

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.

<u>Centrum Obsługi Biznesu Sp. z o.o.</u>

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.

<u>Bank Pocztowy SA</u>

[2] *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	%
1	2	3	4	5
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%
Total assets	**101 261 213**	**91 613 181**	**9 648 032**	**10.5%**

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[3] 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	%
1	2	3	4	5
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%
Loans and advances to customers	**58 906 607**	**46 874 629**	**12 031 978**	**25.7%**

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%.

[3] *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	%
1	*2*	*3*	*4*	*5*
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%
Total liabilities and equity	**101 261 213**	**91 613 181**	**9 648 032**	**10.5%**

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%
8. Total income items (1-7)	**6 823 022**	**6 465 655**	**105.5%**
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
12. Profit before taxation	**2 701 488**	**2 167 045**	**124.7%**
13. Income tax expense	(494 039)	(411 424)	120.1%
14. Profits (losses) of minority shareholders	58 397	20 801	280.7%
15. Net profit	**2 149 052**	**1 734 820**	**123.9%**

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*
Interest income, of which:	**5 571 159**	**5 662 012**	**98.4%**
- 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%
Total interest expense, of which:	**(1 762 414)**	**(2 117 537)**	**83.2%**
- 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%
Net interest income	**3 808 745**	**3 544 475**	**107.5%**

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%[4] while the average interest rate of deposits was 1.9%[5]. 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
1	*2*	*3*	*4*
Fees and commission income, of which:	**2 088 600**	**1 537 579**	**135.8%**
- 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%
Fees and commission expense, of which:	**(366 039)**	**(319 697)**	**114.5%**
- 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%
Net fees and commission income	**1 722 561**	**1 217 882**	**141.4%**

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.

[4] *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.*

[5] *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 2nd 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
1	*2*	*3*	*4*
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%
Total	**(4 117 178)**	**(4 161 051)**	**98.9%**

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
1	*2*	*3*
1. Profit (loss) before taxation / average assets (ROA[6] $_{gross}$)	2.8%	2.4%
2. Net profit (loss) / average assets (ROA $_{net}$)	2.2%	2.0%
3. Profit (loss) before taxation / average equity (ROE[7] $_{gross}$)	28.5%	24.6%
4. Net profit (loss) / average equity (ROE $_{net}$)	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	%
1	*2*	*3*	*4*	*5*
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%
Total equity	**10 180 580**	**8 774 990**	**1 405 590**	**16.0%**
Capital adequacy ratio	**11.81%**	**13.90%**	**(2.09) pp.**	

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[6] *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.*

[7] *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.

<u>Financial risk profile of the Group in 2006</u>

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 Develoment

- 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

1. FITCH RATINGS	
Support rating	2
2. STANDARD AND POOR'S	
Long-term local currency liabilities rating	BBBpi
3. MOODY'S INVESTORS SERVICE LTD.	
Long-term deposit rating	A2 stable outlook
Short-term deposit rating	Prime-1 stable outlook
Financial strength	C stable outlook
4. CAPITAL INTELLIGENCE	
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

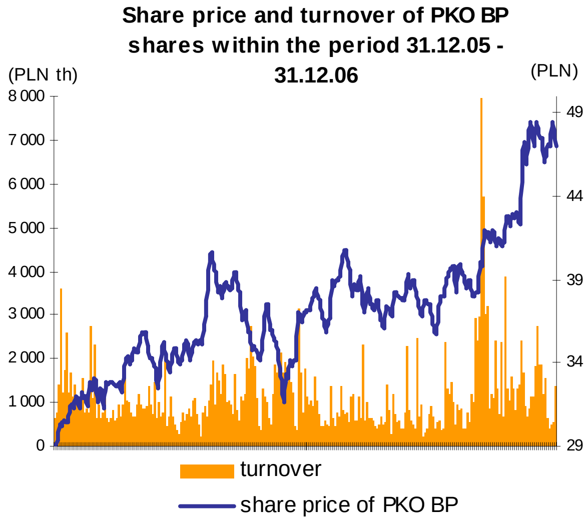
During the period covered by this Report, PKO BP SA did not re-acquire its shares on its own account.

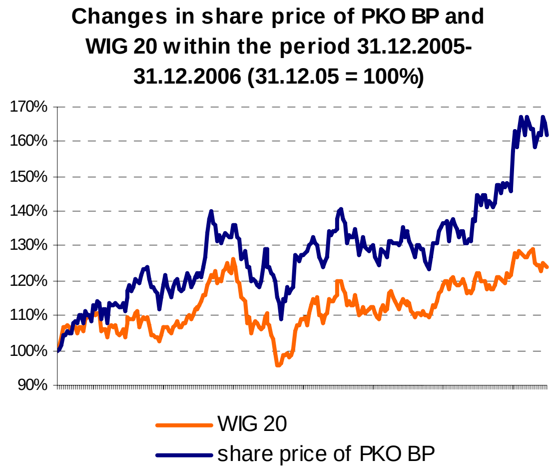
13.5 Listed price of the Bank's shares

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
Return for the shareholder	**7.9%**	**64.8%**





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 10th 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 50th 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 Daniłło 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 "*Gazele 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 14th 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 3rd 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 12th 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 3rd 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),
- 1st 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),
- 4th 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),
- 1st 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 12th edition of the "Your Money" Fairs (Targi Twoje Pieniądze) (October 2006),
- 2nd place for SUPERKONTO STUDENT in a ranking of the best bank accounts for students organised by the magazine "Dlaczego" (October 2006),
- 2nd 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),
- 5th place in Rzeczpospolita's MARQA ranking of "The Strongest Polish Brands" and the 1st 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),
- 1st 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", 3rd International Forum of Investments and Innovation, 5th International Industrial Forum, 6th 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 SUPERVISON 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	%
1	*2*	*3*	*4*	*5*
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%
TOTAL	**24 899 688**	**18 788 491**	**6 111 197**	**32.5%**

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
Members of the Management Board as at 31.12. 2006			
1.	Sławomir Skrzypek	Deputy President of the Management Board	▪ 20.12.2005 – appointed for the common term of Management Board that commenced on 19.05.2005
		Acting President of the Management Board	▪ 29.09.2006 ▪ resigned from these positions as of 10.01.2007
2.	Kazimierz Małecki	First Deputy President of the Management Board	▪ 04.07.2002 ▪ 19.05.2005 – re-appointed to another term starting from this day ▪ resigned from this position as of 31.12.2006
3.	Danuta Demianiuk	Deputy President of the Management Board	▪ 02.01.2003 ▪ 16.09.2005 re-appointed to another term of the Management Board that commenced on 19.05.2005 ▪ resigned from this position as of 31.12.2006
4.	Rafał Juszczak*	Member of the Management Board	▪ as of 01.07.2006 appointed to the common term of the Management Board that commenced on 19.05.2005
		Deputy President of the Management Board	▪ 29.09.2006
5.	Wojciech Kwiatkowski**	Deputy President of the Management Board	▪ as of 01.11.2006 appointed to the common term of the Management Board that commenced on 19.05.2005
6.	Jacek Obłękowski	Member of the Management Board	▪ 20.06.2002 ▪ 19.05.2005 – re-appointed to another term starting from this day
		Deputy President of the Management Board	▪ 29.09.2006, ▪ resigned from this position as of 31.01.2007
7.	Zdzisław Sokal*	Member of the Management Board	▪ as of 01.07.2006 appointed for the common term of the Management Board that commenced on 19.05.2005
		Deputy President of the Management Board	▪ 29.09.2006 ▪ resigned from this position as of 13.03.2007
Board Members who resigned from their positions before 31.12.2006			
8.	Andrzej Podsiadło	President of the Management Board	▪ 20.06.2002 ▪ 19.05.2005 re-appointed to another term starting from this day ▪ resigned from this position as of 29.09.2006
9.	Krystyna Szewczyk	Member of the Management Board	▪ 14.05.2004 ▪ 16.09.2005 re-appointed to another term that commenced on 19.05.2005 ▪ resigned from this position as of 26.06.2006
10.	Piotr Kamiński	Member of the Management Board	▪ 10.03.2003 ▪ 16.09.2005 re-appointed to another term that commenced on 19.05.2005 ▪ resigned from this position as of 9.03.2006
11.	Jarosław Myjak**	Deputy President of the Management Board	▪ as of 02.10.2006 appointed to the common term of the Management Board that commenced on 19.05.2005, ▪ resigned from this position as of 30.11.2006

* 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
Board Members holding specific functions as at 31 December 2006		
1.	Kazimierz Małecki	▪ Chairman of the Asset and Liability Committee ▪ Chairman of the Integrated Information System Steering Committee
2.	Danuta Demianiuk	▪ Deputy Chairperson of the Asset and Liability Committee ▪ Chairperson of the Bank's Credit Committee ▪ Member of the Integrated Information System Steering Committee
3.	Sławomir Skrzypek	▪ Deputy Chairman of the Bank's Credit Committee (from 14.03.2006 to 25.10.2006) ▪ Deputy Chairman of the Steering Committee for Implementation of Branch Modernisation Program ▪ Chairman of the Corporate and Commercial Governance Committee (since 31.10.2006)
4.	Rafał Juszczak	▪ Deputy Chairman of the Integrated Information System Steering Committee (since 10.07.2006) ▪ Member of the Steering Committee for Implementation of Branch Modernisation Program (since 17.07.2006) ▪ Chairman of the IIS Project Committee (since 01.07.2006)
5.	Jacek Obłękowski	▪ Chairman of the Steering Committee for Implementation of Branch Modernisation Program ▪ Deputy Chairman of the Integrated Information System Steering Committee ▪ Deputy Chairman of the IIS Project Committee
6.	Zdzisław Sokal	▪ Member of the Asset and Liability Committee (since 10.07.2006), ▪ Member of the Integrated Information System Steering Committee (since 10.07.2006) ▪ Deputy Chairman of the Corporate and Commercial Governance Committee (since 31.10.2006)
Board Members who resigned from their functions before 31.12.2006		
7.	Piotr Kamiński	▪ Deputy Chairman of the Bank's Credit Committee of the Bank (until 8.03.2006)
8.	Krystyna Szewczyk	▪ Member of the Asset and Liability Committee (until 26.06.2006) ▪ Deputy Chairperson of the Integrated Information System Steering Committee (until 26.06.2006) ▪ Chairperson of the IIS Project Committee (until 26.06.2006) ▪ Member of the Steering Committee for Implementation of Branch Modernisation Program (until 26.06.2006)

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 Kokoszczyński	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
I.	**Management Board**	
1.	Sławomir Skrzypek	----------------------------
2.	Kazimierz Małecki	2 627
3.	Danuta Demianiuk	----------------------------
4.	Rafał Juszczak	----------------------------
5.	Wojciech Kwiatkowski	----------------------------
6.	Jacek Obłękowski	512
7.	Zdzisław Sokal	----------------------------
II.	**Supervisory Board**	
1.	Marek Głuchowski	----------------------------
2.	Urszula Pałaszek	----------------------------
3.	Jerzy Michałowski	----------------------------
4.	Jerzy Osiatyński	----------------------------
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 Osiatyński 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 Juszczak

_ _
Deputy President
Wojciech Kwiatkowski

INDEPENDENT AUDITORS' OPINION

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

1. We have audited the attached consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group (the "Group"), for which the holding company is Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the "Bank") located in Warsaw at Puławska 15 Street, for the year ended 31 December 2006, containing:
   - the consolidated profit and loss account for the period from 1 January 2006 to 31 December 2006 with a net profit attributable to the holding company amounting to 2,149,052 thousand zlotys,
   - the consolidated balance sheet as at 31 December 2006 with total assets amounting to 101,261,213 thousand zlotys,
   - the consolidated statement of changes in shareholders' equity for the period from 1 January 2006 to 31 December 2006 with a net increase in shareholders' equity amounting to 1,405,590 thousand zlotys,
   - the consolidated cash flow statement for the period from 1 January 2006 to 31 December 2006 with a net cash inflow amounting to 2,772,550 thousand zlotys, and
   - the additional notes and explanations

   (the "attached consolidated financial statements").
2. The truth and fairness[1] of the attached consolidated financial statements and the proper maintenance of consolidation documentation are the responsibility of the Bank's Management Board. Our responsibility was to audit the attached consolidated financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair[2].
3. We conducted our audit of the attached consolidated financial statements in accordance with the following regulations being in force in Poland:
   - chapter 7 of the Accounting Act, dated 29 September 1994 (the "Accounting Act"),
   - the auditing standards issued by the National Chamber of Auditors,

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

[1] Translation of the following expression in Polish: "*rzetelność, prawidłowość i jasność*"
[2] Translation of the following expression in Polish: "*rzetelne, prawidłowe i jasne*"

believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. In our opinion, the attached consolidated financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2006 to 31 December 2006, as well as its financial position[3] as at 31 December 2006;
   - have been prepared in all material aspects correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU;
   - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

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

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Registration No 130

(-)

Arkadiusz Krasowski
Certified Auditor No 10018/7417

(-)

Dominik Januszewski
Certified Auditor No 9707/7255

Warsaw, 27 March 2007

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

POWSZECHNA KASA OSZCZĘDNOŚCI
BANK POLSKI SPÓŁKA AKCYJNA GROUP

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

I. GENERAL NOTES

1. Background

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

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

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

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

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

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

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

(in thousand zlotys)

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

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

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

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

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

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

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

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

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

- On 8 March 2006 the Bank's Supervisory Board accepted the resignation of Mr Piotr Kamiński from the position of the Member of the Bank's Management Board.
- On 26 June 2006 Mr Andrzej Podsiadło resigned from the position of the President of the Bank's Management Board. At the request of the Bank's Supervisory Board, Mr Andrzej Podsiadło was supposed to remain in the position of the President of the Bank's Management Board until 31 October 2006. On 29 September 2006, Mr Andrzej Podsiadło resigned from the position of the President of the Management Board, thus shortening the period of staying in this position, which was agreed on previously.
- Mrs Krystyna Szewczyk resigned from the function of the Member of the Bank's Management Board as of 26 June 2006.

- On 26 June 2006, the Bank's Supervisory Board appointed Mr Zdzisław Sokal and Mr Rafał Juszczak to the positions of Members of the Bank's Management Board as of 1 July 2006.
- On 29 September 2006, the Bank's Supervisory Board appointed Mr Sławomir Skrzypek to the position of acting President of the Management Board of PKO BP SA until the date of the appointment of the President of the Bank's Management Board, however not longer than until 30 November 2006. On 30 November 2006, the Bank's Supervisory Board appointed Mr Sławomir Skrzypek to the position of acting President of the Bank's Management Board until the date of appointment of the new President of the Bank's Management Board. On 10 January 2007, Mr Sławomir Skrzypek resigned from the position of Deputy President, acting President of the Bank's Management Board.
- On 29 September 2006, the Supervisory Board of PKO BP SA passed resolutions appointing:
  - Mr Wojciech Kwiatkowski to the position of Deputy President of the Bank's Management Board as of 1 November 2006,
  - Mr Jarosław Myjak to the position of Deputy President of the Bank's Management Board as of 2 October 2006.
- The Bank's Supervisory Board appointed Mr Rafał Juszczak, Mr Jacek Obłękowski and Mr Zdzisław Sokal, the former Management Board members, to the positions of Deputy Presidents of the Bank's Management Board as of 29 September 2006.
- On 30 November 2006, Mr Jarosław Myjak resigned from the position of Deputy President of the Bank's Management Board.
- On 19 December 2006, Mr Kazimierz Małecki resigned from the position of Deputy President, First Deputy President of the Bank's Management Board as of 31 December 2006.
- Mrs Danuta Demianiuk resigned from the position of Deputy President of the Management Board as of 31 December 2006.
- The Bank's Supervisory Board, at the meeting held on 10 January 2007, delegated Mr Marek Głuchowski, PhD - Chairman of the Bank's Supervisory Board, to act temporarily as the President of the Bank's Management Board until 23 January 2007. Due to the fact that during the period from 24 January 2007 to 26 January 2007, no candidate was appointed by the Bank's Supervisory Board to be acting President of the Management Board, Mr Marek was delegated to act temporarily as President of the Bank's Management Board, starting from 27 January 2007 until 10 April 2007 at the latest.
- On 31 January 2007, Mr Jacek Obłękowski resigned from the position of the Deputy President of the Bank's Management Board.
- On 22 February 2007 the Bank's Supervisory Board passed resolutions appointing:
  - Mr Robert Działak as Deputy President of the Bank's Management Board as of 23 February 2007,

(in thousand zlotys)

- o Mr Stefan Swiątkowski as Deputy President the Bank's Management Board as of 1 May 2007.

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

2. Group structure

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

Name	Consolidation metod	Type of opinion	Name of authorised entity that audited financial statements	Balance sheet date
Direct subsidiaries				
Powszechne Towarzystwo Emerytalne BANKOWY SA	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2006
Centrum Finansowe Puławska Sp. z o.o.	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2006
PKO Inwestycje Sp. z o.o.	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2006
Inteligo Financial Services SA	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2006
Centrum Elektronicznych Usług Płatniczych „eService" SA	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2006
Bankowy Fundusz Leasingowy SA	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2006
Bankowe Towarzystwo Kapitałowe SA	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2006
PKO Towarzystwo Funduszy Inwestycyjnych SA	full	audit in progress	Pricewaterhouse Coopers sp. z o.o.	31.12.2006
KREDOBANK SA	full	audit in progress	Ernst & Young (Ukraine)	31.12.2006
Indirect subsidiaries				
Finanse Agent Transferowy Sp. z o.o.	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2006
POMERANKA Sp. z o.o.	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2006
Wilanów Investments Sp. z o.o.	full	audit in progress	Ernst & Young Audit sp. z o.o.	31.12.2006
UKRPOLINWESTYCJE Sp. z o.o.	full	-	not subject to audit	31.12.2006
Fort Mokotów Sp. z o.o.	full	with emphasis of matter	Ernst & Young Audit sp. z o.o.	31.12.2006

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

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

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

3. Consolidated financial statements

3.1 Auditors' opinion and audit of consolidated financial statements

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

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

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

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

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

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

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

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

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

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

(the "attached consolidated financial statements").

2. The truth and fairness[1] of the attached consolidated financial statements and the proper maintenance of consolidation documentation are the responsibility of the Bank's Management Board. Our responsibility was to audit the attached consolidated financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair[2].

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

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

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

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

- present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2006 to 31 December 2006, as well as its financial position[3] as at 31 December 2006;
- have been prepared in all material aspects correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU;
- are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

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

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

[1] Translation of the following expression in Polish: "*rzetelność, prawidłowość i jasność*"
[2] Translation of the following expression in Polish: "*rzetelne, prawidłowe i jasne*"
[3] Translation of the following expression in Polish: "*sytuacja majątkowa i finansowa*"

3.2 Representations provided and data availability

The Management Board of the holding company confirmed its responsibility for the truth and fairness[4] of the consolidated financial statements and the correctness of consolidation documentation. The Management Board of the holding company stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation dated 27 March 2007, from the Management Board of the holding company confirming that:

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

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

3.4 Consolidated financial statements of the Group for prior financial year

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

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

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

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

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

(in thousand zlotys)

4. Analytical review

4.1 Basic data and financial ratios

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

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

* Comparable data

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

4.2 Comments

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

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

4.3 Going concern

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

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

II. DETAILED REPORT

1. Completeness and accuracy of consolidation documentation

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

2. Accounting policies for the valuation of assets and liabilities

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

3. Structure of consolidated assets, liabilities and equity

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

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

3.1 Goodwill on consolidation and amortisation

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

3.2 Shareholders' equity including minority interest

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

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

3.3 Financial year

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

4. Consolidation adjustments

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

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

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

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

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

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

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

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

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

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

8. Issues specific for the audit of the Bank

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

9. Work of experts

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

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

on behalf of
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Arkadiusz Krasowski Certified Auditor No 10018/7417	Dominik Januszewski Certified Auditor No 9707/7255

Warsaw, 27 March 2007