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**THE FINANCIAL STATEMENTS OF
POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA
FOR 2005**

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SECURITIES AND EXCHANGE COMMISSION

The R 2005 Annual Report

(in accordance with § 86 par. 1 point 3 of the Decree of Minister of Finance dated 19 October 2005 - Journal of Laws No. 209, item. 1744)

(for banks)

for the year 2005 covering period from 2005-01-01 to 2005-12-31

containing financial statements prepared in accordance with International Accounting Standards

currency PLN

date of submission: 2006-03-28

Data relating to financial statements	in PLN thousands		in EUR thousands	
SELECTED FINANCIAL DATA	Period from 01.01.2005 to 31.12.2005	Period from 01.01.2004 to 31.12.2004 (comparative data)	Period from 01.01.2005 to 31.12.2005	Period from 01.01.2004 to 31.12.2004 (comparative data)
Net interest income	3 473 829	3 471 947	863 428	768 436
Net fees and commission income	1 169 839	1 581 055	290 766	349 930
Operating result	2 073 310	1 798 180	515 326	397 986
Profit before taxation	2 073 310	1 798 180	515 326	397 986
Net profit	1 676 798	1 447 850	416 772	320 448
Total equity	8 780 394	8 907 047	2 274 831	2 183 635
Net cash flow from operating activities	(3 410 059)	(1 982 221)	(847 578)	(438 719)
Net cash flow from investing activities	1 747 257	5 874 480	434 285	1 300 181
Net cash flow from financing activities	(952 237)	70 688	(236 681)	15 645
Total net cash flow	(2 615 039)	3 962 947	(649 974)	877 107
Basic earnings per share	1.68	1.45	0.42	0.32
Diluted earnings per share	1.68	1.45	0.42	0.32

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**THE FINANCIAL STATEMENTS OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI
SPÓŁKA AKCYJNA FOR THE YEAR ENDED 31 DECEMBER 2005**

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2005 and 31 December 2004

	Note	01.01 - 31.12.2005	01.01 - 31.12.2004 comparative data
Interest income	8	5 515 887	5 244 964
Interest expense	8	(2 042 058)	(1 773 017)
Net interest income		3 473 829	3 471 947
Fees and commission income	9	1 502 668	1 865 208
Fees and commission expense	9	(332 829)	(284 153)
Net fees and commission income		1 169 839	1 581 055
Dividend income	10	28 881	22 291
Result from financial instruments at fair value	11	30579	(45 976)
Result from investment securities	12	276 724	(21 028)
Foreign exchange result	13	613 715	434 934
Other operating income	14	259 690	229 837
Other operating expenses	14	(49 723)	(96 370)
Net other operating income		209 967	133 467
Impairment losses	16	(98 900)	(133 274)
General administrative expenses	15	(3 631 324)	(3 645 236)
Operating profit		2 073 310	1 798 180
Profit (loss) before taxation		2 073 310	1 798 180
Income tax expense	18	(396 512)	(350 330)
Net profit (loss)		1 676 798	1 447 850
Earnings per share:			
– Basic earnings per share		1.68	1.45
– Diluted earnings per share		1.68	1.45

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BALANCE SHEET

as at 31 December 2005 and 31 December 2004

	Note	31.12.2005	31.12.2004 comparative data
ASSETS			
Cash and amounts due from the Central Bank	20	3 832 695	3 490 505
Amounts due from banks	21	12 631 446	13 146 115
Financial assets held for trading	22	841 914	346 131
Derivative financial instruments	23	1 137 227	1 362 379
Other financial instruments valued at fair value through profit or loss	24	20 034 160	-
Loans and advances to customers	25	46 051 847	39 577 723
Investment securities	26	1 857 578	23 498 314
1. Available for sale		1 857 578	21 605 297
2. Held to maturity		-	1 893 017
Shares in subsidiaries, associates and jointly controlled entities	27	899 932	764 865
Intangible assets	28	525 306	384 045
Tangible fixed assets	29	2 201 163	2 218 233
Receivable from income tax	18	-	20 153
Deferred tax asset	18	-	-
Other assets	30	314 248	303 133
TOTAL ASSETS		90 327 516	85 111 596

	Note	31.12.2005	31.12.2004 comparative data
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank	32	766	144
Amounts due to other banks	33	1 943 035	800 403
Derivative financial instruments	23	1 257 384	793 739
Amounts due to customers	35	75 886 880	72 576 273
Liabilities arising from securities issued	36	-	-
Other liabilities	37	1 666 180	1 243 604
Liabilities from income tax	18	436 494	-
Deferred tax liability	18	31 351	583 353
Provisions	38	325 032	207 033
TOTAL LIABILITIES		81 547 122	76 204 549
Equity			
Share capital	42	1 000 000	1 000 000
Other capital items	43	5 672 620	5 900 933
Retained earnings	43	430 976	558 264
Net profit for the period		1 676 798	1 447 850
TOTAL EQUITY		8 780 394	8 907 047
TOTAL LIABILITIES AND EQUITY		90 327 516	85 111 596

Capital adequacy ratio		14.06	18.70
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Capital adequacy ratio as at 31 December 2004 was calculated on the basis of comparative data which were restated in order to comply with the changes in accounting principles. In accordance with the approved financial statements of the Bank as at 31 December 2004, the capital adequacy ratio amounted to 16.77%.

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OFF-BALANCE SHEET ITEMS

as at 31 December 2005 and 31 December 2004

	Note	31.12.2005	31.12.2004 comparable data
Off-balance sheet contingent liabilities granted	41	10 533 845	7 148 458
1. financial		9 025 801	6 290 493
2. guarantee		1 508 044	857 965
Liabilities arising from purchase/sale transactions		279 032 527	170 088 351
Other, of which:		11 422 181	12 368 143
- irrevocable liabilities	41	8 519 942	9 504 544
- collaterals received		2 902 239	2 863 599
Total off-balance sheet items		300 988 553	189 604 952

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STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2005

	Share capital	Other capital items				Retained earnings	Net profit (loss) for the period	Total Equity
		Reserve capital	Revaluation reserve	General banking risk fund	Other reserves			
Balance as at 1 January 2005 in accordance with IAS	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 deferred tax	-	-	(165 071)	-	-	-	-	(165 071)
Balance as at 31 December 2005 in accordance with IAS	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 12-115 are an integral part of these financial statements.

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For the year ended 31 December 2004 (comparative data)

	Share capital	Other capital items				Retained earnings	Net profit (loss) for the period	Total Equity
		Reserve capital	Revaluation reserve	General banking risk fund	Other reserves			
Balance as at 1 January 2004 in accordance with IAS	1 000 000	1 771 771	69 199	1 333 530	1 360 000	593 752	1 192 506	7 320 758
Issue of securities	-	-	-	-	-	-	-	-
Transfer of net profit	-	-	-	-	-	1 192 506	(1 192 506)	-
Transfer from net profit to reserve capital	-	1 017 994	-	200 000	10 000	(1 227 994)	-	-
Payment of dividends	-	-	-	-	-	-	-	-
Movement in available-for-sale investments less deferred tax	-	-	172 006	-	-	-	-	172 006
Utilisation of provision for general risk	-	-	-	(33 567)	-	-	-	(33 567)
Net profit (loss) for the period	-	-	-	-	-	-	1 447 850	1 447 850
Balance as at 31 December 2004 in accordance with IAS	1 000 000	2 789 765	241 205	1 499 963	1 370 000	558 264	1 447 850	8 907 047

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CASH FLOW STATEMENT**for the years ended 31 December 2005 and 31 December 2004**

	Note	01.01 - 31.12.2005	01.01- 31.12.2004 comparative data
Cash flow from operating activities			
Net profit (loss)		1 676 798	1 447 850
Adjustments:		(5 086 857)	(3 430 071)
Depreciation		419 287	471 396
Foreign exchange differences		-	-
(Profit) loss from investing activities	44	14 980	41 551
Interest and dividends	44	(899 268)	(2 078 191)
Change in loans and advances to banks	44	(2 442 130)	(918 465)
Change in financial assets held for trading and other financial instruments valued at fair value through profit or loss	44	(576 203)	528 906
Change in derivative financial instruments (asset)		225 152	(1 100 926)
Change in loans and advances to customers	44	(7 080 628)	(2 110 252)
Change in securities available for sale		-	-
Change in other assets		9 038	100 386
Change in amounts due to banks	44	1 143 254	(275 281)
Change in derivative financial instruments (liability) and other financial liabilities at fair value		463 645	567 332
Change in amounts due to customers	44	3 266 807	928 487
Change in provisions		(592 544)	52 563
Change in other liabilities		1 036 175	85 794
Income tax paid		(368 606)	(319 871)
Current tax expense		396 512	362 687
Other adjustments	44	(102 328)	233 813
Net cash from operating activities		(3 410 059)	(1 982 221)
Cash flow from investing activities			
Inflows from investing activities		2 449 820	6 736 964
Sale of shares in a subsidiary		-	-
Sale of shares in a jointly controlled entity		-	-
Sale of shares in associates		200	-
Redemption of investment securities		2 409 738	6 694 515
Sale of intangible assets and tangible fixed assets		11 026	20 165
Other investing inflows		28 856	22 284
Outflows from investing activities		(702 563)	(862 484)
Purchase of a subsidiary, net of cash acquired		(89 940)	(137 587)
Purchase of shares in jointly controlled entities		(17 498)	-
Purchase of shares in associates		-	(146 500)
Purchase of investment securities		-	-
Purchase of intangible assets and tangible fixed assets		(595 125)	(578 397)
Other investing outflows		-	-
Net cash used in investing activities		1 747 257	5 874 480

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	Note	01.01- 31.12.2005	01.01- 31.12.2004 comparative data
Cash flow from financing activities			
Issue of shares		-	-
Issue of debt securities		-	-
Redemption of debt securities		-	-
Dividends paid to shareholders		(1 000 000)	-
Dividends paid to minority shareholders		-	-
Long-term loans taken out		-	-
Long-term loans repaid		-	-
Other financing inflows / outflows		47 763	70 688
Net cash generated from / (used in) financing activities		(952 237)	70 688
Net increase (decrease) in cash and cash equivalents	44	(2 615 039)	3 962 947
Cash and cash equivalents at the beginning of the period		13 819 675	9 856 728
Cash and cash equivalents at the end of the period		11 204 636	13 819 675
- include those with limited disposal		2 479	2 911

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NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2005

1. Basic 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 2005 and include comparative data for the year ended 31 December 2004.

The Bank was established 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 2000, No. 5, item 55) with its registered office in Warsaw, ul. Puławska 15.

On 12 April 2000, Powszechna Kasa Oszczędności Bank Polski SA was entered in the Trade Register kept by the District Court for the Capital City of Warsaw, Business Court XVI Registration Department. Currently the Bank is registered with the District Court for the Capital City of Warsaw, XVI Economic Department of the National Court Register, Entry no. KRS 0000026438. The Bank's share capital amounts to PLN 1,000,000 thousand. The Bank's REGON statistical number is 016298263, and was granted on 18 April 2000.

As at 31 December 2005, the Bank's shareholding structure was as follows:

Name	Number of shares	Number of votes	Nominal value of 1 share	Percentage of share capital
		%		
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 Warsaw Stock Exchange bulletin (*Cedula Gieldowa*), the Bank is classified to the macro-sector "Finance", sector "Banks".

Bank's business activities

The activities described in detail in the subsequent parts of this document 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.

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

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

- accepting call (demand) or term deposits and keeping deposit accounts,
- keeping other types of bank accounts,
- extending loans,
- extending cash advances,

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- extending and confirming bank guarantees and opening and confirming letters of credit,
- performing bank settlements in the forms recognized in both domestic and foreign banking environment,
- operations including cheques and bills of exchange,
- issuing bank securities,
- issuing payment cards and performing operations using such cards,
- conducting forward transactions with domestic and foreign banks and other financial institutions,
- purchase and disposal of debts,
- issuing electronic money instruments,
- performing operations relating to the issue of securities,
- safe-keeping of valuables and securities, and provision of safe deposit facilities,
- performing banking activities on behalf of other banks,
- conducting the Building Society operations,
- purchase and sale of foreign exchange,
- intermediation in money transfers and settlements in foreign exchange trade,
- granting and confirming sureties.

Additionally, the Bank's scope of activities includes:

- servicing the State Treasury loans and bonds,
- taking out loans and cash advances,
- accepting guarantees and securities,
- brokerage activities based on rules set in separate regulations,
- rendering financial services in connection with canvassing activities, as defined in the Act on the organization and operation of pension funds,
- rendering custodial services on the basis of the Act on the organization and operation of pension funds,
- trading in domestic and foreign securities in compliance with separate regulations and the custody of these,
- operating schools' savings units ("*szkolna kasa oszczędności*")
- rendering custodial services,
- rendering intermediation services within the scope set out in the Act on insurance activity,
- financial consulting and advisory services,
- organizing transport services for valuables,
- finance lease services,
- purchase and disposal of shares and debts on its own account and rendering factoring services.

In addition, the Bank can:

- take up or acquire shares and related rights, in other legal entities and participation units of trust funds,
- invest in domestic and foreign securities,
- acquire and dispose of real property and movables and rent or lease them,
- provide financial, settlement and consultancy services in respect of financial instruments, and
- trade in securities.

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

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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 12 months from the balance sheet date, i.e. 31 December 2005. As at the date of signing the 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 the twelve 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 2005 and include comparative financial data for the year ended 31 December 2004. The financial data is presented in PLN thousands.

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

As at 31 December 2005, the Bank's Management Board consisted of:

- Andrzej Podsiadło - Board President
- Kazimierz Małecki - Vice-President and First Deputy President
- Danuta Demianiuk - Vice-President
- Sławomir Skrzypek - Vice-President
- Piotr Kamiński - Board Member
- Jacek Obłękowski - Board Member
- Krystyna Szewczyk - Board Member

On 8 December 2005, the Supervisory Board of the Bank passed a resolution appointing Sławomir Skrzypek to the position of Vice-President of the Bank's Management Board as of 20 December 2005.

As at 31 December 2005, the Bank's Supervisory Board consisted of:

- Bazył Samojlik - Chairman
- Urszula Pałaszek - Vice-Chairman
- Krzysztof Zdanowski - Secretary
- Ryszard Kokoszczyński - Member
- Stanisław Kasiewicz - Member
- Andrzej Giryń - Member
- Jerzy Osiatyński - Member
- Czesława Siwek - Member
- Władysław Szymański - Member

On 13 April 2005, Arkadiusz Kamiński resigned from the position of the Secretary of the Supervisory Board.

On 19 May 2005, the Annual General Meeting of PKO BP SA appointed the following persons to the Supervisory Board:

- Urszula Pałaszek
- Krzysztof Zdanowski
- Czesława Siwek

Internal organisational units of PKO BP SA

The financial statements of PKO BP SA, comprising financial data for the year ended 31 December 2005 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 2005, these organizational units included: the Bank's Head Office in Warsaw, BDM - Bankowy Dom Maklerski, COK - Centrum Operacji Kartowych, CBE - Centrum Bankowości Elektronicznej Inteligo, 6 specialized units, 12 regional retail branches, 13 regional

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corporate branches, 537 independent branches, 619 offices (subordinated branches), 13 corporate client teams, 57 corporate centres and 2,510 agencies. Except for BDM, none of the organizational units listed above prepares separate financial statements.

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

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

Structure of the PKO BP SA Group

No.	Name	Registered office	Activity	Percentage of issued share capital (%)	
				31.12.2005	31.12.2004
PKO BP SA Group					
Holding company					
1	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna				
Direct subsidiaries					
2	Powszechne Towarzystwo Emerytalne BANKOWY S.A.	Warsaw	Pension fund management	100.00	100.00
3	Centrum Finansowe Puławska Sp. z o.o.	Warsaw	Construction and use of business premises	100.00	100.00
4	Kredobank S.A. *	Lvov, Ukraine	Financial services	69.018	66.651
5	PKO Inwestycje Sp. z o.o.	Warsaw	Trading in real estate	100.00	100.00
6	Inteligo Financial Services S.A.	Warsaw	Financial services	100.00	100.00
7	Centrum Elektronicznych Usług Płatniczych eService S.A.	Warsaw	Monetary agency services	100.00	100.00
8	Bankowy Fundusz Leasingowy S.A.	Łódź	Leasing	100.00	100.00
9	Bankowe Towarzystwo Kapitałowe S.A.	Warsaw	Other intermediary financial services	100.00	100.00
Indirect subsidiaries					
Subsidiaries of PKO Inwestycje Sp. z o.o.					
10	Fort Mokotów Sp. z o.o.	Warsaw	Construction	51.00	51.00
11	POMERANKA Sp. z o.o.	Warsaw	Construction	100.00	-
12	Wilanów Investments Sp. z o.o.	Warsaw	Construction	100.00	51.00
13	UKRPOLINWESTYCJE Sp. z o.o.	Kiev, Ukraine	Construction	55.00	-
Subsidiary of PTE BANKOWY S.A.					
14	Finanse Agent Transferowy Sp. z o.o.	Warsaw	Financial intermediary services	100.00	100.00

*Until 22 December 2005, it operated under the name of Kredyt Bank (Ukraine) S.A.

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Jointly controlled entities

No.	Name	Registered Office	Activity	Percentage of issued share capital (%)	
				31.12.2005	31.12.2004
1	Centrum Obsługi Biznesu Sp. z o.o.	Poznań	Hotel services	41.44	-
2	PKO/CREDIT SUISSE Towarzystwo Funduszy Inwestycyjnych S.A.	Warsaw	Investment fund management	50.00	50.00
3	WAWEL Hotel Development Sp. z o.o.	Kraków	Hotel services	35.40	35.40

Associates

No.	Name	Registered Office	Activity	Percentage of issued share capital (%)	
				31.12.2005	31.12.2004
1	Bank Pocztowy S.A.	Bydgoszcz	Financial services	25.0001	25.0001
2	Kolej Gondolowa Jaworzyna Krynica S.A.	Krynica	Construction and operation of cable railway	37.83	38.23
3	Ekogips S.A. – 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	32.50
6	Agencja Inwestycyjna CORP S.A.	Warsaw	Production on the market of construction projects	22.31	22.31
An associate of Bank owe Towarzystwo Kapitałowe SA					
7	FINDER Sp. z o.o.	Warsaw	Car location and fleet management services	42.31	-

Approval of financial statements

These financial statements have been approved for publication by the Management Board of the Bank on 21 March 2006.

Consolidated financial statements of PKO BP S.A. Group were also approved on 21 March 2006 together with the financial statements of PKO BP S.A.

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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 with subsequent amendments ("Accounting Act"), 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. On the basis of Resolution no. 28/2005 of 19 May 2005, the Annual General 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 (IFRS), and, in particular, in accordance with International Accounting Standard 1 and all regarding the Bank International Financial Reporting Standards approved by EU

The Bank's financial statements as of 31 December 2005 are prepared for the first time in accordance with International Financial Reporting Standards. For the purpose these financial statements, 1 January 2004 was the date of transition to IAS date. The last financial statements prepared in accordance with Polish Accounting Standards ("PAS") were financial statements for the year ended 31 December 2004.

Reconciliation of the equity and net profit for the year ended 31 December 2004 (as well as the equity, net profit and significant adjustments to the cash flow statement as at 1 January 2005) and the equity as at 1 January 2004, prepared in accordance with PAS and IAS, are presented in Note 47.

The Bank applied IFRS being in force as at 31 December 2005. The Bank applied the same accounting policies in preparing the opening balance sheet according to IAS as at 1 January 2004 and for all periods presented in these financial statements. All changes in accounting policies were applied retrospectively, except for the following exemptions allowed by IASs, which the Bank decided to apply:

- Fair value or revaluation to deemed cost (IFRS 1.16-19)

On the basis of the exemption allowed by IFRS 1, the Bank has measured the selected items of tangible fixed assets at fair value as of the transition date, and used that fair value as deemed cost at that date.

- Designation of previously recognized financial instruments (IFRS 1.25A)

The Bank designated financial instruments reported at fair value through profit and loss or as available for sale at the transition date, i.e. in the case of IAS 39 – as at 1 January 2005 (see note below).

- Share-based payment transactions (IFRS 1.25B)

In accordance with IFRS 1, the first-time IFRS adopter is recommended – but not required – to apply the provisions of IFRS 2 *Share-based payment* with respect to equity instruments that were granted on or before 7 November 2002 or were granted after 7 November 2002 and vested before 1 January 2005. Accordingly, the Bank took advantage of the exemptions of IFRS 1 and did not apply the IFRS 2 requirements to the granted employee shares.

Additionally, the Bank used the exemption from the requirement to restate comparatives relating to IAS 39 and IAS 39. Transactions, assets and liabilities covered by those standards for the periods starting from 1 January 2004 and ended 31 December 2004 or earlier were presented in accordance with Polish Accounting Standards.

New IFRS/IAS introduction.

As at 31 December 2005, the European Commission adopted, with the effective date subsequent to 31 December 2005, new standards and amendments to certain standards and their interpretations in force, New standards and amendments to the standards which could have impact on the Bank's financial statements are as follows:

- IFRS 7 *Financial Instruments Disclosures* – this standard is effective since 1 January 2007, however earlier application is permitted. IFRS 7 replaces IAS 30 *Disclosure in the Financial Statements of Banks and Similar Financial Institutions* and disclosure requirements of IAS 32 *Financial Instruments Disclosure and Presentation* binding as at the balance sheet date. IFRS 7 extends the quantitative and qualitative disclosure

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requirements for financial instruments risk management: credit risk, liquidity risk and market risk. The Bank assesses that mainly the disclosures for market risk sensitivity will require additional information and disclosures.

- IAS 1 *Presentation of Financial Statements* – these amendments to the standard are effective from 1 January 2007, however earlier application is permitted. Amended IAS 1 requires additional disclosures related to shareholders' equity management. The Bank expects that disclosures related to shareholders' equity management would require certain additional information in the financial statements.
- IAS 39 *Financial Instruments: Recognition and Measurement – Fair Value Option* with resulting amendments in IFRS 1. 1 January 2006 is the effective date of these amendments, however earlier application is permitted. However, if the Bank had applied the amendments earlier, i.e. before December 2005, it would not be able to apply the option of measurement at fair value of assets and liabilities other than those measured at fair value on this date.

In the financial statements for the year ended 31 December 2005 the Bank applied the amendment to IAS 39 *Financial Instruments: Recognition and Measurement* and to IFRS 4 *Insurance contracts* as to financial guarantees issued by Council of International Accounting Standards and approved by European Union on 11 January 2006.

The Polish Zloty is the functional currency and presentation currency in the Bank's financial statements.

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 2005 are as follows:

a) Estimates

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

The estimates that were made at the transition date, i.e. 1 January 2004, and 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 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 or events or groups of events which occurred after the date of the initial recognition of the asset 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 amounts of write-offs due to impairment.

The Bank uses three methods for the estimation of impairment:

- 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,
- 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,
- 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-offs 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.

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The Bank expects that the methodology used for estimating impairment write-offs in 2005 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 the improvement of a data quality may have a significant influence on the level of impairment allowance in 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 the anticipated level of these obligations according to the Collective Labour Agreement ("*Zakładowy Układ Zbiorowy Pracy*") being in force at the Bank. 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 technical interest rate was adopted at the level of 0.5%.

b) Cash and cash equivalents

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

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Equity instruments

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

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

Debt instruments

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

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

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

Derivative instruments

Speculative derivative financial instruments are recognised at fair value at the date of transaction and are subsequently stated 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 assets and liabilities stated at fair value through profit or loss or foreign exchange result (FX swap, FX forward and CIRS transactions), in correspondence with receivables or liabilities arising from derivative financial instruments, as appropriate.

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 or 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:

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- 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 and 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,

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- 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 financial 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. This category includes debt securities acquired from the issuer for which there is no active market, loans, advances and other receivables acquired and allowed. 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 amortisation 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 influence the financial characteristics of the instrument. Commissions and fees, which are an integral part of the effective return on a loan, 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 recognised 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 recognised 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 recognised as interest expense/income, as appropriate, and is amortised over the term of the contract using the effective interest rate.

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

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f) 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) the disappearance of an active market for that financial asset due to financial difficulties of the issuer or debtor,
- 6) 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 losses on loans, which 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"

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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.

g) Derecognition of financial instruments

Financial instruments are derecognised when the Bank loses 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 loses control over the rights arising from that loan or part of loan. The Bank loses control, if the rights pertaining to the loan agreement expire, or the Bank waives those rights or sells the loan. Usually the Bank derecognises loans when they have been forgiven, when the period of limitation expired or when the loan is not recoverable.

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

Items of tangible fixed assets are stated at the balance sheet date at acquisition cost or cost of production, less accumulated depreciation 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 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 periods and depreciation 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 charges and impairment losses are expensed directly to the profit and loss account for the current period.

Intangible assets are stated at acquisition cost or cost of production, less amortisation and impairment losses.

Amortisation is charged using the straight-line method over the estimated useful life of the given asset. Intangible assets with indefinite useful life are not amortised.

Intangible assets with indefinite useful life are subject to review for impairment. Other intangible assets are reviewed for impairment when there were events or circumstances indicating that their carrying amount may not be recoverable.

Amortisation charges and impairment losses are expensed directly to the profit and loss account for the current period. The adopted amortisation periods and amortisation rates are subject to periodic verification.

The acquisition cost and the cost of production of tangible fixed assets, assets under construction and intangible assets comprises aggregate costs directly related to bringing the asset to a condition allowing normal usage, incurred by the entity during the period of construction, assembly, adaptation or improvement up to the balance sheet date or the date of accepting the asset for use, including:

- 1) non-deductible VAT and excise tax;
- 2) borrowing costs related to liabilities incurred in order to finance the acquisition or production of such assets - if they are related to the acquisition, construction or production of a "qualifying asset" i.e. an asset that requires a considerable amount of time in order to be prepared for the intended use or disposal, as well as foreign exchange gains or losses, if they are considered to adjust interest costs;
- 3) estimated costs of dismantling and removal of an asset and the costs of renovation of the place where the asset was located, when there is an obligation to incur such costs and the present value of the estimated future costs is considerable when compared to the acquisition cost or the cost of construction of the asset.

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.

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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,

with an allowance for the residual value of the asset expected at liquidation, i.e. the net amount that the Bank expects to obtain at the end of the useful life, net of the expected costs of disposal, if the present value of the residual value expected at liquidation is considerable when compared with the cost of acquisition or production of the asset.

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.

The residual values and the adopted useful lives of tangible fixed assets and intangible assets are subject to verification for correctness depending on changes in the expected useful life of the asset. Such verification should be made at least at the end of each financial year, at a date that allows the Bank to make any potential adjustments starting from the first month of the following financial year.

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

Tangible fixed assets	Periods
Buildings, premises, cooperative rights to premises	9-67 years
Leasehold improvements (buildings, premises)	10 years*
Plant and machinery	5-22 years
Computer hardware	1.5-3 years
Motor vehicles	4-7 years

* For leasehold improvements, useful lives depend on the term of the contract. For leasehold improvements in buildings and premises subject to rental contracts concluded for an undefined period of time, the Bank applies useful lives of 10 years.

Amortisation periods used by PKO BP SA for intangible assets are as follows:

Intangible assets	Periods
Licences for computer software	2 years
Copyright, including rights to computer software	2 years
Other intangible assets	2-5 years

i) Investment property

Initially, investment property is measured at its cost, which includes transaction costs. After initial recognition, investment property is stated at fair value. 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.

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

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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. No depreciation is charged on assets classified into this category. Impairment charges of non-current assets held for sale are recognized in the profit and loss account for a period in which this impairment charges were made.

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. Provisions for the impairment of 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 provisions 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 2005 into euro, the Bank used the rate of 3.8598 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 2004 into euro, the Bank used the rate of 4.0790 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 2005 have been translated into euro using the rate of 4.0233 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 2004 have been translated into euro using the rate of 4.5182 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	01.01. – 31.12.2005	01.01. – 31.12.2004 (comparative data)
Rate prevailing on the last day of the period	3.8598	4.0790
Rate representing the arithmetical mean of the rates prevailing on the last days of each month of the period	4.0233	4.5182
The highest rate in the period	4.2756	4.9149
The lowest rate in the period	3.8223	4.0518

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

For off-balance sheet liabilities granted which carry default risk of the commissioning party provisions are made 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

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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.

Income tax relating to items recognized directly in equity are recognized in equity and not in the profit and loss account

p) Financial liabilities at fair value

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

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.

In accordance with 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 benefits upon retirement. The Bank periodically performs an actuarial valuation of its future liabilities to employees.

The Bank creates an accrual for the future liabilities of the Bank relating to unused annual leave, taking into account all outstanding unused holiday days, as well as for the costs of the current period which will be incurred in the following periods.

u) Financial result

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 bonuses, 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.

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- 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 expense comprises mainly amounts of commission paid to agents, including commission on loans, that were not included in the calculation of the effective rate due to immateriality.

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 translated using the average NBP exchange rates 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 sale or liquidation of non-current assets and assets seized in exchange for debts, recovered bad debts, received compensation, fines and penalties, income from lease/rental of properties and released provisions for amounts in dispute and assets seized in exchange for debts.

Other operating expense mostly includes costs of sale or liquidation of non-current assets, including assets seized in exchange for debts, costs of collecting debts, costs of provisions for amounts in dispute and donations.

v) 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 Mortgage Fund (Journal of Laws No. 58, item 511).

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 losses which can be a result of the Bank's activities. Decisions to use 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 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. In the comparative data, this item also includes general banking risk provision, as described in Note 47.

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 corporate income tax expense.

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

According to the Social Fund Act dated 4 March 1994, with subsequent amendments, the Bank established a Social Fund. The aim of this Fund is to finance social activities on behalf of employees and to subsidise the Bank's social facilities. The Fund's liabilities 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. Principles and objectives 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 objectives and 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 point 2 under "Principal accounting policies and methods used by PKO BP SA".

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 requires a comprehensive credit risk assessment using the internal rating or scoring assessment,
- measurement of credit risk of potential or executed loan transactions is performed on a regular basis taking into account changes in external conditions and changes in the financial situation 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 together with contingent liabilities granted related to one entity or to 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 2005, the exposure of PKO BP SA towards two entities amounted respectively to: PLN 4,502,699 thousand (balance and balance sheet) and PLN 1,744,825 thousand (balance sheet). According to Article 71.3 of the Banking Law, concentration limits do not apply to these exposures.

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a) Concentration of credit risk by borrowers:

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 1	2 408 699	4.94%
2	Borrower 2	1 744 825	3.58%
3	Borrower 3	753 278	1.55%
4	Borrower 4	495 965	1.02%
5	Borrower 5	397 612	0.82%
6	Borrower 6	387 400	0.80%
7	Borrower 7	222 229	0.46%
8	Borrower 8	204 517	0.42%
9	Borrower 9	199 942	0.41%
10	Borrower 10	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.

As at 31 December 2005, the two biggest exposures towards 10 biggest borrowers amounted to 4.94% and 3.58%, respectively. The risks related to these exposures corresponded to the State Treasury risk.

The other exposures resulted from transactions concluded with:

- Entities effectively controlled by the Bank – 1.02%,
- Local authorities – 1.55%,
- Large corporate clients – 2.90%,
- Private individuals – 0.41%.

Due to the fact that the level of the risk related to the two entities with the biggest exposure corresponds to the State Treasury risk, this concentration does not result in an increase of the Bank's credit risk.

As at 31 December 2004
(comparative date)

Exposure of the Bank towards 10 biggest borrowers			
No.	Borrower	Total exposure*	Percentage of the Bank's loan portfolio**
1	Borrower 2	2 504 664	6.09%
2	Borrower 1	1 676 880	4.08%
3	Borrower 3	856 854	2.08%
4	Borrower 5	435 883	1.06%
5	Borrower 4	361 600	0.88%
6	Borrower 8	236 004	0.57%
7	Borrower 9	219 022	0.53%
8	Borrower 11	201 416	0.49%
9	Borrower 12	190 286	0.46%
10	Borrower 13	176 649	0.43%

*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.

In the total amount of exposure towards the 10 biggest borrowers, the two biggest exposures amounted respectively to 6.09% and 4.08%. The risks related to these exposures corresponded to the State Treasury risk.

The other exposures resulted from transactions concluded with:

- Entities effectively controlled by the Bank – 0.88%,
- Local authorities – 2.54%,
- Large corporate clients – 3.08%,

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- Private individuals – 0%.

Due to the fact that the level of the risk related to the two entities with the biggest exposure corresponds to the State Treasury risk, this concentration does not result in an increase of the Bank's credit risk.

b) Concentration of credit risk by capital groups

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 1	1.39%
Group 2	1.07%
Group 3	1.04%
Group 4	0.90%
Group 5	0.88%
Total	5.28%

*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, 46.4% share of the total exposure was valued according to IAS 39. Based on the Bank methodology, none of these exposures is individually impaired. 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 2004
(comparative data)

Total exposure towards 5 biggest groups that are the Bank's clients	Percentage of the Bank's loan portfolio*
Group 1	2.77%
Group 2	1.35%
Group 3	1.14%
Group 4	1.03%
Group 5	0.75%
Total	7.04%

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

Out of the total amount of the exposure towards the groups listed above, 67.41% exposures were classified as "normal", 31.57% were classified as "watch", 0.98% were classified as "sub-standard" and 0.04% were classified as "doubtful", according to the regulations being in force in 2004.

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.

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

Section	Description	Share in loan portfolio	
		31.12.2005	31.12.2004 comparative data
D	Manufacturing	18.20%	14.80%
E	Electricity, gas and water supply	10.30%	9.40%
F	Construction	2.60%	2.70%
G	Trade (wholesale and retail), repairs of cars, motorbikes and household and personal goods	11.90%	10.80%
K	Real estate activities, renting, and business-related services	7.80%	7.10%
L	Public administration and national defence, obligatory social security and public health insurance	38.00%	45.40%
	Other exposures	11.20%	9.80%
	Total	100.0%	100.0%

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Market risk

Market risk includes: interest rate risk, currency risk, capital adequacy risk, equity price risk in trading book, derivatives risk, risk of financial institutions, as well as 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 Assets and Liabilities Management 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.

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 volatility, 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. Every day, the model is back-tested in order to verify the assumptions used.

Currency risk management is conducted by means of setting limits and thresholds for this risk. The values to which the limits apply include: currency position, Value at Risk calculated for 10-day time horizon and loss from speculative transactions on currency market.

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.

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

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.

Framework agreements concluded by the Bank with the main counterparties on the basis of the framework agreement of the Polish Banks Association (*Związek Banków Polskich - ZBP*) for domestic banks and of ISDA for foreign banks play a significant role in the process of limiting 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 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 portfolio, determining the market result realized on original positions, determining the loss realized on original positions classified to 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) underwriting risk for the trading book,
- 6) 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 values that are subject to limits are open positions, daily losses and options' sensitivity.

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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 or requirements which may occur due to changes in market environment.

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

The Bank uses the following tools for liquidity risk measurement:

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

The main liquidity risk management tools include:

- 1) internal procedures for liquidity risk management,
- 2) limits and thresholds reducing liquidity risk,
- 3) deposit and investment transactions, including structural currency transactions and securities purchase and sale transactions,
- 4) cash management.

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 2005

Interest rate risk*

Financial assets and financial liabilities subject to interest rate risk¹

	31.12.2005
Debt securities	21 797 873
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 and negotiable receivables	12 730 534
TOTAL	4 948 578

Financial assets and financial liabilities subject to cash flow risk connected with interest rate¹

	31.12.2005
Loans and advances based on variable interest rates	48 007 343
Deposits from customers based on variable interest rates	(46 318 895)
TOTAL	1 688 448

Off-balance sheet transactions – fair value¹

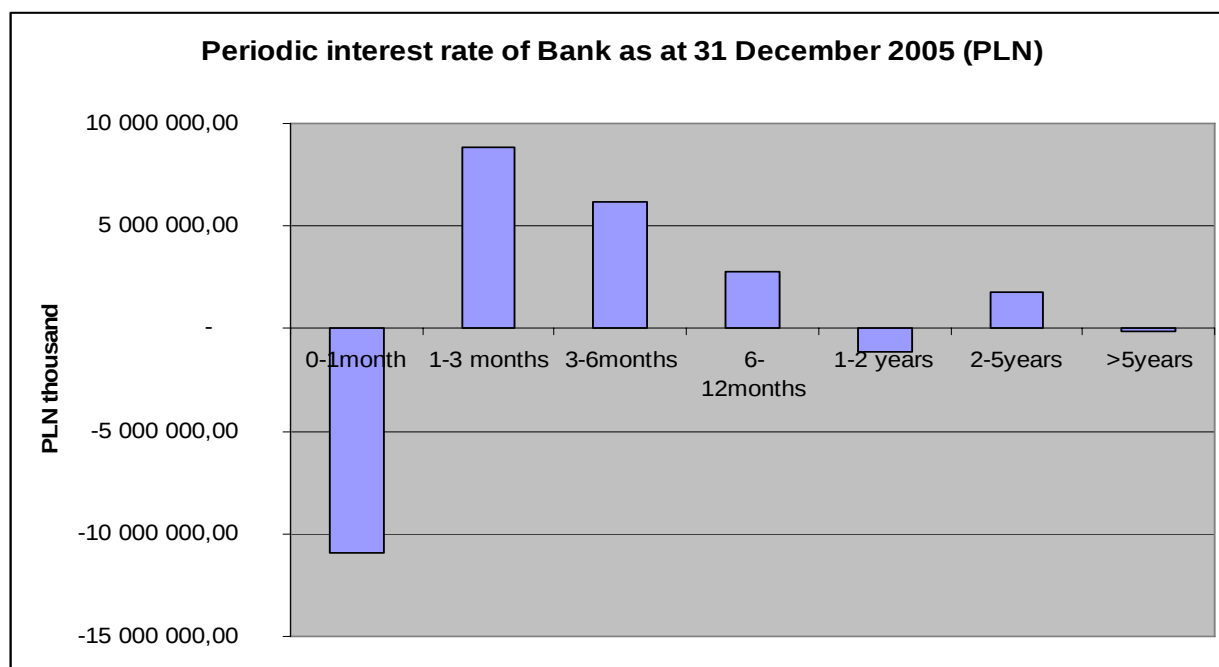
	31.12.2005
Derivatives	(126 795)

* Amounts included in the interest rate risk model of the Bank

¹ Total for all currencies.

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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)	7 401 388
Cumulative gap	(10 910 303)	(2 099 337)	4 064 021	6 804 087	5 703 784	7 516 565	7 401 388	x



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

USD Repricing Gap (USD thousands)	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

EUR Repricing Gap (EUR thousands)	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	17 359	17 359	17 425	21 243	X

CHF 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 exposure of the Bank to the interest rate risk remained at an acceptable level. The Bank was mainly exposed to the PLN interest rate, which generated approximately 73% of risk in this area (VaR).

The interest rate risk in PKO BP SA remained at a low level. As at 31 December 2005, the interest rate VaR in the 10-days' time horizon (10-days VaR) amounted to PLN 27,164 thousand, which is about 0.45% of the

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Bank's capital. The interest rate risk was generated mainly by the risk of assets' and liabilities' changes of interest's mismatch.

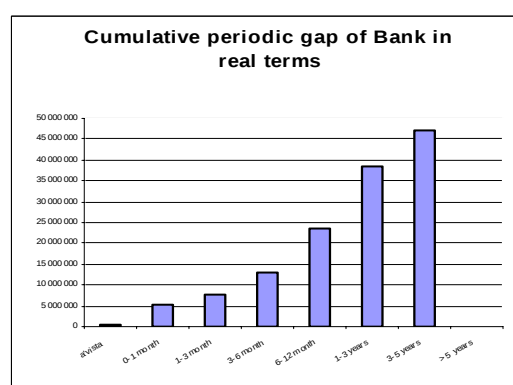
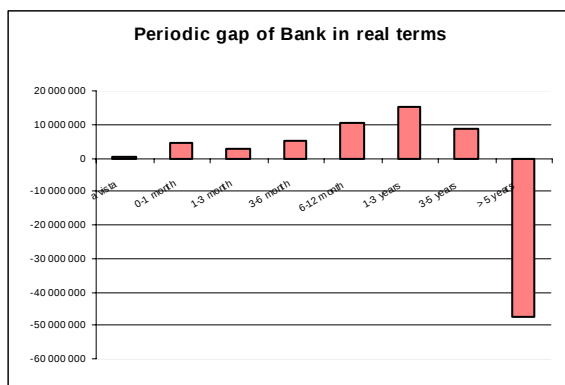
Effective interest rate (for the Bank)

Loans	PLN	EUR	USD	GBP	CHF
Total	8.34	5.63	7.13	0.00	3.67
Housing loans	6.62	6.22	7.42	0.00	4.37
Corporate loans	2.81	1.61	1.78	0.00	3.06
Consumer loans	13.43	10.51	12.96	0.00	9.45
Loans small and medium enterprises	4.38	1.64	2.05	0.00	3.79
Interbank deposits	4.51	2.32	4.26	4.58	1.44

Deposits	PLN	EUR	USD	GBP	CHF
Total	2.36	1.16	1.41	1.20	0.26
Deposits from private individuals	2.19	0.99	1.05	0.93	0.16
Corporate deposits	3.01	1.67	3.81	3.33	0.73
Individual current accounts	0.25	0.30	0.15	0.15	0.10
Individual deposit accounts	2.99	1.29	1.42	1.60	0.23
IKE deposits	4.32	0.00	0.00	0.00	0.00
Deposits from entrepreneurs	2.90	1.54	3.85	3.33	0.73
Interbank deposits	4.64	2.41	4.26	-	-

Liquidity risk for PKO BP SA

Liquidity Gap	a'vista	0-1 month	1-3 months	3-6 months	6-12 months	1- 2 years	2- 5 years	> 5 years
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 Bank's cumulative periodic liquidity gap stated in real terms was positive. This means the surplus of assets receivable over liabilities payable.

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Assets and liabilities of the Bank as at 31 December 2005, by maturity								
Balance sheet items	1 month or less	1 – 3 months	3 months - 1 year	1 - 5 years	Over 5 years	With no maturity stated	Impairment allowances	Total
Assets:								
Cash and balances with the Central Bank	3 832 695	-	-	-	-	-	-	3 832 695
Amounts due from banks	5 950 756	1447 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	18 351	1 082	-	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
Securities held to maturity	-	-	-	-	-	-	-	-
Other	128 080	90 621	88 262	67 112	75 214	4 818 447	(189 860)	5 077 876
Total assets:	21 667 129	4 429 999	16 810 659	25 067 057	20 633 168	4 819 529	(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
Liabilities arising from debt securities issued	-	-	-	-	-	-	-	-
Other liabilities	548 875	546 221	432 581	173 963	437 632	1 577 169	-	3 716 441
Total liabilities:	47 948 547	13 849 547	15 973 456	1 748 044	450 359	1 577 169	-	81 547 122
Equity:	-	-	-	-	8 780 394	-	-	8 780 394
Total	47 948 547	13 849 547	15 973 456	1 748 044	9 230 753	1 577 169	-	90 327 516
Liquidity gap	(26 281 418)	(9 419 548)	837 203	23 319 013	11 402 415	3 242 360	(3 100 025)	-

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Currency risk

In 2005, 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.

	<i>Currency translated to PLN – 31.12.2005</i>				
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	76 363 998	4 880 610	7 388 035	8 017 249	96 651 892
DEPRECIATION/ 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
Liabilities arising from securities issued	-	-	-	-	-
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

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31 December 2004

(comparative data)

Interest rate risk*Financial assets and financial liabilities subject to interest rate risk²

	31.12.2004 comparative data
Debt securities	24 201 086
Loans and advances based on fixed interest rate	442 935
Deposits from customers based on fixed interest rate	(13 471 593)
Inter-bank and negotiable deposits	(15 011 284)
Inter-bank and negotiable deposits	12 969 101
TOTAL	9 130 249

Financial assets and financial liabilities subject to cash flow risk connected with interest rate²

	31.12.2004 comparative data
Loans and advances based on variable interest rate	33 156 888
Deposits from customers based on variable interest rate	(37 754 237)
TOTAL	(4 597 349)

Off- balance sheet transactions – fair value :²

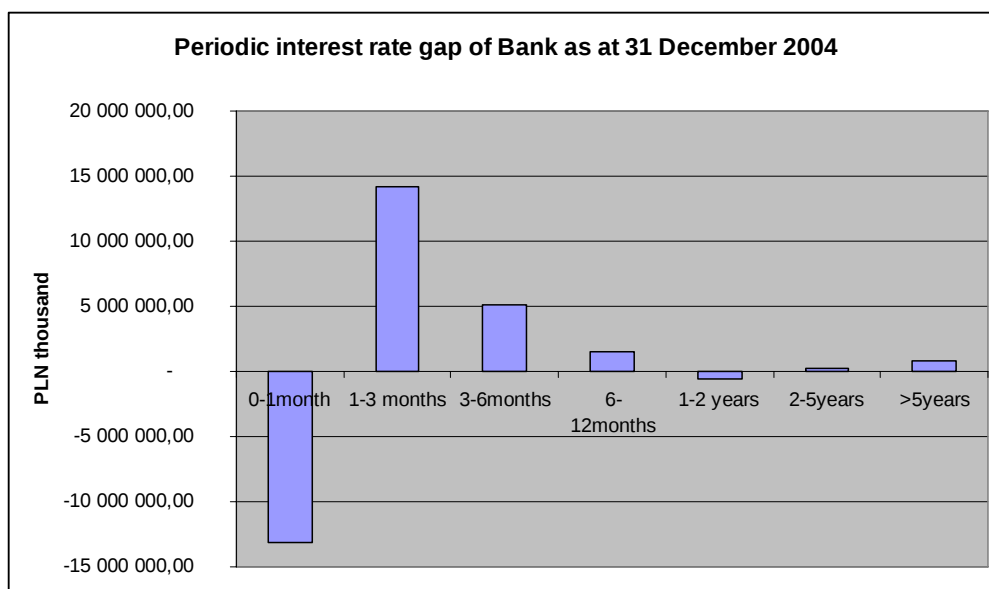
	31.12.2004 comparative data
Derivatives	(3 518 902)

PLN Valuation Gap	0-1 month	1-3 months	3-6 months	6-12 months	1- 2 years	2– 5 years	> 5 years	Total
Periodic gap	(13 152 116)	14 231 609	5 100 638	1 538 575	(570 148)	281 493	858 696	8 288 747
Cumulative gap	(13 152 116)	1 079 492	6 180 130	7 718 706	7 148 558	7 430 051	8 288 746	x

² Total for all currencies.

* Amounts included in the interest rate risk model of the Bank.

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At the end of 2004, the Bank had a negative cumulative PLN gap in a time horizon up to 1 month, and a positive cumulative gap for longer horizons.

USD Repricing Gap (in USD thousands)	0-1 month	1-3 months	3-6 months	6-12 months	1- 2 years	2- 5 years	> 5 years	Total
Periodic gap	(159 131)	(37 945)	(91 088)	15 637	25 016	15 037	(82 926)	(315 400)
Cumulative gap	(159 131)	(197 076)	(288 163)	(272 526)	(247 511)	(232 473)	(315 400)	x

EUR Repricing Gap (in EUR thousands)	0-1 month	1-3 months	3-6 months	6-12 months	1- 2 years	2- 5 years	> 5 years	Total
Periodic gap	200 642	14 492	(52 094)	(30 242)	(30)	(17)	(86 935)	45 816
Cumulative gap	200 642	215 134	163 040	132 798	132 767	132 750	45 816	x

CHF Repricing Gap (in CHF thousands)	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
Periodic gap	1 100 797	19 525	(2 424)	(602 627)	(6)	(5)	-	515 261
Cumulative gap	1 100 797	1 120 323	1 117 899	515 272	515 266	515 261	515 261	x

The Bank's interest rate risk exposure did not exceed approved limits. The Bank was mainly exposed to the PLN interest rate risk, which constituted ca. 96% of the Bank's Value at Risk (VaR).

The interest rate risk in the Bank was on a low level. As at 31 of December 2004, the interest rate VaR for the holding period of 10 days amounted to PLN 18,375 thousand, which constituted ca. 0.34% of the Bank's capital. The interest rate risk was generated mainly by the risk of assets' and liabilities' changes of interests' mismatch.

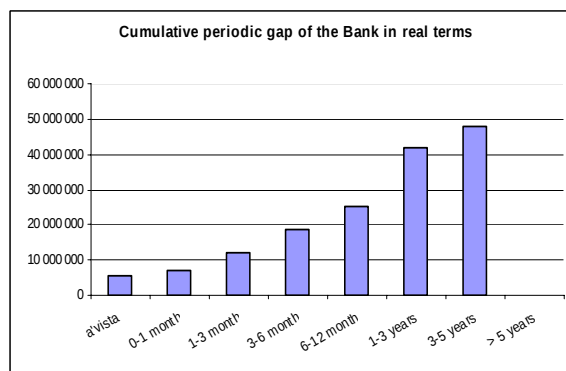
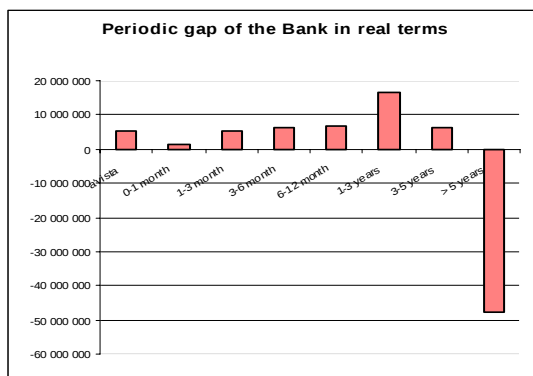
Effective interest rate

In 2004, the Bank did not apply the effective interest rate for the calculation of the result on assets and liabilities.

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Liquidity risk

Liquidity gap	a'vista	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years
Periodic gap in real terms	5 439 369	1 429 331	5 353 529	6 258 913	6 890 575	16 354 387	6 035 309	(47 761 413)
Cumulative periodic gap in real terms	5 439 369	6 868 699	12 222 228	18 481 141	25 371 716	41 726 103	47 761 413	X



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

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Assets and liabilities of the Bank as at 31 December 2004, by maturity (comparative data)								
Balance sheet items	1 month or less	1 - 3 months	3 months - 1 year	1 -5 years	Over 5 years	With no maturity stated	Impairment allowances	Total
Assets:								
Cash and balances with the Central Bank	3 490 505	-	-	-	-	-	-	3 490 505
Amounts due from banks	6 724 103	3 637 463	2 786 304	-	-	-	(1 755)	13 146 115
Financial assets held for trading	259	61 131	93 592	181 460	4 675	5 014	-	346 131
Other financial instruments at fair value through profit or loss	-	-	-	-	-	-	-	-
Loans and advances to customers	8 382 319	1 222 050	6 030 501	14 231 666	12 237 804	79 862	(2 606 479)	39 577 723
Securities available for sale	1 603 365	1 937 771	4 339 696	8 852 147	4 493 485	416 940	(38 107)	21 605 297
Securities held to maturity	-	124 080	1 768 937	-	-	-	-	1 893 017
Other	850 811	-	-	-	-	4 459 691	(257 694)	5 052 808
Total assets:	21 051 362	6 982 495	15 019 030	23 265 273	16 735 964	4 961 507	(2 904 035)	85 111 596
Liabilities:								
Amounts due to the Central Bank	144	-	-	-	-	-	-	144
Amounts due to banks	485 823	-	233 000	81 580	-	-	-	800 403
Amounts due to customers	41 555 380	11 169 049	18 285 906	1 513 951	51 987	-	-	72 576 273
Liabilities arising from debt securities issued	-	-	-	-	-	-	-	-
Other liabilities	1 162 119	-	111 823	335 981	216 834	1 000 972	-	2 827 729
Total liabilities:	43 203 466	11 169 049	18 630 729	1 931 512	268 821	1 000 972	-	76 204 549
Equity:	-	-	-	-	8 907 047	-	-	8 907 047
Total:	43 203 466	11 169 049	18 630 729	1 931 512	9 175 868	1 000 972	-	85 111 596
								-
Liquidity gap:	(22 152 104)	(4 186 554)	(3 611 699)	21 333 761	7 560 096	3 960 535	(2 904 035)	-

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Currency risk

	<i>Currency expressed in PLN – 31.12.2004</i>				
ASSETS, of which:	PLN	EUR	CHF	Other	Total
Cash and balances with the Central Bank	3 281 053	105 250	7 852	96 350	3 490 505
Loans and advances and other amounts due from financial sector	5 020 530	442 640	231 965	8 068 672	13 763 807
Loans and advances to non-financial sector	27 518 909	2 573 300	3 041 799	820 398	33 954 406
Loans and advances to public sector	7 584 307	23 237	136	6 178	7 613 858
Securities	23 124 785	355 874	-	401 893	23 882 552
Non-current assets	6 593 212	-	-	-	6 593 312
Other assets and derivatives	759 040	33 208	40 886	962 137	1 795 271
TOTAL (GROSS) ASSETS	73 881 836	3 533 509	3 322 638	10 355 628	91 093 611
DEPRECIATION/ IMPAIRMENT	(5 896 479)	(74 368)	(6 051)	(5 117)	(5 982 015)
TOTAL (NET) ASSETS	67 985 357	3 459 141	3 316 587	10 350 511	85 111 596
LIABILITIES, of which:					
Balances with the Central Bank	144	-	-	-	144
Amounts due to financial sector	499 372	173 863	5	237 802	911 042
Amounts due to non-financial sector	62 127 247	2 296 636	48 410	2 623 802	67 096 095
Amounts due to public sector	5 347 592	20 497	-	1 450	5 369 539
Liabilities arising from securities issued	-	-	-	-	-
Provisions	206 683	314	-	36	207 033
Other liabilities and derivatives and deferred tax liability	2 562 163	39 631	151	18 751	2 620 696
Equity	8 907 047	-	-	-	8 907 047
TOTAL LIABILITIES	79 650 248	2 530 941	48 566	2 881 841	85 111 596
OFF-BALANCE SHEET LIABILITIES GRANTED	14 036 175	389 123	448 425	1 779 279	16 653 002

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

Credit and market risk as at 31 December 2005:

Balance sheet instruments		
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			
<i>Interest rate instruments:</i>	<i>124 439 805</i>	<i>1 112 964</i>	<i>222 592</i>
FRA	61 900 000	151 912	30 382
IRS	62 539 805	961 052	192 210
<i>Foreign currency instruments:</i>	<i>14 400 104</i>	<i>892 114</i>	<i>179 588</i>
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
<i>Other instruments:</i>	<i>939 996</i>	<i>94 000</i>	<i>18 800</i>
SBB	939 996	94 000	18 800
Other	-	-	-
Total derivatives	139 779 905	2 099 078	420 980
of which: banking portfolio	33 068 551	1 019 986	204 380
trading portfolio	106 711 354	1 079 092	216 600

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

	Carrying amount 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:	
Currency risk	-
Commodity price risk	-
Equity securities price risk	249
Debt instruments specific risk	66 863
Interest rate general risk	41 410
Other:	
Settlement risk – delivery and contractor	15 474
Underwriting risk	-
Other	-
Total capital requirement (credit and market risk)	3 506 532

Credit and market risk as at 31 December 2004 (comparative data)

Balance sheet instruments		
Instrument type	Carrying amount	Risk weighted value
Cash	1 203 637	-
Receivables	52 723 838	28 481 078
Debt securities	22 606 501	21 021
Other securities, shares	1 224 175	694 856
Tangible fixed assets	2 602 278	2 218 233
Other	3 212 954	1 704 562
Total banking portfolio	83 573 383	33 119 750
Debt securities	1 533 199	651 887
Equity securities held for trading classified to trading portfolio	5 014	5 014
Total trading portfolio	1 538 213	656 901
Total balance sheet instruments	85 111 596	33 776 651

Off-balance sheet instruments			
Instrument type	Replacement cost	Credit equivalent	Risk weighted value
Derivatives			
<i>Interest rate instruments:</i>	<i>68 605 182</i>	<i>264 925</i>	<i>52 986</i>
FRA	23 670 000	51 954	10 391
IRS	44 935 182	212 971	42 595
<i>Foreign currency instruments:</i>	<i>12 278 404</i>	<i>999 937</i>	<i>200 385</i>
Currency forwards	87 062	2 243	689
Forwards – embedded derivatives	10 029	523	262
Swaps	9 054 509	784 328	156 865
CIRS	498	3 570	714
FX futures	3 120 350	208 973	41 795
Options (delta equivalent – purchase of options)	5 956	300	60
<i>Other instruments:</i>	<i>1 291 222</i>	<i>129 670</i>	<i>25 934</i>
SBB	1 291 222	129 670	25 934
Other	-	-	-
Total derivatives	82 174 808	1 394 532	279 305
Of which: banking portfolio	29 158 026	1 089 601	218 077
trading portfolio	53 016 782	304 931	61 228

Other off-balance sheet instruments			
Instrument type	Off-balance sheet value	Credit equivalent	Risk weighted value
Lines of credit	16 472 672	1 161 685	797 814
Guarantees issued	207 420	149 448	148 696
Letters of credit	28 784	14 321	14 321
Other	3 602 239	714 341	164 626
Total banking portfolio	20 311 115	2 039 795	1 125 457
Underwriting guarantees	275 147	275 147	142 017
Total trading portfolio	275 147	275 147	142 017

	Carrying amount and off-balance-sheet amount	Risk weighted value	Capital requirement
Total banking portfolio (credit risk)	133 042 524	34 463 284	2 757 063

Capital requirements for trading portfolio (market risk)		Capital requirement
Market risk		66 765
of which:		

Currency risk	-
Commodity price risk	-
Securities price risk	586
Debt instruments specific risk	50 506
Interest rate general risk	15 673
Other:	
Settlement risk – delivery and contractor	4 489
Underwriting risk	1 913
Other	-
Total capital requirement	2 830 230

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

4. Objectives and principles of operational risk management

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

As part of its operational risk management policy, the Bank uses the following instruments and solutions:

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

5. Fair value of financial assets and liabilities

The table below presents the fair values of balance-sheet financial instruments, which have not been valued at fair value at the balance sheet date. 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.

Since for many financial instruments there is no available market value, the presented fair values have been estimated on the basis of 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 and cash equivalents, current receivables from and liabilities to customers, 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 immaterial. Majority of such loans and deposits are of short-term nature.

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

As at 31 December 2005

ASSETS, of which:	Carrying amount	Fair value
Cash and balances with the Central Bank	3 832 695	3 832 695
Amounts due from banks	12 631 446	12 887 535
Financial assets held for trading	841 914	841 914
Derivative financial instruments	1 137 227	1 137 227
Other financial instruments at fair value through profit or loss	20 034 160	20 034 160
Amounts due from customers	46 051 847	46 051 847
Investment securities	1 857 578	1 857 578
Available for sale	1 857 578	1 857 578
Held to maturity		
Investments in subsidiaries, associates and jointly controlled entities	899 932	899 932
LIABILITIES, of which:		
Amounts due to the Central Bank	766	766
Amounts due to other banks	1 943 035	1 943 035
Derivative financial instruments	1 257 384	1 257 384
Amounts due to customers	75 886 880	75 886 880
Liabilities arising from debt securities issued	-	-

As at 31 December 2004

(comparative data)

ASSETS, of which:	Carrying amount	Fair value
Cash and balances with the Central Bank	3 490 505	3 490 505
Amounts due from banks	13 146 115	13 037 092
Financial assets held for trading	346 131	346 131
Derivative financial instruments	1 362 379	1 362 379
Amounts due from customers	39 577 723	39 577 723
Investment securities	23 498 314	23 489 059
Available for sale	21 605 297	21 605 297
Held to maturity	1 893 017	1 883 762
Investments in subsidiaries, associates and jointly controlled entities	764 865	764 865
LIABILITIES, of which:		
Amounts due to the Central Bank	144	144
Amounts due to other banks	800 403	800 403
Derivative financial instruments	793 739	793 739
Amounts due to customers	72 576 273	72 576 273
Liabilities arising from debt securities issued	-	-

6. Custodial activities

The Bank is a direct participant of the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych). As at 31 December 2005, the Bank kept 10,769 securities accounts (one security account kept for an individual as at 31 December 2004). The Bank also services customer investments accounts on foreign markets using depository services of the State Street Bank GmbH.

Apart from operating activities, the Bank actively participates in the work of Council of Depository Banks (*Rada Banków Depozytariuszy*) operating as part of the Polish Banks Association (*Związek Banków Polskich*), which guarantees its participation in creation of market standards and influence on the general trends in the development of custodial services.

7. Assets' securitization

On 7 October 2005, an agreement was signed for sale of part of retail receivables to a securitization fund. About 73,000 retail receivables (debit balances, cash loans, renewable loans, non-cash loans granted for the purchase of materials, non-cash loans for the purchase of motor vehicles, housing loans) have been sold to the securitization fund, with a total value (capital, interest, costs) of about PLN 660,000 thousand. The receivables sold derived from both the balance sheet and off-balance sheet records.

According to the signed agreement, the selling price of the receivables – set as a certain percentage of the sold portfolio – has been allocated to the repayment of the individual components of the receivables (costs, interest repayment, capital repayment). On 20 October 2005, the acquirer of the receivables made a payment to PKO BP SA's account for the receivables sold by the Bank.

According to the agreed rules for allocating the price of the sold receivables portfolio, the amount of approximately PLN 47,710 thousand has been assigned to capital repayment in respect of balance-sheet receivables.

The Bank did not receive any securities under this transaction.

In accordance with the agreement for the sale of receivables to the securitization fund, the seller is obliged to pay compensation to the acquirer for any claims regarding legal deficiencies in documentation transferred to the acquirer. As this was the first such transaction in Poland, the Bank has no experience in assessing which part of documentation transferred to the acquirer may be challenged by the acquirer for legal deficiencies. Considering the fact that a large part of the receivables sold were generated in the period from 1995 to 2000, which may give rise to an increased risk of deficiencies in the related documentation, the amount of the provision set by the Bank in this respect was determined at PLN 78,614 thousand.

8. Interest income and expenses

Interest income

	01.01 – 31.12.2005	01.01 – 31.12.2004 (comparative data)
Income from loans and advances granted to customers	3 433 506	3 005 397
Income from placements with other banks	600 319	421 924
Income from investment securities	135 317	323 022
Income from other placements on money market	-	-
Other	1 346 745	1 494 621
Income from securities at fair value through profit or loss	1 256 445	1 398 947
From trading securities	23 290	29 771
Other	67 010	65 903
Total	5 515 887	5 244 964

Interest expenses

	01.01 – 31.12.2005	01.01 – 31.12.2004 (comparative data)
Relating to amounts due to customers	(1 882 525)	(1 600 753)
Relating to placements with other banks	(72 054)	(53 905)
Relating to other placements on money market	-	-
Relating to own issue of debt securities	-	-
Other*	(87 479)	(118 359)
Total	(2 042 058)	(1 773 017)

* For comparability purposes, for the year 2004 the Bank presented costs of settled premium on debt securities. The details of this reconciliation are presented in Note 47 – reconciliation of profit and loss account for the year ended 31 December 2004 between PAS and IFRS.

In the year ended 31 December 2005, 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 4,212,766 thousand. In the same period, interest expense, calculated using the effective interest rate method, relating to financial liabilities which are not valued at fair value through profit or loss, amounted to PLN 1,954,579 thousand.

9. Fees and commission income and expense

Fees and commission income

	01.01 – 31.12.2005	01.01 – 31.12.2004 (comparative data)
From accounts' servicing	576 520	584 571
From payments cards	339 244	293 547
From loans and advances granted	65 798	483 711
From transactions in securities	37 979	23 505
From guarantees, letters of credit and similar transactions	27 738	24 837
From acquisition services	-	-
Other	455 389	455 037
From cash transactions	205 324	236 964
Other*	250 065	218 073
Total	1 502 668	1 865 208

* Included in "Other" are, among others, income from bills of exchange servicing, sale of duty stamps and from services provided to PPUP "Poczta Polska".

A significant decrease in fees and commission income from granted loans and advances results from recognition of the above income in net interest income calculated at amortized cost using the effective interest rate.

Fees and commission expense

	01.01 – 31.12.2005	01.01 – 31.12.2004 (comparative data)
Relating to acquisition services	(115 539)	(114 056)
Relating to payment cards	(173 274)	(128 973)
Due to transactions in securities	-	-
Other, of which:	(44 016)	(41 124)
Commission paid to intermediaries	(17 764)	(7 248)
Commission for services of other banks	(9 413)	(7 568)
Commission paid to PPUP	(8 033)	(9 870)
Other*	(8 806)	(16 438)
Total	(332 829)	(284 153)

10. Dividend income

	01.01 – 31.12.2005	01.01 – 31.12.2004 (comparative data)
Dividend income from the issuers of:	16 112	3 396
Securities classified as available for sale	16 087	3 389
Securities classified as held for trading	25	7
Securities at fair value through profit or loss	-	-
Dividend income from subordinated entities	12 769	18 895
Total	28 881	22 291

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 2005 and 31 December 2004:

	01.01 – 31.12.2005	01.01 – 31.12.2004 (comparative data)
Debt securities	207 532	19 642
Derivative instruments	(179 796)	(61 445)
Equity instruments	7 009	(427)
Loans and receivables	-	-
Other	(4 166)	(3 746)
Total	30 579	(45 976)

The redesignation of financial instruments classified as available for sale into the financial assets at fair value through profit or loss as of 1 January 2005 was described in Note 47.

1.01.-31.12.2005	Profits	Losses	Net result
Financial assets at fair value through profit or loss	5 055 858	(5 025 279)	30 579
Financial liabilities at fair value through profit or loss	-	-	-
Total	5 055 858	(5 025 279)	30 579

1.01.-31.12.2004 (comparative data)	Profits	Losses	Net result
Financial assets at fair value through profit or loss	1 944 159	(1 990 135)	(45 976)
Financial liabilities at fair value through profit or loss	-	-	-
Total	1 944 159	(1 990 135)	(45 976)

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 2005 was PLN (1,161) thousand (in the year ended 31 December 2004 - PLN 60 thousand).

Changes in fair value in hedge accounting

PKO BP SA did not apply hedge accounting in the years ended 31 December 2005 and 31 December 2004.

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

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

	01.01. – 31.12.2005	01.01. – 31.12.2004 (comparative data)
Realised gains		
Financial assets available for sale	294 332	44 820
Loans and receivables (together with finance lease receivables)	-	-
Investments held to maturity	-	-
Financial liabilities (except for held for trading)	-	-
Other	-	-
Total	294 332	44 820

	01.01. – 31.12.2005	01.01. – 31.12.2004 (comparative data)
Realised losses		
Financial assets available for sale	(17 608)	(65 848)
Loans and receivables (together with finance lease receivables)	-	-
Investments held to maturity	-	-
Financial liabilities (except for held for trading)	-	-

Other	-	-
Total	(17 608)	(65 848)

In the year ended 31 December 2005, gains or losses from financial assets available for sale taken directly to equity amounted to PLN (72,933) thousand (in the year ended 31 December 2004 - PLN 233, 381 thousand).

Gains from financial assets for the year ended 31 December 2005 taken from equity to profit and loss amounted to PLN 276,724 thousand (in the year ended 31 December 2004 - PLN (21,028) thousand).

13. Foreign exchange result

	01.01. – 31.12.2005	01.01. – 31.12.2004 (comparative data)
Foreign exchange differences resulting from financial instruments at fair value through profit or loss	201 291	250 291
Other foreign exchange differences	412 424	184 643
Total	613 715	434 934

14. Other operating income and expenses

	01.01. – 31.12.2005	01.01. – 31.12.2004 (comparative data)
Other operating income		
Net sales of finished goods, goods for resale and raw materials	-	-
From asset management on behalf of third parties	85 970	86 231
Auxiliary revenues	26 965	30 283
Sale and liquidation of tangible fixed assets and intangible assets	10 066	3 378
Lease instalments	-	-
Received compensations, penalties and fines	3 289	4 165
Recovery of expired, forgiven and unrecoverable receivables	33 534	36 090
Other, of which:	99 866	69 690
Revenues from reversal of allowances for other receivables	27576	17 947
Returns of debt collector advances	3 572	4 713
Result on the sale of collector coins	2 013	2 325
Reversed provisions for future liabilities to employees	-	2 238
Other*	66 705	42 467
Total	259 690	229 837

* Included in "Other" are: for 2004 - revenues from court fees returned, liquidated accounts etc. and for 2005 – additionally, the penalties for delays in performing services.

	01.01. – 31.12.2005	01.01. – 31.12.2004 (comparative data)
Other operating expense		
Cost of finished goods, goods for resale and raw materials sold	-	-
Costs of asset management on behalf of third parties	(11 566)	(8 645)
Cost of sale or liquidation of tangible fixed assets, intangible assets and assets earmarked for disposal	(10 567)	(7 409)
Donations	(6 663)	(7 096)
Leases	-	-
Compensation, penalties and fines paid	(3 529)	(1 244)
Impairment of expired, forgiven and unrecoverable receivables	(901)	(1 416)
Other, of which:	(16 497)	(70 560)
Impairment allowances against other receivables	-	(49 571)
Paid debt collector advances	(3 509)	(4 401)
Maintenance of property and intangible assets	-	-
Result on the sale of collector coins	(69)	(137)
Costs due to unexplained cash shortages and damages	(105)	(281)
Other*	(12 814)	(16 170)
Total	(49 723)	(96 370)

* Included in "Other" are: expenses from loan underpayments and loan agreements not settled, liquidation of savings-giro (ROR) accounts, court charges and fees, etc.

15. General administrative expenses

	01.01. – 31.12.2005	01.01. – 31.12.2004 (comparative data)
Employee costs	(1 972 843)	(1 885 912)
Non-personnel costs	(1 178 299)	(1 227 017)
Depreciation and amortisation	(419 287)	(471 396)
Taxes and charges	(52 872)	(49 142)
Contribution and payments to Banking Guarantee Fund	(8 023)	(11 769)
Restructuring costs	-	-
Total	(3 631 324)	(3 645 236)

Payroll costs / Employee costs

	01.01. – 31.12.2005	01.01. – 31.12.2004 comparative data)
Salaries and wages	(1 643 322)	(1 568 037)
Insurance and other employee benefits	(329 521)	(317 875)
Costs of pension plans, of which:	-	-
Defined contribution plans	-	-
Defined benefit plans	-	-
Costs of share-based payments	-	-
Costs of other retirement benefits	-	-
Total	(1 972 843)	(1 885 912)

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16. Impairment losses

				Increases			Decreases					
year ended 31 December 2005	Impairment allowances at the beginning of the period according to PAS 31.12.2004	Adjustments related to IAS conversion 01.01.2005	Impairment allowances at the beginning of the period according to IAS	Impairment losses recognised during the period	Foreign exchange differences	Other	Decrease in impairment allowances due to de- recognition of assets with no effect on P&L	Reversal of impairment losses during the period	Foreign exchange differences	Other	Impairment allowances at the end of the period	Net impact of recognised impairment allowances on the profit and loss account
Impairment of financial assets not stated at fair value through profit or loss	2 484 087	638 869	3 122 956	829 503	-	23 996	261 250	805 026	-	14	2 910 165	(24 477)
Financial instruments stated at cost (unquoted equity instruments and the related derivative instruments)	27 136	-	27 136	6	5	-	-	11 164	-	14	15 964	11 158
Financial assets available for sale stated at fair value through equity	10 351	-	10 351	-	-	15 909	-	1 360	-	-	24 900	1 360
Loans and advances to customers and receivables from banks stated at amortised cost	2 446 600	638 869	3 085 469	829 497	-	8 087	261 250	792 502	-	-	2 869 301	(36 995)
Finance lease receivables	-	-	-	-	-	-	-	-	-	-	-	-
Investments held to maturity stated at amortised cost	-	-	-	-	-	-	-	-	-	-	-	-

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16. Impairment losses – continued

Impairment of investments in subsidiaries, associates and jointly controlled entities	219 124	(106 257)	112 867	482	-	-	-	37 282	-	3 500	72 567	36 800
Other**	160 771	-	160 771	163 715	-	112	-	-52 492	-	99 073	173 033	(111 223)
Total	2 863 982	532 612	3 396 594	993 700	-	24 108	261 250	894 800	-	102 587	3 155 765	(98 900)

** Included in “Other” are impairment allowances against other assets and off-balance sheet liabilities.

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

Impairment allowances against loans and advances and receivables stated 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 impairment test performed reverse impairment made on the Bank’s investment in Inteligo Financial Services amounting to PLN 26,545 thousand due to improved financial results of the above entity.

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16. Impairment losses – continued

year ended 31 December 2004	Impairment allowances at the beginning of the period according to PAS 31.12.2003	Adjustments related to IAS conversion 01.01.2004	Impairment allowances at the beginning of the period according to IAS	Increases			Decreases				Impairment allowances at the end of the period	Net impact of recognised impairment allowances on the profit and loss account
				Impairment allowances recognised during the period	Foreign exchange differences	Other	Decrease in impairment allowances due to de-recognition of assets with no effect on P&L	Reversal of impairment allowances during the period	Foreign exchange differences	Other		
Impairment of financial assets not stated at fair value through profit or loss	2 588 660	-	2 588 660	991 690	-	187 607	225 395	896 221	-	-	2 646 341	(95 469)
Financial instruments stated at cost (unquoted equity instruments and the related derivative instruments)	800	-	800	1 010	-	25 973*	-	647	-	-	27 136	(363)
Financial assets available for sale stated at fair value through equity	10 971	-	10 971	-	-	-	-	-	-	-	10 971	-
Loans and advances to customers and receivables from banks stated at amortised cost	2 576 889	-	2 576 889	990 680	-	161 634	225 395	895 574	-	-	2 608 234	(95 106)
Finance lease receivables	-	-	-	-	-	-	-	-	-	-	-	-
Investments held to maturity stated at amortised cost	-	-	-	-	-	-	-	-	-	-	-	-

* De-recognition of the value of shares not admitted to public trading due to the transfer of these shares from "Minority interest" in accordance with interpretation issued by the Banking Supervision Chief Inspector.

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16. Impairment losses – continued

Impairment of:	812	-	812	36 507	-	-	1 221	877	-	-	35 221	(35 630)
Tangible fixed assets	812	-	812	36 507	-	-	1 221	877	-	-	35 221	(35 630)
Investments property	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-
Goodwill	-	-	-	-	-	-	-	-	-	-	-	-
Other intangible assets	-	-	-	-	-	-	-	-	-	-	-	-
Impairment of investments in subsidiaries, associates and jointly controlled entities	248 131	(158 530)	89 601	143 697	-	-	-	120 231	-	200	112 867	(23 466)
Other**	131 997	-	131 997	32 289	-	14 844	-	53 580	-	-	125 550	21 291
Total	2 969 600	(158 530)	2 811 070	1 204 183	-	202 451	226 616	1 070 909	-	200	2 919 979	(133 274)

** Included in “Other” are impairment allowances against other assets and off-balance sheet liabilities.

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

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

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17. Discontinued operations

In 2005, PKO BP SA had no material income or costs from discontinued operations.

18. Corporate income tax

	01.01. – 31.12.2005	01.01. – 31.12.2004 comparative data
Income statement		
<u>Current income tax</u>		
Current income tax expense	830 988	303 972
<u>Deferred tax</u>		
Relating to the arising and reversal of timing differences	(434 476)	46 358
Tax expense disclosed in the income statement	830 988	303 972
Deferred tax taken to revaluation reserve	-	-
Relating to the arising and reversal of timing differences	(38 320)	40 347
Tax expense disclosed in equity	(38 320)	40 347
Total	792 668	344 319

	01.01. – 31.12.2005	01.01. – 31.12.2004 comparative data
Gross profit before taxation from continued activities	2 073 310	1 798 180
Loss before taxation from discontinued operations	-	-
Change of accounting policies	-	63 215
Gross profit before taxation	2 073 310	1 861 395
Corporate income tax calculated using the enacted tax rate of 19% (2004: 19%)	830 988	303 972
Permanent differences between accounting gross profit and taxable profit, of which:	(30 369)	(704 315)
Other non-tax-deductible expenses	780 450	237 313
Reversed provisions and revaluation not constituting taxable revenue	(709 004)	(788 193)
Settlement of capitalised interest	(34 175)	(64 551)
Other non-taxable revenue	(38 759)	(66 593)
Dividend income	(28 881)	(22 291)
Other	-	-
Temporary differences between accounting gross profit and taxable income, of which:	2 334 092	445 484
Interest income and unrealised income from transactions on securities	891 710	73 543
Accrued interest expense and unrealised costs of transactions on securities	117 869	127 010
Recognised provisions and impairment losses not constituting tax deductible cost	131 873	570 500
Unrealised costs from derivative instruments	3 006 461	1 277 795
Income receivable, including from commissions received by the Bank in advance and recognised in revenues for the period to which they relate	353 156	20 323
Unrealised revenue from derivative instruments	(2 166 977)	(1 623 687)
Other	-	-
Other differences between accounting gross profit and taxable income, including donations	(3 413)	(2 714)
Effective tax rate	19.12%	19.48%
Corporate income tax in the income statement	396 512	350 330
Tax charge attributable to discontinued operations	-	-
Total	396 512	350 330

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Deferred tax asset/liability

	Balance sheet				Income statement	
	31.12.2005	31.12.2004 comparative data	B/S adjustme nts	01.01.2005	01.01 – 31.12.2005	01.01 – 31.12.2004 comparative data
<u>Deferred tax liability</u>						
Interest accrued on receivables (loans)	80 992	78 652	-	78 652	2 340	18 983
Interest on securities	48 977	83 381	-	83 381	(34 404)	(16 977)
Settlement of discount from securities (less premium)	9 176	71 237	-	71 237	(62 061)	(26 819)
Capitalised interest from restructuring bonds	-	112 769	-	112 769	(112 769)	(25 799)
Interest on transactions with the state budget	4 781	7 405	-	7 405	(2 624)	7 405
Capitalised interest on regular housing loans	314 184	331 044	-	331 044	(16 860)	(12 849)
Valuation of derivatives	-	71 676	-	71 676	(71 676)	65 319
Valuation of embedded derivatives	234	301	-	301	(67)	131
Other increases	52 157	58 775	-	58 775	(6 618)	3 906
Valuation of securities, of which:	20 840	37 567	20 749	58 316	-	-
- taken to profit and loss account	17 778	(21 570)	20 063	(1 507)	19 285	974
- taken to equity	3 062	59 137	686	59 823	-	-
Gross deferred tax liability	531 341	852 807	20 749	873 556	(285 454)	14 274
Net deferred tax liability	31 351	583 353	(79 207)	504 147	-	-
<u>Deferred tax asset</u>						
Interest accrued on liabilities	144 801	152 281	-	152 281	(7 480)	14 849
Provision for future liabilities to employees	18 153	13 747	-	13 747	4 406	1 862
Provision for jubilee bonuses and retirement benefits	40 045	34 981	-	34 981	5 064	2 062
Cost of accruals	52 216	56 167	1	56 168	(3 952)	(37 259)
Interest on transactions with the state budget	-	-	-	-	-	(3 050)
Valuation of derivatives	88 595	-	-	-	88 595	-
Valuation of embedded derivatives	-	-	-	-	-	-
Other	16 528	-	-	-	16 528	(6 553)
ESP valuation adjustment	126 793	-	79 506	79 506	47 287	-
Valuation of securities, of which:	12 859	12 277	20 449	32 726	-	-
- taken to profit and loss account	8 751	9 720	456	10 176	(1 425)	(3 995)
- taken to equity	4 108	2 557	19 993	22 550	-	-

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Gross deferred tax asset	499 990	269 453	99 956	369 409	149 023	(32 084)
Net deferred tax asset	-	-	-	26 514	-	-
Total deferred tax (deferred tax liability – deferred tax asset)	31 351	583 353	(79 207)	504 147	-	-
Deferred tax in the profit and loss account	32 398	526 774	(59 900)	466 874	(434 476)	46 358

Liabilities/ receivables due to corporate income tax

	31.12.2005	31.12.2004 comparative data
Receivables due to income tax	-	20 153
Liabilities due to income tax	436 494	-

The Bank is a corporate income tax payers. The amount of liability is transferred to Second Mazowiecki Tax Authority in Warsaw. The final settlement of the Bank's CIT liabilities from corporate income tax is set on 31 March 2006.

19. Dividends paid and proposed

The net profit of PKO BP S.A. reported in its IAS standalone financial statements is subject to appropriation starting from 1 January 2005.

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

According to the Resolution No. 8/2005 of the Ordinary Annual General Meeting of PKO BP SA dated 19 May 2005, the dividend for 2004 was set at the total level of PLN 1,000,000 thousand i.e. PLN 1 gross per share. The list of the shareholders entitled to receive dividend was determined as of 19 August 2005 and the payment took place on 1 September 2005.

As at 31 December 2005, the 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 2004: PLN 1,000,000 thousand).

20. Cash and amounts due from Central Bank

	31.12.2005	31.12.2004 comparative data
Current account with the Central Bank	2 626 732	2 285 043
Cash	1 204 370	1 203 637
Other funds	1 593	1 825
Total	3 832 695	3 490 505

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 National Bank of Poland. It must, however, ensure that the average monthly balance on this account complies with the requirements described in the obligatory reserve declaration.

Funds on the obligatory reserve account bear interest of 0.9 of the rediscounting rate for bills of exchange; as of 31 December 2005 this interest rate is 4.275%.

As at 31 December 2005 and 31 December 2004, there were no restrictions as regards the use of these funds.

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21. Amounts due from banks

	31.12.2005	31.12.2004 comparative data
Current accounts	14 205	12 565
Placements with other banks	12 474 680	13 102 909
Loans and advances granted	117 693	-
Cash in transit	26 623	32 396
Other placements on money market	123 195	122 866
Other receivables	-	-
Total	12 633 201	13 147 870
Receivables' impairment allowance	(1 755)	(1 755)
Total net	12 631 446	13 146 115

The nominal value of placements with other banks with a fixed interest rate amounted to PLN 12,353,352 thousand (as at 31 December 2004: PLN 12,980,043 thousand). Majority of those placements were short-term placements. As at 31 December 2004 and 31 December 2005, the Bank did not have any placements with other banks with a floating interest rate.

Amounts due from banks, by maturity

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

	31.12.2005	31.12.2004 comparative data
Current accounts	14 205	21 565
Term deposits with a maturity period:	12 592 373	13 102 909
up to 1 month	5 909 928	6 679 142
from 1 to 3 months	1 447 808	3 637 463
from 3 months to 1 year	5 014 234	2 786 304
from 1 year to 5 years	173 115	-
over 5 years	47 288	-
Cash in transit	26 623	32 396
Other money market placements	-	-
Total	12 633 201	13 147 870
Receivables' impairment allowance	(1 755)	(1 755)
Total net	12 631 446	13 146 115

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22. Financial assets held for trading

	31.12.2005	31.12.2004 comparative data
Debt securities	839 726	341 117
- issued by central banks	-	-
- issued by other banks	-	-
- issued by other financial institutions	-	-
- issued by non-financial entities	-	-
- issued by the State Treasury	839 367	340 756
- issued by local government bodies	359	361
Shares in other entities – listed on stock exchange markets	2 188	5 014
Loans and advances	-	-
Total financial assets held for trading	841 914	346 131

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Financial assets held for trading as at 31 December 2005, by maturity: carrying amount

	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	with no maturity date specified	Total
Debt securities	26 055	72 234	88 700	633 304	18 351	1 082	839 726
- issued by central banks	-	-	-	-	-	-	-
- issued by other banks	-	-	-	-	-	-	-
- issued by other financial institutions	-	-	-	-	-	-	-
- issued by non-financial entities	-	-	-	-	-	-	-
- issued by the State Treasury	26 055	72 234	88 341	633 304	18 351	1 082	839 367
- issued by local government bodies	-	-	359	-	-	-	359
Shares in other entities – listed on stock exchange markets	2 188	-	-	-	-	-	2 188
Loans and advances	-	-	-	-	-	-	-
Total financial assets held for trading as at 31 December 2005	28 243	72 234	88 700	633 304	18 351	1 082	841 914

The average yield of debt securities issued by the State Treasury as at 31 December 2005 amounted to 4.93% for PLN, 3.02% for EUR and 3.00% for USD.

As at 31 December 2005, the portfolio of securities held for trading included:

- treasury bills with a total nominal value of PLN 33,790 thousand,
- treasury bonds with a total nominal value of PLN 624,467 thousand,
- bonds denominated in USD with a total nominal value of PLN 326 thousand,
- bonds denominated in EUR with a total nominal value of PLN 8,642 thousand.

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Financial assets held for trading as at 31 December 2004, by maturity: carrying amount (comparative data)

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	with no maturity date specified	Total
Debt securities	259	61 131	93 592	181 460	4 675		341 117
- issued by central banks	-	-	-	-	-	-	-
- issued by other banks	-	-	-	-	-	-	-
- issued by other financial institutions	-	-	-	-	-	-	-
- issued by non-financial entities	-	-	-	-	-	-	-
- issued by the State Treasury	259	61 131	93 592	181 460	4 314	-	340 756
- issued by local government bodies	-	-	-	-	361	-	361
Shares in other entities – listed on stock exchange markets	-	-	-	-	-	5 014	5 014
Loans and advances	-	-	-	-	-	-	-
Total financial assets held for trading as at 31 December 2004	259	61 131	93 592	181 460	4 675	5 014	346 131

As at 31 December 2004, the average yield of debt securities issued by the State Treasury in PLN amounted to 6.60%.

As at 31 December 2004, the portfolio of securities held for trading included:

- treasury bills with a total nominal value of PLN 135,640 thousand,
- treasury bonds with a total nominal value of PLN 202,325 thousand,
- municipal bonds with a total nominal value of PLN 446 thousand.

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23. Derivative financial instruments

Derivatives used by the Bank

PKO BP SA uses various types of financial derivatives with a view to manage the risk involved in its business activities. Majority of derivatives used by Bank are contracts. As at 31 December 2005 and 31 December 2004, the Bank held the following derivative instruments:

	31.12.2005		31.12.2004 comparative data	
Type of contract	Assets	Liabilities	Assets	Liabilities
IRS	705 544	1 076 599	394 050	633 220
FRA	87 934	86 395	46 257	59 816
FX Swap	111 121	38 704	716 752	77 849
CIRS	182 871	12 644	178 937	-
Forward	7 620	1 216	3 638	683
Options	42 007	41 376	21 875	21 849
SBB	130	450	870	322
Total	1 137 227	1 257 384	1 362 379	793 739

Derivatives 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 results in a part of the cash flows from the compound instrument changing 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, foreign exchange rate, price index or interest rate index.

Derivatives are also embedded in loan and deposit agreements. The Bank offers deposits with embedded derivative instruments. 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. The Bank has analysed the loan and other agreements portfolio in order to determine whether the embedded derivative instruments should be separated and, based on the above, the Bank concluded that those agreements do not require separation and separate recognition of embedded derivatives.

Risk involved in financial derivatives

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

The objective of derivative risk management is to monitor derivative instruments utilisation and keep any derivative-related risk within the limits set forth by the general Bank risk profile. The derivative risk management process within PKO BP SA is fully integrated with the management of interest rate, currency, liquidity and credit risk. The policies of derivative risk management define derivative-related risks and the tasks for individual organisational units in the process of derivative risk management.

The Value at Risk model is used to measure the risk related to derivative instruments.

The main tools of derivative risk management are as follows:

- internal procedures related to derivative risk management,
- derivative instruments profiles,
- limits and thresholds set for the risk related to derivative instruments,
- 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 limit utilisation and reporting risk level.

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The exposure of derivatives to credit risk was presented in Note 3.

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

The following tables present notional amounts of financial derivative instruments and the fair values of such derivatives. The notional amounts of derivatives are recognised as off-balance sheet items. 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.

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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		
- Regulated market	-	-	-	-	-	-		
FX Swap	-	-	-	-	-	-		
Purchase of currencies	-	-	-	-	-	-		
Sale of currencies	-	-	-	-	-	-		
Options	-	-	-	-	-	-		
Purchase	-	-	-	-	-	-		
Sale	-	-	-	-	-	-		
- Regulated market	-	-	-	-	-	-		
Currency Futures	-	-	-	-	-	-		
Purchase	-	-	-	-	-	-		
Sale	-	-	-	-	-	-		

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Notional amounts and fair value of derivative financial instruments (continued)

	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)
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		
Interest rate transactions								
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		
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

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Derivative financial instruments as at 31 December 2004 (comparative data)

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	9 191 895	5 993 447	2 246 182	-	-	17 431 524	77 849	716 752
Purchase of currencies	4 721 861	3 092 662	1 239 986	-	-	9 054 509		
Sale of currencies	4 470 034	2 900 785	1 006 196	-	-	8 377 015		
Currency Forward	62 734	92 678	27 425	9 218	-	192 055	683	3 638
Purchase of currencies	31 678	46 768	13 923	4 723	-	97 092		
Sale of currencies	31 056	45 910	13 502	4 495	-	94 963		
Options	-	-	-	356 065	-	356 065	21 849	21 875
Purchase	-	-	-	176 738	-	176 738		
Sale	-	-	-	179 327	-	179 327		
- Regulated market	-	-	-	-	-	-		
FX Swap	-	-	-	-	-	-		
Purchase of currencies	-	-	-	-	-	-		
Sale of currencies	-	-	-	-	-	-		
Options	-	-	-	-	-	-		
Purchase	-	-	-	-	-	-		
Sale	-	-	-	-	-	-		
- Regulated market	-	-	-	-	-	-		
Currency Futures	-	-	-	-	-	-		
Purchase	-	-	-	-	-	-		
Sale	-	-	-	-	-	-		

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Notional amounts and fair value of derivative financial instruments (continued)

	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)
Interest rate transactions								
Interest Rate Swap (IRS)	6 600 000	7 632 000	39 794 000	34 288 000	1 556 364	89 870 364	633 220	394 050
Purchase	3 300 000	3 816 000	19 897 000	17 144 000	778 182	44 935 182		
Sale	3 300 000	3 816 000	19 897 000	17 144 000	778 182	44 935 182		
Forward Rate Agreement (FRA)	7 100 000	13 565 000	21 530 000	4 700 000	-	46 895 000	59 816	46 257
Purchase	3 600 000	6 970 000	10 850 000	2 250 000	-	23 670 000		
Sale	3 500 000	6 595 000	10 680 000	2 450 000	-	23 225 000		
Interest rate transactions								
Cross Currency IRS	1 091 200	1 091 480	-	3 234 880	671 210	6 088 770		178 937
Purchase	562 780	563 060	-	1 649 620	344 890	3 120 350		
Sale	528 420	528 420	-	1 585 260	326 320	2 968 420		
Other transactions								
SELL BUY BACK	1 274 542	353 495	-	-	-	1 628 037	322	870
Purchase	978 302	312 921	-	-	-	1 291 223		
Sale	296 240	40 574	-	-	-	336 814		
Futures on bonds	498	-	-	-	-	498		
Purchase	498	-	-	-	-	498		
Sale	-	-	-	-	-	-		
Total derivative instruments	25 320 869	28 728 100	63 597 607	42 588 163	2 227 574	162 462 313	793 739	1 362 379

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

	31.12.2005	1.01.2004 comparative data)
Debt securities	20 034 160	19 953 740
- issued by the State Treasury	14 810 621	16 079 725
- issued by central banks	4 435 795	3 874 015
- issued by other banks	787 744	-
- issued by other financial institutions	-	-
- issued by non-financial entities	-	-
- issued by local government bodies	-	-
Shares in other entities	-	-
- listed on stock exchange markets	-	-
- unlisted	-	-
Loans and advances	-	-
Total other financial instruments at fair value through profit or loss	20 034 160	19 953 740

The Bank took advantage of the IFRS 1 exemption regarding the restatement of comparative data in accordance with IAS 39. For more details, see Note 47.

As at 31 December 2005, the portfolio of securities valued at fair value through profit or loss included:

- treasury bills with a total nominal value of PLN 13,376,331 thousand,
- treasury bonds with a total nominal value of PLN 2,449,820 thousand,
- money bills with a total nominal value of PLN 1,779,640 thousand,
- USD bonds with a total nominal value of PLN 872 235 thousand,
- EUR bonds with a total nominal value of PLN 1,254,435 thousand.

As at 31 December 2005, 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 4.71% for PLN, 3.77% for EUR, 4.62% for USD.

As at 31 December 2004, the Bank did not have financial instruments valued at fair value through profit or loss.

As at 1 January 2005, 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 6.33% for PLN, 3.78% for EUR and 4.12% for USD.

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Other financial instruments at fair value through profit or loss as at 31 December 2005, by maturity: carrying amount

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	with no maturity date specified	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 other financial institutions	-	-	-	-	-	-	-
- issued by non-financial entities	-	-	-	-	-	-	-
- issued by the State Treasury	196 660	1 030 895	5 094 257	6 738 899	1 749 910	-	14 810 621
- issued by local government bodies	-	-	-	-	-	-	-
Shares in other entities – listed and unlisted on stock exchange markets	-	-	-	-	-	-	-
Loans and advances	-	-	-	-	-	-	-
Total other financial instruments at fair value through profit or loss as at 31 December 2005	2 024 230	1 030 895	5 094 257	7 304 861	4 579 917	-	20 034 160

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Other financial instruments at fair value through profit or loss as at 1 January 2005*, by maturity: carrying amount

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	with no maturity date specified	Total
Debt securities	1 409 019	1 816 793	4 249 550	8 217 677	4 260 701		19 953 740
- issued by central banks	1 057 050	-	85 769	90 125	2 641 071	-	3 874 015
- issued by other banks	-	-	-	-	-	-	-
- issued by other financial institutions	-	-	-	-	-	-	-
- issued by non-financial entities	-	-	-	-	-	-	-
- issued by the State Treasury	351 969	1 816 793	4 163 781	8 127 552	1 619 630		16 079 725
- issued by local government bodies	-	-	-	-	-	-	-
Shares in other entities – listed and unlisted on stock exchange markets	-	-	-	-	-	-	-
Loans and advances	-	-	-	-	-	-	-
Total other financial instruments valued at fair value through profit or loss as at 1 January 2005	1 409 019	1 816 793	4 249 550	8 217 677	4 260 701	-	19 953 740

* Classification as at 1 January 2005, in accordance with the exemption allowed under IFRS 1 (see Note 47).

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25. Loans and advances to customers

As at 31 December 2005	Receivables valued using the individual method	Receivables valued using the portfolio and collective methods	Allowances against exposures with individual impairment	Allowances against exposures with collective and portfolio impairment	Total net value
Loans and advances granted to:					
state budget entities	6 209	6 743 012	(6 209)	(42 601)	6 700 411
financial entities other than banks	14 806	794 868	(14 806)	(45 390)	749 478
non-financial entities	1 142 653	40 217 845	(565 942)	(2 192 598)	38 601 958
Total	1 163 668	47 755 725	(586 957)	(2 280 589)	46 051 847

As at 31 December 2004	Receivables in "normal" risk category	Receivables in "watch" risk category and irregular receivables	Specific provisions for receivables in "normal" risk category	Specific provisions for receivables in "watch" risk category and irregular receivables	Total net value
Loans and advances granted to:					
public entities	7 569 756	44 102	-	(13 063)	7 600 795
financial entities other than banks	517 809	98 129	-	(68 057)	547 881
non-financial entities	27 718 995	6 235 411	(133 733)	(2 391 626)	31 429 047
Total	35 806 560	6 377 642	(133 733)	(2 472 746)	39 577 723

In December 1993, in accordance with the Act of 3 February 1993 on financial restructuring of enterprises and banks and amendments to certain laws (Journal of Laws No. 18 item 82 with subsequent amendments), the Bank received restructuring bonds with a nominal value of PLN 573,420 thousand. These bonds were granted to the Bank in order to increase its capital and to create additional specific provisions for irregular loans, up to the amount required by the NBP. The redemption of capital and capitalised interest started in June 1995 and was to be continued to December 2008.

As at 31 December 2004, the value of restructuring bonds held by the Bank amounted to PLN 759,564 thousand. On 31 May 2005 restructuring bonds were redeemed at an earlier date, in accordance with the Decision No. NZ/3/2005 of the Minister of Finance dated 16 May 2005.

As of 31 December 2004 the balance of loans and advances included also the balance of restructuring bonds.

Additionally, as at 31 December 2004 the Bank had a general banking risk reserve in the amount of PLN 661,597 thousand.

Out of the above amount, PLN 161,634 thousand was allocated to loan receivables, while the amount of PLN 499,963 thousand was presented under Bank's equity (general banking risk fund).

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Additional information as at 1 January 2005, by sectors

Additional information as at 1 January 2003, by sectors				
	Decree of the Minister of Finance on creation of specific provisions	IAS 39		Impairment allowances
		individual approach	group and collective approach	
Loans and advances to customers				
financial sector	67 928	34 236	39 832	74 068
non-financial sector	2 357 961	575 349	2 376 865	2 952 214
public sector	13 034	400	51 109	51 509
Total loans and advances	2 438 923	609 985	2 467 806	3 077 791
General banking risk reserve	661 597	-	-	-
TOTAL	3 100 520	609 985	2 467 806	3 077 791

	31.12.2005	31.12.2004
	Carrying amount	Carrying amount
Loans and advances granted, gross:		
to state budget entities	6 749 221	7 613 858
up to 1 month	297 966	197 098
from 1 to 3 months	72 015	80 538
from 3 months to 1 year	702 399	1 971 935
from 1 to 5 years	4 790 243	4 368 705
over 5 years	886 598	995 582
average effective rate	-	-
to financial entities other than banks	809 674	615 938
up to 1 month	103 683	76 775
from 1 to 3 months	56 420	47 880
from 3 months to 1 year	242 346	38 801
from 1 to 5 years	350 811	444 354
over 5 years	56 414	8 128
average effective rate	-	-
to non-financial entities	41 360 498	33 954 406
up to 1 month	9 110 198	8 188 308
from 1 to 3 months	1 390 370	1 093 632
from 3 months to 1 year	5 457 510	4 019 765
from 1 to 5 years	10 693 106	9 418 607
over 5 years	14 709 314	11 234 094
average effective rate	-	-
Total	48 919 393	42 184 202

As at 31 December 2004, PKO BP SA took advantage of the exemption allowed under IFRS 1 and did not restate comparative data relating to the valuation of loans and advances using the effective interest rate method.

Finance and operating leases
Finance leases

The Bank does not have any lease receivables.

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Operating leases

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.

Rental agreements concluded by the Bank as part of its normal business activities meet the criteria of operating lease. All such agreements are concluded at an arm's length.

The table below shows data concerning operating lease agreements concluded by the Bank:

Total value of future lease payments under non-cancellable operating leases	31.12.2005	31.12.2004 comparative data
For the period:		
up to 1 year	364	281
from 1 to 5 years	11 686	16 057
over 5 years	419 097	507 119
Total	431 147	523 457

Lease and sub-lease payments recognised as an expense in the period from 1 January 2005 to 31 December 2005 amounted to PLN 143,733 thousand (in the period from 1 January 2004 to 31 December 2004: PLN 140,433 thousand).

26. Investment securities

	31.12.2005	31.12.2004 comparative data
Available for sale	1 898 442	21 643 404
- issued by central banks	-	3 768 909
- issued by other banks	-	235 909
- issued by other financial institutions	7 762	89 777
- issued by non-financial entities	746 141	793 984
- issued by the State Treasury	354 347	16 079 723
- issued by local government bodies	790 192	675 335
Held to maturity	-	1 893 017
- issued by central banks	-	-
- issued by other banks	-	-
- issued by other financial institutions	-	-
- issued by non-financial entities	-	-
- issued by the State Treasury	-	1 893 017
- issued by local government bodies	-	-
Total investment securities	1 898 442	23 536 421
Impairment allowances	(40 864)	(38 107)
Total net investment securities	1 857 578	23 498 314

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Movements in investment securities

	1.01.-31.12.2005	1.01.-31.12.2004 comparative data
Available for sale		
Balance at the beginning of the period	21 605 297	24 331 761
Change in accounting policies*	(19 953 121)	-
Balance as at 1 January 2005	1 652 176	-
Foreign exchange differences	(576)	1 153
Increases	4 451 248	41 827 887
Decreases (redemption)	(4 311 013)	(44 518 744)
Change in the fair value	65 743	(36 760)
Balance at the end of the period	1 857 578	21 605 297
Held to maturity		
Balance at the beginning of the period	1 893 017	3 830 980
Change in accounting policies**	170	-
Balance as at 1 January 2005	1 893 187	-
Foreign exchange differences		
Increases	39 218	181 986
Decreases (redemption)	(1 932 405)	(2 119 949)
Changes in the fair value	-	-
Balance at the end of the period	-	1 893 017

* Reclassified as of 1 January 2005 to the portfolio of assets and liabilities at fair value through profit or loss according to IFRS 1 and debt instruments valuation in accordance with IAS 39

** Adjustment to the effective interest rate of debt instruments.

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Available for sale securities as at 31 December 2005, by maturity: carrying amount

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	with no maturity date specified	Total
Available-for-sale securities							
issued by central banks	-	-	-	-	-	-	-
issued by other banks	-	-	-	-	-	-	-
issued by other financial 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 available-for-sale securities as at 31 December 2005	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 2005 amounted to 4.96%.

As at 31 December 2005, the portfolio of available-for-sale debt securities included:

- commercial bills with a total nominal value of PLN 271,500 thousand,
- corporate bonds with a total nominal value of PLN 426,247 thousand,
- municipal bonds with a total nominal value of PLN 780,562 thousand,
- treasury bonds with a total nominal value of PLN 330,000 thousand.

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Available for sale securities as at 31 December 2004 by maturity: carrying amount (comparative data),

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	with no maturity date specified	Total
Available-for-sale securities							
issued by central banks	1 127 839	-	-	-	2 641 070	-	3 768 909
issued by other banks	39 148	-	14 982	90 125	-	91 421	235 676
issued by other financial institutions	319	-	70 787	0	-	-	71 106
issued by non-financial entities	45 985	109 950	8 053	151 479	133 562	325 519	774 548
issued by the State Treasury	351 967	1 816 793	4 163 781	8 127 552	1 619 630	-	16 079 723
issued by local government bodies	-	11 028	82 093	482 991	99 223	-	675 335
Total available-for-sale securities as at 31 December 2004	1 565 258	1 937 771	4 339 696	8 852 147	4 493 485	416 940	21 605 297

As at 31 December 2004, the average yields of available-for-sale securities issued by the State Treasury amounted to 6.33% for PLN, 3.78% for EUR and 4.12% for USD.

As at 31 December 2004, the portfolio of available-for-sale debt securities included:

- treasury bills with a total nominal value of PLN 2,252,520 thousand,
- commercial bills with a total nominal value of PLN 147,900 thousand,
- corporate bonds with a total nominal value of PLN 403,890 thousand,
- municipal bonds with a total nominal value of PLN 964,654 thousand,
- treasury bonds with a total nominal value of PLN 13,181,117 thousand,
- bonds issued by NBP with a total nominal value of PLN 2,522,112 thousand,
- money bills with a total nominal value of PLN 1,130,720 thousand.

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Available-for-sale securities as at 1 January 2005*, by maturity: carrying amount

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	with no maturity date specified	Total
Available-for-sale securities							
issued by central banks	-	-	-	-	-	-	-
issued by other banks	-	-	-	-	-	91 421	91 421
issued by other financial institutions	70 789	-	-	-	-	39 467	110 256
issued by non-financial entities	36 284	109 950	8 053	151 479	133 562	334 002	773 330
issued by the State Treasury	-	-	-	-	-	-	-
issued by local government bodies	-	12 243	82 093	482 991	99 223	-	676 550
Total available-for-sale securities as at 1 January 2005	107 073	122 193	90 146	634 470	232 785	464 890	1 651 557

* Classification as at 1 January 2005, in accordance with the exemption allowed under IFRS 1 (see Note 47).

As at 31 December 2004, the average yields of available-for-sale securities issued by the State Treasury amounted to 6.33% for PLN, 3.78% for EUR and 4.12% for USD.

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Held-to-maturity securities as at 31 December 2005, by maturity: carrying amount

As at 31 December 2005, the Bank did not have any securities held to maturity.

Held-to-maturity securities as at 31 December 2004, by maturity: carrying amount (comparative data)

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	with no maturity date specified	Total
Held-to-maturity securities							
issued by central banks	-	-	-	-	-	-	-
issued by other banks	-	-	-	-	-	-	-
issued by other financial institutions	-	-	-	-	-	-	-
issued by non-financial entities	-	-	-	-	-	-	-
issued by the State Treasury	-	124 080	1 768 937	-	-	-	1 893 017
issued by local government bodies	-	-	-	-	-	-	-
Total held-to-maturity securities as at 31 December 2004	-	124 080	1 768 937	-	-	-	1 893 017

As at 31 December 2004, the average yield of held-to-maturity securities issued by the State Treasury was 6.59%.

As at 31 December 2004, the portfolio of debt securities held to maturity included treasury bonds with a nominal value of PLN 1,895,000 thousand.

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27. Investments in subsidiaries, associates and jointly controlled entities

As at 31 December 2005, the Bank's investments in subsidiaries, associates and jointly controlled entities are stated 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.

Entity name	31.12.2005	31.12.2004 comparative data
Subsidiaries		
PTE Bankowy SA	205 785	205 786
Centrum Finansowe Puławska Sp. z o.o.	128 288	128 288
KREDOBANK SA	111 971	109 531
PKO Inwestycje Sp. z o.o.	147 903	60 403
Inteligo Financial Services SA	43 153	16 608
Centrum Elektronicznych Usług Płatniczych SA	55 500	55 500
Bankowy Fundusz Leasingowy SA	30 000	30 000
Bankowe Towarzystwo Kapitałowe	18 566	18 566
PKO Towarzystwo Finansowe	-	-
Przedsiębiorstwo Informatyki Bankowej „Elbank”	-	-
International Trade Center Sp. z o.o. (in liquidation)	-	-
Jointly controlled entities		
PKO/Credit Suisse TFI SA	14 000	14 000
Wawel Hotel Development Sp. z o.o.	13 865	13 865
Centrum Obsługi Biznesu Sp. z o.o.	17 498	
Associates		
Bank Pocztowy SA	113 000	112 000
Kolej Gondolowa Jaworzyna Krynicka SA	-	-
Ekogips S.A. (in bankruptcy)	-	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	374	289
Hotel Jan III Sobieski Sp. z o.o.	-	-
Agencja Inwestycyjna CORP SA	29	29
Total	899 932	764 865

Summary information about associated entities valued using the equity pick-up method:

Entity name	Total assets	Total liabilities	Total revenues	Net profit (loss)	% share
31.12.2005					
Bank Pocztowy SA	1 800 930	1 608 874	239 197	25 035	25.0001%
Kolej Gondolowa Jaworzyna Krynicka SA	37 889	8 919	11 188	2 648	37.83%
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	6 711	2 017	135	95	33.33%
Hotel Jan III Sobieski Sp. z o.o.	132 434	262 629	51 821	21 625	32.50%
Agencja Inwestycyjna CORP SA	4 149	2 307	15 920	447	22.31%
Total	1 982 113	1 884 746	318 261	49 850	---
31.12.2004					
Bank Pocztowy SA	2 258 035	2 093 768	233 741	18 998	25.0001%
Kolej Gondolowa Jaworzyna Krynicka SA	37 101	11 226	9 845	2 235	38.23%
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	4 607	7	88	59	33.33%
Hotel Jan III Sobieski Sp. z o.o.	135 146	286 996	53 047	49 974	32.50%
Agencja Inwestycyjna CORP SA	4 373	2 823	17 017	418	22.31%
Total	2 439 262	2 394 820	313 738	71 684	---

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

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As of 31 December 2005 and as of 31 December 2004 the Bank did not have any share in conditional liabilities of subsidiaries, purchased jointly with other investors.

In 2005 the Bank acquired PKO Inwestycje Sp. z o.o. in total amount of PLN 87,500 thousand for investments projects realization.

On 25 January 2005, PKO BP SA acquired 34,992 shares, accounting for 41.44% of the company's share capital and votes at the shareholders' meeting. The acquisition cost amounted to PLN 17,498 thousand.

The Bank, acting through „Rosan – Papiery Wartościowe” Sp. z o.o. with the registered office in Lvov, made a bid to minority shareholders of KREDOBANK S.A. to purchase their shares. As a result the Bank purchased from minority shareholders 339,763,026 shares representing approximately 2.367% of KREDOBANK S.A.. The purchase price amounted to PLN 2,439,350

28. Intangible assets

Year ended 31 December 2005	Development expenses	Patents and licenses	Goodwill acquired as a result of business combination	Intangible assets under construction	Total
Acquisition cost as at 1 January 2005 including amortisation	-	124 069	-	259 976	384 045
Increases due to internal development projects	-	-	-	-	-
Purchases	-	-	-	274 937	274 937
Disposals	-	(103)	-	(49)	(152)
Reversal of impairment allowances	-	-	-	-	-
Attributable to discontinued operations	-	-	-	-	-
Impairment allowance	-	-	-	-	-
Amortisation	-	(128 067)	-	(3 807)	(131 874)
Other changes	-	187 234	-	(188 884)	(1 650)
Net carrying amount	-	183 133	-	342 173	525 306
<i>As at 1 January 2005</i>					
Acquisition cost (gross carrying amount)	-	605 172	32	266 769	871 973
Accumulated amortisation and impairment allowance	-	(481 103)	(32)	(6 793)	(487 928)
Net carrying amount	-	124 069	-	259 976	384 045
<i>As at 31 December 2005</i>					
Acquisition cost (gross carrying amount)	-	775 924	32	352 361	1 128 317
Accumulated amortisation and impairment allowance	-	(592 791)	(32)	(10 188)	(603 011)
Net carrying amount	-	183 133	-	342 173	525 306

A significant item of intangible assets is represented by capital expenditures incurred for the integrated IT system (ZSI). As at 31 December 2005, capital expenditures incurred for ZSI amounted to PLN 145,491 thousand. As at 31 December 2004, these expenditures amounted to PLN 39,748 thousand.

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Year ended 31 December 2004	Development expenses	Patents and licenses	Goodwill acquired as a result of business combination	Intangible assets under construction	Total
Acquisition cost as at 1 January 2004 including amortisation	-	124 475	-	138 848	263 323
Increases due to internal development projects	-	-	-	-	-
Purchases	-	-	-	223 223	223 223
Disposals	-	(1 265)	-	(38)	(1 303)
Reversal of impairment allowances	-	-	-	-	-
Attributed to discontinued operations	-	-	-	-	-
Impairment allowance	-	-	-	-	-
Amortisation	-	(132 594)	-	(3 002)	(135 596)
Other changes	-	133 453	-	(99 055)	34 398
Net carrying amount	-	124 069	-	259 976	384 045
<i>As at 1 January 2004</i>					
Acquisition cost (gross carrying amount)	-	475 122	32	141 776	616 930
Accumulated amortisation and impairment allowance	-	(350 647)	(32)	(2 928)	(353 607)
Net carrying amount	-	124 475	-	138 848	263 323
<i>As at 31 December 2004</i>					
Acquisition cost (gross carrying amount)	-	605 172	32	266 769	871 973
Accumulated amortisation and impairment allowance	-	(481 103)	(32)	(6 793)	(487 928)
Net carrying amount	-	124 069	-	259 976	384 045

* "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 2005 to 31 December 2005, PKO BP SA incurred capital expenditures for the purchase of tangible fixed assets and intangible assets in the amount of PLN 569,119 thousand. In the period from 1 January 2004 to 31 December 2004, PKO BP SA incurred capital expenditures for the purchase of tangible fixed assets and intangible assets in the amount of PLN 516,267 thousand.

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29. Tangible fixed assets

Year ended 31 December 2005	Land and building including investment properties	Plant and machinery	Motor vehicles	Assets under construction	Other	Total
Cost of tangible fixed assets as at 31 December 2004 in accordance with PAS	1 778 726	2 185 312	40 009	239 018	321 226	4 564 291
Change in accounting policies in accordance with IAS as at 01.01.2005	279 217	-	-	-	-	279 217
Cost of tangible fixed assets in accordance with IAS as at 1 January 2005	2 057 943	2 185 312	40 009	239 018	321 226	4 843 508
Increases, of which:	79 266	303 572	478	295 191	21 407	699 914
Purchases and other changes	79 266	303 572	478	295 191	21 407	699 914
Foreign exchange differences	-	-	-	-	-	-
Decreases, of which:	(74 346)	(142 597)	(6 680)	(324 503)	(8 223)	(556 349)
Transfer to assets held for sale	-	-	-	-	-	-
Liquidation and sale	(13 531)	(124 076)	(6 243)	-	(6 956)	(150 806)
Disposal resulting from business combination	-	-	-	-	-	-
Other	(60 815)	(18 521)	(437)	(324 503)	(1 267)	(405 543)
Cost of tangible fixed assets 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, of which:	(84 652)	(206 587)	(4 321)	-	(20 313)	(315 873)
Depreciation charge for the period	(74 831)	(188 997)	(3 721)	-	(19 864)	(287 413)
Other	(9 821)	(17 590)	(600)	-	(449)	(28 460)
Transfers	-	-	-	-	-	-
Foreign exchange differences	-	-	-	-	-	-
Decreases, of which:	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 allowances						
Opening balance	(35 221)	-	-	-	-	(35 221)
Increases	(15 000)	-	-	-	-	(15 000)
Decreases	-	-	-	-	-	-
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

As at 31 December 2005, the carrying amount of plant and machinery used on the basis of finance lease agreements and lease agreements with a purchase option amounted to PLN 3,345 thousand (as at 31 December 2004: PLN 4,278 thousand).

In the year ended 31 December 2005, there were no restrictions on the Bank's title to tangible fixed assets resulting from pledging them as collateral.

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Year ended 31 December 2004	Land and buildings including investment properties	Plant and machinery	Motor vehicles	Assets under construction	Other	Total
Cost of tangible fixed assets as at 1 January 2004	1 734 196	2 105 632	41 146	201 519	313 898	4 396 391
Changes in accounting policy – Determining deemed cost of tangible fixed assets re-measured to fair value in accordance with IFRS 1	279 217	-	-	-	-	279 217
Cost of tangible fixed assets after changes in accounting policy	2 013 413	2 105 632	41 146	201 519	313 898	4 675 608
Increases, of which:	57 877	153 624	298	299 459	13 143	524 401
Purchases and other changes	57 877	153 624	298	299 459	13 143	524 401
Foreign exchange differences	-	-	-	-	-	-
Disposals, of which:	(13 347)	(73 944)	(1 435)	(261 960)	(5 815)	(356 501)
Transfer to assets held for sale	-	-	-	-	-	-
Liquidation and sale	(7 393)	(68 583)	(1 340)	(1 136)	(5 815)	(84 267)
Disposal resulting from business combination	-	-	-	-	-	-
Other	(5 954)	(5 361)	(95)	(260 824)	-	(272 234)
Cost of tangible fixed assets at the end of the period	2 057 943	2 185 312	40 009	239 018	321 226	4 843 508
Accumulated depreciation as at 1 January 2004	(356 598)	(1 676 891)	(27 311)	-	(271 764)	(2 332 564)
Increases, of which:	(63 235)	(253 721)	(5 150)	-	(15 266)	(337 372)
Depreciation charge for the period	(63 235)	(253 721)	(5 150)	-	(13 694)	(335 800)
Other	-	-	-	-	(1 572)	(1 572)
Transfers	-	-	-	-	-	-
Decreases, of which:	2 565	70 373	1 040	-	5 904	79 882
Liquidation and sale	2 401	67 814	1 001	-	5 904	77 120
Other	164	2 559	39	-	-	2 762
Accumulated depreciation at the end of the period	(417 268)	(1 860 239)	(31 421)	-	(281 126)	(2 590 054)
Impairment allowances	-	-	-	-	-	-
Opening balance	(121)	-	-	(683)	(8)	(812)
Increases	(35 221)	-	-	-	-	(35 221)
Decreases	121	-	-	683	8	812
Closing balance	(35 221)	-	-	-	-	(35 221)
Net book value	1 605 454	325 073	8 588	239 018	40 100	2 218 233
Opening balance	1 656 694	428 741	13 835	200 836	42 126	2 342 232
Closing balance	1 605 454	325 073	8 588	239 018	40 100	2 218 233

As of 1 January 2004 remeasured tangible fixed assets in accordance with IFRS 1. The total amount of fair value of remeasured tangible fixed assets amounted to PLN 666,233 thousand. The carrying value of the above tangible fixed assets as of 31 December 2003 amounted PLN 387,016 thousand. In 2005, the Bank did not receive any compensation from

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third parties due to impairment or loss of tangible fixed assets, recognised in the profit and loss account for the year ended at 31 December 2005.

“Landing buildings, including investment properties” include land, which is not subject to depreciation. The largest item is the plot of land in Warsaw, with fair value estimated by an independent appraiser, exceeding its carrying value amounting to PLN 28, 828 thousand by approx. PLN 7,000 thousand. There are no contractual commitments or restrictions relating to the Bank’s rights to sell these properties.

The amounts of income/expenses connected with the Bank’s investment properties are presented below.

	1.01.-31.12.2005	1.01.-31.12.2004 comparative data
Rental income from investment properties	-	-
Direct operating expenses relating to investment properties (including maintenance and repair costs) which generated rental income during the given period	-	-
Direct operating expenses relating to investment properties (including maintenance and repair costs) which did not generate rental income during the given period	1 434	1 384

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30. Other assets

	31.12.2005	31.12.2004 comparative data
Settlements of transactions carried out using cards	150 378	192 276
Receivables from customers	56 356	29 493
Settlements of securities' trading transactions	-	10 900
Prepayments	16 678	30 320
Receivables from budget due to distribution of duty stamps by PKO BP SA	15 402	16 367
Receivables from other banks and non-banking points of sale of duty stamps	15 041	15 923
Inter-bank and inter- branch clearing accounts	1 686	1 800
Other*	58 707	6 054
Total	314 248	303 133

* Included in "Other" are mainly receivables relating to own operations conducted by the Bank.

31. Assets pledged as security/ collateral for liabilities

PKO BP SA has the following assets pledged as collateral/ security for its own and third party's 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 Banking Guarantee Fund (*Bankowy Fundusz Gwarancyjny*) dated 14 December 1994 (Journal of Laws of 2000, No. 9, item 131, with subsequent amendments).

	31.12.2005	31.12.2004 comparative data
Fund's value	92 009	174 307
Nominal value of collateral/ security	93 000	200 000
Type of collateral/ security	treasury bonds	treasury bonds
Maturity of collateral/ security	24.03.2007	12.08.2005
Carrying amount of collateral/ security	92 669	192 720

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

	31.12.2005	31.12.2004 comparative data
Stock exchange guarantee fund	2 479	2 911

32. Amounts due to the Central Bank

	31.12.2005	31.12.2004 comparative data
Current accounts	-	-
Up to 1 month	766	144
From 1 month to 3 months	-	-
From 3 months to 1 year	-	-
From 1 year to 5 years	-	-
Over 5 years	-	-
Total amounts due to the Central Bank	766	144

As of 31 December 2005 and as of 31 December 2004 the interest rate amounted to 0.071%.

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33. Amounts due to other banks

	31.12.2005	31.12.2004 comparative data
Current accounts	11 022	6 608
Other banks' deposits	1 920 269	693 916
Loans and advances received	-	81 580
Cash in transit	-	-
Other deposits from money market	11 744	18 299
Total amounts due to other banks	1 943 035	800 403

Structure of amounts due to other banks by maturities

	31.12.2005	31.12.2004 comparative data
Current accounts	11 022	6 608
Amounts due with maturity period of:	1 932 013	793 795
Up to 1 month	1 071 754	479 215
From 1 month to 3 months	505 502	-
From 3 months to 1 year	179 722	233 000
From 1 year to 5 years	175 035	81 580
Over 5 years	-	-
Cash in transit	-	-
Other deposits from money market	-	-
Total	1 943 035	800 403

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

As at 31 December 2005 and 31 December 2004, PKO BP SA did not have other financial liabilities valued at fair value through profit or loss.

35. Amounts due to customers

	31.12.2005	31.12.2004 comparative data
Amounts due to corporate entities	9 759 222	6 487 007
Current accounts and O/N deposits	4 305 934	3 674 373
Term deposits	5 426 877	2 749 490
Other	26 411	63 144
Amounts due to state budget entities	3 186 238	5 369 539
Current accounts and O/N deposits	2 552 753	2 420 571
Term deposits	496 354	2 745 086
Other	137 131	203 882
Amounts due to individuals	62 941 420	60 719 727
Current accounts and O/N deposits	20 633 998	17 949 029
Term deposits	42 288 819	42 732 910
Other	18 603	37 788
Total amounts due to customers	75 886 880	72 576 273

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Structure by maturity

	31.12.2005	31.12.2004 comparative data
Current accounts and O/N deposits	27 492 685	24 043 973
Amounts due with maturity period of:	48 394 195	48 532 300
Up to 1 month	18 823 445	17 531 668
From 1 month to 3 months	12 797 824	11 164 288
From 3 months to 1 year	15 361 153	18 270 906
From 1 year to 5 years	1 399 046	1 513 451
Over 5 years	12 727	51 987
Other	-	-
Total	75 886 880	72 576 273

36. Liabilities arising from debt securities issued

As at 31 December 2005 and 31 December 2004, the Bank had no liabilities arising from debt securities issued.

37. Other liabilities

	31.12.2005	31.12.2004 comparative data
Accrued expenses		
Income received in advance	182 662	144 398
Other liabilities	161 640	4 667
liabilities arising from settlements of transactions in securities	1 321 878	1 094 539
liabilities arising from inter-bank and inter-branch transactions	414 556	145 317
liabilities arising from social and legal transactions	291 827	66 691
liabilities arising from foreign currency activities	188 384	224 855
settlements arising from purchase of machinery and equipment and raw materials and services concerning construction of tangible fixed assets	82 374	43 263
liabilities arising from non-financial operations	42 739	61 265
liabilities arising from sale of duty stamps	20 926	22 994
liabilities relating to investment activities and own operations	19 801	104 401
liabilities arising from the return of excess payments to borrowers due to debts forgiven by the state budget	15 002	13 781
liabilities due to suppliers	13 238	19 105
liabilities arising from deposits paid by suppliers and from non-cash credits for individuals for purchase of industrial articles	9 767	4 140
liabilities relating to payments of benefits	6 967	3 010
settlements with Poczta Polska relating to substitution services	3 621	4 836
settlements relating to payments from Foundation "Polsko-Niemieckie Pojednanie"	3 011	13 153
liabilities relating to bank transfers to be paid out in PLN	2 934	1 895
other*	25 050	227 312
Total	1 666 180	1 243 604

* Included in "Other" as at 31 December 2005 are various operating liabilities amounting to PLN 13,733 thousand (as at 31 December 2004: PLN 25,735 thousand) as well as settlements relating to transactions carried out using payment cards, amounting to PLN 2,395 thousand (as at 31 December 2004: PLN 12,267 thousand).

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38. Provisions

	Provision for disputes	Provision for retirement benefits	Provision for liabilities and guarantees granted	Other provisions	Total
As at 31 December 2004 in accordance with PAS	5 614	184 113	10 330	672 462	872 519
Adjustments arising from application of IAS to opening balances, including:	-	-	-	(665 486)	(665 486)
IAS 27	-	-	-	(3 889)	(3 889)
IAS 30	-	-	-	(661 597)	(661 597)
As at 1 January 2005 in accordance with IAS	5 614	184 113	10 330	6 976	207 033
Recognition/revaluation	-	26 651	57 063	85 051	168 765
Reversal	-	-	(50 766)	-	(50 766)
As at 31 December 2005	5 614	210 764	16 627	92 027	325 032

	Provision for disputes	Provision for retirement benefits	Provision for liabilities and guarantees granted	Other provisions	Total
As at 31 December 2003 in accordance with PAS	5 614	173 257	15 695	664 995	859 561
Adjustments arising from application of IAS to opening balances, including:	-	-	-	(664 995)	(664 995)
IAS 27	-	-	-	(3 398)	(3 398)
IAS 30	-	-	-	(661 597)	(661 597)
As at 1 January 2004 in accordance with IAS	5 614	173 257	15 695	-	194 566
Recognition/revaluation	-	10 856	-	11 693	22 549
Reversal	-	-	(5 365)	(4 717)	(10 082)
As at 31 December 2004	5 614	184 113	10 330	6 976	207 033

Provisions for disputes were created in the amount equal to expected outflows of economic benefits.

39. Employee benefits

On 10 November 2004, in accordance with the Act dated 30 August 1996 on commercialisation and privatisation (Journal of Laws, 2002, No. 171, item 1397 with further amendments) and § 14.1 of the Minister of State Treasury Decree dated 29 January 2003 concerning detailed principles of dividing entitled employees into groups, determining the number of shares falling to each of those groups and the procedure for acquiring shares by entitled employees (Journal of Laws, No. 35, item 303), the Bank's employee shares have been granted to the employees. As a result, the employees received 105,000,000 shares, which account for 10.5% of the share capital of the Bank. In preparing these financial statements, the Bank applied transitional provisions of IFRS 1 and did not settle the above transaction in accordance to the requirements of IFRS 2.

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40. Social fund [Zakładowy Fundusz Świadczeń Socjalnych]

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. Accordingly, the balance of the Social Fund accounts in the Bank's balance sheet as at 31 December 2005 and 31 December 2004 amounted to null.

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

	31.12.2005	31.12.2004 comparative data
Loans granted to employees	90 692	74 006
Amounts on the Social Fund account	9 399	13 085
	1.01-31.12.2005	1.01-31.12.2004 comparative data
Contributions to Social Fund	29 439	29 647
Non-refundable expenditure by the Fund	16 439	23 276

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41. Contingent liabilities

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	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	2021-06-30	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

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Entity DD	Municipal bonds	6 100	2012-12-31	Bonds Issue Agreement
Entity EE**	Municipal bonds	25 745	2009-12-30	Bonds Issue Agreement
Other, with total value not exceeding PLN 2.0m	Municipal bonds	8 750		
Total		670 397		

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

** Debt securities denominated in EUR after translation into PLN.

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As at 31 December 2004, the Bank's underwriting agreements covered the following securities (comparative data):

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	Commercial bills of exchange	69 871	2005-12-31	Commercial Bills Issue Agreement
Company B	Commercial bills of exchange	39 912	2006-12-30	Commercial Bills Issue Agreement
Entity A	Municipal bonds	5 000	2011-12-31	Bonds Issue Agreement*
Entity B	Municipal bonds	4 500	2010-12-31	Bonds Issue Agreement
Entity C	Municipal bonds	10 000	2010-12-31	Bonds Issue Agreement
Entity D	Municipal bonds	5 430	2011-12-31	Bonds Issue Agreement
Entity E	Municipal bonds	5 900	2011-12-31	Bonds Issue Agreement
Entity F	Municipal bonds	700	2009-12-31	Bonds Issue Agreement
Entity G	Municipal bonds	5 000	2009-12-31	Bonds Issue Agreement
Entity H	Municipal bonds	900	2010-12-31	Bonds Issue Agreement
Entity I	Municipal bonds	3 000	2011-12-31	Bonds Issue Agreement
Entity J	Municipal bonds	11 222	2011-12-31	Bonds Issue Agreement
Entity K	Municipal bonds	3 800	2012-10-01	Bonds Issue Agreement
Entity L	Municipal bonds	5 200	2014-12-31	Bonds Issue Agreement
Entity M	Municipal bonds	2 400	2009-12-31	Bonds Issue Agreement
Entity N	Municipal bonds	2 000	2014-12-31	Bonds Issue Agreement
Entity L	Municipal bonds	1 700	2012-12-31	Bonds Issue Agreement
Entity O	Municipal bonds	2 160	2015-07-15	Bonds Issue Agreement
Entity P	Municipal bonds	14 000	2013-12-30	Bonds Issue Agreement
Entity Q	Municipal bonds	40 500	2017-12-31	Bonds Issue Agreement
Entity R	Municipal bonds	7 500	2011-12-31	Bonds Issue Agreement
Entity S	Municipal bonds	35 000	2011-12-31	Bonds Issue Agreement
Entity T	Municipal bonds	500	2010-11-30	Bonds Issue Agreement
Total		276 195		

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

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

Potential liabilities

As at 31 December 2005, the total value of court proceedings in which the Bank is defendant (inbound) was PLN 453,788 thousand (as at 31 December 2004: PLN 10,000,000,391,362 thousand), while the total value of court proceedings in which the Bank filed claims (outbound) was PLN 63,017 thousand (as at 31 December 2004: PLN 92,072 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 upon request of the Polish Trade and Distribution Organization against the following: Visa CEMEA – Visa International, Europay International S.A, Visa Forum Polska and Europay Forum Polska and the banks – members of the association of payees Visa Forum Polska and Europay Forum Polska, including against the Bank, for practices limiting competition on the market of services relating to discharging consumer liabilities towards accepting parties resulting from credit card purchases of goods and services made on the territory of Poland, whereby the above named participate in agreeing of “interchange” fees

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for transactions made with the use of Visa credit cards (which may be in breach of Art. 5 section 1 point 1 of the Act on competition protection), participate in agreeing of “interchange” fees for transactions made with the use of Europay/ Eurocard/Mastercard cards in Poland (which may be in breach of Art. 5 section 1 point 1 and 6 of the Act on competition protection) and coordinate activities with a view to limiting an access to the corporate market for the payees who are not members of the above systems (which may be in breach of Art. 5 section 1 point 1 and 6 of the Act on competition protection). The deadline for completing the proceedings was postponed several times. Based on the decision of the President of the Competition and Consumer Protection Office dated 23 February 2006, the deadline for the completion of proceedings was postponed to 27 April 2006 due to the necessity to obtain appropriate data and information and the necessity to analyze court evidence.

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

As at the date of these financial statements, seven administrative proceedings are pending to invalidate decisions issued by public administration authorities with respect to properties held by the Bank or, in one case, by the Bank’s subsidiary. These proceedings, in the case of an unfavourable outcome for the Bank, may result in re-privatisation claims being raised against the Bank. Only one of these proceedings relates to property which was classified by the Bank as material for its operations, i.e. property located in Warsaw at ul. Puławska 15, which houses the Bank’s Headquarters. Perpetual leasehold of land to this property is held by CFP Sp. z o.o. 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 four properties of the Bank claims were submitted by their former owners. Legal proceedings have started in one case. In the other three cases, the Bank still conducts 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 proceedings described above is remote.

The financials statements for the year ended 31 December 2005 do not include any adjustments arising from the potential liabilities described above.

Financial liabilities granted

	31.12.2005	31.12.2004 comparative data
Total financial liabilities granted:	17 545 743	15 795 037
to financial sector	1 575 793	2 130 848
to non-financial sector	13 590 624	12 387 189
to public sector	2 379 326	1 277 000
of which: irrevocable liabilities granted	8 519 942	9 504 544

Guarantee liabilities granted

	31.12.2005	31.12.2004 comparative data
Amounts due to financial sector:	64 384	185 665
guarantees	64 384	185 665
sureties	-	-
confirmed export letters of credit	-	-
Amounts due to non-financial sector:	1 190 908	461 792
guarantees	1 190 908	461 792
sureties	-	-
confirmed export letters of credit	-	-
Amounts due to public sector:	252 752	210 508
guarantees	252 752	210 508
sureties	-	-
avals	-	-
Total guarantees granted	1 508 044	857 965

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

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

	up to 1 month	1-3 months	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 liabilities	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

Contingent liabilities granted as of 31 December 2004 (by maturity dates)

(comparative data)

	up to 1 month	1-3 months	over 3 month – 1 year	1-5 years	over 5 years	Total
Financial granted liabilities	5 106 917	759 393	5 818 626	3 290 171	819 930	15 795 037
Guarantees granted liabilities	136 726	125 638	168 699	411 272	15 630	857 965
Total	5 243 643	885 031	5 987 325	3 701 443	835 560	16 653 002

Assets pledged as collaterals for contingent liabilities

As at 31 December 2005 and 31 December 2004, the Bank had no financial assets pledged as collateral.

Off-balance sheet received liabilities

	31.12.2005	31.12.2004
Off-balance sheet received liabilities	4 665 423	5 143 815
Financial	447 742	714 887
Guarantees	4 217 681	4 428 928

42. Share capital

In the years ended 31 December 2004 and 31 December 2005, there were no changes in the Bank's share capital.

As at 31 December 2005, the share capital of PKO BP SA amounted to PLN 1,000,000 thousand and consisted of 1,000,000 thousand shares with a nominal value of 1 PLN each (as at 31 December 2004: PLN 1,000,000 thousand, 1,000,000 thousand shares with a nominal value of 1 PLN each) – shares fully paid.

As of 31 December 2005 377,000 thousand shares were subject to public trading (as of 31 December 2004: 377,000 thousand)

As of 31 December 2005 and as of 31 December 2004 the subsidiaries, jointly controlled entities and associates of PKO BP did not have any PKO BP shares.

Information on the holders of PKO BP SA shares is presented in Note 1.

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43. Other capital items and retained earnings

	31.12.2005	31.12.2004 comparative data
Reserve capital	3 297 080	2 789 765
Share premium	-	-
Other	3 297 080	2 789 765
Revaluation reserve - valuation of financial assets available for sale	(4 460)	241 205
General banking risk fund	1 000 000	1 499 963
Other reserves	1 380 000	1 370 000
Retained earnings	430 976	558 264
Total	6 103 596	6 459 197

44. Notes to the cash flow statement

Cash and cash equivalents

	31.12.2005	31.12.2004 comparative data
Cash and amounts in the Central Bank	3 832 695	3 490 505
Current receivables from financial institutions	7 371 941	10 329 170
Total	11 204 636	13 819 675

Cash flow from operating activities – other adjustments

	01.01.- 31.12.2005	01.01.- 31.12.2004 comparative data
Valuation, interest accrued, discount, premium on debt securities decreased by deferred tax	(75 027)	238 171
Disposal of tangible and intangible assets	25 441	48 562
Valuation, impairment allowances against investments in jointly controlled entities and associates	(27 829)	23 463
Utilization of provision for general banking risk	-	(33 567)
Separation of tax paid and current tax expense	(27 906)	(42 816)
Valuation at amortized cost with the use of effective interest rate	2 492	-
Financial assets impairment	501	-
Total other adjustments	(102 328)	233 813

Reconciliation of differences between the balance sheet changes and the cash flow statement changes of items presented in Group A of the cash flow statement

	01.01.-31.12.2005	01.01.- 31.12.2004 comparative data
(Profit) loss from investing activities		
Income from sale and disposal of the tangible and intangible fixed assets	(11 026)	(20 165)
Sale and disposal costs of tangible and intangible fixed assets	26 006	61 716
(Profit) loss from investing activities - total	14 980	41 551

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Interest and dividends	01.01-31.12.2005	01.01-31.12.2004 comparative data
Interests from securities classified to available for sale and held to maturity portfolio, presented in the investing activities.	(870 412)	(2 055 907)
Dividends presented in the investing activities	(28 856)	(22 284)
Interest and dividends - total	(899 268)	(2 078 191)

Change in loans and advances to banks	01.01-31.12.2005	01.01-31.12.2004 comparative data
Balance sheet balances' change	514 669	(5 196 209)
Change in reserves for loans and advances to banks	430	(2 185)
Exclusion of the cash and cash equivalents change	(2 957 229)	4 279 929
Change in loans and advances to banks - total	(2 442 130)	(918 465)

Change in financial assets held for trading and other financial instruments valued at fair value through profit or loss	01.01-31.12.2005	01.01-31.12.2004 comparative data
Balance sheet balances' change	(20 529 943)	528 906
Transfer of the ALPL portfolio to the investment activities	19 364 312	-
Transfer of the securities classified to ALPL portfolio to "Other adjustments"	589 428	-
Change in financial assets held for trading and other financial instruments valued at fair value through profit or loss - total	(576 203)	528 906

Change in loans and advances to customers	01.01-31.12.2005	01.01-31.12.2004 comparative data
Balance sheet balances' change	(6 474 124)	(2 118 699)
Implementation of the assets valuation with amortized cost with the use of effective interests method net of deferred tax.	(345 006)	-
Change in provisions on loans and advances due from customers	(261 498)	8 447
Change in loans and advances to customers - total	(7 080 628)	(2 110 252)

Change in amounts due to banks	01.01-31.12.2005	01.01-31.12.2004 comparative data
Balance sheet balances' change	1 143 254	(203 135)
Transfer of the repayments/received long term advances due from banks to financing activities	-	(72 146)
Change in amounts due to banks - total	1 143 254	(275 281)

Change in amounts due to customers	01.01-31.12.2005	01.01-31.12.2004 comparative data
Balance sheet balances' change	3 310 607	928 487
Implementation of the liabilities valuation with amortized cost with the use of effective interest method net of deferred tax.	6 512	-
Transfer of the repayments/received long term advances due from other than banks financial institutions to financing activities	(50 312)	-
Change in amounts due to customers - total	3 266 807	928 487

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Change in provisions	01.01-31.12.2005	01.01-31.12.2004 comparative data
Balance sheet balances' change	(434 003)	99 172
Implementation of the IAS impairment of the loans and advances due from customers	(477 235)	-
Provisions on receivables due from banks	(430)	2 185
Provisions on receivables due from customers	261 498	(8 447)
Change of the deferred tax provision on the available for sale portfolio	57 626	(40 347)
Change in provisions - total	(592 544)	52 563

Change in other liabilities	01.01-31.12.2005	01.01-31.12.2004 comparative data
Balance sheet balances' change	859 270	84 336
Adjustment related to the adoption of IAS 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	2 549	1458
Change in other liabilities - total	1 036 175	85 794

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45. Transactions with related parties

All transactions with entities related by capital and personal relationships have been made at an arm's length. Repayment dates are from one month to ten years.
Presented below are transactions of PKO BP SA with entities related by capital at the following dates:

31 December 2005

Entity	Relationship	Net receivables	Of which: gross loans	Liabilities	Total revenues	Of which: interest and fees and commission income	Total costs	Of which: 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
UKRPOLINWESTYCJE Sp. z o.o.	Indirect subsidiary	-	-	-	-	-	-	-	-
Finanse-Agent Transferowy Sp. z o.o.	Indirect subsidiary	-	-	2421	4	4	83	83	-

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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	-
Bank Pocztowy SA	Associate	-	-	-	-	-	-	-	-
Kolej Gondolowa Jaworzyna Krynicka SA	Associate	3750	3750	50	1 729	1 728	27	4	-
Ekogips SA (in bankruptcy)	Associate	-	-	-	-	-	-	-	-
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	1930	85	4	-
Agencja Inwestycyjna „CORP” SA	Associate	181	-	26	516	-	2 209	-	-
FINDER Sp. z o.o.	Associate	-	-	-	-	-	-	-	-
TOTAL		1 074 492	1 024 976	193 539	76 889	75 967	162 514	20 852	464 644
In liquidation:									
International Trade Center Sp. z o.o. (in liquidation)	Subsidiary	-	-	-	-	-	-	-	-
Przedsiębiorstwo Informatyki Bankowej Elbank Sp. z o.o. (in liquidation)	Subsidiary	-	-	-	-	-	-	-	-
TOTAL		-	-	-	-	-	-	-	-

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As at 31 December 2004 (comparative data)

Entity	Relationship	Net receivables	Of which: gross loans	Liabilities	Total revenues	Of which: interest and fees and commission income	Total costs	Of which: interest and fees and commission costs	Off – balance sheet liabilities granted
Powszechne Towarzystwo Emerytalne BANKOWY SA	Subsidiary	-	-	3 106	47	47	80	80	-
Centrum Finansowe Puławska SA	Subsidiary	78 253	78 253	5 813	2 328	2 295	68 910	451	-
Kredyt Bank Ukraina SA	Subsidiary	27 466	-	541	122	122	-	-	1 711
PKO Inwestycje Sp. z o.o.	Subsidiary	2	-	279	726	726	125	118	5 585
Inteligo Financial Services SA	Subsidiary	2 500	2 500	9 703	370	368	41 704	136	-
Centrum Elektronicznych Usług Płatniczych „eService” SA	Subsidiary	17 056	17 037	4 486	13 438	13 424	10 997	10 997	50
Bankowy Fundusz Leasingowy SA	Subsidiary	432 325	361 453	4 390	20 931	19 702	173	15	599 831
Dom Maklerski BROKER SA	Subsidiary	-	-	-	286	240	-	-	105 000
Finanse-Agent Transferowy Sp. z o.o.	Indirect subsidiary	-	-	2 063	3	3	56	56	-
Fort Mokotów Sp. z o.o.	Associate	28 737	28 737	13 524	4 214	4 214	820	820	37 963
Wilanów Investments Sp. z o.o.	Associate	69 824	69 824	648	3 709	3 709	-	-	35 175
PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych SA	Jointly controlled entity	-	-	188	1 132	1 093	-	-	67
Wawel Hotel Development Sp. z o.o.	Jointly controlled entity	120 637	115 950	7 371	256	224	122	122	-
Bank Pocztowy SA	Associate	-	-	-	-	-	-	-	-
Kolej Gondolowa Jaworzyna Krynicka SA	Associate	3750	3750	439	796	796	96	56	-
Ekogips SA (in bankruptcy)	Associate	-	-	-	-	-	-	-	-
Poznański Fundusz Poręczeń Kredytowych	Associate	-	-	2 347	4	1	27	11	-

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Sp. z o.o.									
Hotel Jan III Sobieski Sp. z o.o.	Associate	41 952	83 793	1	2 287	2 287	219	-	-
Agencja Inwestycyjna „CORP” SA	Associate	203	-	-	1	-	2 169	-	-
TOTAL		822 705	761 297	54 899	50 650	49 251	125 498	12 862	785 382
In liquidation:									
PKO Towarzystwo Finansowe Sp. z o.o. (in liquidation)	Subsidiary	211	-	-	5	5	18	16	-
International Trade Center Sp. z o.o. (in liquidation)	Subsidiary	-	-	-	-	-	-	-	-
Przedsiębiorstwo Informatyki Bankowej Elbank Sp. z o.o. (in liquidation)	Subsidiary								
TOTAL		211	-	-	5	5	18	16	-

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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 (Journal of Laws 2003, No.119, item 1115 with subsequent amendments), 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 2005 the Bank recognised income in the amount of PLN 194,400 thousand (in 2004: PLN 205,896 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 166,814 thousand in cash (in the corresponding period of 2004: PLN 160,507 thousand) in respect of temporary redemption by the State budget of interest on housing loans from the "old" portfolio. The difference of PLN 27,586 thousand (in 2004: PLN 45,389 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 a commission for settlements relating to the redemption of interest on housing loans. In 2005, PKO BP SA received a commission for the fourth quarter of 2004 amounting to PLN 1,715 thousand (in 2004, for the fourth quarter of 2003: PLN 1,646 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 arm's length.

As of 1 January 1996 the Bank became general distributor of duty stamps. The amount received in this respect from the State budget in the year ended 31 December 2005 totalled PLN 43,697 thousand (in 2004: PLN 46,794 thousand) and was recognised in the Bank's income under "Fees and commission income" in full.

In the year ended 31 December 2005, the Bank also recognised a commission income of PLN 629 thousand (in 2004: PLN 13,054 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.

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Benefits for the key management of the Bank

a) Short-term employee benefits

Remuneration received from PKO BP SA

Name	Position	01.01.- 31.12.2005	01.01.- 31.12.2004 comparative data
Management Board			
Podsiadło Andrzej	Board President	259	251
Małecki Kazimierz	Vice-President, First Deputy President	255	248
Demianiuk Danuta	Vice-President	227	221
Skrzypek Sławomir	Vice-President	6	-
Kamiński Piotr	Board Member	259	193
Oblękowski Jacek	Board Member	248	221
Szewczyk Krystyna	Board Member	214	143
Total of short-term benefits for Management Board members		1 468	1 277
Supervisory Board			
Samojlik Bazyl	Chairman	30	30
Pałaszek Urszula	Vice-Chairman	16	-
Zdanowski Krzysztof	Secretary	16	-
Kamiński Arkadiusz	Secretary	13	30
Kokoszczyński Ryszard	Member	30	30
Kasiewicz Stanisław	Member	30	30
Giryn Andrzej	Member	30	30
Osiatyński Jerzy	Member	30	30
Siwek Czesława	Member	16	-
Szymański Władysław	Member	30	30
Total of short-term benefits for Supervisory Board members		241	210
Short-term benefits, total		1 709	1 487

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

Name	Position	01.01.-31.12.2005	01.01.- 31.12.2004 comparative data
Management Board			
Podsiadło Andrzej	Board President	135	35
Małecki Kazimierz	Vice-President, First Deputy President	-	68
Demianiuk Danuta	Vice-President	30	30
Skrzypek Sławomir	Vice-President	-	-
Kamiński Piotr	Board Member	76	-
Oblękowski Jacek	Board Member	-	18
Szewczyk Krystyna	Board Member	76	14
Short-term benefits, total		317	165

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During the years 2004-2005, members of the Supervisory Board did not receive any remuneration from subsidiaries, associates or jointly controlled entities of PKO BP S.A.

b) Post-employment benefits

In the years ended 31 December 2005 and 31 December 2004, no post-employment benefits were paid.

c) Other long-term benefits

In the years ended 31 December 2005 and 31 December 2004, no "other long-term benefits" were paid.

d) Benefits due to termination of employment

In the years ended 31 December 2005 and 31 December 2004, no benefits were paid due to termination of employment.

e) Share-based payments

In the years ended 31 December 2005 and 31 December 2004, no benefits were paid in the form of share-based payments.

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

	31.12.2005	31.12.2004 comparative data
Employees	517 665	389 624
Management Board members	433	7
Supervisory Board members	204	-
Individuals related personally to members of management and supervisory boards	-	-
Total	518 302	389 631

Terms of interest and repayment periods for these receivables do not differ from market terms and repayment terms for similar banking products.

46. Events after the balance sheet date

As of 1 January 2006, PKO BP introduced a new Table of banking fees and commission rates. These changes are due to market terms and a considerable enlargement of the Bank's offer.

On 24 January 2006, PKO BP signed a conditional agreement with Credit Suisse Asset Management Holding Europe (Luxembourg) SA for the sale of 45,000 of registered preference shares of PKO/CREDIT SUISSE Towarzystwo Funduszy Inwestycyjnych SA. The Bank will acquire these shares after it fulfils all the conditions specified in the agreement. The expected transfer of ownership of the shares will take place by the end of the first quarter of 2006. The shares acquired by the Bank account for 25% of votes at the Company's General Meeting. As a result of this acquisition, PKO BP SA will hold 75% of shares in the Company's share capital and votes at the Annual General Meeting. The price for the shares acquired by the Bank amounts to PLN 55,000 thousand.

On 25 January 2006, the Bank signed an agreement with one of its Customers for issuing banking guarantee. Under this agreement, the Bank is required to issue – to Customer's order – a guarantee to the Customs Office - in respect of excise security required by Article 43.1 of the Excise Tax Act of 23 January 2004, amounting to PLN 309,000 thousand. The agreement for issuing banking guarantee is in force from 1 February 2006 to 31 January 2007 plus a 90-day liability period. The collateral for the agreement is the clause for deducting receivables from the Customer's current account and a declaration of the Customer about submitting to enforcement, in accordance with Article 97 of the Banking Law. The interest on the potential receivables resulting from failure to pay the liabilities arising from the guarantee is based on WIBOR index plus the Bank's

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margin. The total value of the agreements signed by the Bank with the Customer as at the date of signing the agreement amounted to PLN 1,104,890 thousand. The signing of this agreement results in the requirement for the Bank to submit a notification about the signing of a significant agreement by the Bank, because the total value of the agreements signed with that Borrower meets the criteria defined in Article 2.1.51 in correspondence with Article 2.2 of the Decree of Finance Minister of 19 October 2005 on current and periodic information provided by the issuers of securities.

On 27 January 2006, PKO BP SA signed a Partners' Agreement with the City of Sopot and NDI S.A., with the participation of Centrum Haffnera Sp. z o.o., for an investment project relating to re-vitalisation of Sopot's tourist centre.

The Bank's financial engagement in this project will include:

- capital engagement – the Bank will take up, after the fulfilment of the conditions included in the agreement, about 49.4% of shares in Centrum Haffnera Sp. z o.o.;
- credit engagement.

On 8 March 2006, the Supervisory Board of the Bank made a resolution, in which it accepted the resignation of Mr Piotr Kamiński from acting function as Member of the Board from date 9 March i.e. effective date when Piotr Kamiński was appointed as a Vice-chairman of the Bank Pocztowy S.A. Board.

On 16 March 2006 PKO BP received approval of the chairman of Office of Competition and Consumer Protection for concentration resulting from the overtake the control through PKO BP SA over PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych. S.A.

47. First-time adoption of International Financial Reporting Standards

This note includes the following reconciliations: reconciliation of equity as at 1 January 2004 and 31 December 2004 and reconciliation of net profit for the year ended 31 December 2004 and significant changes in cash flow statement between previously published financial statements prepared in accordance with Polish Accounting Standards (PAS) and the restated comparative data in accordance with IFRS presented in these financial statements.

In addition, this note also includes a comparison of balance sheets prepared in accordance with PAS and IFRS as at 31 December 2004 and a comparison of profit and loss accounts prepared for the year ended 31 December 2004 in accordance with PAS and IAS.

In preparing these financial statements the Bank applied the provisions of IFRS 1. The optional exemptions allowed by IFRS 1 and applied by the Bank are described in Note 2.

The accounting policies in accordance with IFRS differ in a number of areas from the accounting policies in accordance with PAS. The differences between IFRS and PAS which had a significant influence on calculation of net profit and valuation of equity in 2004 and in the year ended 31 December 2005 are described below.

Valuation of financial assets and liabilities at amortised cost

The International Accounting Standard IAS 39 requires that certain financial assets and liabilities should be valued at amortised cost using the effective interest rate.

The Bank took advantage of the exemption from the requirement to restate comparative data in accordance with IAS 39. The transition date for this standard is 1 January 2005. The comparative data concerning the transactions, assets and liabilities for the periods commencing 1 January 2004 and ending 31 January 2004 or earlier which fall within the scope of this standard (IAS 39) were prepared in accordance with Polish Accounting Standards.

As of 1 January 2005, the Bank made adjustments in respect of the valuation of financial assets and liabilities at amortised cost using the effective interest rate method in accordance with IAS 39. The effects of the adjustments made as at 1 January 2005 are presented in the reconciliation of equity as at 1 January 2005 and in the comparison of the balance sheet prepared in accordance with IAS as at 31 December 2004 (without compliance with IAS 39) and the balance sheet in accordance with IFRS as at 1 January 2005.

The main adjustments which would be essential in preparing comparative data in accordance with IAS 39 with reference to the financial assets and liabilities stated at amortised cost, which, in accordance with PAS, are stated at nominal value plus accrued interest and less the amount of specific provisions, are as follows:

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- adjustment to the value of loans and advances granted to customers – valuation at amortised cost,
- adjustment to amounts due from banks – valuation at amortised cost,
- adjustment to financial liabilities (apart from these valued at fair value), including customers' deposits – valuation at amortised cost,
- adjustment to the value of financial instruments held to maturity – valuation at amortised cost,
- adjustment to revaluation reserve in respect of financial instruments available for sale – using the effective interest rate method,
- adjustment to deferred tax asset/liability.

Except for the adjustment to deferred tax asset/ deferred tax liability, the above adjustments relate to the fact that, in accordance with PAS, the Bank applies straight-line method to the recognition of interest income and expenses. Application of accounting policies in accordance with IFRS would result in transferring certain commission income items from net commission income to net interest income.

The effect of the above adjustments would have been taken to the accumulated profits (losses) as at 1 January 2004 and to the profit and loss account for the year ended 31 December 2004 in the case of preparing comparative data.

Impairment of financial assets

According to IAS 39, a financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An enterprise is required to assess at each balance sheet date whether there is any objective evidence that the financial asset may be impaired. Such evidence includes, among others, information about significant financial difficulty of the issuer or an actual breach of contract, such as a default or delinquency in interest or principal payments. If the diminution or loss of value occurs, the amount of impairment allowance is the difference between the asset's carrying amount and the present value of the expected future cash flows, discounted using the original effective interest rate for assets measured at cost, and using the current market rate of interest for financial assets measured at fair value.

According to Polish Accounting Standards, banks are required to perform, at least quarterly, a review of loan exposures and classify them to the so-called risk groups (i.e. normal receivables, watch receivables, substandard receivables, doubtful receivables, lost receivables). The classification follows the criteria of timeliness of repayments of receivables and of economic and financial situation of the borrower. Specific provisions for loan exposures are created at least at the level required for particular risk groups (from 1.5% do 100% of the basis for creating a provision).

In addition, in accordance with PAS, the required level of specific provisions for loan exposures:

- relating to retail loans classified as "normal" – is decreased by 25% of the general banking risk reserve;
- classified as "watch" – is decreased by 25% of the general banking risk reserve created in accordance with Art. 130 of the Banking Law.

The Bank took advantage of the exemption from the requirement to restate comparative data required for IAS 39 purposes. The IFRS transition date for this standard is 1 January 2005. The comparative financial data concerning transactions, assets and liabilities for the periods commencing 1 January 2004 and ending 31 January 2004 or earlier which fall within the scope of IAS 39 have been prepared in accordance with Polish Accounting Standards.

Portfolios of financial assets and liabilities in accordance with IAS 39

IAS 39 includes portfolio definitions which are different from those under PAS. The obligation to transfer certain financial instruments from one portfolio to another results, among others, from the requirements of classification of financial instruments to specific portfolios in accordance with IAS 39, which are different from PAS. Moreover, according to the exemption included in IFRS 1, the Bank had the possibility to assign certain financial instruments held to the portfolio of financial assets at fair value through profit or loss or to the available-for-sale portfolio.

The Bank took advantage of the exemption from the requirement to restate comparative data in accordance with IAS 32, IAS 39. Transactions, assets and liabilities for the periods commencing 1 January 2004 and ending 31 December 2004 or earlier which fall within the scope of these standards were recognised in accordance with Polish Accounting Standards.

Given the above, the Bank designated certain financial instruments, which are to be included in the portfolio of financial assets or liabilities at fair value through profit or loss or in the available-for-sale portfolio at 1 January

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2005. The transfer of instruments between portfolios valued using different principles had an effect on the profit of the Bank. The effect of the adjustments made as at 1 January 2005 is presented in the reconciliation of equity as at 1 January 2005 and in the comparison of the balance sheet in accordance with IAS as at 31 December 2004 (prepared with no compliance with IAS 39) and the balance sheet in accordance with IAS as at 1 January 2005.

The table below presents the fair value of the items of financial assets designated as at 1 January 2005 to the portfolio of financial assets at fair value through profit or loss.

	Name of instrument	Fair value as at 1 January 2005	Previous classification	Carrying amount as at 31 December 2004
Financial assets designated as at 1 January 2005 to financial assets at fair value through profit and loss				
	NBP bills	1 127 839	Available for sale	1 127 839
	NBP bonds	2 641 070	Available for sale	2 641 070
	treasury bills	2 204 929	Available for sale	2 204 929
	treasury bonds	13 682 074	Available for sale	13 682 074
	treasury bonds – collateral for the Banking Guarantee Fund	192 720	Available for sale	192 720
	bonds of other banks in foreign currency	105 108	Available for sale	105 108
Total		19 953 740		19 953 740

The adjustments that would be necessary in the case of preparation of comparative data for the year ended 31 December 2004 in accordance with IAS 39 relating to assigning financial instruments to specific portfolios, would depend, among others, on the decision of the Bank's Management Board concerning assignment of financial instruments to portfolios defined in accordance with IAS 39 as at 1 January 2004.

Effects of hyperinflationary economy

IAS 29 "*Financial reporting in hyperinflationary economies*" requires that the assets and liabilities reported in the currency of a hyperinflationary economy are stated in current prices at the end of the reporting period and provide the basis for the measurement of assets and liabilities in the financial statements for the following periods. The above standard applies to non-monetary balance sheet items. In the case of the Bank, significant non-monetary items include tangible fixed assets, investments classified as non-current assets and equity. Until the end of 1996, the Polish economy fulfilled the criteria of the hyperinflationary economy. However, since 1997, the criteria have not been fulfilled. The Bank did not apply IAS 29 in the previous years; it only performed a revaluation of tangible fixed assets as at 1 January 1995, in accordance with the regulations binding in Poland, in order to reflect the effects of inflation on their carrying amount, by applying revaluation indices set by the Ministry of Finance for the individual groups of tangible fixed assets. This revaluation did not meet the requirements of IAS 29, as the Bank did not apply general price indexes and did not restate tangible fixed assets as at 31 December 1996.

Taking advantage of the exemption allowed under IFRS 1, the Bank re-measured certain items of tangible fixed assets acquired before the period of hyperinflation at fair value at the date of transition to IFRS i.e. at 1 January 2004. The Bank used this fair value as a deemed cost determined as at that date. Since all the assets acquired before the hyperinflation period were re-measured to fair value, there was no need to perform any other restatements under IAS 29.

The effect of adjustments made in this respect as at 1 January 2004 has been presented in the reconciliation of equity as at 1 January 2004 as presented below. As at 1 January 2004, the Bank established the deemed cost of tangible fixed assets in accordance with IFRS 1. The value of the adjustment amounted to PLN 279,217 thousand net of deferred tax effect.

Valuation of investments in subsidiaries, jointly controlled entities and associates

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The Bank applied equity pick up method in the valuation of investments in subsidiaries, jointly controlled entities and associates. According to IAS, holding company/ significant investor in the separate financial statements measures the investment in subsidiaries, jointly controlled entities and associates at cost less impairment or in accordance with IAS 39, for the purpose of the Bank's separate financial statements preparation, the cost less impairment method was applied.

Share based payments

In accordance with IFRS 1, the first-time adopters of IFRS are recommended but not required to apply the provisions of IFRS 2 *Share-based payments* with respect to equity instruments which were granted on 7 November 2002 or earlier and equity instruments which were granted after 7 November 2002 and vested before 1 January 2005. Consequently, the Bank took advantage of the exemptions allowed under IFRS 1 and did not apply the IFRS 2 requirements to granted employee shares.

General banking risks reserve

In accordance with IFRS 30, any amounts set aside for general banking risks cannot be disclosed as part of liabilities but should be presented separately as appropriations of retained earnings. The value of the general banking risk reserve which, in accordance with IFRS requirements, has been presented in retained earnings, amounted to PLN 499,963 thousand as at 1 January 2005.

The above adjustments arising from differences between PAS and IFRS had an impact on the balance of deferred tax asset/deferred tax liability as at 1 January 2004, 31 December 2004 and 1 January 2005.

Balance sheet as at 31 December 2004 - Reconciliation of differences between the previously published financial data according to PAS and the comparative data restated to IAS.

	PAS 31.12.2004	IAS 31.12.2004	Difference IAS – PAS
ASSETS			
Cash and balances with the Central Bank	3 490 505	3 490 505	-
Amounts due from banks	13 159 200	13 146 115	(13 085) ¹⁾
Financial assets held for trading	346 131	346 131	-
Derivative financial instruments	1 362 379	1 362 379	-
Other financial instruments valued at fair value through profit or loss	-	-	-
Loans and advances to customers	42 587 084	39 577 723	(3 009 361) ^{2), 3)}
Investment securities	23 498 314	23 498 314	-
1. Available for sale	21 605 297	21 605 297	-
2. Held to maturity	1 893 017	1 893 017	-
Investments in associates	658 170	764 865	106 695 ⁴⁾
Intangible assets	384 045	384 045	-
Tangible fixed assets	1 939 016	2 218 233	279 217 ⁵⁾
Current tax receivables	20 153	20 153	-
Deferred tax assets	-	-	-
Other assets	486 795	303 133	(183 662) ^{1), 2)}
TOTAL ASSETS	87 931 792	85 111 596	(2 820 196)

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	PAS 31.12.2004	IAS 31.12.2004	Difference PAS – IAS
LIABILITIES AND EQUITY			
Amounts due to the Central Bank	144	144	-
Amounts due to other banks	800 403	800 403	-
Derivative financial instruments	793 739	793 739	-
Amounts due to customers	72 576 273	72 576 273	-
Liabilities arising from securities issued	-	-	-
Other liabilities	4 287 878	1 243 604	(3 044 274) ^{1), 2)}
Deferred tax liability	530 302	583 353	53 051 ⁵⁾
Provisions	872 519	207 033	(665 486) ^{3), 4)}
TOTAL LIABILITIES	79 861 258	76 204 549	(3 656 709)
Equity			
Share capital	1 000 000	1 000 000	-
Other capital items	5 553 019	5 900 933	347 914 ^{3), 5)}
Retained earnings	6 450	558 264	551 814 ^{3), 5)}
Net profit for the period	1 511 065	1 447 850	(63 215) ⁴⁾
Total equity	8 070 534	8 907 047	836 513
TOTAL LIABILITIES AND EQUITY	87 931 792	85 111 596	(2 820 196)

Description of changes

- 1) Derecognition of receivables from the Social Fund
- 2) Derecognition of suspended interest
- 3) Provision for general banking risk allocated to “normal” and “watch” receivables
- 4) Valuation of investments in subsidiaries in accordance with IAS 27
- 5) Establishment of the deemed cost of tangible fixed assets re-measured to fair value and its’ tax effect
- 6) Derecognition of Social Fund liabilities
- 7) Taking into account deductions for Social Fund
- 8) Provisions’ allocation for general risk
- 9) Transfer from provisions for general risk to share capital

Reconciliation of difference between the previously published financial data according to PAS and the comparative data restated to IAS in respect of equity as at 1 January 2004 i.e. at the transition date

Equity according to PAS as at 1.01.2004	6 399 135
Adjustment to investments in subsidiaries, associates and jointly controlled entities – application of the cost less impairment method instead of the equity method	162 127
Deemed cost of tangible fixed assets re-measured to fair value in accordance with IFRS 1	226 166
Transfer of the general banking risk provision to equity	533 530
Transfer to the Social Fund	(200)
Equity according to IAS as at 1.01.2004	7 320 758

Reconciliation of differences between the previously published financial data according to PAS and the comparative data restated to IAS in respect of equity as at 31 December 2004 and as at 1 January 2005

Equity according to PAS as at 31.12.2004	8 070 534
Valuation of investments in subsidiaries, associates and jointly controlled entities – application of the cost less impairment method instead of the equity method	110 584
Deemed cost of tangible fixed assets re-measured to fair value in accordance with IFRS 1	226 166
Transfer of the general banking risk provision to equity	499 963
Transfer to the Social Fund	(200)
Equity according to IAS as at 31.12.2004	8 907 047

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Equity according to PAS as at 31.12.2004	8 070 534
Valuation of investments in subsidiaries, associates and jointly controlled entities – application of the cost less impairment method instead of the equity method	110 584
Deemed cost of tangible fixed assets re-measured to fair value in accordance with IFRS 1	226 166
Transfer of provision on general risk to equities	499 963
Transfer to the Social Fund	(200)
Application of IAS 39, including:	(638 380)
Valuation at amortized cost using the effective interest rate adjusted for tax effects	(336 002)
Impairment of financial assets	(476 734)
Interest on the “old portfolio” housing loans	174 356
Equity according to IAS as at 01.01.2005	8 268 667

Profit and loss account for the year ended 31 December 2004 – Reconciliation of differences between the previously published financial data according to PAS and the comparative data restated to IAS.

	PAS 01.01.2004 – 31.12.2004	IAS 01.01.2004 – 31.12.2004	Difference IAS-PAS
Interest income	5 244 964	5 244 964	
Interest expense	(1 654 658)	(1 773 017)	(118 359) ¹⁾
Net interest income	3 590 306	3 471 947	(118 359)
Fees and commission income	1 865 208	1 865 208	-
Fees and commission expense	(284 153)	(284 153)	-
Net fees and commission income	1 581 055	1 581 055	-
Dividend income	3 396	22 291	18 895 ²⁾
Result from financial instruments valued at fair value	(47 830)	(45 976)	1 854 ¹⁾
Result from investment securities	(137 533)	(21 028)	116 505 ¹⁾
Foreign exchange result	434 934	434 934	-
Other operating income	243 714	229 837	(13 877) ³⁾
Other operating expenses	(145 677)	(96 370)	49 307 ^{3),5)}
Net other operating income	98 037	133 467	35 430
Impairment losses	(74 180)	(133 274)	(59 094) ^{3),4)}
General administrative expenses	(3 645 236)	(3 645 236)	-
Operating profit	1 802 949	1 798 180	(4 769)
Profit (loss) before taxation	1 802 949	1 798 180	(4 769)
Income tax expense	(350 330)	(350 330)	-
Share in net profits (losses) in subsidiaries, associates and jointly controlled entities accounted for using the equity method	58 446	-	(58 446) ^{2),4)}
Net profit (loss)	1 511 065	1 447 850	(63 215)

Description of changes

- ¹⁾ Change in presentation of premium from debt securities
- ²⁾ Change in presentation of dividend received from a jointly controlled entity
- ³⁾ Change in presentation of impairment allowances for tangible fixed assets
- ⁴⁾ Valuation of investments in subsidiaries, associates and jointly controlled entities in accordance with IAS 27 and IAS 36
- ⁵⁾ Transfer from net profit to the Social Fund

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Reconciliation of differences between the previously published financial data according to PAS and the comparative data restated to IAS in respect of net profit for the year ended 31 December 2004

<i>(12-month ended 31 December 2004)</i>	
Net profit according to PAS	1 511 065
Valuation of investments in subsidiaries, associates and jointly controlled entities – application of the cost less impairment method instead of the equity method	(63 015)
Transfer to the Social Fund	(200)
Net profit according to IAS	1 447 850

Explanation of significant differences between the previously published financial data according to PAS and the comparative data restated to IAS in respect of the cash flow statement for the year ended 31 December 2004:

1. Cash and cash equivalents

Included in cash and cash equivalents are amounts due from banks with a maturity date of less than 3 months, in addition to cash and amounts due from the Central Bank. As of 1 January 2004 cash and cash equivalents were adjusted by PLN 5,137,834 thousand (as of 31 December 2004 by PLN 8,593,958 thousand).

2. Financial assets available for sale

Movements in the balance of financial assets classified as available for sale transferred from operating to investing activities.

Effect of transition to IAS on the cash flow statement

	1.01.-31.12.2005
Cash flow from operating activities	
Assets valuation at amortised cost using the use of effective interest rate net of deferred tax	(336 002)
Impairment of financial assets	(476 734)
Interest on the “old portfolio” housing loans	174 356
Total effect of transition to IAS	(638 380)

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Signatures of all Members of the Management Board

21 March 2006	Andrzej Podsiadło	President of the Board	 (signature)
21 March 2006	Kazimierz Małecki	Vice-President First Deputy President of the Board	 (signature)
21 March 2006	Danuta Demianiuk	Vice-President of the Board	 (signature)
21 March 2006	Sławomir Skrzypek	Vice-President of the Board	 (signature)
21 March 2006	Jacek Oblękowski	Member of the Board	 (signature)

Signature of person responsible for keeping books of account

21 March 2006

Krystyna Szewczyk

Member of the Bank's Management Board, Chief Accountant of the Bank

(signature)