

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

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

I. GENERAL NOTES

1. Background

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

On 12 July 2001 the Bank was entered in the Register of Entrepreneurs of the National Court Register under No KRS 0000026438.

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

The Bank is the holding company of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group. Details of transactions with affiliated entities and the list of companies in which the Bank holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in note 1 and 45 of the notes to the audited financial statements for the year ended 31 December 2006.

The Bank's main activities include, among others:

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

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

Equity as at that date amounted to 10,035,724 thousand zlotys.

In accordance with the letter of the Investor Relations Bureau dated 20 March 2007, as at 31 December 2006 the Bank's shareholding structure was as follows:

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

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

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

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

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

- On 8 March 2006 the Bank's Supervisory Board accepted the resignation of Mr Piotr Kamiński from the position of the Member of the Bank's Management Board.
- On 26 June 2006 Mr Andrzej Podsiadło resigned from the position of the President of the Bank's Management Board. At the request of the Bank's Supervisory Board, Mr Andrzej Podsiadło was supposed to remain in the position of the President of the Bank's Management Board until 31 October 2006. On 29 September 2006, Mr Andrzej Podsiadło resigned from the position of the President of the Management Board, thus shortening the period of staying in this position, which was agreed on previously.
- Mrs Krystyna Szewczyk resigned from the function of the Member of the Bank's Management Board as of 26 June 2006.
- On 26 June 2006, the Bank's Supervisory Board appointed Mr Zdzisław Sokal and Mr Rafał Juszczak to the positions of Members of the Bank's Management Board as of 1 July 2006.
- On 29 September 2006, the Bank's Supervisory Board appointed Mr Sławomir Skrzypek to the position of acting President of the Management Board of PKO BP SA until the date of the appointment of the President of the Bank's Management Board,

however not longer than until 30 November 2006. On 30 November 2006, the Bank's Supervisory Board appointed Mr Sławomir Skrzypek to the position of acting President of the Bank's Management Board until the date of appointment of the new President of the Bank's Management Board. On 10 January 2007, Mr Sławomir Skrzypek resigned from the position of Deputy President, acting President of the Bank's Management Board.

- On 29 September 2006, the Supervisory Board of PKO BP SA passed resolutions appointing:
 - Mr Wojciech Kwiatkowski to the position of Deputy President of the Bank's Management Board as of 1 November 2006,
 - Mr Jarosław Myjak to the position of Deputy President of the Bank's Management Board as of 2 October 2006.
- The Bank's Supervisory Board appointed Mr Rafał Juszcak, Mr Jacek Obłękowski and Mr Zdzisław Sokal, the former Management Board members, to the positions of Deputy Presidents of the Bank's Management Board as of 29 September 2006.
- On 30 November 2006, Mr Jarosław Myjak resigned from the position of Deputy President of the Bank's Management Board.
- On 19 December 2006, Mr Kazimierz Małecki resigned from the position of Deputy President, First Deputy President of the Bank's Management Board as of 31 December 2006.
- Mrs Danuta Demianiuk resigned from the position of Deputy President of the Management Board as of 31 December 2006.
- The Bank's Supervisory Board, at the meeting held on 10 January 2007, delegated Mr Marek Głuchowski, PhD - Chairman of the Bank's Supervisory Board, to act temporarily as the President of the Bank's Management Board until 23 January 2007. Due to the fact that during the period from 24 January 2007 to 26 January 2007, no candidate was appointed by the Bank's Supervisory Board to be acting President of the Management Board, Mr Marek was delegated to act temporarily as President of the Bank's Management Board, starting from 27 January 2007 until 10 April 2007 at the latest.
- On 31 January 2007, Mr Jacek Obłękowski resigned from the position of the Deputy President of the Bank's Management Board.
- On 22 February 2007 the Bank's Supervisory Board passed resolutions appointing:
 - Mr Robert Działak as Deputy President of the Bank's Management Board as of 23 February 2007,
 - Mr Stefan Świętkowski as Deputy President the Bank's Management Board as of 1 May 2007.
- On 13 March 2007 Mr Zdzisław Sokal resigned from the position of Deputy President of the Bank's Management Board as of 13 March 2007.

2. Financial statements

On 19 May 2005 the General Shareholders' Meeting decided on preparation of the financial statements of the Bank in accordance with International Financial Reporting Standards as adopted by the EU.

2.1 Auditors' opinion and audit of financial statements

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

Ernst & Young Audit Sp. z o.o. was appointed by the Supervisory Board of PKO BP SA on 7 April 2005 to audit the Bank's financial statements for 2006.

Ernst & Young Audit Sp. z o.o. and the certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 66, clause 2 and 3 of the Accounting Act dated 29 September 1994 (uniform text: Journal of Laws of 2002, No 76 with subsequent amendments – the "Accounting Act").

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

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

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

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

1. We have audited the attached financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the "Bank") located in Warsaw at Puławska 15 Street, for the year ended 31 December 2006, containing:
 - the profit and loss account for the period from 1 January 2006 to 31 December 2006 with a net profit amounting to 2,047,391 thousand zlotys,
 - the balance sheet as at 31 December 2006 with total assets amounting to 99,052,833 thousand zlotys,
 - the statement of changes in shareholders' equity for the period from 1 January 2006 to 31 December 2006 with a net increase in shareholders' equity amounting to 1,255,330 thousand zlotys,
 - the cash flow statement for the period from 1 January 2006 to 31 December 2006 with a net cash inflow amounting to 2,675,007 thousand zlotys, and

- the additional notes and explanations
(the “attached financial statements”).
2. The truth and fairness¹ of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Bank’s Management Board. Our responsibility was to audit the attached financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair² and whether the accounting records that form the basis for their preparation are, in all material respects properly maintained.
 3. We conducted our audit of the attached financial statements in accordance with the following regulations being in force in Poland:
 - chapter 7 of the Accounting Act, dated 29 September 1994 (the “Accounting Act”),
 - the auditing standards issued by the National Chamber of Auditors,in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.
 4. In our opinion, the attached financial statements, in all material respects:
 - present truly and fairly all information material for the assessment of the results of the Bank’s operations for the period from 1 January 2006 to 31 December 2006, as well as its financial position³ as at 31 December 2006;
 - have been prepared correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
 - are, in respect of the form and content, in accordance with (i) legal regulations governing the preparation of financial statements and (ii) the Bank’s Articles of Association.
 5. We have read the Directors’ Report of the Bank for the period from 1 January 2006 to 31 December 2006 and the rules of preparation of annual financial statements (the “Directors’ Report”) and concluded that the information derived from the attached financial statements reconciles with the Directors’ Report. The information included in the Directors’ Report corresponds with the relevant regulations of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Laws No 209, item 1744).”

¹ Translation of the following expression in Polish: “*rzetelność, prawidłowość i jasność*”

² Translation of the following expression in Polish: “*rzetelne, prawidłowe i jasne*”

³ Translation of the following expression in Polish: “*sytuacja majątkowa i finansowa*”

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

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness⁴ of the financial statements and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Bank's Management Board also provided a letter of representations dated 27 March 2007, confirming that:

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

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

2.3 Financial statements of the Bank for prior financial year

The Bank's financial statements for the year ended 31 December 2005 were audited by Dominik Januszewski, certified auditor No 9707/7255, acting on behalf of Ernst & Young Audit sp. z o.o. with its registered office in Warsaw at Rondo ONZ 1, an entity authorized for performing audit with the number 130 in the auditors' register.

The certified auditor acting on behalf of the authorized entity issued an unqualified opinion on the financial statements for the year ended 31 December 2005.

The Bank's financial statements for the year ended 31 December 2005 were approved by the General Shareholders' Meeting on 18 April 2006, and the shareholders resolved to appropriate the 2005 net profit and retained earnings as follows:

dividend for the shareholders	800,000
reserve capital	1,232,524
other reserve capital	5,000
general risk fund	70,000
Company social fund	250

Total, of which:	2,107,774
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profit for the year 2005	1,676,798
retained earnings	430,976

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

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

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

The approved closing balances as at 31 December 2005 were correctly brought forward in the accounts as the opening balances at 1 January 2006.

3. Analytical review

3.1 Basic data and financial ratios

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

	2006	2005*
Total assets	99,052,833	90,327,516
Shareholders' equity	10,035,724	8,780,394
Net profit	2,047,391	1,676,798
Gross profit	2,502,064	2,073,310
Capital adequacy ratio in accordance with NBP methodology	11.70%	14.06%
Profitability ratio	69.71%	57.10%

Gross profit

General administrative expenses

	2006	2005*
Costs to income ratio	59.25%	62.57%
General administrative expenses Operating income		
Return on Equity (ROE)	21.76%	18.96% **
Net profit Average shareholders' equity		
Return on Assets (ROA)	2.16%	1.91% **
Net profit Average assets		
Rate of inflation:		
yearly average	1.0%	2.1%
current year December to previous year December	1.4%	0.7%

* Comparable data

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

3.2 Comments

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

- Net profit of the Bank for 2006 amounted to 2,047,391 thousand zlotys comparing to the net profit for 2005 amounting to 1,676,798 thousand zlotys.
- In 2006, there was an increase in the total assets compared to 2005. The total assets as at 31 December 2006 amounted to 99,052,833 thousand zlotys in comparison to 90,327,516 thousand zlotys as at 31 December 2005.
- The profitability ratio increased from 57.10% in 2005 to 69.71% in 2006.
- Cost to income ratio decreased to 59.25% in 2006 comparing with 62.57% in 2005.
- As at 31 December 2006 the return on equity and return on asset ratios – respectively – amounted to 21.76% and 2.16%, comparing to 2005 when these ratios amounted to 18.96% and 1.91%, respectively.
- The Bank's capital adequacy ratio amounted to 11.70% as at 31 December 2006 comparing with 14.06% as at the end of 2005.

3.3 Going concern

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

In note 1 in the notes to the audited financial statements for the year ended 31 December 2006, the Management Board has stated that the financial statements were prepared on the assumption that the Bank will continue as a going concern for a period of at least twelve months subsequent to 31 December 2006 and that there are no circumstances that would indicate a threat to its continued activity.

3.4 Application of prudence regulations

As at 31 December 2006, the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland and Resolutions of the Commission for Banking Supervision envisaged banking regulatory norms in relation to the following items:

- level of currency positions,
- concentration of credit risk,
- concentration of investments in shares,
- classification of loans and issued guarantees and suretyships to risk categories, recognition of provisions related to banking operations,
- solvency,
- level of obligatory reserve,
- capital adequacy.

During our audit we have not identified any facts indicating that during the period from 1 January 2006 to 31 December 2006 the Bank did not comply with the above regulations. In addition, we have received written representation from the Bank's Management Board that during the year the banking regulatory norms were not breached.

3.5 Correctness of calculation of capital adequacy ratio

During our audit we have not identified any irregularities in relation to the calculation of the capital adequacy ratio as at 31 December 2006 in accordance with Resolution No 4/2004 of the Commission for Banking Supervision dated 8 September 2004 concerning the scope of and specific principles used for determining capital requirements relating to particular risks and the scope of utilization of statistical methods and conditions, which after being accepted, enable these methods to be approved, methods and specific principles used for calculation of a bank's capital adequacy ratio, the scope and method of taking into account banks' activities in holdings while calculating capital requirements and capital adequacy ratio, also specification additional balance sheet items of a bank to be recognized jointly with the bank's own funds within capital adequacy calculation, including the scope, method and conditions of establishing such items." (Official Journal of the National Bank of Poland No 15 of 5 October 2004).

II. DETAILED REPORT

1. Accounting System

The Bank's accounts are kept using the ZORBA 3000 (main Bank's accounting system) and the additional systems (Promak, Profile, SSGW, Oracle Financial, Flex Cube) in the Bank's head office.

The Bank has up-to-date documentation stated in the Art. 10 of Accounting Act including the Bank's chart of accounts accepted by the Bank's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

2. Assets, liabilities and equity, profit and loss account of the Bank

Details of the Bank's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2006.

Verification of assets and liabilities was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2006.

3. Notes to the financial statements

The additional notes and explanations to the financial statements for the year ended 31 December 2006 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

4. Directors' Report

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

5. Materiality level

Professional judgment was applied taking into account the specific factors relating to the Bank to establish a level of materiality. This determination included considering both quantitative and qualitative factors.

6. Conformity with law and regulations

We have obtained a letter of representations from the Management Board confirming that neither laws nor provisions of the Bank's Articles of Association, which may have influenced the financial statements, were breached during the financial year.

7. Work of experts

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

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

on behalf of
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Arkadiusz Krasowski
Certified Auditor No 10018/7417

Dominik Januszewski
Certified Auditor No 9707/7255

Warsaw, 27 March 2007