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

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

The financial statements of

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna

for the year ended 31 December 2006

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

SECURITIES AND EXCHANGE COMMISSION

The annual report R 2006

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

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

containing financial statements prepared in accordance with International Financial Reporting Standards

currency PLN

date of submission: 03-04-2007

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

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

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

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

The accompanying notes to the financial statements presented on pages 9-87 are an integral part of these financial statements.

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

BALANCE SHEET
as at 31 December 2006 and 31 December 2005

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

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

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

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

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

for the year ended 31 December 2005

	Share capital	Other capital items				Retained earnings	Net profit (loss)	Total equity
		Reserve capital	Revaluation reserve	General banking risk fund	Other reserves			
Balance as at 1 January 2005	**1 000 000**	**2 789 765**	**160 611**	**1 000 000**	**1 370 000**	**500 441**	**1 447 850**	**8 268 667**
Transfer of net profit	-	-	-	-	-	1 447 850	(1 447 850)	-
Transfer from net profit to reserve capital	-	507 315	-	-	10 000	(517 315)	-	-
Transfer from net profit to dividends	-	-	-	-	-	(1 000 000)	-	(1 000 000)
Net profit (loss) for the period	-	-	-	-	-	-	1 676 798	1 676 798
Movement in available for sale investments adjusted for deferred tax	-	-	(165 071)	-	-	-	-	(165 071)
Balance as at 31 December 2005	**1 000 000**	**3 297 080**	**(4 460)**	**1 000 000**	**1 380 000**	**430 976**	**1 676 798**	**8 780 394**

The accompanying notes to the financial statements presented on pages 9-87 are an integral part of these financial statements.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2006

1. General information

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

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

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

The Bank's shareholding structure is as follows:

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

PKO BP SA is quoted on the Warsaw Stock Exchange. According to the Warsaw Stock Exchange bulletin (*Cedula Giełdowa*), the Bank is classified to the macro-sector "Finance", sector "Banks".

Bank's business activities

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

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

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

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

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

The Bank conducts its activities on the following markets:

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

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

Going concern

The financial statements of PKO BP SA have been prepared on the basis that the Bank will continue as a going concern during a period of at least 12 months from the balance sheet date, i.e. 31 December 2006. As at the date of signing these financial statements, the Bank's Management Board is not aware of any facts or circumstances that would indicate a threat to the continued activity of the Bank in at least 12 months following the balance sheet date due to an intended or compulsory withdrawal or limitation of its activities.

Reporting periods covered by the financial statements

The financial statements of the Bank have been prepared for the year ended 31 December 2006 and include comparative financial data for the year ended 31 December 2005. The financial data is presented in PLN thousands.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Internal organisational units of PKO BP SA

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

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

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

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

Structure of the PKO BP SA Group

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

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

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

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

Jointly controlled entities

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

*This company was sold on 8 August 2006

Associates

No.	Name	Registered office	Activity	Percentage of issued share capital (%) 31.12.2006	31.12.2005
	Direct associates				
1	Bank Pocztowy SA	Bydgoszcz	Financial services	25.0001	25.0001
2	Kolej Gondolowa Jaworzyna Krynicka SA	Krynica	Construction and operation of cable railway	37.53	37.83
3	Ekogips SA – in bankruptcy	Warsaw	Production of construction elements	60.26	60.26
4	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Poznań	Sureties in accordance with civil law and bill of exchange law	33.33	33.33
5	Hotel Jan III Sobieski Sp. z o.o.**	Warsaw	Construction and operation of Jan III Sobieski Hotel	-	32.50
6	Agencja Inwestycyjna CORP SA	Warsaw	Office premises management	22.31	22.31
	Indirect associates				
	Associates of Bankowe Towarzystwo Kapitałowe SA				
7	FINDER Sp. z o.o.	Warsaw	Car location and fleet management	46.43	42.31
8	INTER FINANCE Polska Sp. z o.o.	Suchy Las near Poznań	Investing in sector of financial intermediation services on the Ukrainian market	45.00	-

**This company was sold on 31 October 2006

Approval of financial statements

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

Consolidated financial statements of the PKO BP S.A. Group have been also approved for publication on 27 March 2007 together with these financial statements of PKO BP S.A.

2. Accounting policies

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

In accordance with the Accounting Act of 29 September 1994, as of 1 January 2005 the Bank may prepare financial statements in accordance with International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and their interpretations promulgated in the form of European Commission regulations (together referred to as "IFRS"). On the basis of Resolution No 28/2005 of 19 May 2005, the General Shareholders' Meeting decided that the Bank will prepare its financial statements in accordance with IAS/IFRS from 1 January 2005. At present, taking into account the process of implementation of IFRS in the European Union and the Bank's activities, there are no differences between IFRSs and the IFRSs endorsed by the European Union as regards the accounting policies applied by the Bank.

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

Changes in accounting policies

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

<u>*IAS 39 Financial Instruments: Recognition and Measurement*</u>

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

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

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

<u>*IFRIC Interpretation 4 - Determining whether an arrangement contains a lease*</u>

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

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

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

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

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

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

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

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

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

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

Principal accounting policies and methods applied by PKO BP SA

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

The principal accounting policies and methods applied by PKO BP SA during the period from 1 January to 31 December 2006 are as follows:

a) Estimates

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

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

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

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

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

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

- Impairment of financial assets

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

The Bank uses three methods for the estimation of impairment:

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

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

- Impairment of investments in subsidiaries, associates and jointly controlled entities

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

- Impairment of other non-current assets

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

- Valuation of derivatives and unquoted debt securities available for sale

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

- Calculation of provision for retirement benefits

The provision for retirement benefits and jubilee bonuses is created individually for each employee on the basis of actuarial valuation calculated on the balance sheet date by an independent actuary. The basis for calculation of these provisions are internal regulation especially the Collective Labour Agreement ("Zakładowy Układ

Zbiorowy Pracy") being in force at the Bank. Valuation of the employee benefits provisions is performed using techniques and actuarial assumptions in accordance with International Financial Reporting Standards and International Accounting Standards, especially IAS 19. The calculation of the provision includes all bonuses and retirement benefits that may be paid in the future. The provision was created on the basis of a list including all the necessary details of the employees, in particular the length of their service, age and gender. The provisions calculated equal discounted payments to be made in the future taking into account turnover of staff and regarding the period till the balance sheet date. Profits or losses resulting from actuarial calculations are recognised in the income statement.

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

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

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

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

b) Cash and cash equivalents

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

c) Financial assets

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

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

- Financial assets at fair value through profit or loss

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

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

<u>Equity instruments</u>

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

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

<u>Debt instruments</u>

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

1) for those debt instruments for which there is an active market - with reference to market value,
2) for those debt instruments for which there is no active market - with reference to other value accepted as fair value and determined using one of the following methods:

a) reference asset value method,

b) the yield curve method based on market interest rates,

c) the price of the last transaction concluded on the market, unless in the period between the date of the transaction and the balance sheet date there were significant changes in market conditions which might
affect the price.

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

Derivative instruments

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

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

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

Embedded derivative instruments

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

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

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

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

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

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

- Financial assets available for sale

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

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

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

Equity instruments

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

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

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

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

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

- Financial assets held to maturity

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

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

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

d) Accounting for transactions

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

e) Sale and repurchase contracts

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

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

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

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

e) Impairment of financial assets

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

The following are considered by the Bank as loss events:

1) significant financial difficulties of an issuer or debtor;
2) an actual breach of contract, such as a default or delinquency in interest or principal payments;
3) granting by the lender to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, of a concession that the lender would not otherwise consider;

4) a high probability of bankruptcy or other financial reorganization of the issuer or debtor;
5) evidence that there is a measurable decrease in the estimated future cash flows from a group of financial assets, including the collectability of these cash flows.

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

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

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

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

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

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

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

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

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

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

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

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

f) Derecognition of financial instruments

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

In particular, the Bank derecognises a loan or part of a loan, when it looses control over the rights arising from that loan or part of loan. Loans and other amounts due are written off against the impairment allowances that were recognised for these accounts. In the case where no allowances were recognised against the account or the amount of the allowance is less than the amount of the loan or other receivable, before the loan or receivable is written off, the amount of the impairment allowance is increased by the difference between the value of the receivable and the amount of the allowances that have been recognised to date.

h) Tangible fixed assets, intangible assets

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

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

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

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

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

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

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

i) Investment property

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

j) Investments in subsidiaries, associates and jointly controlled entities

Investments in subsidiaries, associates and jointly controlled entities are stated at acquisition cost less impairment losses.

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

k) Non-current assets held for sale

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

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

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

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

m) Exchange rates used in preparing financial statements

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

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

EUR	2006	2005
Rate prevailing on the last day of the period	3.8312	3.8598
Rate representing the arithmetical mean of the rates prevailing on the last days of each month of the period	3.8991	4.0233
The highest rate in the period	4.1065	4.2756
The lowest rate in the period	3.7565	3.8223

n) Off-balance sheet liabilities granted

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

- A possible obligation depending on whether some future event occurs, whose existence will be confirmed only at the time of the occurrence or non-occurrence of one or more uncertain future events not fully controlled by the Bank,
- A present obligation resulting from past events, but not recognized in the balance sheet, as it is not probable that the outflow of cash or other assets in order to fulfill the obligation is necessary, or the obligation amount cannot be determined reliably.

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

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

o) Deferred income tax

Due to timing differences between the moment income is recognised as earned and cost as incurred according to the Accounting Act and to tax regulations, the Bank recognises deferred tax liabilities (provisions) and deferred tax assets. The amount of deferred tax is determined, using the balance sheet method, as a change in the balance of the following items - deferred tax assets and deferred tax liabilities. The Bank may offset the deferred tax asset and deferred tax liability if it has a legally enforceable right to set off and when the deferred tax assets and liabilities relate to income tax levied by the same taxation authority. The change in the balance of a deferred tax liability or a deferred tax asset is included in taxation charge, except for the effects of valuation of financial assets recognised in revaluation reserve, where changes in the balance of a deferred tax liability or deferred tax asset are accounted for in correspondence with revaluation reserve. The calculation of deferred tax takes into account the balance of the deferred tax asset and deferred tax liability at the beginning and at the end of the reporting period.

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

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

p) Financial liabilities at fair value

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

q) Financial liabilities at amortized cost

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

r) Accruals and deferred income

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

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

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

s) Prepayments and deferred costs

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

t) Provisions

Provisions are liabilities of uncertain timing or amount.

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

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

u) Financial result

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

- Interest income and interest expense

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

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

- Fees and commission income and expense

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

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

- Foreign exchange result

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

- Other operating income and expense

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

v) Current income tax

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

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

w) Shareholders' equity

Shareholders' equity comprises share capital and reserves created by the Bank in accordance with binding legal regulations and the Bank's Articles of Association. Shareholders' equity also includes accumulated profits and losses from previous years.

- Share capital is stated at nominal value, in accordance with the amount included in Articles of Association and entered in the Register of Entrepreneurs.
- Reserve capital is created in accordance with the Bank's Articles of Association, from the appropriation of net profits and from share premium and is assigned to cover balance sheet losses which may arise in the Banks' activities. Decisions to use the reserve capital are taken by the General Shareholders' Meeting.
- Revaluation reserve comprises the effects of re-measurement of financial assets available for sale and the amount of the deferred tax. In the balance sheet, the revaluation reserve is presented net.
- Reserves used for the purposes described in the Articles of Association are created from the appropriation of net profits in the amount set by the General Shareholders' Meeting.
- General banking risk fund in PKO BP SA is created from profit after taxation according to the Banking Law dated 29 of August 1997.

Shareholders' equity also includes:

- Net profit (loss) under the approval process, decreased by planned dividends,
- Dividends declared and not paid.

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

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

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

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

3. Objectives and principles relating to financial risk management

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

Credit risk

The main objective of credit risk management is to create an efficient system of credit risk management in the Bank which would increase the safety and profitability of banking services.

In the process of credit risk management, the Bank follows the following principles:

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

Concentration of credit risk

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

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

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

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

a) Concentration of credit risk by borrowers:

As at 31 December 2006

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

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

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

The other exposures resulted from transactions concluded with:

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

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

As at 31 December 2005

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

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

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

b) Concentration of credit risk by capital groups

As at 31 December 2006

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

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

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

As at 31 December 2005

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

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

c) Concentration of credit risk by industry

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

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

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

Market risk

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

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

1) identification of risk factors,
2) risk measurement,
3) system risk management,
4) risk monitoring,
5) risk reporting.

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

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

Interest rate risk

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

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

The main tools used in interest rate risk management include:

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

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

Currency risk

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

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

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

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

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

Derivative instruments risk

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

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

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

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

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

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

Capital adequacy risk

The objective of capital adequacy risk management is to ensure that the Bank follows prudence regulations concerning capital adequacy requirements due to risk exposure, expressed as capital adequacy ratio.

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

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

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

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

Price risk of equity securities in the trading portfolio

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

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

Liquidity risk

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

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

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

The Bank uses the following tools for liquidity risk measurement:

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

To ensure adequate liquidity level, the Bank sets limits and thresholds for liquidity risk. The limits and thresholds are used to measure both the current liquidity (up to 1 month) and the medium and long-term liquidity.

31 December 2006

Interest rate risk

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

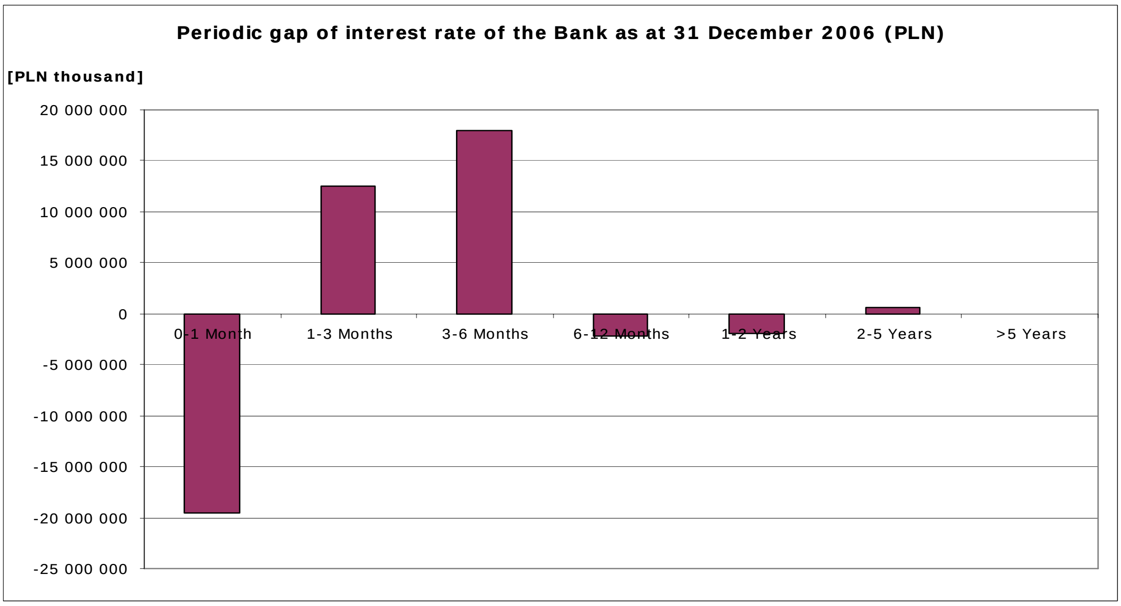
	31.12.2006
Debt securities	15 021 274
Loans and advances based on fixed interest rates	734 753
Deposits from customers based on fixed interest rates	(14 660 248)
Inter-bank and negotiable deposits	(16 655 690)
Inter-bank receivables	12 946 291
TOTAL	**(2 613 620)**

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

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

Off-balance sheet transactions[1,2]

	31.12.2006
Derivatives	107 362



[1] Total for all currencies.

[2] Fair value

PLN Repricing Gap	0-1 month	1 - 3 months	3-6 months	6-12 months	1- 2 years	2– 5 years	> 5 years	Total
Periodic gap	(19 599 952)	12 463 891	18 015 885	(2 146 871)	(1 965 852)	635 915	(34 780)	7 368 236
Cumulative gap	(19 599 952)	(7 136 061)	10 879 824	8 732 953	6 767 101	7 403 016	7 368 236	x

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

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

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

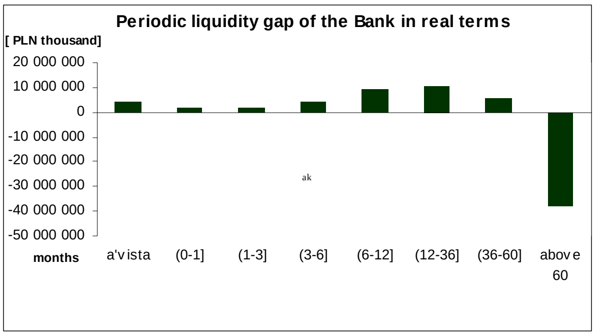
PLN Repricing Gap (in CHF thousand)	0-1 month	1 - 3 months	3-6 months	6-12 months	1- 2 years	2– 5 years	> 5 years	Total
Periodic gap	2 547 713	(2 430 896)	(966)	(1 553)	(2 565)	-	-	111 733
Cumulative gap	2 547 713	116 817	115 851	114 298	111 733	111 733	111 733	x

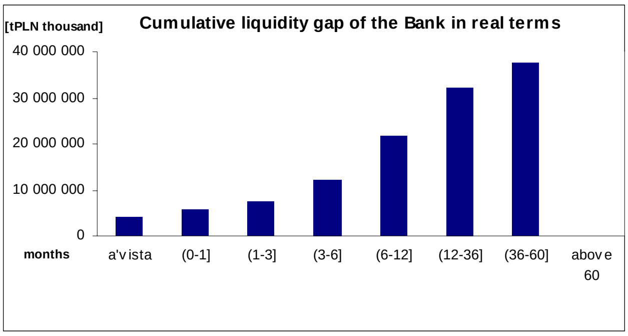
The Bank's exposure to interest rate risk remained within the accepted limits. The Bank was mainly exposed to the PLN interest rate risk, which accounted for approximately 43% of the Bank's Value at Risk (VaR).

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

Liquidity risk of PKO BP SA

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





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

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

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

Concentration of credit risk – inter-bank market

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

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

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

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

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

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

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

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

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

Currency risk

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

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

31 December 2005

Interest rate risk

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

	31.12.2005
Debt securities	19 869 505
Loans and advances based on fixed interest rates	572 690
Deposits from customers based on fixed interest rates	(16 123 514)
Inter-bank and negotiable deposits	(14 029 005)
Inter-bank receivables	12 730 534
TOTAL	**3 020 210**

[4] Total for all currencies.

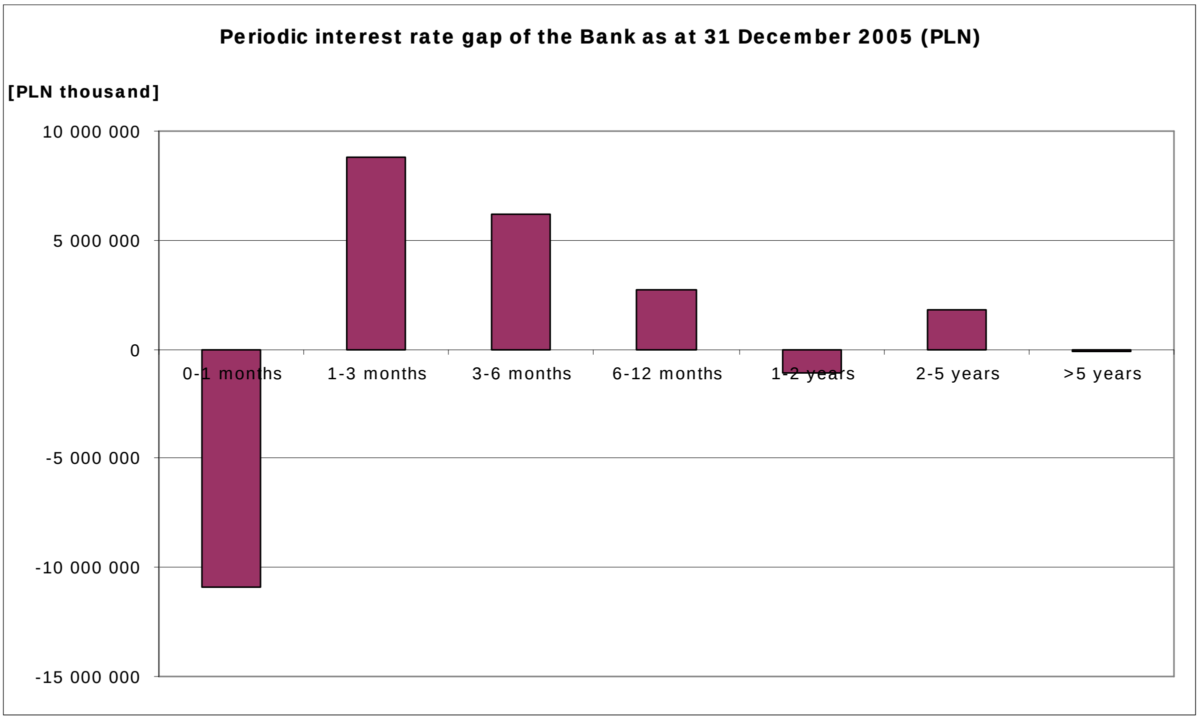
Financial assets and financial liabilities subject to cash flow risk connected with interest rates[4]

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

Off- balance sheet transactions [4, 5]

	31.12.2005
Derivatives	(126 795)

PLN Repricing Gap	**0-1 month**	**1 - 3 months**	**3-6 months**	**6-12 months**	**1- 2 years**	**2– 5 years**	**> 5 years**	**Total**
Periodic gap	(10 910 303)	8 810 966	6 163 358	2 740 066	(1 100 302)	1 812 781	(115 177)	7 401 389
Cumulative gap	(10 910 303)	(2 099 337)	4 064 021	6 804 087	5 703 785	7 516 566	7 401 389	x



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

PLN Repricing Gap (in USD thousand)	**0-1 month**	**1 - 3 months**	**3-6 months**	**6-12 months**	**1- 2 years**	**2– 5 years**	**> 5 years**	**Total**
Periodic gap	(579 563)	85 884	201 295	249 475	-	-	10 402	(32 507)
Cumulative gap	(579 563)	(493 679)	(292 384)	(42 909)	(42 909)	(42 909)	(32 507)	x

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

PLN Repricing Gap (in EUR thousand)	0-1 month	1 - 3 months	3-6 months	6-12 months	1- 2 years	2– 5 years	> 5 years	Total
Periodic gap	(339 915)	399 937	(14 350)	(28 312)	-	65	3 818	21 243
Cumulative gap	(339 915)	60 022	45 672	17 360	17 360	17 425	21 243	x

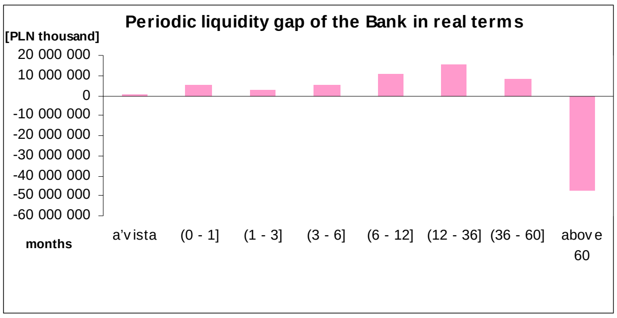
PLN Repricing Gap (in CHF thousand)	0-1 month	1 - 3 months	3-6 months	6-12 months	1- 2 years	2– 5 years	> 5 years	Total
Periodic gap	1 739 315	(1 690 895)	(200)	(204)	-	-	-	48 016
Cumulative gap	1 739 315	48 420	48 220	48 016	48 016	48 016	48 016	x

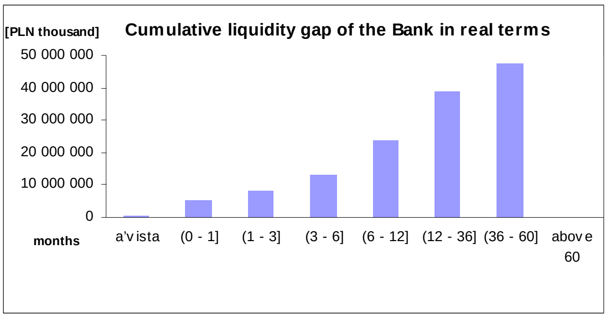
The Bank’s exposure to interest rate risk remained within the accepted limits. The Bank was mainly exposed to the PLN interest rate risk, which accounted for approximately 73% of the Bank’s Value at Risk (VaR).

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

Liquidity risk of PKO BP SA

	a’vista	(0 - 1] months	(1 - 3] months	(3 - 6] months	(6 - 12] months	(12 - 36] months	(36 - 60] months	over 60 months
Periodic gap in real terms	432 997	4 700 737	2 787 318	4 876 571	10 659 508	15 083 781	8 736 540	(47 277 452)
Cumulative periodic gap in real terms	432 997	5 133 734	7 921 052	12 797 623	23 457 131	38 540 912	47 277 452	-





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

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

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

Concentration of credit risk – inter-bank market

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

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

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

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

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

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

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

Balance sheet items	up to 1 month	1 – 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Impairment allowances	Total
Assets:							
Cash and balances with the Central Bank	3 832 695	-	-	-	-	-	**3 832 695**
Amounts due from banks	5 950 756	1 447 808	5 014 234	173 115	47 288	(1 755)	**12 631 446**
Financial assets held for trading	28 243	72 234	88 700	633 304	19 433	-	**841 914**
Other financial instruments at fair value through profit or loss	2 024 230	1 030 895	5 094 257	7 304 861	4 579 917	-	**20 034 160**
Loans and advances to customers	9 511 847	1 518 805	6 402 255	15 834 160	15 652 326	(2 867 546)	**46 051 847**
Securities available for sale	191 278	269 636	122 951	1 054 505	260 072	(40 864)	**1 857 578**
Other	128 080	1 231 113	118 307	568 016	3 222 220	(189 860)	**5 077 876**
Total assets:	**21 667 129**	**5 570 491**	**16 840 704**	**25 567 961**	**23 781 256**	**(3 100 025)**	**90 327 516**
Liabilities:							
Amounts due to the Central Bank	766	-	-	-	-	-	**766**
Amounts due to banks	1 082 776	505 502	179 722	175 035	-	-	**1 943 035**
Amounts due to customers	46 316 130	12 797 824	15 361 153	1 399 046	12 727	-	**75 886 880**
Other liabilities	868 660	1 803 605	432 581	173 963	437 632	-	**3 716 441**
Total liabilities:	**48 268 332**	**15 106 931**	**15 973 456**	**1 748 044**	**450 359**	**-**	**81 547 122**
Equity:	**-**	**-**	**-**	**-**	**8 780 394**	**-**	**8 780 394**
Total:	**48 268 332**	**15 106 931**	**15 973 456**	**1 748 044**	**9 230 753**	**-**	**90 327 516**
Liquidity gap	**(26 601 203)**	**(9 536 440)**	**867 248**	**23 819 917**	**14 550 503**	**(3 100 025)**	**-**

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

Currency risk

	Currency translated to PLN – 31.12.2005				
Assets, of which:	**PLN**	**EUR**	**CHF**	**Other**	**Total**
Cash and balances with the Central Bank	3 593 948	53 763	2 865	182 119	**3 832 695**
Loans and advances and other amounts due from financial sector	5 945 166	1 104 879	195 190	6 197 640	**13 442 875**
Loans and advances to non-financial sector	31 247 848	2 255 385	7 167 838	689 427	**41 360 498**
Loans and advances to public sector	6 730 661	12 861	114	5 585	**6 749 221**
Securities	20 501 151	1 371 147	-	902 218	**22 774 516**
Non-current assets	6 940 039	-	-	-	**6 940 039**
Other assets and derivatives	1 407 185	82 575	22 028	40 260	**1 552 048**
TOTAL GROSS ASSETS	76 365 998	4 880 610	7 388 035	8 017 249	**96 651 892**
DEPRECIATION/ AMORTISATIOIN/ IMPAIRMENT	(6 242 505)	(64 192)	(14 039)	(3 640)	**(6 324 376)**
TOTAL (NET) ASSETS	70 123 493	4 816 418	7 373 996	8 013 609	**90 327 516**
LIABILITIES, of which:					
Balances with the Central Bank	766	-	-	-	**766**
Amounts due to financial sector	288 146	419 049	2	1 431 872	**2 139 069**
Amounts due to non-financial sector	66 386 122	2 812 056	59 217	3 247 213	**72 504 608**
Amounts due to public sector	3 147 710	34 683	-	3 845	**3 186 238**
Provisions	324 974	58	-	-	**325 032**
Other liabilities and derivatives and deferred tax liability	3 216 771	155 405	8 121	11 112	**3 391 409**
Equity	8 780 394	-	-	-	**8 780 394**
TOTAL LIABILITIES	**82 144 883**	**3 421 251**	**67 340**	**4 694 042**	**90 327 516**
OFF-BALANCE SHEET LIABILITIES GRANTED	**16 418 604**	**824 415**	**666 397**	**1 144 371**	19 053 787

Exposure to risk

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

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

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

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

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

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

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

Credit and market risk as at 31 December 2006:

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

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

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

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

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

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

Credit risk and market risk as at 31 December 2005:

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

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

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

Other off-balance sheet instruments			
Instrument type	**Off-balance sheet amount**	**Credit equivalent**	**Risk weighted value**
Lines of credit	18 736 943	2 503 823	1 406 107
Guarantees issued	288 847	184 824	174 792
Letters of credit	155 642	45 592	45 592
Other	2 113 804	418 628	144 093
Total banking portfolio	**21 295 236**	**3 152 867**	**1 770 584**
Underwriting guarantees	664 870	664 870	484 348
Total trading portfolio	**664 870**	**664 870**	**484 348**

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

Capital requirements for trading portfolio (market risk)	Capital requirement
Market risk	**108 522**
of which:	
Equity securities price risk	249
Debt instruments specific risk	66 863
Interest rate general risk	41 410
Other:	
Settlement risk – delivery and contractor	15 474
Total capital requirement (credit and market risk)	**3 506 532**

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

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

4. Objectives and principles of operational risk management

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

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

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

5. Fair value of financial assets and liabilities

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

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

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

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

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

6. Custodial activities

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

7. Assets’ securitization

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

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

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

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

The Bank did not receive any securities under these transactions.

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

8. Interest income and expenses

Interest income

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

Interest expenses

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

In the year ended 31 December 2006, the total amount of interest income, calculated using the effective interest rate method, from financial assets not valued at fair value through profit or loss, amounted to PLN 4,579,313 thousand (PLN 4,212,766 thousand for the year ended 31 December 2005). In the same period, interest expense, calculated using the effective interest rate method, relating to financial liabilities which are not valued at fair value through profit or loss, amounted to PLN (1,591,365) thousand (PLN (1,954,579 thousand for the year ended 31 December 2005).

9. Fees and commission income and expense

Fees and commission income

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

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

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

Fees and commission expense

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

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

10. Dividend income

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

11. Result from financial instruments at fair value

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

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

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

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

Total change in the fair value of financial instruments at fair value through profit or loss determined using valuation models (where no quotations on an active market are available) in the year ended 31 December 2006 was PLN 33,409 thousand (in the year ended 31 December 2005: PLN (183,962) thousand).

Fair value changes in hedge accounting

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

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

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

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

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

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

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

13. Foreign exchange result

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

14. Other operating income and expenses

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

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

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

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

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

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

15. General administrative expenses

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

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

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

16. Result on impairment allowances

		Increases		Decreases				
Year ended 31 December 2006	**Impairment allowances at the beginning of the period**	**Impairment losses recognised during the period**	**Other**	**Decrease in impairment allowances due to de-recognition of assets with no effect on the profit and loss account**	**Reversal of impairment losses during the period**	**Other**	**Impairment allowances at the end of the period**	**Net impact of recognised impairment allowances on the profit and loss account**
Impairment of financial assets not carried at fair value through profit or loss	2 910 165	1 013 895	-	488 009	1 026 468	45 849	2 363 734	12 573
Financial instruments carried at cost (unquoted equity instruments and the related derivative instruments)	15 964	-	-	-	850	-	15 114	850
Financial assets available for sale carried at fair value through equity	24 900	-	-	9 736	264	-	14 900	264
Loans and advances to customers and receivables from banks carried at amortised cost	2 869 301	1 013 895	-	478 273 [1]	1 025 354	45 849 [2]	2 333 720	11 459
Impairment of investments in subsidiaries, associates and jointly controlled entities	72 567	-	30 826 [3]	31 349 [4]	17 575	-	54 469	17 575
Other*	231 000	97 835	-	-	101 705	7 417	219 713	3 870
Total	**3 213 732**	**1 111 730**	**30 826**	**519 358**	**1 145 748**	**53 266**	**2 637 916**	**34 018**

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

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

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

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

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

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

		Increases		Decreases				
Year ended 31 December 2005	**Impairment allowances at the beginning of the period**	**Impairment losses recognised during the period**	**Other**	**Decrease in impairment allowances due to de-recognition of assets with no effect on the profit and loss account**	**Reversal of impairment losses during the period**	**Other**	**Impairment allowances at the end of the period**	**Net impact of recognised impairment allowances on the profit and loss account**
Impairment of financial assets not carried at fair value through profit or loss	3 122 956	829 503	23 996	261 250	805 026	14	2 910 165	(24 477)
Financial instruments carried at cost (unquoted equity instruments and the related derivative instruments)	27 136	6	-	-	11 164	14	15 964	11 158
Financial assets available for sale carried at fair value through equity	10 351	-	15 909	-	1 360	-	24 900	1 360
Loans and advances to customers and receivables from banks carriedat amortised cost	3 085 469	829 497	8 087	261 250	792 502	-	2 869 301	(36 995)
Impairment of investments in subsidiaries, associates and jointly controlled entities	112 867	482	-	-	37 282	3 500	72 567	36 800
Other*	167 590	163 715	112	-	52 492	47 925	231 000	(111 223)
Total	**3 403 413**	**993 700**	**24 108**	**261 250**	**894 800**	**51 439**	**3 213 732**	**(98 900)**

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

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

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

In 2005, as a result of performed impairment tests, the impairment allowance recognized for the Bank's investments in Inteligo Financial Services, amounting to PLN 26,545 thousand, was reversed due to significant improvement in the financial results of this company.

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

17. Discontinued operations

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

18. Corporate income tax

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

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

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

Deferred tax asset/liability

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

Liabilities/ receivables due to corporate income tax

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

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

19. Dividends paid and declared

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

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

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

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

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

20. Cash and amounts due from the Central Bank

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

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

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

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

21. Amounts due from banks

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

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

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

Amounts due from banks, by maturity

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

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

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

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

22. Financial assets held for trading

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

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

Financial assets held for trading by maturity (carrying amount)

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

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

Portfolio of securities held for trading (nominal value)

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

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

23. Derivative financial instruments

Derivatives instruments used by the Bank

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

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

Derivatives instruments embedded in other instruments

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

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

Risk involved in derivative financial instruments

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

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

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

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

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

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

Derivative financial instruments as at 31 December 2006

Notional amounts and fair value of derivative financial instruments

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

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

Derivative financial instruments as at 31 December 2005

Notional amounts and fair value of derivative financial instruments

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

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

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

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

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

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

As at 31 December 2006, the average yield of debt securities issued by the State Treasury and Central Bank and included in the portfolio of other financial instruments at fair value through profit or loss was 4.54% for PLN, 4.29% for EUR, 5.14% for USD. As at 31 December 2005, the average yield on such securities was as follows: 4.71% for PLN, 3.77% for EUR, 4.62% for USD.

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

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

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

As at 31 December 2005	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Debt securities	**2 024 230**	**1 030 895**	**5 094 257**	**7 304 861**	**4 579 917**	**20 034 160**
- issued by central banks	1 778 216	-	-	-	2 657 579	**4 435 795**
- issued by other banks	49 354	-	-	565 962	172 428	**787 744**
- issued by the State Treasury	196 660	1 030 895	5 094 257	6 738 899	1 749 910	**14 810 621**
Total	**2 024 230**	**1 030 895**	**5 094 257**	**7 304 861**	**4 579 917**	**20 034 160**

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

25. Loans and advances to customers

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

Structure of loans and advances to customers by maturity

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

Effective interest rate

As at 31 December 2006

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

Finance and operating leases

Finance lease

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

Operating lease

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

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

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

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

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

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

26. Investment securities

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

Changes in investment securities

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

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

Available for sale securities, by maturity (carrying amount)

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

As at 31 December 2006	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Available for sale						
issued by other institutions	-	-	-	-	320	**320**
issued by non-financial entities	150 382	268 793	14 006	176 640	102 898	**712 719**
issued by the State Treasury	-	-	-	354 347	-	**354 347**
issued by local government bodies	32	843	108 945	523 518	156 854	**790 192**
Total	**150 414**	**269 636**	**122 951**	**1 054 505**	**260 072**	**1 857 578**

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

Portfolio of debt securities by nominal value:

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

Held to maturity securities

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

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

27. Investments in subsidiaries, associates and jointly controlled entities

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

The table below shows the value of the Bank's shares in the individual subsidiaries, associates and jointly controlled entities.

31 December 2006

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

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

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

31 December 2005

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

Summary information about associated entities valued using the equity method:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

28. Intangible assets

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

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

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

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

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

The Bank did not create any patents or licenses itself.

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

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

29. Tangible fixed assets

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

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

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

Year ended 31 December 2005	Land and buildings, including investment real estate	Plant and machinery	Means of transport	Assets under construction	Other	Total
Gross amount at the beginning of the period	**2 057 943**	**2 185 312**	**40 009**	**239 018**	**321 226**	**4 843 508**
Increases, including;	**79 266**	**303 572**	**478**	**295 191**	**21 407**	**699 914**
Purchases and other changes	58 335	-	478	295 191	21 407	375 411
Transfers from expenses to tangible fixed assets	20 931	303 572	-	-	-	324 503
Decreases, including:	**(74 346)**	**(142 597)**	**(6 680)**	**(324 503)**	**(8 223)**	**(556 349)**
Liquidation and sale	(13 531)	(124 076)	(6 243)	-	(6 956)	(150 806)
Other	(60 815)	(18 521)	(437)	-	(1 267)	(81 040)
Transfers from expenses to tangible fixed assets	-	-	-	(324 503)	-	(324 503)
Gross amount at the end of the period	**2 062 863**	**2 346 287**	**33 807**	**209 706**	**334 410**	**4 987 073**
Accumulated depreciation at the beginning of the period	**(417 268)**	**(1 860 239)**	**(31 421)**	**-**	**(281 127)**	**(2 590 055)**
Increases, including;	**(84 652)**	**(206 587)**	**(4 321)**	**-**	**(20 313)**	**(315 873)**
Amortisation for the period	(74 831)	(188 997)	(3 721)	-	(19 864)	(287 413)
Other	(9 821)	(17 590)	(600)	-	(449)	(28 460)
Decreases, including:	**15 749**	**139 859**	**6 611**	**-**	**8 020**	**170 239**
Liquidation and sale	3 791	123 804	6 203	-	6 876	140 674
Other	11 958	16 055	408	-	1 144	29 565
Accumulated depreciation at the end of the period	**(486 171)**	**(1 926 967)**	**(29 131)**	**-**	**(293 420)**	**(2 735 689)**
Impairment allowance						
Opening balance	(35 221)	-	-	-	-	(35 221)
Increases	(15 000)	-	-	-	-	(15 000)
Closing balance	(50 221)	-	-	-	-	(50 221)
Net book value	**1 526 471**	**419 320**	**4 676**	**209 706**	**40 990**	**2 201 163**
Opening balance	**1 326 237**	**325 073**	**8 588**	**239 018**	**40 099**	**1 939 015**
Closing balance	**1 526 471**	**419 320**	**4 676**	**209 706**	**40 990**	**2 201 163**

In 2006 and 2005, the Bank did not receive any compensation from third parties due to impairment or loss of tangible fixed assets, recognised in the profit and loss account for the year ended respectively at 31 December 2006 and at 31 December 2005.

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

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

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

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

30. Other assets

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

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

31. Assets pledged as collateral/security for liabilities

PKO BP SA had the following assets pledged as collateral/security for its own liabilities and third party liabilities:

Fund for the Protection of Guaranteed Money

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

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

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

	31.12.2006	31.12.2005
Stock exchange guarantee fund	5 487	2 479

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

32. Amounts due to the Central Bank

Strucutre by maturity

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

33. Amounts due to other banks

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

Structure by maturity

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

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

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

35. Amounts due to customers

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

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

Strucutre by maturity

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

Effective interest rate

as at 31 December 2006

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

as at 31 December 2005

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

36. Liabilities arising from debt securities issued

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

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

37. Other liabilities

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

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

38. Provisions

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

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

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

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

39. Employee benefits

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

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

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

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

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

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

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

41. Contingent liabilities

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

Issuer of underwritten securities	Type of underwritten securities	Amount to which the Bank committed in case of realisation of underwriting agreement	Contract period	Type of sub-issue
Company A	Corporate bonds	174 365	2011-11-30	Bonds Issue Agreement*
Company B	Corporate bonds	349 720	2009-12-31	Bonds Issue Agreement
Company C	Corporate bonds	50 000	2008-02-27	Bonds Issue Agreement
Company D	Corporate bonds	2 000	2010-12-30	Bonds Issue Agreement
Company E	Corporate bonds	21 000	2008-06-30	Bonds Issue Agreement
Company F****	Corporate bonds	22 911	2009-12-30	Bonds Issue Agreement
Entity C	Commercial bills of exchange	69 920	2009-12-30	Commercial Bills Issue Agreement
Entity A	Municipal bonds	2 200	2018-12-31	Bonds Issue Agreement
Entity B	Municipal bonds	9 100	2016-12-31	Bonds Issue Agreement
Entity C	Municipal bonds	3 000	2011-12-31	Bonds Issue Agreement
Entity D	Municipal bonds	2 800	2014-12-31	Bonds Issue Agreement
Entity E	Municipal bonds	40 500	2017-12-31	Bonds Issue Agreement
Entity F	Municipal bonds	7 650	2012-12-31	Bonds Issue Agreement
Entity G	Municipal bonds	11 500	2011-12-31	Bonds Issue Agreement
Entity H	Municipal bonds	2 750	2014-12-31	Bonds Issue Agreement
Entity I	Municipal bonds	2 100	2017-12-31	Bonds Issue Agreement
Entity K	Municipal bonds	10 000	2016-12-31	Bonds Issue Agreement
Entity L	Municipal bonds	3 400	2012-12-31	Bonds Issue Agreement
Entity M	Municipal bonds	2 240	2013-12-31	Bonds Issue Agreement
Entity N	Municipal bonds	2 500	2020-12-31	Bonds Issue Agreement
Entity O	Municipal bonds	6 670	2015-12-31	Bonds Issue Agreement
Entity P	Municipal bonds	2 550	2015-12-31	Bonds Issue Agreement
Entity R	Municipal bonds	6 240	2020-12-31	Bonds Issue Agreement
Other, with total value not exceeding PLN 2 million	Municipal bonds	4 800		Bonds Issue Agreement
Total		**809 916**		

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

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

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

Issuer of underwritten securities	Type of underwritten securities	Amount to which the Bank committed in case of realisation of underwriting agreement	Contract period	Type of sub-issue
Company A	Corporate bonds	**25 000**	2006-12-30	Bonds Issue Agreement*
Company B	Corporate bonds	**200 000**	2009-12-31	Bonds Issue Agreement
Company C	Corporate bonds	**4 000**	2010-12-30	Bonds Issue Agreement
Company D	Corporate bonds	**150 000**	2006-01-04	Bonds Issue Agreement
Company E **	Corporate bonds	**25 745**	2009-12-30	Bonds Issue Agreement
Company F	Commercial bills of exchange	**40 000**	2006-12-30	Commercial Bills Issue Agreement
Entity A	Municipal bonds	**3 000**	2011-12-31	Bonds Issue Agreement
Entity B	Municipal bonds	**2 000**	2014-12-31	Bonds Issue Agreement
Entity C	Municipal bonds	**6 070**	2014-12-31	Bonds Issue Agreement
Entity D	Municipal bonds	**2 000**	2012-12-30	Bonds Issue Agreement
Entity E	Municipal bonds	**3 900**	2015-12-31	Bonds Issue Agreement
Entity F	Municipal bonds	**2 500**	2011-12-31	Bonds Issue Agreement
Entity G	Municipal bonds	**6 000**	2013-12-31	Bonds Issue Agreement
Entity H	Municipal bonds	**2 400**	2009-12-31	Bonds Issue Agreement
Entity I	Municipal bonds	**4 400**	2011-12-31	Bonds Issue Agreement
Entity J	Municipal bonds	**18 300**	2016-12-31	Bonds Issue Agreement
Entity K	Municipal bonds	**8 722**	2011-12-31	Bonds Issue Agreement
Entity L	Municipal bonds	**5 500**	2021-06-30	Bonds Issue Agreement
Entity M	Municipal bonds	**3 500**	2015-12-31	Bonds Issue Agreement
Entity N	Municipal bonds	**2 700**	2014-12-31	Bonds Issue Agreement
Entity O	Municipal bonds	**2 000**	2013-12-31	Bonds Issue Agreement
Entity P	Municipal bonds	**3 000**	2013-12-31	Bonds Issue Agreement
Entity Q	Municipal bonds	**7 000**	2011-12-31	Bonds Issue Agreement
Entity R	Municipal bonds	**2 000**	2014-12-31	Bonds Issue Agreement
Entity S	Municipal bonds	**2 000**	2014-12-31	Bonds Issue Agreement
Entity T	Municipal bonds	**2 110**	2013-12-31	Bonds Issue Agreement
Entity U	Municipal bonds	**40 500**	2017-12-31	Bonds Issue Agreement
Entity V	Municipal bonds	**5 000**	2011-12-31	Bonds Issue Agreement
Entity W	Municipal bonds	**50 000**	2011-12-31	Bonds Issue Agreement
Entity X	Municipal bonds	**2 200**	2014-12-31	Bonds Issue Agreement
Entity Y	Municipal bonds	**3 700**	2008-12-31	Bonds Issue Agreement
Entity Z	Municipal bonds	**4 000**	2015-12-31	Bonds Issue Agreement
Entity AA	Municipal bonds	**5 000**	2012-12-31	Bonds Issue Agreement
Entity BB	Municipal bonds	**5 300**	2014-12-31	Bonds Issue Agreement
Entity CC	Municipal bonds	**6 000**	2017-12-31	Bonds Issue Agreement
Entity DD	Municipal bonds	**6 100**	2012-12-31	Bonds Issue Agreement
Other, with total value not exceeding PLN 2 million	Municipal bonds	**8 750**		Bonds Issue Agreement
Total		**670 397**		

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

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

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

Potential liabilities

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

a) Unfair competition proceedings

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

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

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

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

Financial liabilities granted

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

Guarantee liabilities granted

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

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

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

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

	up to 1 month	1-3 month	over 3 month – 1 year	1-5 years	over 5 years	Total
Financial granted liabilities	4 886 135	1 115 041	7 806 604	6 659 340	2 116 210	22 583 330
Guarantees granted libilities	614 486	93 537	501 669	1 221 633	81 309	2 512 634
Total	**5 500 621**	**1 208 578**	**8 308 273**	**7 880 973**	**2 197 519**	**25 095 964**

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

	up to 1 month	1-3 month	over 3 month – 1 year	1-5 years	over 5 years	Total
Financial granted liabilities	4 035 245	734 238	6 905 398	4 967 848	903 014	17 545 743
Guarantees granted libilities	309 655	49 905	606 710	474 771	67 003	1 508 044
Total	**4 344 900**	**784 143**	**7 512 108**	**5 442 619**	**970 017**	**19 053 787**

Off-balance sheet liabilities received

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

Assets pledged as collateral for contingent liabilities

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

42. Share capital

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

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

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

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

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

43. Other capital items and retained earnings

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

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

44. Notes to the cash flow statement

Cash and cash equivalents

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

Cash flow from operating activities – other adjustments

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

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

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

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

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

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

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

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

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

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

Change in other liabilities	**2006**	**2005**
Balance sheet balances' change	259 393	422 776
Adjustment related to the conversion to IFRS regarding capitalized interests of loans from "old" mortgage loans portfolio	-	174 356
Reclassification of interests repayment from loans received from others than banks institutions, revealed in financial activity	2 676	2 549
Change in other liabilities - total	**262 069**	**599 681**

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

45. Transactions with related parties

Repayment dates are from one month to ten years.

Transactions of PKO BP SA with entities related by capital at following days are presented below (only entities which concluded transactions with the Bank within the period covered by the financial statements are taken into account):

31 December 2006

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

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

31 December 2005

Entity	Relationship	Net receivables	including gross loans	Liabilities	Total revenues	including interest and fees and commission income	Total costs	including interest and fees and commission costs	Off – balance sheet liabilities granted
Powszechne Towarzystwo Emerytalne BANKOWY SA	Subsidiary	-	-	35 960	1 118	1 118	644	644	-
Centrum Finansowe Puławska SA	Subsidiary	73 610	73 610	8 649	3 213	3 213	49 863	289	-
KREDOBANK SA	Subsidiary	130 469	96 464	392	3 049	3 049	85	85	8 596
PKO Inwestycje Sp. z o.o.	Subsidiary	605	-	1 519	67	67	716	6	2 680
Inteligo Financial Services SA	Subsidiary	-	-	48 718	161	157	88 844	1 267	-
Centrum Elektronicznych Usług Płatniczych "eService" SA	Subsidiary	21 209	21 017	8 099	1 716	1 711	17 487	17 200	100
Bankowy Fundusz Leasingowy SA	Subsidiary	495 966	495 965	909	24 675	24 360	1 194	35	328 317
Bankowe Towarzystwo Kapitałowe SA	Subsidiary	-	-	11 860	-	-	367	331	-
Fort Mokotów Sp. z o.o.	Indirect subsidiary	25 613	25 613	33 417	3 483	3 483	526	526	-
POMERANKA Sp. z o.o.	Indirect subsidiary	20 382	20 375	1 128	2 725	2 725	66	66	27 950
Wilanów Investments Sp. z o.o.	Indirect subsidiary	98 591	89 162	18 216	6 262	6 262	41	41	15 838
Finanse - Agent Transferowy Sp. z o.o.	Indirect subsidiary	-	-	2 421	4	4	83	83	-
Centrum Obsługi Biznesu Sp. z o.o.	Jointly controlled entity	17 211	16 924	4 241	104	104	14	14	80 945
PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych SA	Jointly controlled entity	461	-	611	21 499	21 484	26	26	218
Wawel Hotel Development Sp. z o.o.	Jointly controlled entity	110 155	105 860	12 974	4 636	4 571	91	90	-
Kolej Gondolowa Jaworzyna Krynicka SA	Associate	3 750	3 750	50	1 729	1 728	27	4	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Associate	-	-	4 349	2	1	146	141	-
Hotel Jan III Sobieski Sp. z o.o.	Associate	76 289	76 236	-	1 930	1 930	85	4	-
Agencja Inwestycyjna „CORP" SA	Associate	181	-	26	516	-	2 209	-	-
TOTAL		**1 074 492**	**1 024 976**	**193 539**	**76 889**	**75 967**	**162 514**	**20 852**	**464 644**

Transactions with the State budget

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

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

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

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

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

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

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

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

Benefits for the key management of the Bank

a) Short-term employee benefits

Remuneration received from PKO BP SA

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

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

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

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

b) Post-employment benefits

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

c) Other long-term benefits

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

d) Benefits due to termination of employment

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

e) Share-based payments

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

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

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

46. Events after the balance sheet date

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

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

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

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

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

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

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

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

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

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

Signatures of all Members of the Management Board

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

Signature of person responsible for keeping books of account

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

PKO BANK POLSKI

SPÓŁKA AKCYJNA

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

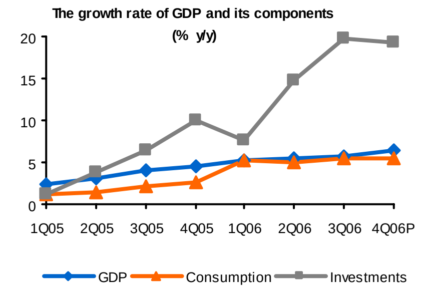
WARSAW, MARCH 2007

TABLE OF CONTENT:

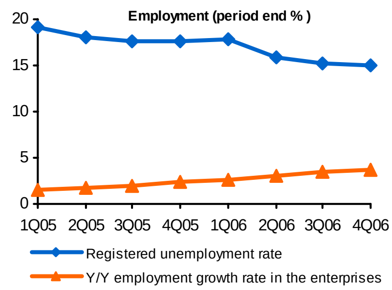
1. EXTERNAL FACTORS AND EVENTS WHICH ARE SIGNIFICANT TO THE BANK'S PERFORMANCE

1.1 Macroeconomic factors

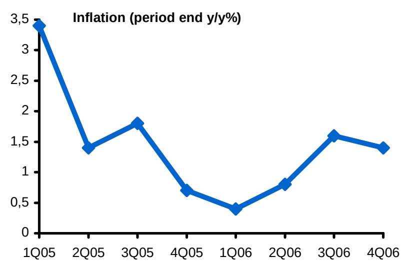
During the year 2006, the economic growth visibly accelerated. According to preliminary data of Central Statistical Office (GUS), growth dynamics of GDP in 2006 amounted to 5.8% y/y in comparison to 3.5% in 2005. The economic revival in real economy was stimulated by high dynamics in domestic consumption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



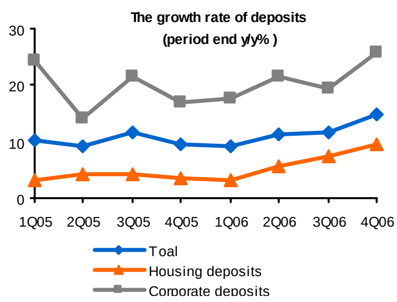
During the year 2006, official unemployment rate decreased by 2.7 percentage points to 14.9% in December 2006 (2.3 million of unemployed). The improvement on the labour market was due to positive influence of the economic revival, inflow of the EU funds to be used for active forms of fighting unemployment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



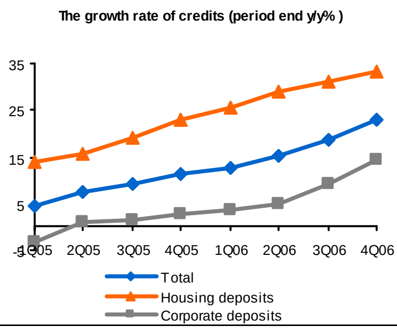
The average annual inflation rate decreased from 2.1% in 2005 to 1% in 2006. In the first half of 2006, inflation was below 1%, in the second half of the year it amounted on average to 1.4%, and increased to the highest level of 1.6% in August and September. The low level of inflation in 2006 was mainly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



In 2006, household deposits increased, among others due to an improvement in the levels of household income. However, due to the low level of interest rates, the share of bank deposits in the structure of household savings further decreased. A growing proportion of household savings was kept in the form of investment fund units, shares or life insurance policies. Very good financial performance of enterprises contributed to a considerable increase in the level of corporate deposits. The value of corporate deposits in December 2006 was almost 25% greater than in the corresponding period of 2005.

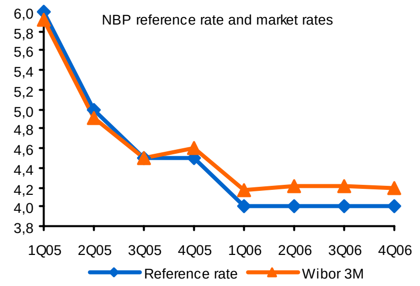


Household loans continued to grow during 2006, especially housing loans, which, among others, was due to the improved financial condition of households and greater willingness of banks to extend loans in the improved economic situation. A smaller increase was noted in the level of consumer loans. The factors that contributed to this increase were the decrease in



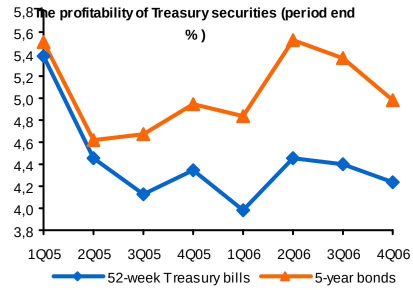
borrowing costs and an increase in the credit capability of less affluent households. The year 2006 saw a gradual increase in the level of corporate loans, due to the increase in the level of investments in light of lower borrowing costs.

1.2 Monetary policy of the National Bank of Poland



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

1.3 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.

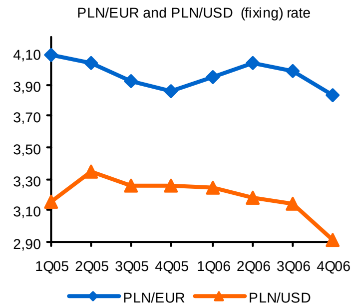
In the first half of the year, profitability was increasing due to the following reasons:

- 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; and

- 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, which limited investors' expectations 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 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 effective 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.

1.4 Regulatory environment

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

- changes in the method of transferring interest on obligatory reserve, which 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 comprising bank guarantee funds, which 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), which 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), which 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, which 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 condition 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, which enabled division of banks (and simultaneously enabling the consolidation of Pekao SA with the separated part of BPH SA), which 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 based on the New Capital Accord (hereinafter: NCA; Directive 2006/48/EC and Directive 2006/49/EC), which has intensified after the publication of the draft resolutions of the Commission for Banking Supervision 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 Bank, which was reflected in the structure of the Bank's assets and liabilities and the level and structure of its 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, which came into effect in the 4th quarter of 2006 and under which the interest charged on such borrowers is subsidized by the state budget, will affect the size of lending activities undertaken by banks in 2007.

1.5 Competition in the 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 sales 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 PKO BP SA in 2006 were as follows:

- Commencement of the process of consolidation of the following banks: Pekao SA and BPH SA, which 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, which 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 sales of non-performing loans to – among others - securitization funds, sustained losses (up to the level of sales price) were 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, which belongs to Belgian financial group, Noble Bank, which 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.

2. MAJOR EVENTS THAT HAD AN INFLUENCE ON THE BANK'S ACTIVITIES IN 2006

Major events that influenced the Bank's activities in 2006 were connected with the business activities carried out by the Bank and have been described in the following sections of this Directors' Report.

3. BANK'S DEVELOPMENT STRATEGY FOR THE YEARS 2006-2008

In 2006, the Bank was implementing the Innovation Strategy, which was approved by the Bank's Supervisory Board on 8 December 2005. The Bank's activities were focused on strengthening its position on the financial market and improving operating efficiency.

As part of its business activities, the Bank pursued the following goals:

- To keep the existing and acquire new clients - the Bank continued to modernize and increase the attractiveness of its banking products; among others, it extended the functionalities of the PKO Inteligo account, modified the European Program offer, introduced mortgage loan MIX, introduced the Cash Management package, modified payment cards, increased the diversity of products offered to clients;
- To develop a mass sales network - the Bank commenced cooperation with PPUP Poczta Polska (Polish Post) and with Bank Pocztowy;

- To sell the Bank's products via external partners;
- To improve the quality of the loan portfolio - the Bank continued to carry out the loan portfolio restructuring process;
- To improve the quality of customer services in order to increase client satisfaction.

The Bank's business activities were supported by initiatives focusing on:

- Improvement of sales effectiveness; the Bank continued to develop the sales skills of its employees and to optimize the level and structure of employment;
- Implementation of Costs Optimization Program in the area of IT, telecommunications and non-personnel costs,
- Technological development; the Bank continued to prepare for implementation of the Integrated Information System;
- Preparing the Bank for implementation of capital adequacy policies based on the New Capital Accord;
- Strengthening the positive image of the Bank among its shareholders and clients; the Bank carried out a number of image strengthening and promotional campaigns to strengthen the PKO BP brand.

4. FINANCIAL PERFORMANCE OF THE BANK

The Bank did not publish any forecasts relating to the financial results for the year 2006.

4.1 Balance sheet

4.1.1 Assets

Table 1. Main asset categories (in PLN thousands)

Item	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	4 543 677	3 832 695	710 982	18.6%
2. Amounts due from banks	13 349 723	12 631 446	718 277	5.7%
3. Financial assets held for trading	391 177	841 914	(450 737)	(53.5)%
4. Derivative financial instruments	1 199 751	1 137 227	62 524	5.5%
5. Other financial instruments valued at fair value through profit or loss	11 214 660	20 034 160	(8 819 500)	(44.0)%
6. Loans and advances to customers	57 220 980	46 051 847	11 169 133	24.3%
7. Investment securities	6 805 567	1 857 578	4 947 989	266.4%
8. Tangible fixed assets	2 157 382	2 201 163	(43 781)	(2.0)%
9. Other assets	2 169 916	1 739 486	430 430	24.7%
Total assets	**99 052 833**	**90 327 516**	**8 725 317**	**9.7%**

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

- increase in the share of "Loans and advances to customers" by 6.8 pp to 57.8% thanks to high dynamics of this item resulting from increased sales 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[1] portfolio) by 10.9 pp. to 11.3% and an increase in the share of loans and advances and of "Investment securities", comprising a portfolio of securities classified as available for sales, by 4.8 pp. to 6.9%. 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.

[1] *Assets and liabilities valued at fair value through profit or loss.*

Table 2. Loans and advances to customers (in PLN thousands)

Item	**As at:**		**Change:**	
	31.12.2006	**31.12.2005**	**in PLN thousands**	**%**
1	*2*	*3*	*4*	*5*
1. Gross loans and advances granted to customers, of which granted to:	59 554 371	48 919 393	10 634 978	21.7%
- public sector	6 061 924	6 749 221	(687 297)	(10.2)%
- financial sector (except for banks)	847 559	809 674	37 885	4.7%
- non-financial sector	52 644 888	41 360 498	11 284 390	27.3%
2. Allowances for loans showing indicators of impairment	(2 333 391)	(2 867 546)	534 155	(18.6)%
Loans and advances to customers	**57 220 980**	**46 051 847**	**11 169 133**	**24.3%**

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 Bank's loan portfolio increased from 64.4% at the end of 2005 to 65.0% 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 up to 3 months decreased to 20.3% (i.e. by 2.3 pp.).

Further information concerning the maturity terms of loans and advances given to clients contains the Note 25 of Additional Notes to the Financial Statements.

4.1.2 Equity and liabilities

<u>Liabilities</u>

Table 3. Main items of liabilities and equity (in PLN thousands)

Item	**As at:**		**Change:**	
	31.12.2006	**31.12.2005**	**in PLN thousands**	**%**
1	*2*	*3*	*4*	*5*
1. Liabilities, of which:	89 017 109	81 547 122	7 469 987	9.2%
- Amounts due to the Central Bank	1 387	766	621	81.1%
- Amounts due to other banks	3 717 350	1 943 035	1 774 315	91.3%
- Derivative financial instruments	1 098 853	1 257 384	(158 531)	(12.6)%
- Amounts due to customers	81 670 039	75 886 880	5 783 159	7.6%
- Other liabilities	2 529 480	2 459 057	70 423	2.9%
2. Total equity	10 035 724	8 780 394	1 255 330	14.3%
Total liabilities and equity	**99 052 833**	**90 327 516**	**8 725 317**	**9.7%**

As at 31 December 2006, the most significant item of liabilities and equity (82.5%) consists of the amounts due to customers, share of which decreased by 1.6 pp. in comparison to the balance at the end of 2005 and was related to the increase of amounts due to other banks (from 2.2% to 3.8%), comprising mainly interbank placements. These items were the main source of financing of the Bank's activity.

Amounts due to customers increased by PLN 5,783 million compared to the balance as at the end of 2005, including:

- amounts due to private customers increased by PLN 3,705 million, i.e. by 5.9% (of which current deposits increased by PLN 3,931 million, i.e. by 19.1%),
- amounts due to corporate entities increased by PLN 2,104 million, i.e. by 21.6%, and this increase related almost to the same extent to current and overnight deposits, which jointly increased by PLN 1,063 million, i.e. by 24.7% and term deposits, which increased by PLN 1,026 million, i.e. by 18.9%,
- amounts due to public sector entities decreased by PLN 25 million, i.e. by 0.8%.

In the amounts due to the customers of the Bank by maturity, an increase was observed in amounts due to customers within up to 1 month (including current accounts and overnight deposits), which increased by 16.3% compared to the end of 2005, while the balance of deposits with maturities over 1 month decreased by 5.9%. 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 61.0% to 65.9%, 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 1.8% of the total amounts due to customers and compared to the state at the end of 2005 its share decreased by 0.1 pp.

4.2 Profit and loss account

Table 4. Main items of profit and loss account items (in PLN thousands)

Item	2006	2005	Dynamics
1	*2*	*3*	*4*
1. Net interest income	3 699 127	3 473 829	106.5%
2. Net fees and commission income	1 717 684	1 169 839	146.8%
3. Dividend income	18 624	28 881	64.5%
4. Result from financial instruments at fair value through profit or loss	(94 420)	30 579	x
5. Result from investment securities	49 091	276 724	17.7%
6. Foreign exchange result	532 570	613 715	86.8%
7. Net other operating income	134 403	209 967	64.0%
8. Total income items (1-7)	**6 057 079**	**5 803 534**	**104.4%**
9. Impairment losses	34 018	(98 900)	x
10. General administrative expenses	(3 589 033)	(3 631 324)	98.8%
11. Profit before taxation	**2 502 064**	**2 073 310**	**120.7%**
12. Income tax expense	(454 673)	(396 512)	114.7%
13. Net profit	**2 047 391**	**1 676 798**	**122.1%**

4.2.1 Income items

In the profit and loss account of the Bank for the year 2006, the total of income items amounted to PLN 6,057 million and was by PLN 254 million (i.e. by 4.4%) higher than in 2005. The main items comprising this amount were net interest income and net fees and commission income.

Net interest income

Table 5. Interest income and expense (in PLN thousands)

Item	2006	2005	Dynamics
1	*2*	*3*	*4*
Interest income, of which:	**5 357 933**	**5 515 887**	**97.1%**
- from loans and advances granted to customers	3 717 731	3 433 506	108.3%
- from securities at fair value through profit or loss	778 620	1 279 735	60.8%
- from placements with other banks	542 783	600 319	90.4%
- from investment securities	258 095	135 317	190.7%
- other	60 704	67 010	90.6%
Interest expense, of which:	**(1 658 806)**	**(2 042 058)**	**81.2%**
- relating to amounts due to customers	(1 478 773)	(1 882 525)	78.6%
- relating to deposits from other banks	(90 233)	(72 054)	125.2%
- other	(89 800)	(87 479)	102.7%
Net interest income	**3 699 127**	**3 473 829**	**106.5%**

The increase in the net interest income of the Bank by 6.5% 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 Bank's interest income in 2006 was income from loans and advances granted to customers, which accounted for 69.4% of total interest income (7.1 pp. increase in relation to 2005), and then interest income from securities at fair value through profit or loss (14.5%) and interest income from inter-bank deposits (10.1%).

In the structure of interest expense in 2006, the most significant item was the expense related to amounts due to customers, which accounted for 89.1% of total interest expense and decreased by 3.0 pp. in relation to 2005 while the share on interest expense on interbank deposits increased.

In 2006 the average interest rate of loans in PKO BP SA was 6.9%[2] while the average interest rate of deposits was 1.9%[3]. Compared to 2005, these rates were by 0.8 pp. and 0.7 pp. lower, respectively.

Net fees and commission income

Table 6. Fees and commission income and expense (in PLN thousands)

Item	2006	2005	Dynamics
1	*2*	*3*	*4*
Fees and commission income, of which:	**2 103 395**	**1 502 668**	**140.0%**
- on running of bank accounts	719 386	576 520	124.8%
- on servicing of payment cards	529 724	430 661	123.0%
- on loans and advances granted	220 866	88 895	248.5%
- on cash operations	208 467	205 324	101.5%
- on activities relating to servicing of investment funds and operations with securities	180 801	57 132	316.5%
- other	244 151	144 136	169.4%
Fees and commission expense, of which:	**(385 711)**	**(332 829)**	**115.9%**
- on payment cards	(224 710)	(173 274)	129.7%
- on acquisition services	(121 014)	(115 539)	104.7%
- other	(39 987)	(44 016)	90.8%
Net fees and commission income	**1 717 684**	**1 169 839**	**146.8%**

[2] Average interest rate of loans is calculated as interest income on loans divided by average amount of loans within the reporting period.

[3] Average interest rate of deposits is calculated as interest expenses on deposits divided by average amount of deposits within the reporting period.

Net fees and commission income achieved in 2006 was by PLN 548 million higher compared to that achieved in the prior year, thanks to higher fees and commission income by PLN 601 million, with an increase in fees and commission expense by PLN 53 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.

<u>Other income items</u>

In 2006, total other income items (other than net interest income and net fees and commission income) amounted to PLN 640 million and decreased by 44.8% in comparison to 2005. This was due to the following:

- Result on financial instruments at fair value for 2006 amounted to PLN (-) 94 million and was by PLN 125 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,
- Result from investment securities for the year 2006 amounted to PLN 49 million, whereas the result for the year 2005 was by PLN 228 million higher due to the gains realized by PKO BP SA during that year from the sales of packages of shares in companies listed on the WSE,
- Foreign exchange result for the year 2006 amounted to PLN 533 million and was by PLN 81 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 interest items (from 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 134 million (a decrease of 36.0% and consisted of operating income of PLN 214 million and operating expense of PLN 80 million),
- Dividend income amounted to PLN 19 million, by 35.5% lower comparing to the year 2005; 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.

4.2.2 Result on impairment allowances

Impairment losses for the year 2006 amounted to PLN (+) 34 million and improved by PLN 133 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.

4.2.3 General administrative expenses

Table 7. General administrative expenses (in PLN thousands)

Specification	2006	2005	Dynamics
1	*2*	*3*	*4*
1. Employee costs	(2 150 561)	(1 972 843)	109.0%
2. Non-personnel costs	(1 104 166)	(1 178 299)	93.7%
3. Depreciation and amortization	(268 778)	(419 287)	64.1%
4. Other	(65 528)	(60 895)	107.6%
TOTAL	**(3 589 033)**	**(3 631 324)**	**98.8%**

In 2006, general administrative expenses of the Bank were 1.2% lower than in 2005. The individual expense items were as follows:

- Employee costs were by PLN 178 million higher compared to 2005, mainly due to the following:
  - Updating of provisions for future liabilities towards employees relating to jubilee and retirement benefits and provisions for indemnification benefits for 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,
  - 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 74 million compared to 2005 mainly due to restructuring processes;
- Depreciation of tangible fixed assets and amortization of intangible assets in 2006 decreased by PLN 151 million, mainly due to the reassessment of useful lives of tangible assets and intangible assets recognized before 1 January 2006;
- Other administrative expenses in 2006 increased by PLN 5 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.

4.2.4 Key financial ratios

The 2006 results of PKO BP SA translated into better key financial ratios:

Table 8. Financial ratios

Specification	2006	2005
1	*2*	*3*
1. Profit (loss) before taxation / average assets (ROA^{4}_{gross})	2.6%	2.4%
2. Net profit (loss) / average assets (ROA_{net})	2.2%	1.9%
3. Profit (loss) before taxation / average equity (ROE^{5}_{gross})	26.6%	23.4%
4. Net profit (loss) / average equity (ROE_{net})	21.8%	19.0%
5. General administrative expenses / total income items (C/I)	59.3%	62.6%

[4] *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 the end of the reporting period.*

[5] *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 dor the period) at the beginning and the end of thereporting period.*

4.3 Equity and Capital Adequacy Ratio

Table 9. Equity (in PLN thousands)

Item	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	6 988 333	5 672 620	1 315 713	23.2%
3. Retained earnings	0	430 976	(430 976)	(100.0)%
4. Net profit for the current year	2 047 391	1 676 798	370 593	22.1%
Total equity	**10 035 724**	**8 780 394**	**1 255 330**	**14.3%**
Capital adequacy ratio	**11.70**	**14.06**	**(2.36) pp.**	

An increase of the total capital requirement by 32.3% - mainly due to the increase of the assets with a risk weight of 100% as a result of the Bank's loan portfolio growth contributed to the decrease of the capital adequacy ratio.

5. KEY BUSINESS AREAS OF THE BANK'S ACTIVITIES

As at 31 December 2006, the balances of interest-bearing assets and liabilities (deposits) resulting from the Bank's business activities were as follows:

Table 10. Gross interest-bearing assets (in PLN millions)

Item	As at:		Change:	
	31.12.2006	31.12.2005	in PLN million	%
1	*2*	*3*	*4*	*5*
I. Gross loans*), of which:	59 518.2	48 723.0	10 795.2	22.2%
- retail banking	13 650.4	11 357.9	2 292.5	20.2%
- SMEs	4 574.9	3 212.6	1 362.3	42.4%
- housing market (new portfolio)	22 461.7	16 820.1	5 641.6	33.5%
- housing loans	2 822.6	2 959.4	(136.8)	(4.6)%
- corporate	16 008.6	14 373.0	1 635.6	11.4%
II. Securities and inter-bank placements	32 099.2	35 813.8	(3 714.6)	(10.4)%
Total	**91 617.4**	**84 536.8**	**7 080.6**	**8.4%**

Source: Bank's management information
*) without interest due and not due

At the end of 2006, the Bank's gross interest-bearing assets amounted to PLN 91.6 billion and were by PLN 7.1 billion, i.e. by 8.4%, higher compared to 31 December 2005. Loans accounted for 65.0% of the total amount of interest-bearing assets and, compared to the end of 2005, this share increased by 7.4 pp. due to the high growth dynamics of loans which amounted to 122.2%.

As at 31 December 2006, the gross value of loans granted by PKO BP SA amounted to PLN 59.5 billion and increased by PLN 10.8 billion throughout the year 2006.

Table 11. Interest-bearing liabilities (in PLN millions)

Item	As at:		Change:	
	31.12.2006	**31.12.2005**	**in PLN million**	**%**
1	*2*	*3*	*4*	*5*
I. Customers' deposits, of which:	81 320.3	75 999.5	5 320.8	7.0%
- retail banking	55 691.8	53 506.1	2 185.7	4.1%
- SMEs	5 787.7	4 722.0	1 065.7	22.6%
- housing	10 160.4	8 834.5	1 325.9	15.0%
- corporate	9 680.4	8 936.9	743.5	8.3%
II. Other deposits	4 356.5	2 050.2	2 306.3	112.5%
Total	**85 676.8**	**78 049.7**	**7 627.1**	**9.8%**

Source: Bank's management information

As at 31 December 2006, the Bank's interest-bearing liabilities amounted to PLN 85.7 billion and increased by PLN 7.6 billion, i.e. by 9.8%, since the beginning of the year. Retail banking deposits accounted for 65.0% of the total amount of deposits and, compared to the balance at the end of 2005, this share decreased by 3.6 pp. In relation to 2005: retail banking deposits increased by 4.1%, SMEs deposits increased by 22.6%, housing deposits increased by 15.0%, corporate deposits increased by 8.3% and other deposits increased by 112.5%.

As at the end of 2006, the biggest part in the structure of deposits territorial 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 share in total deposits of the Bank accounted for 48.4% and decreased by 0.9 pp compared to the end of 2005.

5.1 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 product offer of the Bank and improving service quality and sales effectiveness.

With respect to new deposit products, the Bank offered the following products:

- an annual investment – insurance deposit under which the investment part of the deposit may be allocated for the purchase of participation units issued by the PZU Życie SA capital insurance fund,
- a bi-annual deposit with an attractive fixed interest rate for the whole term of the agreement,
- an annual investment deposit BONSAI, linked to a subfund (market) of small Japanese companies; this offer was addressed to the Private and Personal Banking clients;
- an annual investment deposit "Akcji/Zrównoważony", under which the investment part of the deposit may be allocated for the purchase of participation units issued by the PKO/Credit Suisse equity open-end investment fund ("Akcji – fundusz inwestycyjny otwarty") or by the balanced open-end investment fund ("Zrównoważony – fundusz inwestycyjny otwarty").
- two other investment deposits based on participation units issued by the PKO/Credit Suisse investment funds,
- sales of 3-year foreign structured bonds denominated in PLN under a non-public subscription addressed to Financial Advisory Clients.

With respect to consumer loans, the Bank:

- carried out a promotional campaign for the Quick Credit Service (*Szybki Serwis Kredytowy*) in order to support the sales of this product, with a reduced commission for extending the loan and resigned from collecting interests till the end of 2006 for the loans granted in PLN in the third quarter of 2006 – the so-called "loan holidays";
- modified its offer of revolving loans by allowing the client to purchase an insurance policy to increase the client's security,
- finished granting commercial student loans due to low level of sales and considerable load of work involved in servicing this product.

With respect to changes in price parameters, the Bank:

- adjusted the pricing of the Quick Credit Service to the requirements of the Act of 7 July 2005 on amendments to the Civil Code Act and certain other acts, which defined the maximum rates of interest and commission for extending loans,
- changed the interest rates of consumer loans (credit card loans and revolving loans) following the decision of the Monetary Policy Council on changes to basic interest rates,
- changed the interest rates of PLN and foreign currency deposits following the decisions of the Polish Monetary Policy Council, FED and Bank of England to change basic interest rates,
- introduced a new Tariff of banking fees and commission regarding mainly fees for keeping savings-settlement accounts, debit and credit cards (including free of charge transfers to the PKO BP SA accounts, free of charge issuance or renewal of credit cards depending on the value of transactions).

With respect to intensifying sales through distribution channels, the most important activities of the Bank were as follows:

- starting a cooperation between PKO BP SA and Poczta Polska – an agreement was signed, which sets rules for servicing cash withdrawals made using banking cards via POS terminals at the post offices;
- signing an agreement between PKO BP SA and Bank Pocztowy SA, which sets rules for settling cash withdrawals made via POS terminals at post offices using banking cards issued by Bank Pocztowy SA, which are settled by Bank PKO BP SA;
- signing an agreement between PKO BP SA and emFINANSE Sp. z o.o., which sets rules, conditions and procedures for cooperation between the Bank and the Agent-representative concerning execution of banking activities and actual activities connected with banking activity on the basis of a power of attorney. Under this agreement, the Agent-representative will solicit clients interested in the Bank's products;
- providing the users of the PKO Inteligo service line with an opportunity to purchase participation units issued by the PKO/ CREDIT SUISSE investment funds, managed by PKO TFI SA, via the Internet. The Bank's clients may choose from five funds managed by this company;
- offering new services to the users of the PKO Inteligo service line, which were previously available for the holders of the Inteligo accounts. The Bank's clients may acquire life insurance, property insurance, monitor the balance of their pension fund accounts held with OFE Bankowy and make safe payments through the "I am paying with Inteligo" ("*Płacę z Inteligo*") service system.

With respect to private banking services, the Bank increased the number of partners under the Privilege Program, providing the holders of prestigious PKO BP banking cards with an opportunity to purchase products on preferential terms.

<u>Savings-giro (ROR) and Inteligo accounts</u>

In 2006, the number of savings-giro (ROR) accounts increased in relation to the end of 2005 by a total of 74 thousand accounts and reached the level of 5,423.4 thousand accounts. The number of private Inteligo accounts at the end of December 2006 amounted to 647 thousand (including 585 thousand held by retail clients) and increased during the year by approximately 92.3 thousand.

The number of users of the PKO Inteligo service line amounted to 1,434 thousand (including 1,290 thousand held by retail clients) as at 31 December 2006, which means an annual increase by 589 thousand.

<u>Cards issued by PKO BP</u>

In the year 2006:

- The Bank conducted promotional sales of credit cards, including among others VISA Turyn, MasterCard 2006 FIFA World Cup credit cards. These cards were offered to clients who held an account with the Bank, decided to open a savings-giro account, term deposit account or who have applied for the Quick Service Credit facility,

– For a selected group of card holders, the Bank carried out a telemarketing campaign combined with life insurance services in the basic version – i.e. free of charge and in the additional version – with an insurance premium charged by the Bank (agreements signed with Amplico Life),
– For the holders of the PKO Ekspres and PKO Graffiti cards, the Bank launched a new service – *Cashback*, which has been supported with a promotional temporary departure from charging fees on such services.

Table 12. Bank accounts and payment cards issued (in thousands)

Item	**31.12.2006**	**31.12.2005**	**Change:**
1	*2*	*3*	*4*
Total number of bank accounts, of which:	6 070	5 903	167
- savings-giro (ROR) accounts	*5 423*	*5 349*	*74*
- Inteligo accounts	*647*	*554*	*93*
Number of payment cards, of which	6 960	6 076	884
- credit cards	*935*	*525*	*410*

Small and medium sized companies (SMEs)

With respect to cooperation with small and medium sized companies, the Bank's activities included the following:
– introduction of a new product, SUPER PAKIET, under which both personal and business needs of the clients may be served by a single bank. The introduction of this product was accompanied by temporary promotional offers;
– introduction of a new product, "Consolidation Plan" ("*Program konsolidacyjny*"), which includes the following two products: "Working Capital Loan Plan" ("*Kredyt Plan obrotowy*") and "Investment Loan Plan" ("*Kredyt Plan Inwestycyjny*"). These product provide for the opportunity of joining two different goal of taking loan within the particular plan,
– modification of the "Quick Credit Limit" product which consisted in extending the user group to include limited liability and joint stock companies,
– simplification of credit procedures as regards determining the maximum amount of overdraft for the Partner accounts and using investment loans and working capital loans thanks to linking those loans with the service of temporary insurance of credit repayment by PZU SA,
– supporting entrepreneurs - beneficiaries of the EU structural funds,
– continued extending of cooperation with BGK SA and other local and regional guarantee funds in order to overcome the barrier of the lack of security for loans taken out by small and micro companies.

5.2 Corporate banking

During the year 2006, the Bank focused its activities on further strengthening of its market position and creating the image of PKO BP SA as a financial institution active on the corporate market.

The Bank continued to develop and modify its product offer and to tailor its solutions to client needs. In doing so, the Bank, among others:
– implemented a package of services called Cash Management, which is addressed to corporate clients interested in the streamlining of cash management. Included in this package are services which meet client requirements in the following areas: day-to-day service, liquidity management, mass payment service, cash-flow service, electronic transaction-information channels,
– introduced a service under which the bank's clients are provided with on-line access to their accounts via the PKO Inteligo e-banking system,
– carried out sales of participation units issued by the PKO/CREDIT SUISSE managed by PKO TFI SA via the network dedicated to corporate client services,

- issued new banking cards: MasterCard Corporate Executive, MasterCard Corporate and MasterCard Corporate Municipium, which, depending on the client's industry segment, enable the Bank to diversify the maximum allowable transaction limit and additional services,
- introduced a new product: "Allowable debit balance on current account",

Moreover, the Bank:

- intensified sales of the Electronic Money Instrument (*Instrument Pieniądza Elektronicznego – IPE*) which is used to make payments to entitled persons using a banking card,
- concentrated on the sales of the multi-purpose credit limit, a package of products used for financing day-to-day activities of the Bank's clients under a single agreement. In 2006, the Bank signed 438 such agreements.

With respect to corporate banking, in 2006 the Bank performed the following activities:

- concluded 49 agreements for the issuance of municipal bonds with a total value of PLN 331.5 million, among others for the Opolskie region (PLN 52 million),
- concluded six agreements for the issuance of corporate bonds with a total value of PLN 2,030 million; two of these agreements were concluded with entities related to the Bank (these transactions were made at an arms' length),
- organised 13 syndicated loans, under which the Bank's exposure amounted to EUR 100 million, PLN 1,234 million and USD 67 million, and entered into 8 bilateral agreements with a total value of EUR 75 million and PLN 430 million.

5.3 Real estate financing

In the area of real estate financing, the Bank has the following types of loans:

- housing market products - mortgage products for individual clients and investor loans,
- loans supported by the state budget, which were granted by the Bank until 31 March 1996 on the basis of separate regulations and they represent a portfolio that gradually distinguishes.

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

5.3.1 Mortgage products for individual clients and investor loans

The housing loan WŁASNY KĄT plays a predominant role in the portfolio of mortgage products. At the end of 2006, the balance of such loans amounted to PLN 19.3 billion, which accounted for 86% of the total value of loan portfolio.

In 2006, sales of mortgage products and investor loans hit the record amount of PLN 11 billion, which effectively means that it was 45% higher compared to 2005. During three months (June, November, December) sales exceeded PLN 1 billion and amounted to PLN 1.1 billion, PLN 1.0 billion and PLN 1.4 billion, respectively.

The following activities contributed to the high level of sales in 2006:

- Intensification of sales in large cities and towns. These activities translated into record sales in large cities, amounting to over PLN 600 million, which accounted for nearly 50% of total retail sales of the Bank.
- Intensification of sales of insurance products, mainly insurance against loss of work, by organizing competitions for sellers and picking out insurance leaders as a result, the percentage of loans covered by the loss of work insurance systematically increased and reached nearly 27% of all loan agreements in December.
- Intensification of sales of mortgage loans by Agencies (Active Sales System).
- Further intensification of activities aimed at acquiring clients in the segment of investor loans. As a result of these efforts, there was an increase in the sales of such loans – compared to 2005, the value of sales of investor loans increased by 60%.

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

- carried out two promotional campaigns for mortgage loans – spring and autumn,

- the Negocjator application was implemented, which 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;
- extended its banking product offer to include 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 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.

In 2006, an improvement was noted in the quality of the loan portfolio – the percentage of non-performing loans decreased by 1.3 p.p., to 2.3% at the end of the year 2006.

Changes were introduced in order to adjust the Bank's regulations to Recommendation S, including the following: increased information requirements towards clients with regard to the interest rate risk, currency risk and borrowing costs in the event of unfavourable changes in interest rates and foreign exchange rates. In addition, when assessing credit capability for foreign currency loans, a requirement was introduced for the client to have credit capacity for the principal amount increased by 20% and the interest rate applicable to PLN loans.

5.3.2 Housing loans covered by state assistance

At the end of 2006, the total balance of housing loans covered by state assistance (so called "old" housing loan portfolio) amounted to PLN 2,505 million and decreased by PLN 273 million i.e. 9.9% during the year 2006.

The loans subject to temporary redemption of interest, repaid according to the "normative" and "income" formulas play a predominant role in this portfolio. Their share in the structure of "old" housing loan portfolio increased by 1.1% to the level of 97.7% compared to the end of 2005.

The main goals of the Bank with respect to housing loans covered by state assistance were to:

- maintain a high level of recoverability,
- minimize the percentage of loans repaid according to the "quotient" formula,
- continue to improve the quality of this portfolio under the terms of the new assessment methodology introduced in accordance with IAS 39 through intensifying of debt collection process towards private persons and restructuring the overdue debt of housing cooperatives. As a result, non performing loans decreased, which is a positive effect taking into account the characteristics of the credit portfolio.

5.3.3 Activities relating to deposits held on housing plan passbooks

As at 31 December 2006, PKO BP SA kept 2.1 million accounts for housing plan passbooks with the total value of deposits raised amounting to PLN 6,833.5 million.

As a result of the activities taken by the Bank to encourage clients to use the housing savings plans introduced by the Bank as of 2002, in 2006 the value of deposits held on housing plan passbooks without the right to guarantee premium increased by PLN 660.8 million and on the housing plan passbooks with the right to guarantee premium (new saving rules) by PLN 49.6 million.

Changes in the number and structure of housing plan passbooks occurred in comparison with the end of 2005. The percentage of housing plan passbooks without the right to guarantee premium increased by 2.5% to 26.7% in relation to the total number of accounts, and by 4.3% to 68.0% in relation to the value of collected deposits; as a result, the percentage of housing plan passbooks with the right to guarantee premium decreased to 73.3% in relation to the total number of accounts and to 32.0% in relation the value of deposits collected by the Bank.

5.3.4 Activities relating to corporate clients on the housing market

In 2006, the Bank focused on strengthening its position with regard to the existing corporate clients on the housing market (i.e. housing cooperatives and communities, developers and real estate agents) as well as attracting new customers.

In order to realize this objective the Bank:

- adjusted offered prices to client needs,
- enhanced the banking product used to finance redecoration of houses and flats and changed the name of the product from "NOWY DOM remont investor loan" to "NASZ REMONT investor loan" and from "NOWY DOM investor loan with thermo-modernization premium from BGK" to "NASZ REMONT investor loan with thermo-modernization premium from BGK",
- introduced the "low-amount version" of the "NASZ REMONT investor loan", which is characterized by simplified loan granting procedures and swift processing of loan application as well as higher, fixed commission and margin rates;
- made the PKO Inteligo service line available to all clients of the housing market;
- continued to serve housing market clients by individual advisors;
- carried out promotional activities addressed to real estate managers, which allowed it to increase the number of housing communities served by the Bank.

The Bank's activities resulted in an increase in the value of deposits and loans as well as an increase in the number of clients by 18% compared to the end of 2005.

In 2006, the value of redecoration loans sold increased twofold. The number of "NASZ REMONT" loan agreement signed (with thermo-modernization premium with BGK) placed PKO BP SA (the second year of granting this loan) on the second position among 21 banks, which extend loans with thermo-modernization premium.

5.4 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 primary 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 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 (during the period of increase in interest rate risk, the Bank applied hedging and withheld from purchases) and diversifying the Bank's portfolio (the carrying amount of bonds denominated in foreign currencies increased by nearly 50% compared to the end of 2005),
- managing financial risk by entering into transactions hedging against the interest rate, currency and liquidity risk; as part of management of currency liquidity, CHF deficits which arose due to the dynamic sales of foreign currency housing loans were covered by CIRS transactions,
- active participation in interest rate and interest rate derivative transactions on the inter-bank market and in currency market transactions; compared to 2005, the value of transactions in Treasury bonds and bills was nearly 30% higher, and the volume of currency transactions increased by over 20%.

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. This resulted in a significant increase in the number of transactions with corporate and SME clients. Compared to 2005, the volume of foreign exchange transactions with corporate clients increased by over 40%, and the volume of derivative transactions was almost seven times as big as in 2005. In the private banking segment, the main focus was placed on the development of investment products.

5.5 Brokerage activities

In 2006 Dom Maklerski PKO BP maintained its position on the capital market. This was supported by a revival on this market - the main indices increased on average: WIRR by 132%, WIG by 42%, WIG20 by 24%. The yearly turnover on the equity and bond market increased by 76%, i.e. to the level of PLN 329.4 billion.

Dom Maklerski PKO BP maintained its position among the 10 leading brokerage houses and its shares in the secondary market at the end of 2006 were as follows:

- 37.6% on the bonds market and maintained the leading position on this market,
- 6.8% on the stock market and maintained the 6^{th} position on the market.

Dom Maklerski maintained the leading position on the market extending the scope of services as market maker and specialist market maker. Dom Maklerski commenced delivering services as market maker for option for WIG20 index in March 2006, extending its activity on the market.

At the end of 2006, the number of accounts (both investment and registration accounts) kept by Dom Maklerski PKO BP SA exceeded 392 thousand. Compared to the end of 2005, the number of accounts decreased by approximately 5% (18.7 thousand). This result comprised a 15% increase (by 11.7 thousand) in the number of investment accounts and a 9% decrease (by 30.4 thousand) in the number of registration accounts. The decrease in the number of registration accounts was due to redemption of Treasury bonds and a decrease in clients' willingness to purchase new issues of Treasury bonds.

At the end of 2006, the value of assets held by customers on investment and registration accounts was PLN 26.8 billion, which means an increase of 46% compared to 2005.

The President of the Management Board of the Warsaw Stock Exchange awarded Dom Maklerski PKO BP SA the first prize for introducing the greatest number of new companies to the stock exchange market in 2006.

5.6 International cooperation

<u>Cooperation with European Bank for Reconstruction and Development</u>

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.

<u>Cooperation with other foreign institutions</u>

In 2006 PKO BP SA:

- entered into 7 ISDA Master Agreements with foreign banks and two Credit Support Annexes to previous ISDA agreements, and participated in 5 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 5 *loro* accounts and 1 *nostro* account, closed 2 *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.

<u>Cooperation with rating agencies</u>

Ratings are currently assigned to PKO BP SA 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 13. 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

6. ORGANIZATIONAL AND CAPITAL RELATIONS

6.1 Investment activity

PKO BP SA holds investments in other business entities. The tables below present the Bank's main direct and indirect investments in other entities.

Table 14. Subsidiaries, associates and jointly controlled entities of the Bank

No	Entity name	Value of investment at acquisition price	Percentage of total vote at general shareholders' meeting
		PLN thousand	%
Subsidiaries			
1	Powszechne Towarzystwo Emerytalne BANKOWY SA	205 786	100.00
2	KREDOBANK SA	144 605	69.933
3	Centrum Finansowe Puławska Sp. z o.o.	128 288	100.00
4	PKO Inwestycje Sp. z o.o.	123 313*	100.00
5	PKO Towarzystwo Funduszy Inwestycyjnych SA	69 055	75.00
6	Inteligo Financial Services SA	59 602	100.00
7	Centrum Elektronicznych Usług Płatniczych eService SA	55 500	100.00
8	Bankowy Fundusz Leasingowy SA	30 000	100.00
9	Bankowe Towarzystwo Kapitałowe SA	18 566	100.00
Jointly controlled entities			
10	CENTRUM HAFFNERA Sp. z o.o.	44 371	49.43
11	Centrum Obsługi Biznesu Sp. z o.o.	17 498	41.44
Associates			
12	Bank Pocztowy SA	146 500	25.0001
13	Kolej Gondolowa Jaworzyna Krynicka SA	15 531	36.71
14	Ekogips SA – in bankruptcy	5 400	23.52
15	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	33.33
16	Agencja Inwestycyjna CORP SA	29	22.31

*Inclusive of a specific capital injection of PLN 5.5 million

Subsidiaries, associates and jointly controlled entities of the Bank are established in order to:

- support the core business areas of PKO BP SA in realization of sales targets by supplementing their product offer; this enables the Bank to provide a greater range of services and sell greater number of products, as well as to maintain the existing and acquire new clients for the Bank,
- provide services to the Bank,
- enable PKO BP SA to participate in profits realized on international financial markets,
- increase the Bank's revenues; they allow the Bank to generate both interest income on loans granted to finance investment projects and income from the sales of the property completed under this project.

Detailed information on the Bank's Subsidiaries, associates and jointly controlled entities is included in the Directors' Report on the Activities of the PKO BP SA Group.

Table 15. Indirect investments of the Bank

No	Entity name	Value of involvement at acquisition price	Percentage of total vote at the general shareholders' meeting/Shareholders' Meeting of the parent company
		PLN thousand	%
	Subsidiaries of PKO Inwestycje Sp. z o.o.		
1	Wilanów Investments Sp. z o.o.	82 981	100.00
2	POMERANKA Sp. z o.o.	19 000	100.00
3	Fort Mokotów Sp. z o.o.	2 040	51.00
4	UKRPOLINWESTYCJE Sp. z o.o.	359	55.00
	Subsidiary of PTE BANKOWY SA		
5	Finanse Agent Transferowy Sp. z o.o.	2 861*	100.00
	Subsidiaries of Centrum HAFFNERA Sp. z o.o.		
6	Sopot Zdrój Sp. z o.o.	58 923	100.00
7	Promenada Sopocka Sp. z o.o.	10 058	100.00
8	Centrum Majkowskiego Sp. z o.o.	6 609	100.00
9	Kamienica Morska Sp. z o.o.	976	100.00
	Associates of Bankowe Towarzystwo Kapitałowe SA		
10	FINDER Sp. z o.o.	6 500	46.43
11	INTER FINANCE Polska Sp. z o.o.	3 248	45.00

* Inclusive of a specific capital injection of PLN 1 million

The companies in which PKO BP SA holds indirect investments carry out specific investment (construction) projects, provide services to their shareholder companies or represent equity investments of such companies (the purpose of which is to obtain return on investment in the form of dividend or gain from the sales of shares).

In 2006, the following events took place that had an effect on the structure of the PKO BP SA Group:

– Acquisition of 25% shares in PKO Towarzystwo Funduszy Inwestycyjnych SA (formerly PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych SA); after the purchase transaction, PKO BP SA became the owner of 75% shares in the share capital of this Company and votes at the general shareholders' meeting. PKO Towarzystwo Funduszy Inwestycyjnych SA became a subsidiary of the Bank and a part of the PKO BP SA Group;

– Taking up 5,428,764,911 shares in the increased share capital of KREDOBANK SA; after registration of the above increase, the share of PKO BP SA in the share capital of this Company and in the votes at the general shareholders' meeting increased from 69.018% to 69.933%;

– Taking up shares in the increased share capital of CENTRUM HAFFNERA Sp. z o.o.; as a result of the above transaction, PKO BP SA has 49.43% shares in the share capital of the Company, which give right to 49.43% shares at the shareholders' meeting;

– Disposal of all shares held by the Bank in Wawel Hotel Development Sp. z o.o. (until that time, a jointly controlled entity of the Bank);

– Disposal of all shares held by the Bank in Hotel Jan III Sobieski Sp. z o.o. (until that time, an associate of the Bank);

- Registration of share capital increase in Kolej Gondolowa Jaworzyna Krynicka SA; the Bank's share in the share capital of that Company decreased from 37.83% to 37.53%, and its share in the total votes at the general shareholders' meeting decreased from 36.85% to 36.71%;
- Taking up shares in the increased share capital of FINDER Sp. z o.o. by Bankowe Towarzystwo Kapitałowe SA, the Bank's subsidiary. Currently, the share of Bankowe Towarzystwo Kapitałowe SA in the share capital and at the shareholders' meeting of FINDER Sp. z o.o. amounts to 46.43%;
- Taking up shares in the increased share capital of INTER FINANCE Polska Sp. z o.o. by Bankowe Towarzystwo Kapitałowe SA, the Bank's subsidiary, as a result of the above transaction, Bankowe Towarzystwo Kapitałowe SA holds 45% shares in the share capital of this Company and 45% votes at its general shareholders' meeting;
- Increase in the value of investment of PKO Inwestycje Sp. z o.o. (the Bank's subsidiary) in UKRPOLINWESTYCJE Sp. z o.o., through an increase in the nominal value of shares;
- Refund by Fort Mokotów Sp. z o.o. of 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 in the amount of PLN 30.09 million;
- Change of the Company name of PKO Towarzystwo Funduszy Inwestycyjnych SA – former PKO/CREDIT SUISSE Towarzystwo Funduszy inwestycyjnych SA

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

Investment plans

The development of the PKO BP SA Group as envisaged in the "PKO BP SA's Strategy for the Years 2006-2008" 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 and will be adequate to the resources held by the Bank.

6.2 Related party transactions

Transactions involving amounts not exceeding or equal to EUR 500 thousand

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 foreign exchange operations.

In addition, to fulfil agreement conditions under the lease agreement with Centrum Finansowe Pulawska 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 financial statements of PKO BP SA 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 658.7 million, and increased by PLN 194.1 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:

- Bankowy Fundusz Leasingowy SA – PLN 274.0 million relating to opened credit lines and granted guarantees,
- Sopot Zdrój Sp. z o.o. – PLN 191.0 million relating to opened credit lines,
- KREDOBANK S.A – PLN 65.1 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 related parties is described in Note 45 of Additional Notes to the Financial Statements.

7. RISK MANAGEMENT POLICY

The risk management system is one of the most important internal processes of the Bank supporting its business operations, where the aim of risk management is to ensure an appropriate level of security and profitability in changing legal and economic environment. Risk management covers both credit risk management and market risk as well as operating risk management.

7.1 Credit risk

Effective management of credit risk is a key management sub-process which has a significant impact on the Bank's competitiveness and market position. For this reason, the Bank's risk management system is subject to on-going improvement and adjustment to new sources and aspects of banking risk.

In credit risk management, the Bank follows the following rules:

- each loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk relating to 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, taking into account the conditions of their initiation,
- credit risk is diversified by geographic regions, industry, products and clients,
- loan decisions can only be taken by authorized persons,
- the Bank hedges against credit risk by recognizing impairment write-downs for the impairment of loan exposures.

<u>Assessment of credit risk related to institutional clients</u>

Assessment of credit risk associated with the financing of institutional clients (excluding institutional clients of the retail market, who are assessed using simplified procedures) is performed in two aspects: the client and the transaction. Assessment of the client is reflected in client's rating, which is expressed in one of the eight client rating categories. Assessment of the risk related to the transaction, taking into account the specific nature of the transaction, is reflected in transaction's rating expressed in one of the five transaction rating categories. The synthetic measure of credit risk, reflecting the level of the Bank's credit risk, is the so called combined rating.

The simplified assessment of credit risk associated with the financing of institutional clients on the retail market is performed based on data relating to the client and the transaction for which the client has applied. The result of this assessment is a recommendation issued by the system supporting the risk assessment process, which either allows or disallows a positive decision on granting the loan.

<u>Assessment of credit risk related to individual clients</u>

The assessment of credit risk related to individual clients is made in terms of credit capacity and credibility. The assessment of the credit capacity consists in examining the current financial standing of the client, including the sources and amounts of client's income, amounts of client's expenditures and liabilities, etc. Assessment of client's credibility consists in the assessment of credit scoring and assessment of information acquired from external sources and internal files of the Bank.

With respect to revolving credit facilities granted in savings-giro accounts, assessment of credit risk is performed as part of the behavioural scoring system which operates at the level of the client's account held with the Bank.

In the 2nd quarter of 2006, the Bank's internal regulations relating to the assessment of credit capacity of clients applying for foreign currency loans and the regulations on securing the Bank's loan exposures were adjusted to the requirements set out in Recommendation "S", which was issued by the Commission for Banking Supervision and relates to best practices to be applied to loan exposures secured by mortgage.

Limits, responsibilities and credit committees

The Bank's system of responsibilities for taking loan decisions depends on:

- the amount of the Bank's loan exposure to the given client or a group of related clients;
- the period and type of loan transaction;
- type of recommendation issued together with scoring assessment (in the case of individual clients).

The decision process is supported by credit committees which issue recommendations for persons responsible for taking decisions from the individual levels of the Bank's organizational structure. In 2006, the Bank introduced new criteria for participation of credit committees in the process of considering applications filed by institutional clients, depending on the amount of the Bank's loan exposure and the client's rating. With respect to individual clients, credit committees participate in the process of considering their loan applications if the Bank's loan exposure towards the given client exceeds PLN 500 thousand. The criteria for the involvement of credit committees have been adjusted to be in line with the criteria for the involvement of credit risk assessment forces.

In accordance with the requirements set out in Recommendation "S", the Bank set up limits for the structure of the portfolio of loans to be used for the financing of acquisition of real estate by individual clients. These limits took into consideration a number of factors, including the following: industry, group of entities, type of loan transaction, term of the loan agreement, currency of loan transaction and accepted collateral.

Independent verification of credit risk assessment

In the event of fulfilling certain specific criteria, the assessment of credit risk related to institutional and individual clients is subject to verification by credit risk assessment forces. In 2006, the Bank implemented new criteria for the involvement of these forces with respect to institutional clients, depending on the amount of the Bank's loan exposure towards the client or group of related clients, client's rating and industry segment.

Impairment losses and provisions for credit risk

The Bank identifies loan exposures subject to the risk of impairment and determines the amount of impairment losses in accordance with IAS 39. For the purpose of regulatory reporting and determining the upper limit of tax deductible costs that may be recognized in respect of impairment of loan exposures, the Bank applies the regulations concerning classification of loan exposures and method of determining specific provisions.

Portfolio credit risk management methods

The Bank continues 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, assess profitability adjusted for the risk factor, collateral policy management and determine the level of impairment rates based on internal models. Portfolio credit risk analysis also includes those companies from the PKO BP SA Group which are expose to significant credit risk (KREDOBANK SA, Bankowy Fundusz Leasingowy SA).

As part of implementation of recommendations included in Recommendation "S" of the Commission for Banking Supervision on best practices to be applied with respect to loan exposures secured by mortgage, the Bank has developed methodology and started to perform 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.

Since 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.

Tools supporting credit risk assessment

Assessment of credit risk related to the financing of institutional clients is supported by the KREDYTOR application, whereas assessment of credit risk related to the financing of individual clients is performed using the Infokred and ScorZa applications.

7.2 Financial risk

In 2006, the Bank has amended its policies and procedures relating to management of currency risk, derivative risk, liquidity risk, credit risk associated with financial institutions, as well as classification of transactions and calculation of capital adequacy requirements with respect to the specific types of risk. These amendments in the Bank's internal regulations resulted from changes in the Bank's business activities, changes in the macroeconomic and legal environment, as well as the development of risk measurement methodologies and the results of analyses performed by the Bank's Market Risk Department.

The rules concerning financial risk management adjusted the scope of duties and competences of the Bank's divisions and units dealing with risk management to the reorganization and modernization processes in the Bank.

In 2006, the Bank continued to carry out development work on the specialized IT system supporting financial risk management, which 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.

In 2006, the Bank has undertaken activities in order to achieve compliance with the directive on capital requirements in respect of adjusting the system supporting financial risk management to make it able to determine capital requirements relating to market risk. In addition, the Bank modified its internal regulations on classification of transactions for the purpose of calculating capital requirements and on consideration of ratings assigned by external financial institutions in the calculation of capital requirements relating to credit risk.

Financial risk profile of the Bank in 2006

In 2006, as in previous periods, the Bank maintained high PLN liquidity, which throughout the year considerably exceeded the thresholds in all time horizons. The Bank converted PLN liquidity to foreign currency liquidity in order to finance foreign currency loans.

The measures of interest rate, currency, derivatives and liquidity risk were at all times at the level which did not represent a threat to the Bank.

The Bank used derivatives for investment and balance sheet security purposes; it also held speculative positions on interest rates and foreign currencies.

In 2006, the Bank performed regular reviews of the standing of financial institutions and the level of granted credit and settlement limits. In addition, it was setting new limits for new clients on the inter-bank market, in response to the requirements reported by its business departments.

7.3 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. Operational risk includes legal risk and does not include the risk of a loss of reputation or the strategic risk.

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 response to events which are beyond its control. The Bank mitigates operational risk by undertaking activities aimed at optimising quality management, human resources management and the Bank's organization, as well as by insurance, contingency plans, establishing legal security measures, anticipating the effects of operational events, controlling or avoiding operational risk and reducing adverse effects of operational events.

In 2006, operational risk management regulations were extended 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 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.

8. DISTRIBUTION CHANNELS

Table 16. Distribution network

Specification	31.12.2006	31.12.2005	Change
1	*2*	*3*	*4*
1. Total number of branches	**1 239**	**1 251**	**-12**
- Retail market:	1 156	1 168	-12
Regional retail branches	12	12	0
Independent branches	574	537	37
Subordinated branches	570	619	-49
- Corporate market:	83	83	0
Regional corporate branches	13	13	0
Corporate client teams	13	13	0
Corporate centrem	57	57	0
2. Number of agencies	**2 277**	**2 510**	**-233**
3. Number of ATMs	**2 024**	**1 862**	**162**

<u>Branches</u>

At the end of 2006 PKO BP SA had 1,239 branches and their number decreased by 12 in 2006. There were positive changes in the structure of retail branches – the number of independent branches has increased resulting from improvement in efficiency ratios.

<u>Agencies</u>

The year 2006 was the period of further changes in the structure of PKO BP SA agencies. These changes resulted primarily from adjusting agencies' equipment, labelling and premises safeguarding to the standards set out by the Bank. In 2006, the number of agencies decreased by 233 when compared with the previous year. As at 31 December 2006, the Bank cooperated with 2,277 agencies.

During the year 2006, the Bank granted more than 57 thousand loans via its agencies, for a total amount of PLN 500 million (the amount of loans sold increased by 3% when compared with 2005). In addition, agencies acquired approximately 46 thousand savings-giro accounts (ROR), which accounts for 7.1% of the total number of accounts acquired by the Bank.

The Bank's clients who make cash withdrawals using payment cards at POS terminals are now able to obtain information about the amount of cash available on their accounts. In 2006, PKO BP SA agencies realized more than 11 million cash withdrawals using cards at POS terminals, for a total amount exceeding PLN 3.7 billion.

<u>Internet banking</u>

In the area of retail banking, year 2006 marked a period of a constant and dynamic growth in the number of the users of e-banking services provided via the PKO Inteligo service line. The number of the users of the PKO Inteligo service line has increased from approximately 850 thousand at the beginning of 2006 to over 1.4 million at the end of December 2006.

In the segment of customers with savings-giro (ROR) accounts, the percentage of the users of e-banking services amounts to approximately 23%, whereas in the segment of customers with Partner accounts - it amounts to approximately 52%.

The total number of the users of e-banking services at the end of 2006, including the Inteligo account users, amounted to approximately 2 million, which reinforced the Bank the leading position in the e-banking sector in Poland.

Since the beginning of 2006, the Bank's clients using the PKO Inteligo e-banking services were provided with the possibility of recharging their pre-paid phone cards directly from their bank account. In addition, the Bank launched a new service "I am paying with Inteligo" ("*Płacę z Inteligo*"), under which the holders of traditional bank accounts who use the PKO Inteligo e-banking services can make safe and swift purchases via the Internet without the need to provide their banking card number. Furthermore, in 2006 the Bank extended the scope of its e-banking services to include an access to the account held with the Bankowy Open-end Pension Fund. Using this service, the clients of OFE Bankowy who make use of an Inteligo account or the PKO Inteligo service line may at any time check the value of collected funds, the number of fund units or the amount of contributions.

Starting from June 2006, clients using PKO Inteligo services may also buy property insurance policies offered by PZU. Considerable popularity was gained by insurance of medical costs incurred abroad – thanks to buying this type of insurance via the Internet, PKO BP clients may safely travel all over the world.

Due to the development of on-line services of the Bank, starting from August 2006 clients using PKO Inteligo services have been provided with the possibility to buy and redeem the participation units issued by the PKO/CREDIT SUISSE.

In the 4th quarter of 2006, PKO BP SA made available a new functionality to the users of PKO Inteligo services which enables them to recharge their mobile phone cards using the automatic IVR telephone service line.

Another facility that was introduced by the Bank in 2006 for clients using the PKO Inteligo e-banking services is the possibility to print out their bank statements via the Internet.

As far as corporate banking is concerned the main e-banking system is Multicash system. Additionally new service was implemented in 2006, which enables corporate clients do access current accounts via e-banking PKO Inteligo. The dynamic development of electronic distribution channels resulted in the fact that share of e-banking transfers in the total number of transfers equalled 83% at the end of 2006 (comparing to 66.4% at the end of 2005).

Self-service terminals and personnel support equipment

At the end of 2006, PKO BP SA had the largest ATM network in Poland, which accounted for over 20% of all ATMs in Poland. At the end of 2006, the number of ATMs available to the Bank's clients was 2,024 (including 858 ATMs with deposit function). The PKO BP SA ATMs carried out approximately 211 million transactions for a total amount exceeding PLN 54 billion. The percentage of transactions carried out at PKO BP SA ATMs using cards issued by other banks amounted to 5.6%. During the year 2006, the Bank accepted over 153 thousand deposit envelopes and sold 283 thousand Simplus mobile phone cards via its ATM network. During the 12 months of 2006, the number of operations performed at the Bank's ATMs in order to check the bank account balance amounted to nearly 60 million (in December 2006, the number of such operations hit the record amount of 5.5 million).

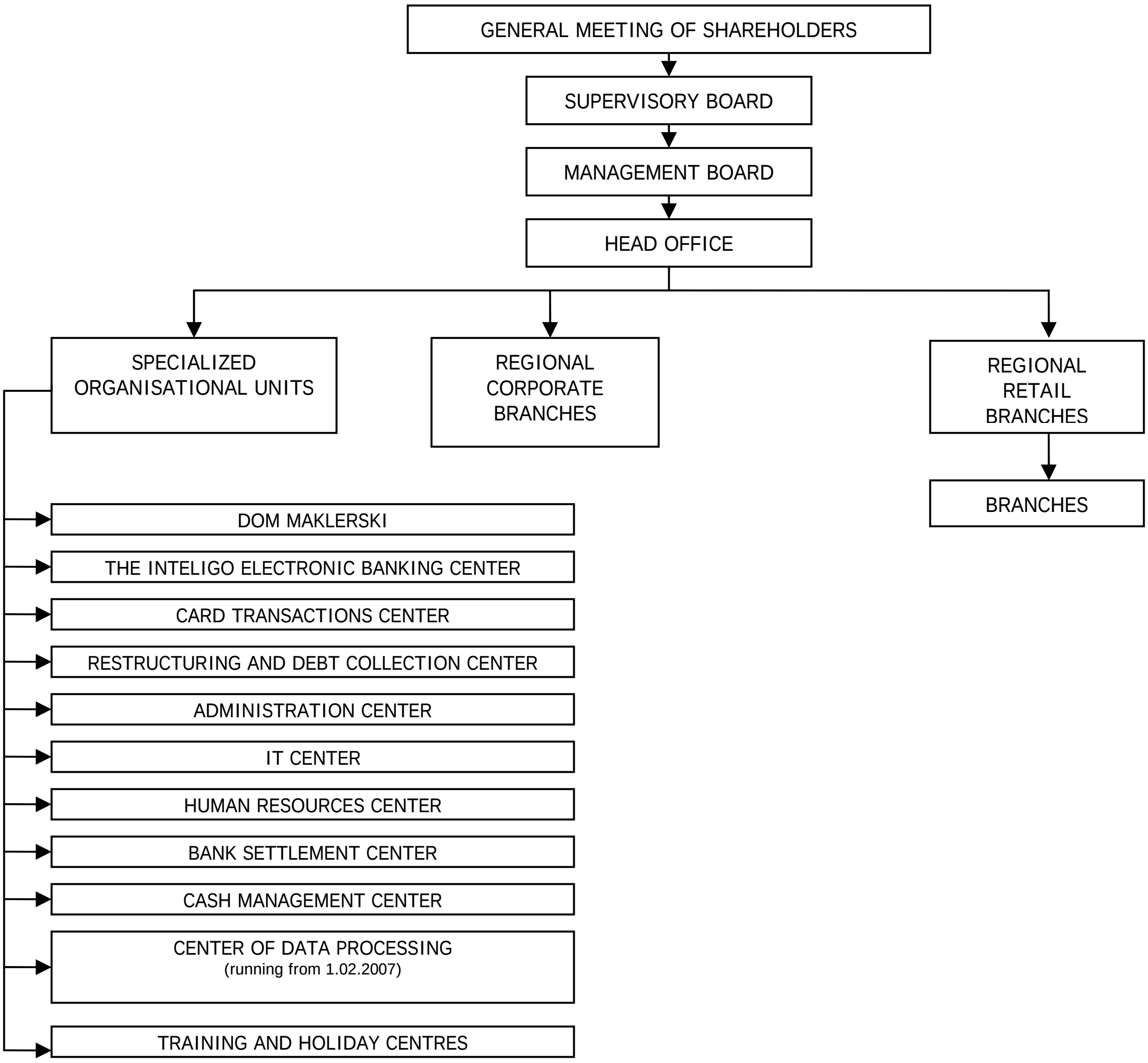
At the end of 2006, the number of self-service terminals available to customers within the PKO BP SA network amounted to 222 and the number of cash dispensers supporting the work of the PKO BP SA personnel amounted to 538.

9. INTERNAL CONSIDERATIONS

9.1 Organization of the Bank

In terms of vertical structure, the Bank operates through separate functional and organisational areas which group functional sections and the organisational units of the Bank and the Bank's head office which are outside these functional sections. The Bank's vertical structure allows for clear assignation of tasks, supervision over the process of completion of these tasks and assessment of the head office organisational units, regional corporate branches, regional retail branches, branches and specialized organisational units. During the year 2006, the Bank focused its organisational activities on improving management and increasing the efficiency of operations of the Bank's organizational units.

9.2 Organisational structure of the Bank



9.3 Management and Supervisory Boards in the reporting period

Members of the Management Board in the reporting period

Table 17. 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	▪ 20.12.2005 – appointed for the common term of Management Board which commenced on 19.05.2005
		Acting President of Management Board	▪ 29.09.2006 ▪ resigned from these positions as of 10.01.2007
2.	Kazimierz Małecki	First Deputy President	▪ 04.07.2002 ▪ 19.05.2005 – re-appointed to another term which commenced on this day ▪ Resigned from this position as of 31.12.2006
3.	Danuta Demianiuk	Deputy President	▪ 02.01.2003 ▪ as of 16.09.2005 re-appointed to another term of the Management Board which commenced on 19.05.2005 ▪ Resigned from this position as of 31.12.2006
4.	Rafał Juszczak*	Member	▪ As of 01.07.2006 appointed to the common term of the Management Board which commenced on 19.05.2005
		Deputy President	▪ 29.09.2006
5.	Wojciech Kwiatkowski**	Deputy President	▪ As of 01.11.2006 appointed to the common term of the Management Board which commenced on 19.05.2005
6.	Jacek Obłękowski	Member	▪ 20.06.2002 ▪ 19.05.2005 – re-appointed to another term which commenced on this day
		Deputy President	▪ 29.09.2006 ▪ Resigned from this position as of 31.01.2007
7.	Zdzisław Sokal*	Member	▪ As of 01.07.2006 appointed for the common term of the Management Board which commenced on 19.05.2005
		Deputy President	▪ 29.09.2006 ▪ Resigned from this position as of 13.03.2007
Board Members who resigned from their positions in 2006			
8.	Andrzej Podsiadło	President of Management Board	▪ 20.06.2002 ▪ 19.05.2005 re-appointed to another term which commenced on this day ▪ Resigned from this position as of 29.09.2006
9.	Krystyna Szewczyk	Member	▪ 14.05.2004 ▪ 16.09.2005 re-appointed to another term which commenced on 19.05.2005 ▪ Resigned from this position as of 26.06.2006
10.	Piotr Kamiński	Member	▪ 10.03.2002 ▪ 16.09.2005 re-appointed to another term which commenced on 19.05.2005 ▪ Resigned from this position as of 9.03.2006
11.	Jarosław Myjak**	Deputy President	▪ As of 02.10.2006 appointed to the common term of the Management Board which 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 Dr Marek Głuchowski, 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

Management Board, Dr 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 18. 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 (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) ▪ Member of the Steering Committee for Implementation of Branch Modernisation Program (until 26.06.2006)

Members of Supervisory Board

Table 19. Supervisory Board of the Bank in the reporting period

No	Name and surname	Function	Date of appointment / Dismissal
1.	Bazyl Samojlik	Chairman of the Supervisory Board	Dismissed as of 18.04.2006
2.	Krzysztof Zdanowski	Secretary of the Supervisory Board	Dismissed as of 18.04.2006
3.	Andrzej Giryn	Member of the Supervisory Board	Dismissed as of 18.04.2006
4.	Stanisław Kasiewicz	Member of the Supervisory Board	Dismissed as of 18.04.2006
5.	Ryszard Kokoszczyński	Member of the Supervisory Board	Dismissed as of 18.04.2006
6.	Czesława Siwek	Member of the Supervisory Board	Dismissed as of 18.04.2006
7.	Władysław Szymański	Member of the Supervisory Board	Dismissed as of 18.04.2006
8.	Marek Głuchowski	Chairman of the Supervisory Board	Appointed on 18.04.2006 Delegated to the temporary acting functions of 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 of the Supervisory Board	Appointed on 19.05.2005
		Vice-chairman of the Supervisory Board	Since 20.05.2005
10.	Tomasz Siemiątkowski	Member of the Supervisory Board	Appointed on 18.04.2006
		Secretary	Since 26.06.2006
11.	Jerzy Michałowski	Member of the Supervisory Board	Appointed 18.04.2006
12.	Jerzy Osiatyński	Member of the Supervisory Board	Appointed 25.03.2002
		Member of the Supervisory Board	Appointed 19.05.2005 Resigned from this position as of 31.01.2007
13.	Adam Skowroński	Member of the Supervisory Board	Appointed 18.04.2006
14.	Agnieszka Winnik-Kalemba	Member of the Supervisory Board	Appointed 18.04.2006

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

Holders of commercial powers of attorney. Board meetings and implementation of resolutions of General 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.
- In 2006, the Management Board held 59 minuted meetings and took 422 resolutions.
- The most important activities and decisions taken by the Management Board, which 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 general shareholders' 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, which 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, which do not require consent of the General Meeting in accordance with § 9 section 1 point 5 of the Bank's Articles of Association.

In accordance with §20 Section 2 of the Bank's 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, which provide for compensation in the event of resignation or dismissal without an important reason:

- employment contract, which provides for a severance payment amounting to a 3-month basic salary recently received by the Board member,
- anti-competition contract, which 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 average the 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 45 of Additional Notes to the Financial Statements for 2006.

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

Table 20 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.

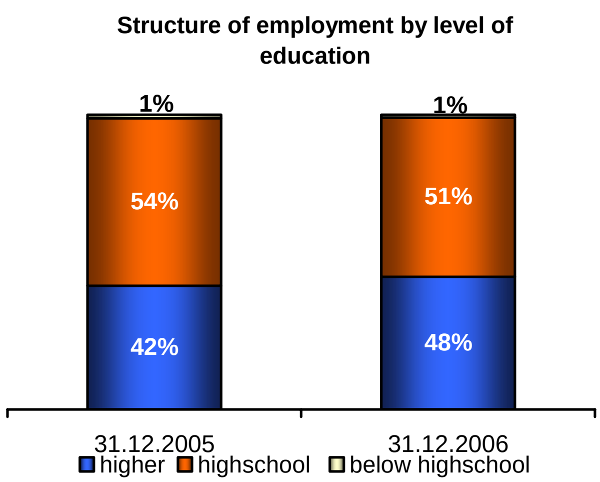
Table 20. Shares held by members of Management and Supervisory Boards as at 31 December 2006.

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.

9.4 Human Resources

The number of PKO BP SA employees as at 31 December 2006 was 31,955 (in terms of full-time equivalent) and decreased by 1,524 i.e. 4.6% compared to 31 December 2005. Average number of employees in 2006 amounted to 32,673 (in terms of full-time equivalent) and decreased by 1,849 compared to 2005.



<u>Activities relating to changes in employment level and its structure</u>

In 2006, the Bank continued the process of optimising employment in order to adjust the level of employment in particular organizational units to the scope and type of tasks performed by these units, resulting from development and changes in banking activities carried out by the Bank, including in particular sales supporting activities. The Bank's target is to achieve the following structure of employment: 80% in sales and 20% in sales support. Employment optimization was supported by selection of employees whose qualifications and professional skills matched the requirements of their jobs.

Optimisation of employment was taking place first of all by releasing simple natural reserves, including employees' leaving due to regular or early retirement.

Remuneration system

The primary legal act that regulates the remuneration system at the Bank is the Collective Bargaining Agreement, which covers all employees working for the Bank on the basis of employment contracts, except for members of Management Board, whose salaries are subject to the limitations resulting from the so-called "chimney law".

The Collective Bargaining Agreement determines the following aspects of remuneration:

- remuneration for work performed,
- benefits arising from employment relationship – paid out upon the fulfilment of conditions defined in the Collective Bargaining Agreement, such as jubilee bonuses and retirement benefits,
- general table of employment positions linked to 9 employment position categories, which sets out the required level of education and minimum length of service to hold these positions,
- a table of minimum monthly basic remuneration rates defined for the particular employment position categories.

Based on delegation contained in the Collective Bargaining Agreement, specific regulations are determined by way of Management Board resolutions agreed with the trade unions with respect to the following aspects:

- granting discretionary bonuses (on a quarterly basis),
- granting one-off awards for outstanding professional achievements,
- granting annual bonuses based on the Bank's performance.

In 2006, the rules for granting bonuses to Bank's employees have been modified, giving consideration to changes in and diversity of functions and the specific nature of tasks performed in the particular business areas:

- retail and corporate market,
- specialized organisational units performing supporting functions,
- Head Office being part of the retail and corporate market area.

The Bank introduced a system of bonuses aimed at intensifying business activities, improving work effectiveness and creating the Bank's value.

Training

The main directions of training activities in 2006 were determined based on the needs of particular business areas and employees' individual needs in respect of professional development. Particular emphasis was placed on further strengthening of client-oriented organisational culture.

During the year 2006, more than 77 thousand employees participated in training programs, of which 67% participated in in-house training programs conducted by internal lecturers.

The main directions of training activities, supporting the realization of strategic goals, focused on, among others, adjusting employees' professional qualifications to the Bank's needs arising from its strategic and operating goals, including in particular:

- improving employees' selling skills and pro-client attitudes to ensure high quality of customer service and efficient sales of the Bank's products and services,
- supporting professional development of the Bank's management in the area of efficient human resources management,
- developing the qualifications of top specialists employed by the Bank in order to strengthen the Bank's position on the finance services market,
- supporting implementation of projects, including the Integrated Information System.

In addition, the Bank continued the process of knowledge sharing by organizing in-house training programs, including in the cascade system, conducted by internal lecturers – Bank's employees.

Group redundancies

In connection with the process of employment optimization and the planned reduction of employment in 2006, following consultations with the trade unions on the intended redundancies due to reasons independent of employees, on 29 November 2005 the Bank signed an "Agreement on the rules of terminating employment contracts with PKO BP SA employees for reasons independent of employees". In 2006, 1,338 persons left the Bank under the group redundancy program.

Employees whose employment contracts were terminated by the Bank for reasons independent of employee, received severance payments as set out in the Act of 13 March 2003 on the special rules for termination of employment contracts for reasons independent of employees (Journal of Laws, No 90, item 844 with subsequent changes) and other monetary benefits in addition to statutory allowances. In addition, they received assistance to mitigate the effects of employment termination, including the refund of the costs of training courses undertaken to adjust their qualifications to current labour market requirements.

Collective disputes

In the reporting period no collective disputes.

9.5 Service promotion and image building

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

- Strengthening the image of the Bank as a leader in the area of banking services in Poland – a modern organisation with an established reputation, safe, friendly (close to the client) 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 offered by 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 Program),
  - 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 sales 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 Tenth 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*", which 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 S.A.

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.

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 and Medium 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 the 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 Research Consulting. In addition, the Bank received a special award from "*Forbes*" (June 2006),
- 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,
- 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 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).

10. INVESTORS RELATIONS

10.1 Shareholders' holdings, directly or indirectly through subsidiaries, at least 5% of total votes at the general shareholders' meeting

According to the Bank's knowledge, the State Treasury is a shareholder which 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 21. 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 AGM resulting from shares held	Percentage of votes held at AGM
State Treasury	514 959 296	51.50%	514 959 296	51.50%

10.2 Changes in 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 Meeting of PKO BP S.A. concerning amendments to the Articles of Association of PKO BP S.A. – 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 (Journal of Laws No 91, item 870), which 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), which 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;
- exclusion of the responsibility for determining the rules for signing the Bank's documents from the duties of President of Management Board of the Bank.

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

10.3 Securities' issues

The Bank did not issue any own securities in the period covered by this report.

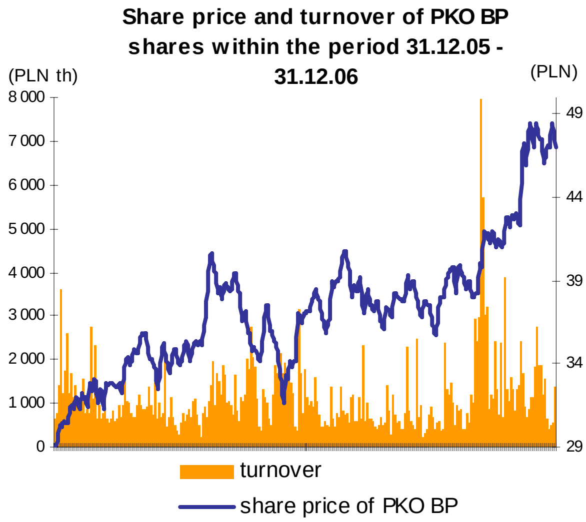
10.4 Re-acquisition of own shares

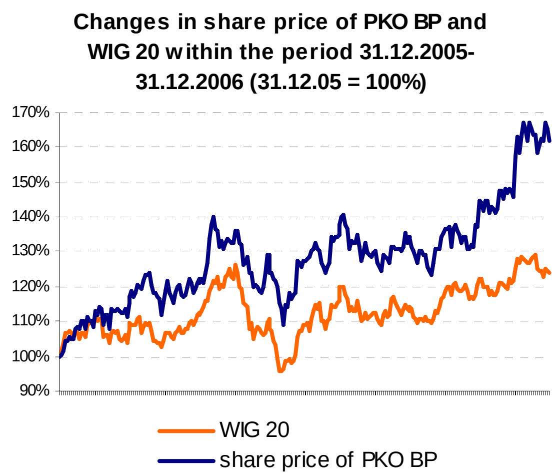
During the period covered by this Report, the Bank did not re-acquire its shares on its own account.

10.5 Listed price of the Bank's shares

During the year 2006, the price of the PKO BP S.A. shares demonstrated a stable growth tendency and the highest level (PLN 48.50) gained 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 10.7 below).





	2005	*2006*
PKO BP share price at the beginning of the period	27.80	29.00
PKO BP share price at the end of the period	29.00	47.00
Dividend per 1 share	1.00	0.98
Return for the shareholder	**7.9%**	**64.8%**

10.6 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 Supervisory Board), which the Bank does not comply with.

10.7 Employee shares

In accordance with the Act of 30 August 1996 on Commercialisation and Privatisation (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 S.A. 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.

10.8 Holders of any type of securities giving special control rights with regard to the issuer

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

10.9 Restrictions for the transfer of ownership of securities and exercising voting rights

In accordance with the provisions of the Article 6.2 of the Bank's Articles of Association, the conversion of registered "A" series shares with the value of PLN 510,000,000 into bearer shares and the transfer of these shares require an approval of the Council of Ministers in the form of a resolution. Acquiring such consent results in the expiry of the above restrictions to the extent that such consent was given.

11. SIGNIFICANT CONTRACTS AND IMPORTANT AGREEMENTS WITH THE CENTRAL BANK OR SUPERVISORY BODIES

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 approximately 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, which 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 sales of receivables which 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 sales of receivables which 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 receivables, 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 sales 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 SA took up shares in the increased share capital of the Company, with the nominal value equalled the Company's debt towards PKO BP SA (ca. PLN 78.5 million) for a price equal to their nominal value,
  - Shares, which were taken up, were paid by cash by PKO BP SA and transferred to the blocked account of the Company – the fund 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 sales 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 a day of transaction, which is 31 October 2006. It was agreed that 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 enter into any important agreements with either the Central Bank or the supervisory bodies.

On the reporting date, the Bank is not aware of any agreements resulting in changes of proportion of shares held by the current shareholders.

12. FINANCIAL AND GUARANTEE LIABILITIES GRANTED

Table 22. 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:	22 583 330	17 545 743	5 037 587	28.7%
of which: irrevocable	12 286 757	9 025 801	3 260 956	36.1%
2. Guarantee liabilities granted:	2 512 634	1 508 044	1 004 590	66.6%
Total	**25 095 964**	**19 053 787**	**6 042 177**	**31.7%**

On 31 December 2006, 84.6% of total off-balance sheet liabilities granted by the Bank related to liabilities of non-financial entities and compared to 2005 this share increased by 7.0 pp.

13. LOANS TAKEN AND LOAN, GUARANTEE AND SURETYSHIP AGREEMENTS

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

14. SUB-UNDERWRITING AGREEMENTS AND GUARANTEES GRANTED TO SUBSIDIARIES

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

On 14 December 2006, PKO BP S.A. signed an Agreement for Organisation, Conducting and Servicing of a Bond Issuance Program with its subsidiary, Bankowy Fundusz Leasingowy S.A., 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 S.A. terminated the previous agreement dated 20 June 2006.

As at 31 December 2006:

- Bankowy Fundusz Leasingowy S.A. 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 S.A.'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 S.A. extended the guarantee granted to its subsidiary, PKO Towarzystwo Funduszy Inwestycyjnych S.A., 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 S.A. granted a guarantee for Bankowy Fundusz Leasingowy S.A. 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.

15. 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.

16. 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 - President 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 the event that, during the period from 24 January 2007 to 26 January 2007, no candidate is appointed by the Supervisory Board, Mr Marek Głuchowski has been delegated to the 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 singed an agreement with KREDOBANK SA resulting in granting a USD 7.5 million subordinate loan to the Company.
- On 31 January 2007, the Supervisory Board of PKO BP 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 the 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 the Extraordinary General Shareholders' Meeting as at 6th 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 adopted resolutions appointing:
  - 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 adopted resolutions Mr Działak and Mr Świątkowski were appointed to these functions 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 prospects and P-1 – short-term rating of domestic currency deposits with the stable prospects. 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 prospects. The report was dated February 2007. The agency justified the change of the rating with the systematic increase of the profitability. Additionally, the improving quality of the loan portfolio and the reporting transparency was emphasized.
- On 13 March 2007 Mr Zdzisław 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 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).

17. 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 stand-alone financial statements and consolidated financial statements for the years ended 31 December 2005, 2006 and 2007 and a review of stand alone financial statements and consolidated financial statements for 6-month periods ended 30 June 2005, 2006 and 2007.

Total fees under the contracts related to reviews and audits of standalone and consolidated financial statements amounted to PLN 855.0 thousand (net of VAT) for the year 2006 and PLN 1,216.3 thousand (net of VAT) for the year 2005.

The total amount of fees arising from contracts concluded between the Bank and Ernst & Young Audit Sp. z o.o. for remaining services other than reviews and audits of financial statements was as follows: PLN 3,398.9 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 Bank 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.

18. 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 Bank's activities 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 Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna in 2006* consists of 45 consecutively numbered pages.

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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 financial statements of 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 profit and loss account for the period from 1 January 2006 to 31 December 2006 with a net profit amounting to 2,047,391 thousand zlotys,
   - the balance sheet as at 31 December 2006 with total assets amounting to 99,052,833 thousand zlotys,
   - the 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 1,255,330 thousand zlotys,
   - the cash flow statement for the period from 1 January 2006 to 31 December 2006 with a net cash inflow amounting to 2,675,007 thousand zlotys, and
   - the additional notes and explanations

   (the "attached financial statements").
2. The truth and fairness[1] of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. Our responsibility was to audit the attached financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair[2] and whether the accounting records that form the basis for their preparation are, in all material respects properly maintained.
3. We conducted our audit of the attached 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 financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

[1] Translation of the following expression in Polish: "*rzetelność, prawidłowość i jasność*"
[2] Translation of the following expression in Polish: "*rzetelne, prawidłowe i jasne*"

4. In our opinion, the attached financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Bank'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 correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
   - are, in respect of the form and content, in accordance with (i) legal regulations governing the preparation of financial statements and (ii) the Bank's Articles of Association.
5. We have read the Directors' Report of the Bank for the period from 1 January 2006 to 31 December 2006 and the rules of preparation of annual financial statements (the "Directors' Report") and concluded that the information derived from the attached financial statements reconciles with the Directors' 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

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

I. GENERAL NOTES

1. Background

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ("PKO BP SA", the "Bank") was incorporated on the basis of the Decree of the Council of Ministers dated 18 January 2000 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 (Journal of Laws of 28 January 2000, No 5, item 55) with its registered office in Warsaw, at Puławska 15 Street.

On 12 July 2001 the Bank was entered in the Register of Entrepreneurs of the National Court Register under No KRS 0000026438.

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 Bank is the holding company of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group. Details of transactions with affiliated entities and the list of companies in which the Bank holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in note 1 and 45 of the notes to the audited financial statements for the year ended 31 December 2006.

The Bank'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.

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 value of 1 zloty each.

(in thousand zlotys)

Equity as at that date amounted to 10,035,724 thousand zlotys.

In accordance with the letter of the Investor Relations Bureau dated 20 March 2007, as at 31 December 2006 the Bank's shareholding structure was as follows:

	Number of shares	Number of votes	Par value of shares (PLN)	% of issued share capital
State Treasury	514,959,296	51.50%	514,959,296	51.50%
Other shareholders	485,040,704	48.50%	485,040,704	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 Bank'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,
  - 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. Financial statements

On 19 May 2005 the General Shareholders' Meeting decided on preparation of the financial statements of the Bank in accordance with International Financial Reporting Standards as adopted by the EU.

2.1 Auditors' opinion and audit of 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 Supervisory Board of PKO BP SA on 7 April 2005 to audit the Bank's 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 financial statements, as defined in Art. 66, clause 2 and 3 of the Accounting Act dated 29 September 1994 (uniform text: Journal of Laws of 2002, No 76 with subsequent amendments – the "Accounting Act").

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

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the 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 financial statements of 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 profit and loss account for the period from 1 January 2006 to 31 December 2006 with a net profit amounting to 2,047,391 thousand zlotys,
   - the balance sheet as at 31 December 2006 with total assets amounting to 99,052,833 thousand zlotys,
   - the 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 1,255,330 thousand zlotys,
   - the cash flow statement for the period from 1 January 2006 to 31 December 2006 with a net cash inflow amounting to 2,675,007 thousand zlotys, and

- the additional notes and explanations

(the "attached financial statements").

2. The truth and fairness[1] of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. Our responsibility was to audit the attached financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair[2] and whether the accounting records that form the basis for their preparation are, in all material respects properly maintained.

3. We conducted our audit of the attached 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 financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

4. In our opinion, the attached financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Bank'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 correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
   - are, in respect of the form and content, in accordance with (i) legal regulations governing the preparation of financial statements and (ii) the Bank's Articles of Association.

5. We have read the Directors' Report of the Bank for the period from 1 January 2006 to 31 December 2006 and the rules of preparation of annual financial statements (the "Directors' Report") and concluded that the information derived from the attached financial statements reconciles with the Directors' 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)."

[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*"

(in thousand zlotys)

We conducted the audit of the Bank's financial statements 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.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness[4] of the financial statements and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Bank's Management Board also provided a letter of representations dated 27 March 2007, confirming that:

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

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

2.3 Financial statements of the Bank for prior financial year

The Bank's financial statements 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. z o.o. with its registered office in Warsaw at Rondo ONZ 1, an entity authorized for performing audit with the number 130 in the auditors' register.

The certified auditor acting on behalf of the authorized entity issued an unqualified opinion on the financial statements for the year ended 31 December 2005.

The Bank's financial statements for the year ended 31 December 2005 were approved by the General Shareholders' Meeting on 18 April 2006, and the shareholders resolved to appropriate the 2005 net profit and retained earnings as follows:

dividend for the shareholders	800,000
reserve capital	1,232,524
other reserve capital	5,000
general risk fund	70,000
Company social fund	250

Total, of which:	2,107,774
	========
profit for the year 2005	1,676,798
retained earnings	430,976

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

(in thousand zlotys)

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

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

The approved closing balances as at 31 December 2005 were correctly brought forward in the accounts as the opening balances at 1 January 2006.

3. Analytical review

3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Bank for the years 2005 - 2006. The ratios were calculated on the basis of financial information included in the financial statements for the year ended 31 December 2006. The selected basic data and financial ratios for 2004 were not presented as the Bank 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	99,052,833	90,327,516
Shareholders' equity	10,035,724	8,780,394
Net profit	2,047,391	1,676,798
Gross profit	2,502,064	2,073,310
Capital adequacy ratio in accordance with NBP methodology	11.70%	14.06%
Profitability ratio	69.71%	57.10%

$$\frac{\text{Gross profit}}{\text{General administrative expenses}}$$

(in thousand zlotys)

	2006	2005*
Costs to income ratio	59.25%	62.57%
General administrative expenses / Operating income		
Return on Equity (ROE)	21.76%	18.96% **
Net profit / Average shareholders' equity		
Return on Assets (ROA)	2.16%	1.91% **
Net profit / 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 financial statements for the year ended 31 December 2005 prepared according to International Financial Reporting Standards

3.2 Comments

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

- Net profit of the Bank for 2006 amounted to 2,047,391 thousand zlotys comparing to the net profit for 2005 amounting to 1,676,798 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 99,052,833 thousand zlotys in comparison to 90,327,516 thousand zlotys as at 31 December 2005.
- The profitability ratio increased from 57.10% in 2005 to 69.71% in 2006.
- Cost to income ratio decreased to 59.25% in 2006 comparing with 62.57% in 2005.
- As at 31 December 2006 the return on equity and return on asset ratios – respectively – amounted to 21.76% and 2.16%, comparing to 2005 when these ratios amounted to 18.96% and 1.91%, respectively.
- The Bank's capital adequacy ratio amounted to 11.70% as at 31 December 2006 comparing with 14.06% as at the end of 2005.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Bank 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 in the notes to the audited financial statements for the year ended 31 December 2006, the Management Board has stated that the financial statements were prepared on the assumption that the Bank 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 its continued activity.

3.4 Application of prudence regulations

As at 31 December 2006, the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland and Resolutions of the Commission for Banking Supervision envisaged banking regulatory norms in relation to the following items:

- level of currency positions,
- concentration of credit risk,
- concentration of investments in shares,
- classification of loans and issued guarantees and suretyships to risk categories, recognition of provisions related to banking operations,
- solvency,
- level of obligatory reserve,
- capital adequacy.

During our audit we have not identified any facts indicating that during the period from 1 January 2006 to 31 December 2006 the Bank did not comply with the above regulations. In addition, we have received written representation from the Bank's Management Board that during the year the banking regulatory norms were not breached.

3.5. Correctness of calculation of capital adequacy ratio

During our audit we have not identified any irregularities in relation to the calculation of the capital adequacy ratio as at 31 December 2006 in accordance with Resolution No 4/2004 of the Commission for Banking Supervision dated 8 September 2004 concerning the scope of and specific principles used for determining capital requirements relating to particular risks and the scope of utilization of statistical methods and conditions, which after being accepted, enable these methods to be approved, methods and specific principles used for calculation of a bank's capital adequacy ratio, the scope and method of taking into account banks' activities in holdings while calculating capital requirements and capital adequacy ratio, also specification additional balance sheet items of a bank to be recognized jointly with the bank's own funds within capital adequacy calculation, including the scope, method and conditions of establishing such items." (Official Journal of the National Bank of Poland No 15 of 5 October 2004).

II. DETAILED REPORT

1. Accounting System

The Bank's accounts are kept using the ZORBA 3000 (main Bank's accounting system) and the additional systems (Promak, Profile, SSGW, Oracle Financial, Flex Cube) in the Bank's head office.

The Bank has up-to-date documentation stated in the Art. 10 of Accounting Act including the Bank's chart of accounts accepted by the Bank' Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

2. Assets, liabilities and equity, profit and loss account of the Bank

Details of the Bank's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2006.

Verification of assets and liabilities was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2006.

3. Notes to the financial statements

The additional notes and explanations to the financial statements for the year ended 31 December 2006 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

4. Directors' Report

We have read the Directors' report on the Bank's activities in the period from 1 January 2006 to 31 December 2006 and the rules of preparation of annual financial statements (the "Directors' Report") and concluded that the information derived from the attached financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with the relevant provisions 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).

5. Materiality level

Professional judgment was applied taking into account the specific factors relating to the Bank to establish a level of materiality. This determination included considering both quantitative and qualitative factors.

6. Conformity with law and regulations

We have obtained a letter of representations from the Management Board confirming that neither laws nor provisions of the Bank's Articles of Association, which may have influenced the financial statements, were breached during the financial year.

7. 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
Ernst & Young Audit Sp. z o.o.
Rondo ONZ 1,
00-124 Warsaw
Registration No 130

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Arkadiusz Krasowski Certified Auditor No 10018/7417	Dominik Januszewski Certified Auditor No 9707/7255

Warsaw, 27 March 2007