



**PKO BANK POLSKI
SPÓŁKA AKCYJNA**

**INTERIM FINANCIAL STATEMENTS
OF
THE PKO BANK POLSKI SA GROUP
FOR THE SECOND QUARTER OF 2006**

Prepared in accordance with
International Financial Reporting Standards

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1. SUMMARY

- As at 30 June 2006:
 - total assets of the PKO BP SA Group amounted to PLN 96,014 million and were PLN 4,401 million i.e. 4.8% higher compared to the end of 2005;
 - the Groups' total equity amounted to PLN 8,968 million and was PLN 193 million, i.e. 2.2% higher compared to the end of 2005.
- The gross profit of the PKO BP SA Group amounted to PLN 663 million in the 2nd quarter of 2006 and was 18.1% higher compared to that earned in the corresponding period of 2005. The net profit for the period amounted to PLN 509 million and was 8.0% higher compared to that recorded in the 2nd quarter of 2005.
- In the 1st half of 2006, the PKO BP SA Group recorded gross profit of PLN 1,275 million. After the deductions resulting from tax charges and profits (losses) of minority shareholders, the net profit amounted to PLN 991 million. Compared to the 1st half of 2005, the gross profit and the net profit were higher by 15.5% and 11.7%, respectively.

2. ACCOUNTING POLICIES

In preparing this consolidated quarterly Report, the Bank adopted accounting policies resulting from International Financial Reporting Standards, effective from the beginning of 2005, issued by the International Accounting Standards Board (IASB) and interpretations thereof issued by the International Financial Reporting Interpretation Committee (IFRIC). The consolidated quarterly report was prepared in accordance with the International Accounting Standard No. 34 „*Interim financial Reporting*” and includes additional disclosures required by the Decree of the Minister of Finance of 19 October 2005 on current and interim financial information to be provided by the issuers of securities (Journal of Laws No. 209, item 1744).

The accounting policies applied in the Report for the 2nd quarter of 2006 are consistent with those applied in 2005. These policies were described in detail in the Consolidated Annual Report for 2005.

3. FINANCIAL STATEMENTS

Consolidated quarterly report 2/2006

for the 2 quarters of 2006 covering the period from 1 January 2006 to 30 June 2006

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

Data derived from consolidated financial statements

Data derived from consolidated financial statements	PLN thousands		EUR thousands	
SELECTED FINANCIAL DATA	Period from 01.01.2006 to 30.06.2006	Period from 01.01.2005 to 30.06.2005	Period from 01.01.2006 to 30.06.2006	Period from 01.01.2005 to 30.06.2005
Net interest income	1 828 109	1 759 733	468 722	431 254
Net fees and commission income	791 570	600 846	202 956	147 248
Operating profit	1 274 504	1 093 698	326 779	268 030
Net profit (loss) for the current year (including minority interest)	1 020 529	884 304	261 661	216 715
Net profit (loss)	991 314	887 356	254 170	217 463
Shareholders' equity attributable to the parent company's	8 895 464	8 030 286	2 199 996	1 987 645
Total shareholders' equity	8 968 312	8 097 210	2 218 013	2 004 210
Net cash flow from operating activities	4 707 300	387 751	1 206 938	95 025
Net cash flow from investing activities	(5 699 349)	1 959 006	(1 461 297)	480 090
Net cash flow from financing activities	(15 511)	(76 247)	(3 977)	(18 686)
Total net cash flows	(1 007 560)	2 270 510	(258 335)	556 429
Net profit per ordinary share for the period	0.99	0.89	0.25	0.22
Diluted net profit per ordinary share for the period	0.99	0.89	0.25	0.22

*Translation of interim financial statements of the PKO BP SA Group
for the 2nd quarter of 2006
The Polish original should be referred to in matters of interpretation*

Data derived from condensed financial statements

Data derived from condensed financial statements	PLN thousands		EUR thousands	
SELECTED FINANCIAL DATA	Period from 01.01.2006 to 30.06.2006	Period from 01.01.2005 to 30.06.2005	Period from 01.01.2006 to 30.06.2006	Period from 01.01.2005 to 30.06.2005
Net interest income	1 777 004	1 730 217	455 619	424 021
Net fees and commission income	812 485	579 286	208 319	141 964
Operating profit	1 190 974	1 099 962	305 362	269 565
Gross profit	1 190 974	1 099 962	305 362	269 565
Net profit	965 041	881 224	247 434	215 960
Total shareholders' equity	8 918 707	8 123 133	2 205 744	2 010 627
Net cash flow form operating activities	4 679 192	79 773	1 199 731	19 550
Net cash flow from investing activities	(5 634 508)	2 155 013	(1 444 672)	528 125
Net cash flow form financing activities	(1 245)	(1 330)	(319)	(326)
Total net cash flows	(956 561)	2 233 456	(245 259)	547 349
Net profit per ordinary share for the period	0.97	0.88	0.25	0.22
Diluted net profit per share for the period	0.97	0.88	0.25	0.22

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BALANCE SHEET OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP		
ASSETS	As at 30.06.2006	As at 31.12.2005
Cash and amounts due from the Central Bank	4 092 191	3 895 331
Amounts due from banks	11 887 067	12 663 295
Financial assets held for trading	799 756	851 003
Derivative financial instruments	1 207 271	1 137 227
Other financial instruments at fair value through profit or loss	13 366 323	20 059 683
Loans and advances to customers	52 821 360	46 874 629
Investment securities	7 385 316	1 881 378
1. Available for sale	7 385 316	1 881 378
2. Held to maturity	-	-
Investments in associates and jointly controlled entities	203 317	184 345
Intangible assets	789 386	688 770
Tangible fixed assets	2 590 727	2 643 551
Amounts due from current tax	-	87
Deferred tax asset	101 039	29 101
Other assets	770 698	704 781
TOTAL ASSETS	96 014 451	91 613 181
LIABILITIES AND EQUITY		
	As at 30.06.2006	As at 31.12.2005
Liabilities		
Amounts due to the Central Bank	1 485	766
Amounts due to other banks	2 261 474	2 083 346
Derivative financial instruments	1 419 902	1 257 384
Amounts due to customers	80 004 146	76 747 563
Liabilities arising from securities issued	98 533	68 470
Other liabilities	2 909 522	1 862 480
Current tax liability	2 296	436 766
Deferred tax liability	27 863	41 519
Provisions	320 918	339 897
TOTAL LIABILITIES	87 046 139	82 838 191
Equity		
Share capital	1 000 000	1 000 000
Other capital and reserves	7 130 730	5 850 063
Currency translation differences from foreign operations	(5 233)	(4 082)
Retained earnings	(221 347)	150 405
Net profit for the period	991 314	1 734 820
Equity attributable to the parent company's shareholders	8 895 464	8 731 206
Minority capital	72 848	43 784
Total equity	8 968 312	8 774 990
TOTAL LIABILITIES AND EQUITY	96 014 451	91 613 181
Capital adequacy ratio	13.19	13.90

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PROFIT AND LOSS ACCOUNT OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP				
	2nd Quarter Period from 01.04.2006 to 30.06.2006	2 Quarters cumulatively Period from 01.01.2006 to 30.06.2006	2nd Quarter Period from 01.04.2005 to 30.06.2005	2 Quarters cumulatively Period from 01.01.2005 to 30.06.2005
Interest income	1 364 442	2 707 242	1 425 663	2 879 808
Interest expense	(440 863)	(879 133)	(525 203)	(1 120 075)
Net interest income	923 579	1 828 109	900 460	1 759 733
Fees and commission income	485 050	975 828	401 762	749 212
Fees and commission expense	(99 761)	(184 258)	(79 971)	(148 366)
Net fees and commission income	385 289	791 570	321 791	600 846
Dividend income	221	221	1 570	1 570
Result from financial instruments at fair value	(46 752)	(54 050)	83 053	147 792
Result from investment securities	700	1 127	22 206	53 217
Foreign exchange result	145 204	292 698	158 787	331 839
Other operating income	247 885	515 594	149 396	302 173
Other operating expense	(51 285)	(94 968)	(45 115)	(66 631)
Net other operating income and expense	196 600	420 626	104 281	235 542
Result on impairment write-downs	31 922	5 784	(57 739)	(87 571)
General administrative expenses	(982 630)	(2 011 581)	(993 238)	(1 949 270)
Operating profit (loss)	654 133	1 274 504	541 171	1 093 698
Share in the profits (losses) of associates and jointly controlled entities	8 727	219	20 193	10 424
Profit (loss) before income tax	662 860	1 274 723	561 364	1 104 122
Income tax expense	(134 329)	(254 194)	(92 560)	(219 818)
Net profit (loss) for the period (including minority interest)	528 531	1 020 529	468 804	884 304
Profit (loss) attributable to minority shareholders	19 162	29 215	(2 751)	(3 052)
Net profit (loss)	509 369	991 314	471 555	887 356
Net profit per ordinary share				
-net profit per ordinary share for the period	0.51	0.99	0.47	0.89
-diluted net profit per ordinary share for the period	0.51	0.99	0.47	0.89

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STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP		
	Period from 01.01.2006 to 30.06.2006	Period from 01.01.2005 to 30.06.2005
EQUITY		
Share capital	1 000 000	1 000 000
Other capital and reserves, of which:	7 130 730	5 988 440
Reserve capital	4 530 138	3 297 614
Revaluation reserve	(31 032)	134 408
<i>Fair value adjustments to available-for-sale financial assets</i>	(31 032)	134 408
Other reserves	1 561 624	1 556 418
General banking risk fund	1 070 000	1 000 000
Foreign exchange differences on foreign operations	(5 233)	(2 450)
Retained earnings	(221 347)	156 940
Net profit for the period	991 314	887 356
Equity attributable to the parent company's shareholders	8 895 464	8 030 286
Minority capital	72 848	66 924
<i>Including the result for the period</i>	29 215	(3 052)
Total equity	8 968 312	8 097 210
Sources of changes in equity		
Equity as at the end of the previous period	8 774 990	8 070 534
Adjustments due to changes in accounting policies	-	149 038
Recognition of minority interest	-	25 164
Adjustments associated with implementation of IFRS/IAS	-	123 874
Equity as at the beginning of the period, restated	8 774 990	8 219 572
Changes in shareholders' equity		
Net profit (loss) for the period attributable to the parent company's shareholders	962 099	890 408
Profits (losses) of the minority shareholders	29 215	(3 052)
Fair value adjustments to available-for-sale financial assets recognised in the revaluation reserve	(26 978)	(26 265)
Currency translation differences on subsidiaries	(1 151)	9 022
Other increases/decreases of shareholders' equity	(769 863)	(992 475)
Total shareholders' equity	8 968 312	8 097 210

OFF-BALANCE SHEET ITEMS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP		
	As at 30.06.2006	As at 31.12.2005
Off-balance sheet contingent liabilities granted:	12 167 124	10 268 549
1. financial	9 927 870	8 792 299
2. guarantees	2 239 254	1 476 250
Liabilities arising from the purchase/sale transactions	316 487 482	279 032 415
Other, of which:	16 371 368	14 571 039
- irrevocable liabilities	9 603 578	8 519 942
- received collaterals	6 767 790	6 051 097
Total off-balance sheet items	345 025 974	303 872 003

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CONDENSED STATEMENT OF CASHFLOWS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP		
	Period from 01.01.2006 to 30.06.2006	Period from 01.01.2005 to 30.06.2005
Net cash flow from operating activities	4 707 300	387 751
Net cash flow from investing activities	(5 699 349)	1 959 006
Net cash flow from financing activities	(15 511)	(76 247)
Total net cash flow	(1 007 560)	2 270 510
Cash and cash equivalents at the beginning of the period	11 390 608	13 812 825
Cash and cash equivalents at the end of the period	10 383 048	16 083 335
Components of cash and cash equivalents	10 383 048	16 083 335
Cash on hand	1 268 757	1 008 772
Amounts due to the Central Bank	2 823 434	3 719 046
Current receivables from financial institutions	6 288 879	11 353 143
Cash of the Brokerage House in the Stock Exchange Guarantee Fund	1 978	2 374

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BALANCE SHEET OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA		
ASSETS	As at 30.06.2006	As at 31.12.2005
Cash and amounts due from the Central Bank	4 043 893	3 832 695
Amounts due from banks	11 869 555	12 631 446
Financial assets held for trading	799 752	841 914
Derivative financial instruments	1 207 271	1 137 227
Other financial instruments at fair value through profit or loss	13 300 186	20 034 160
Loans and advances to customers	51 757 939	46 051 847
Investment securities	7 320 715	1 857 578
1. Availables for sale	7 320 715	1 857 578
2. Held to maturity	-	-
Investments in subsidiaries, associates and jointly controlled entities	1 005 871	899 932
Intangible assets	588 432	525 306
Tangible fixed assets	2 135 666	2 201 163
Amounts due from current tax	-	-
Deferred tax asset	72 709	-
Other assets	477 684	314 248
TOTAL ASSETS	94 579 673	90 327 516

LIABILITIES AND EQUITY	As at 30.06.2006	As at 31.12.2005
Liabilities		
Amounts due to the Central Bank	1 485	766
Amounts due to other banks	2 111 902	1 943 035
Derivative financial instruments	1 419 902	1 257 384
Amounts due to customers	79 143 550	75 886 880
Liabilities arising from securities issued	-	-
Other liabilities	2 678 221	1 666 180
Amounts due from current tax	-	436 494
Deferred tax liability	-	31 351
Provisions	305 906	325 032
TOTAL LIABILITIES	85 660 966	81 547 122
Equity		
Share capital	1 000 000	1 000 000
Other capital and reserves	6 953 666	5 672 620
Retained earnings	-	430 976
Net profit for the period	965 041	1 676 798
Total equity	8 918 707	8 780 394
TOTAL LIABILITIES AND EQUITY	94 579 673	90 327 516

Capital adequacy ratio	13.16	14.06
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PROFIT AND LOSS ACCOUNT OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA				
	2nd Quarter Period from 01.04.2006 to 30.06.2006	2 Quarters cumulatively Period from 01.01.2006 to 30.06.2006	2nd Quarter Period from 01.04.2005 to 30.06.2005	2 Quarters cumulatively Period from 01.01.2005 to 30.06.2005
Interest income	1 317 550	2 613 541	1 391 743	2 812 511
Interest expense	(420 349)	(836 537)	(504 861)	(1 082 294)
Net interest income	897 201	1 777 004	886 882	1 730 217
Fees and commission income	512 736	995 259	392 941	732 633
Fees and commission expense	(94 996)	(182 774)	(82 665)	(153 347)
Net fees and commission income	417 740	812 485	310 276	579 286
Dividend income	296	296	14 272	14 272
Result from financial instruments at fair value	(46 537)	(54 004)	82 469	147 208
Result from investment securities	218	859	22 186	53 197
Foreign exchange result	138 305	284 014	164 824	342 202
Other operating income	32 814	84 884	39 898	82 190
Other operating expense	(16 657)	(31 229)	(24 687)	(32 264)
Net other operating income and expense	16 157	53 655	15 211	49 926
Result on impairment write-downs	44 232	22 756	(33 839)	(69 514)
General administrative expenses	(841 031)	(1 706 091)	(897 493)	(1 746 832)
Operating profit (loss)	626 581	1 190 974	564 788	1 099 962
Profit (loss) before income tax	626 581	1 190 974	564 788	1 099 962
Income tax	(114 946)	(225 933)	(94 238)	(218 738)
Net profit (loss)	511 635	965 041	470 550	881 224

Net profit per ordinary share				
–net profit per ordinary share for the period	0.51	0.97	0.47	0.88
–diluted net profit per ordinary share for the period	0.51	0.97	0.47	0.88

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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA		
	Period from 01.01.2006 to 30.06.2006	Period from 01.01.2005 to 30.06.2005
EQUITY		
Share capital	1 000 000	1 000 000
Retained earnings, of which:	6 953 666	5 810 933
Reserve capital	4 529 604	3 297 080
Revaluation reserve	(30 938)	133 853
<i>Fair value adjustments to available-for-sale financial assets</i>	(30 938)	133 853
Other reserves	1 385 000	1 380 000
General banking risk fund	1 070 000	1 000 000
Retained earnings from previous years	-	430 976
Net profit for the period	965 041	881 224
Total equity	8 918 707	8 123 133
Sources of changes in equity		
Equity as at the end of the previous period	8 780 394	8 070 534
Adjustments due to changes in accounting policies	-	198 133
Adjustments associated with implementation of IFRS/IAS	-	198 133
Equity as at the beginning of the period, restated	8 780 394	8 268 667
Changes in shareholders' equity		
Net profit (loss) of the Bank	965 041	881 224
Fair value adjustments to available-for-sale financial assets recognised in the revaluation reserve	(26 478)	(26 758)
Other increases/decreases of the shareholders' equity	(800 250)	(1 000 000)
Total shareholders' equity	8 918 707	8 123 133

OFF-BALANCE SHEET ITEMS OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA		
	As at 30.06.2006	As at 31.12.2005
Off-balance sheet contingent liabilities granted	12 264 386	10 533 845
1. financial	9 939 259	9 025 801
2. guarantees	2 325 127	1 508 044
Liabilities arising from the purchase/sale transactions	316 490 278	279 032 527
Other, of which:	12 714 383	11 422 181
- irrevocable liabilities	9 594 191	8 519 942
- received collaterals	3 120 192	2 902 239
Total off-balance-sheet items	341 469 047	300 988 553

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CONDENSED STATEMENT OF CASH FLOW OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA		
	Period from 01.01.2006 to 30.06.2006	Period from 01.01.2005 to 30.06.2005
Net cash flow from operating activities	4 679 192	79 773
Net cash flow from investing activities	(5 634 508)	2 155 013
Net cash flow from financing activities	(1 245)	(1 330)
Total net cash flow	(956 561)	2 233 456
Cash and cash equivalents at the beginning of the period	11 204 636	13 696 809
Cash and cash equivalents at the end of the period	10 248 075	15 930 265
Components of cash and cash equivalents	10 248 075	15 930 265
Cash on hand	1 220 459	1 008 738
Amounts due from the Central Bank	2 823 434	3 719 046
Current receivables from financial institutions	6 202 204	11 200 107
Cash of the Brokerage House in the Stock Exchange Guarantee Fund	1 978	2 374

4. IMPAIRMENT OF ASSETS OF THE BANK

The value of impairment of assets of the Bank at the balance sheet date:

	30.06.2006	31.12.2005
Impairment allowances against loans and advances, guarantees and deposits	2 843 624	2 869 302
Impairment allowances against tangible fixed assets and intangible assets	20 121	50 334
Impairment allowances against financial assets	96 166	79 930
Impairment allowances against other assets	56 661	66 511

Impairment losses taken to the profit and loss account are as follows:

	Period from 01.01.2006 to 30.06.2006	Period from 01.01.2005 to 30.06.2005
Increases, of which:	(437 176)	(401 951)
impairment losses on loans and advances	(424 410)	(371 890)
impairment losses on off-balance sheet liabilities	(12 430)	(20 791)
impairment losses on securities and financial assets	-	250
impairment losses on other receivables and tangible fixed assets	(336)	(9 520)
Decreases, of which:	459 932	332 437
impairment losses on loans and advances	382 950	300 032
impairment losses on off-balance sheet liabilities	19 207	21 581
impairment losses on securities and financial assets	7 529	9 657
impairment losses on other receivables and tangible fixed assets	50 246	1 167
Balance at the end of the period	22 756	(69 514)

5. ADJUSTMENTS DUE TO PROVISIONS, DEFERRED TAX ASSET AND DEFERRED TAX LIABILITY

	30.06.2006	31.12.2005
Deferred tax liability	491 547	531 341
Deferred tax asset	564 256	499 990
Provision for off-balance sheet liabilities	15 363	22 241
Provision for future liabilities to employees	210 764	210 764
Provision for other future liabilities	79 779	92 027

6. DESCRIPTION OF THE PKO BP SA GROUP

6.1 ENTITIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the financial statements of the Bank, as the parent company of the PKO BP SA Group, and its subsidiaries, as defined under IAS 27 „Consolidated and Separate Financial statements”.

Table 1. Entities included in the consolidated financial statements of PKO BP SA Group

	Entity name	Value of investment at cost	% of share capital	Consolidation method
		PLN thousands	%	
Parent company				
1	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna			
Direct subsidiaries				
2	Powszechne Towarzystwo Emerytalne BANKOWY S.A.	205 786	100.00	Full method
3	PKO Inwestycje Sp. z o.o.	153 403*	100.00	Full method
4	Centrum Finansowe Puławska Sp. z o.o.	128 288	100.00	Full method
5	KREDOBANK S.A.	111 970	69.018	Full method
6	PKO Towarzystwo Funduszy Inwestycyjnych S.A.	69 055	75.00	Full method
7	Inteligo Financial Services S.A.	59 602	100.00	Full method
8	Centrum Elektronicznych Usług Płatniczych eService S.A.	55 500	100.00	Full method
9	Bankowy Fundusz Leasingowy S.A.	30 000	100.00	Full method
10	Bankowe Towarzystwo Kapitałowe S.A.	18 566	100.00	Full method
Indirect subsidiaries				
Subsidiaries of PKO Inwestycje Sp. z o.o.				
11	Wilanów Investments Sp. z o.o.	82 981	100.00	Full method
12	Fort Mokotów Sp. z o.o.	32 130	51.00	Full method
13	POMERANKA Sp. z o.o.	19 000	100.00	Full method
14	UKRPOLINWESTYCJE Sp. z o.o.	272	55.00	Full method
Subsidiary of PTE BANKOWY S.A.				
15	Finanse Agent Transferowy Sp. z o.o.	2 861**	100.00	Full method

*inclusive of a specific capital injection of PLN 5.5 million

** inclusive of a specific capital injection of PLN 1 million.

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

	Entity name	Value of investment at cost	% of share capital	Consolidation method
		in PLN thousands	%	
Jointly controlled entities				
1	CENTRUM HAFFNERA Sp. z o.o.	44 371	49.43	Equity method
2	Centrum Obsługi Biznesu Sp. z o.o.	17 498	41.44	Equity method
3	WAWEL Hotel Development Sp. z o.o.	13 865	35.40	Equity method
Subsidiaries of CENTRUM HAFFNERA Sp. z o.o.				
4	Sopot Zdrój Sp. z o.o.	51 213*	100.00	Entities consolidated using full method in the consolidated financial statements of the CENTRUM HAFFNERA Sp. z o.o. Group
5	Promenada Sopocka Sp. z o.o.	10 058	100.00	
6	Centrum Majkowskiego Sp. z o.o.	6 609	100.00	
7	Kamienica Morska Sp. z o.o.	976	100.00	
Associates				
8	Bank Pocztowy S.A.	146 500	25.0001	Equity method
9	Kolej Gondolowa Jaworzyna Krynicka S.A.	15 531	37.83	Equity method
10	Ekogips S.A. – in bankructcy	5 400	60.26	Equity method
11	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	33.33	Equity method
12	Hotel Jan III Sobieski Sp. z o.o.	522	32.50	Equity method
13	Agencja Inwestycyjna CORP S.A.	29	22.31	Equity method
Associates of Bankowe Towarzystwo Kapitalowe S.A.				
14	FINDER Sp. z o.o.	6 555	46.43	Equity method
15	INTER FINANCE Polska Sp. z o.o.	3 248	45.00	Equity method

* inclusive of an additional payment to share capital of EUR 2 million (i.e. PLN 8,086.8 thousand).

Due to the immateriality of the financial data, the following entities have never been included in consolidation:

- International Trade Center Sp. z o.o. in liquidation
- Przedsiębiorstwo Informatyki Bankowej „Elbank” Sp. z o.o. in liquidation
- Sonet Hungary Kft in liquidation (subsidiary of Inteligo Financial Services S.A.).

6.2 CHANGES IN THE ORGANISATION OF SUBORDINATED ENTITIES IN THE 2ND QUARTER OF 2006

In the 2nd quarter of 2006, the following events affected the structure of the PKO BP SA Group:

- transfer to PKO BP SA of ownership rights to 25% of shares in PKO Towarzystwo Funduszy Inwestycyjnych S.A.

On 6 April 2006, after all the requirements of an agreement with Credit Suisse Asset Management Holding Europe (Luxembourg) S.A. have been met, the transfer was made to PKO BP SA of the ownership of 45,000 registered, preference (in respect of voting rights) shares, representing 25% votes at the General Shareholders' Meeting of PKO Towarzystwo Funduszy Inwestycyjnych S.A.

Total consideration paid amounted to PLN 55,000 thousand. The acquisition cost together with additional costs amounted to PLN 55,055 thousand.

After the purchase of the above shares, PKO BP SA owns 75% of the share capital and votes at the General Shareholders' Meeting of this company.

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

- Taking up shares in the increased share capital of INTER FINANCE Polska Sp. z o.o.

On 11 May 2006, Bankowe Towarzystwo Kapitałowe S.A., the Bank's subsidiary, took up 409 shares in the increased share capital of INTER FINANCE Polska Sp. z o.o. with a total nominal value of PLN 409 thousand. The acquisition cost amounted to PLN 3,247.7 thousand.

As a result of the above transaction, Bankowe Towarzystwo Kapitałowe S.A. owns 45.0% of shares in the share capital of this company, which gives it 45.0% votes at the shareholders' meeting.

- Taking up shares in the increased share capital of CENTRUM HAFFNERA Sp. z o.o.

On 2 June 2006, PKO BP SA took up 88,741 shares in the increased share capital of CENTRUM HAFFNERA Sp. z o.o. with a total nominal value of PLN 44,370.5 thousand for the price equal to the nominal value of shares.

As a result of the above transaction, PKO BP SA owns 49.43% of shares in the share capital of this company, which gives it 49.43% votes at the shareholders' meeting.

The company CENTRUM HAFFNERA Sp. z o.o. carries out (independently and through SPVs (special purpose vehicles) an investment project consisting in tidying up and revitalising the very tourist centre of Sopot.

- Subscription for shares in the increased share capital of KREDOBANK S.A.

In May 2006, PKO BP SA subscribed for 5,428,764,911 shares in the increased share capital of KREDOBANK S.A. with a total nominal value of UAH 54,287,649.11.

The above increase in the share capital requires permission of the National Bank of Ukraine.

After registration of the above issue, the share of PKO BP SA in the share capital of the KREDOBANK SA and share in the votes at the General Shareholders' Meeting shall increase from 69.018% to 69.933%.

- Increase in the PKO Inwestycje Sp. z o.o. engagement in UKRPOLINWESTYCJE Sp. z o.o.

In June 2006, the Peczerska Regional National Administration in Kiev (Ukraine) registered an increase in the share capital of UKRPOLINWESTYCJE Sp. z o.o., with its registered office in Kiev, which was effected by the increase in the nominal value of shares. After the increase, the share capital of UKRPOLINWESTYCJE Sp. z o.o. amounts to UAH 1,020 thousand (USD 200,000) and is divided into 100 equal shares.

PKO Inwestycje Sp. z o.o., the Bank's subsidiary, after registration of the above changes, holds in UKRPOLINWESTYCJE Sp. z o.o. 55 shares with a total value of UAH 561,000 (USD 110,000), which entitle to 55 votes at the shareholders' meeting.

6.3 RELATED PARTY TRANSACTIONS

In the 2nd quarter of 2006, PKO BP SA provided the following services to its related parties (subordinated entities):

- keeping bank accounts,
- accepting deposits,
- extending loans and credits,
- issuing debt securities,
- issuing guarantees and conducting spot forex transactions.

All transactions were conducted at arms' length. Information on transactions of PKO BP SA with related parties, the amount of which exceeds the Polish zloty equivalent of EUR 500 thousand, which do not result from the current banking activities of the Bank has been presented in point 17 of this Report.

7. MAJOR ACHIEVEMENTS OF PKO BP SA IN THE 2ND QUARTER OF 2006

7.1 GENERAL INFORMATION

Table 3. Basic operating data

Items	30.06.2006	31.03.2006	31.12.2005	30.06.2005	Change from		
					31.03.06	31.12.05	30.06.05
Total number of branches	1 248	1 249	1 251	1 261	-1	-3	-13
- in the Retail Market Area:	1 165	1 166	1 168	1 178	-1	-3	-13
Regional Retail Branches	12	12	12	12	0	0	0
Independent branches	574	574	537	537	0	37	37
Subordinated branches	579	580	619	629	-1	-40	-50
- in the Corporate Market Area:	83	83	83	83	0	0	0
Regional Corporate Branches	13	13	13	13	0	0	0
Corporate client teams	13	13	13	13	0	0	0
Corporate centers	57	57	57	57	0	0	0
Number of ATMs	1 863	1 859	1 862	1 863	4	1	0
Number of employees (full time posts)	32 700	33 091	33 479	34 681	-391	-779	-1 981

7.2 BANKING ACTIVITIES

- As at 30 June 2006, the Bank's **deposits** amounted to PLN 81.3 billion, and since the beginning of the year have increased by PLN 3.3 billion i.e. by 4.2%, mainly due to an increase by PLN 2.1 billion of the retail deposits, as well as corporate deposits and inter-bank placements of a total of PLN 1.0 billion. Only in the 2nd quarter of 2006, the value of deposits increased by PLN 1.2 billion i.e. by 1.5%, while compared to the end of June 2005, the volume of deposits increased by PLN 6.4 billion, i.e. by 8.5%.

In the period from 24 April to 25 May 2006, the Bank carried out a subscription for 1-year investment deposits, where the amount deposited was split equally into deposit and investment part to be used to purchase participation units of PKO/Credit Suisse.

Table 4. Deposits (in PLN million)

Description	30.06.2006	31.03.2006	31.12.2005	30.06.2005	Change from		
					31.03.2006	31.12.2005	30.06.2005
- retail banking*	55 589.3	55 029.0	53 506.1	53 850.5	560.3	2 083.1	1 738.7
- small and medium enterprises	4 607.5	4 399.6	4 722.0	3 883.0	207.9	-114.5	724.5
- housing	9 102.9	8 825.3	8 834.5	7 890.3	277.6	268.4	1 212.6
- corporate	9 545.5	9 120.5	8 936.9	7 519.3	425.0	608.6	2 026.3
- other	2 468.0	2 751.8	2 050.2	1 794.2	-283.8	417.8	673.8
Total deposits	81 313.2	80 126.1	78 049.7	74 937.3	1 187.1	3 263.5	6 375.9

Source: Bank's management information

** for the purpose of comparability with the 2005 data, private banking deposits were included in retail banking deposits.*

- As at 30 June 2006, **the gross value of loans and credits** granted by PKO BP SA amounted to PLN 54.5 billion and increased in the 2nd quarter of 2006 by PLN 2.5 billion i.e. by 4.9%, while from the beginning of the year, their balance increased by PLN 5.7 billion i.e. by 11.8%, mainly due to an increase in the balance of housing loans, as well as retail and corporate banking loans. On a year to year basis (compared to June 2005), the balance of loans increased by PLN 10.3 billion, i.e. by 23.4%.

In the 2nd quarter of 2006:

- Insurance offer relating to credit products of the Bank was extended to include insurance in the case of death, work inability, serious illness or loss of work of the Insured; the offer is directed to the borrowers of the revolving loan;
- A group of recipients of the Szybki Limit Kredytowy product was extended to include capital companies, i.e. joint stock companies and limited liability companies,

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- The procedures were relaxed as regards the terms and conditions for obtaining overdraft loan in the PARTNER account,
- Cooperation with PZU S.A. was extended as regards insurance of the loans to SMEs
- The TV promotional campaign of Szybki Serwis Kredytowy was continued, which presented both the very product and the interest rate and the reduced Bank's commission,
- The promotional campaign of WŁASNY KĄT mortgage loan was continued.

Table 5. Gross loans and advances of PKO BP SA (in PLN millions)*

Items	30.06.2006	31.03.2006	31.12.2005	30.06.2005	Change from		
					31.03.2006	31.12.2005	30.06.2005
- retail banking**	12 588.7	11 592.6	11 357.9	10 208.8	996.1	1 230.8	2 379.9
- small and medium enterprises (SMEs)	3 943.3	3 558.3	3 212.6	2 921.5	385.0	730.7	1 021.8
- housing loans (new portfolio)	19 700.1	17 902.8	16 820.1	14 809.2	1 797.3	2 879.9	4 890.8
- housing receivables	2 850.3	2 880.9	2 959.4	3 065.3	-30.6	-109.1	-215.0
- corporate	15 381.4	15 989.7	14 373.0	13 133.3	-608.3	1 008.4	2 248.0
Total loans	54 463.8	51 924.4	48 723.1	44 138.2	2 539.4	5 740.7	10 325.6

Source: Bank's management information

** without interest due and interest not due*

*** for the purpose of comparability with 2005, private banking loans were included in the retail banking loans.*

- **The number of savings- settlement accounts (ROR) and Inteligo accounts** in the 1st half of 2006 increased by 38 thousand accounts as at 30 June 2006 and amounted to 5,941 thousand; the number of ROR accounts decreased by 11 thousand accounts, while the number of Inteligo accounts increased by 49 thousand new accounts. The decrease in the number of ROR accounts results from the Bank's process to clear the databases of the so-called „dormant” accounts in connection with the implementation of the integrated information system. Only in the 2nd quarter of 2006, the number of ROR and Inteligo accounts increased by a total of 17 thousand. Compared to the balance as at the end of June 2005, the number of accounts increased by 167 thousand accounts.
- In the 2nd quarter of 2006, the number of users of the PKO Inteligo service line increased by approximately 128 thousand as at 30 June 2006 and amounted to 1,178 thousand. Together with Inteligo accounts (603 thousand accounts), the number of users of **electronic banking services** at the end of the 2nd quarter of 2006 amounted to 1,781 thousand. In the period from April to June 2006, the Bank made available to the owners of savings-settlement accounts using the PKO Inteligo electronic banking service the following three new services:
 - ability to purchase insurance policies: accident, property, tourist, personal and/ or transport policy,
 - access to the offer of the Bank's open-end pension fund, which gives the opportunity to check the value of the collected funds, number of units, as well as the ability to verify the regularity of the transfers of pension contributions by the employer and ZUS,
 - „Placę z PKO Inteligo” – a new service, thanks to which, the owners of traditional accounts using the electronic banking, PKO Inteligo, may quickly and safely make purchases through Internet without the necessity to release the payment card number.
- During the 2nd quarter of 2006, **the number of banking cards** issued by PKO BP SA increased by 117 thousand cards and at the end of June 2006 was 6,596 thousand cards. During this period, the number of credit cards increased by 54 thousand to the level of 681 thousand. From the beginning of the year, the increase in the number of banking cards amounted to 520 thousand, including the increase in credit cards of 155 thousand pieces. Compared to the corresponding period in the last year, the number of credit cards increased by 214 thousand.

In the 2nd quarter of 2006, PKO BP SA, as the first bank on the Polish market, started to issue payment cards in the mini format. The mini-card, PKO Ekspres, is a debit card, which is issued together with the PKO Ekspres debit card. The card is offered to the AURUM Personal Banking Clients and to PLATINIUM Private Banking Clients.

Table 6. Accounts and banking cards (in PLN thousands)

Item	30.06.2006	31.03.2006	31.12.2005	30.06.2005	Change from		
					31.03.2006	31.12.2005	30.06.2005
Total number of accounts, of which:	5 941	5 924	5 903	5 774	17	38	167
- savings-settlement accounts(ROR)	5 338	5 339	5 349	5 271	-1	-11	67
- Inteligo accounts	603	585	554	503	18	49	100
Number of banking cards, of which:	6 596	6 479	6 076	5 784	117	520	812
- credit cards	681	627	525	467	54	155	214

- In the 2nd quarter of 2006, **the activities of the Bank on money market** were concentrated on the following three areas:
 - (i) managing the Bank's investment portfolio, which – in majority – is composed of Polish treasury securities, and of EUR and USD denominated bonds. Revenues earned from managing investment portfolio are closely related to the current situation on the treasury securities market. The financial market situation has been described in point 9.3.3. of the commentary,
 - (ii) managing the financial risk, which consisted in active management of liquidity, currency and interest rate risk generated in all areas of the Bank's activities. Due to the continued development of credit activities and the accompanying increased demand for long-term loans and credits, in the 2nd quarter of 2006, the Bank increased its long-term financing from inter-bank market in CHF (in the form of CIRS transactions),
 - (iii) trading activities on own account and with retail and corporate clients. In the trading activities with clients of retail and corporate area, favorable trends observed from the beginning of this year strengthened, both in terms of sale increase and achieved results. In the corporate client segment, compared to the corresponding period of the last year, a further increase in the level of transactions of exchange and foreign currency derivative instruments was noted. The great dynamics of the sale of currency instruments was also noted in the sector of small and medium enterprises. In the retail client area, an increase was noticed in the area of negotiable deposits.
- As far as **structural financing is concerned**, in the 2nd quarter of 2006 PKO BP SA:
 - signed a syndicated loan agreement for a working capital and investment loan granted to a client operating in the metallurgy industry; the share of PKO BP SA in this transaction amounts to USD 66.7 million and PLN 80 million,
 - signed a syndicated loan agreement for an investment loan granted to a client operating in the property development industry; the share of PKO BP SA in this transaction amounts to EUR 20 million,
 - signed a syndicated loan agreement for a working capital and investment loan granted to a client operating in the metallurgy industry; the Bank's share in this transaction amounted to PLN 150 million,
 - signed a syndicated loan agreement for a working capital and investment loan granted to a client operating in the energy industry; the Bank's share in this transaction amounted to PLN 153 million,
 - signed fifteen agreements for the issuance of municipal bonds for the total amount of PLN 84.2 million, among others to the Września Municipality (PLN 15 million),
 - signed an agreement for the issuance of corporate bonds for an entity operating in the leasing industry for the amount of PLN 100 million, which is a part of the Bank's Group (BFL S.A.); the transaction was carried out at arms' length conditions.
- Additionally, in the 2nd quarter of 2006, the Bank extended to the offer of medium and small enterprises products, to include a group of products Super Pakiet Partner. Included in this package are products and services dedicated to entrepreneurs and to physical persons, which allow comprehensive servicing of those clients. These products and services include: PARTNER and SUPERKONTO current account for three partners or persons managing the enterprise, access to PKO Inteligo electronic banking services, Partner debit card, as well as debit limit of up to PLN 10 thousand.

7.3 BROKERAGE ACTIVITIES

In the 2nd quarter of 2006, Bankowy Dom Maklerski PKO BP SA:

- recorded PLN 6.1 billion turnover on the shares' market, which was nearly 2.5 times the amount recorded in the corresponding period of 2005, which ranked BDM PKO BP SA 6th on the shares' market (with 7.1% share in the turnover on the shares' market),
- maintained a leading position on the bonds' market with a total turnover of PLN 0.5 billion (which accounts for 40% in the total turnover on the bonds' market),
- recorded turnover of almost 18 thousand transactions on the options' market, which was nearly 2.5 times the amount recorded in the corresponding period of 2005 (with 9.4% share in the options' market at the end of June); the increase was, among others, possible due to the fact that the Bank has undertaken the role of market-maker for WIG20 options;
- became the largest market-maker – it fulfills this function for 48 companies; it is also the largest issuing agent (31 companies), as well as the market-maker of all series of bonds of the State Treasury; in the 2nd quarter of 2006, the Bank signed further market-making agreements with four public companies,
- as part of its primary market participant activities, it carried out public subscriptions for the shares of eCard S.A. and Pamapol S.A., as well as public sale of the municipality bonds of the Wrocław Municipality.
- sponsored issuance of shares of Action S.A., Interferie S.A. and Pamapol S.A.

At the end of June 2006, BDM PKO BP SA maintained 83 thousand investment accounts and 315 thousand active registry accounts, which gives an overall of 398 thousand accounts. The decrease in the total number of accounts compared to the prior quarter results from the decrease in the number of registered accounts and relates to the repurchase of bonds.

7.4 OTHER ACHIEVEMENTS

- In the 2nd quarter of 2006, PKO BP SA was granted the following prizes and awards:
 - the first place in the ranking of the best financial institutions prepared by „Rzeczpospolita”,
 - Premium Brand – the award of the „Best Reputation Trademark” in the category of financial institutions, this title was awarded for the first time on the Polish market in the trademark ranking, under the patronage of the „Forbes” magazine, and in collaboration with Midwest ITSE and Maison Reasearch Consulting. Additionally, the Bank received a special award from the „Forbes” magazine,
 - The Fourth Diamond to the Statue of the Leader of Polish Business – award granted by the Business Centre Club to those companies, which earlier were awarded the Statue of the Leader of Polish Business, and which each year confirm their high position on the market.

In the 2nd quarter of 2006, the Bank's activities in the field of sponsoring and donations were directed towards support of culture, sport, as well as protection of life and healthcare. Activities were conducted as part of the Programs: „PKO Bank Polski Kulturze Narodowej”, „PKO Bank Polski Reprezentacji Olimpijskiej”, „PKO Bank Polski Blisko Ciebie”.

8. MAJOR ACHIEVEMENTS OF SUBSIDIARIES IN THE 2ND QUARTER OF 2006

Powszechnie Towarzystwo Emerytalne BANKOWY S.A.

At the end of June 2006, the value of assets held by Open-End Pension Fund (OFE) Bankowy managed by PTE BANKOWY, amounted to PLN 3,095 million, which means an increase by PLN 96 million compared to the 1st quarter of 2006.

At the end of the 2nd quarter of 2006, OFE Bankowy ranked 8th on the market of open-end pension funds both for the value of OFE assets and for the number of accounts kept (460,907 accounts maintained).

Centrum Elektronicznych Usług Płatniczych eService S.A.

In the 2nd quarter of 2006, transactions with a value of PLN 2,824 million were generated using the eService S.A. terminals. As far as generated card transactions are concerned, the company estimated that its share in the card transaction market at the end of the second quarter of 2006 was 26%. Compared to the end of the 1st quarter, this is an increase of 1 pp.

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The number of terminals installed at the end of the 2nd quarter of 2006 amounted to 32,138 pieces, i.e. 5.8% increase compared to the end of the 1st quarter. Considering the number of terminals in use, the Company assessed that its share in the market was 30%.

Inteligo Financial Services S.A.

At the end of the 2nd quarter of 2006, the Company kept over 497 thousand of Inteligo accounts i.e. increase by 15 thousand compared to the end of the 1st quarter of 2006. In the 2nd quarter of 2006, the value of deposits of Inteligo clients amounted to PLN 1,626 million and increased by PLN 80 million compared to the end of the 1st quarter of 2006.

PKO Inwestycje Sp. z o.o.

In the 2nd quarter of 2006, PKO Inwestycje Sp. z o.o. continued, using special purpose vehicle (SPV), the realization of such investment projects as „Marina Mokotów” and „Nowy Wilanów” in Warsaw, „Neptun Park” in Gdańsk and „Trzy Gracie” in Sopot.

The project „Marina Mokotów” is carried out by an SPV, FORT Mokotów Sp. z o.o. PKO Inwestycje Sp. z o.o. holds 51% shares in the share capital of this company. The company discharges its liabilities towards subcontractors on time. The Project is being realized in accordance with the time-table.

The project „Nowy Wilanów” is carried out by a special purpose entity, Wilanów Investments Sp. z o.o. PKO Inwestycje Sp. z o.o. owns 100% shares in the share capital of this company. The company discharges its loan liabilities (credit principal and interest) towards subcontractors and the lender on time. The realization of the 1st stage of the investment was slightly delayed, while the realization of the 2nd stage is carried out in accordance with the time-table.

The housing project „Neptun Park” is carried out by another SPV, POMERANKA Sp. z o.o. PKO Inwestycje Sp. z o.o. owns 100% shares in the share capital of this company. The Company continues the works as part of Task I – the construction of 5 housing buildings with 119 apartments. The company discharges its liabilities towards subcontractors on time.

UKRPOLINWESTYCJE Sp. z o.o. - PKO Inwestycje Sp. z o.o. owns 55% share capital of this company. The core activities of this company are property development activities in Ukraine. The company commenced its business activities on 28 September 2005 and conducts research of the Ukrainian property development market.

Bankowy Fundusz Leasingowy S.A.

In the 2nd quarter of 2006, the Company leased assets with a value of PLN 243 million. The total carrying amount of leased assets was at the end of the 2nd quarter of 2006 PLN 739 million and increased by 19% compared to the end of the 1st quarter of 2006. This ranked the Company 9th among lease companies (source: *Rzeczpospolita* daily, issue dated 18 July 2006.).

Centrum Finansowe Puławska Sp. z o.o.

In the 2nd quarter of 2006, the Company leased out 99% of office and commercial space in the own-managed building in Centrum Finansowe Puławska.

On 26 April 2006, CFP Sp. z o.o. concluded with PKO BP SA an Annex to Lease Contract dated 7 December 1995, which relates to change of currency of rent rates for office, commercial and warehouse space and lease of parking spaces.

On 27 January 2006 and on 14 April 2006, the Company concluded with PKO BP SA Annexes to Loan Agreement dated 21 August 2001, based on which loan balance was translated from USD to PLN and the repayment of the loan was extended to June 2013.

Bankowe Towarzystwo Kapitałowe S.A.

At the end of the 2nd quarter of 2006, the value of investment portfolio of BTK amounted to PLN 9.8 million, and included capital investments in FINDER Sp. z o.o. and INTER FINANCE Polska Sp. z o.o.

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45% shares of INTER FINANCE Polska Sp. z o.o. was taken up on 11 May 2006. INTER FINANCE Polska Sp. z o.o. is an entity operating in the field of financial advisory, it cooperates with banks, insurance companies and other companies operating on the financial market, which dedicate their credit and insurance products to physical persons. The Company intends to start financial advisory services on the Ukrainian market.

KREDOBANK S.A.

During the 2nd quarter of 2006, the value of total assets of KREDOBANK S.A. increased by UAH 74.6 million i.e. by 3.4% and as at 30 June 2006 amounted to UAH 2,270.6 million.

At the end of May 2006, KREDOBANK S.A. was ranked 26th among all Ukrainian banks with respect to the value of total assets.

In the 2nd quarter of 2006, the gross loan portfolio of KREDOBANK S.A. increased by UAH 133.7 million i.e. by 7.7% and was at the end of June 2006 UAH 1,877.4 million.

During the 2nd quarter of 2006, the value of client term deposits increased by UAH 28.6 million i.e. by 2.7% and was UAH 1,100.6 million as at 30 June 2006.

In June 2006, KREDOBANK S.A. received the following *rating* from the international rating agency, Standard & Poor's: long-term – „B”, forecast – „Stable”, short-term – „B”, *rating* using the Ukrainian rate - "uaBBB".

KREDOBANK S.A. applied to the National Bank of Ukraine for the approval of the issuance of new issue of shares with a value of UAH 75,750 thousand, which were taken up in May by the current Company's shareholders.

PKO Towarzystwo Funduszy Inwestycyjnych S.A

After the acquisition of 25% of shares in PKO Towarzystwo Funduszy Inwestycyjnych S.A. ("PKO TFI") (former PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.) the Bank became the owner of 75% of shares in the Company, which entitle to the same number of votes at the General Shareholders' Meeting.

The activity of PKO Towarzystwo Funduszy Inwestycyjnych S.A. consists in creating and managing investment funds.

The value of the assets of Funds managed by PKO TFI amounted to PLN 6,318 million at the end of June 2006. It ranked the Company 4th on the market of investment funds with the market share of 8.19%.

Until 31 August 2006 PKO TFI will pay to the shareholders the dividend out of profit for the year 2005 in the total amount of PLN 29.8 million (gross).

9. FACTORS AND EVENTS WITH SIGNIFICANT IMPACT ON FINANCIAL RESULTS

9.1 FINANCIAL PERFORMANCE OF THE PKO BP SA GROUP IN THE 2ND QUARTER OF 2006

9.1.1. Balance sheet data

The balance sheet of the parent company has the most significant impact on the balance sheet of the PKO BP SA Group. It determines both the value and the structure of assets and liabilities of the Group. As at 30 June 2006, the ratio of total assets of PKO BP SA to total assets of the Group was 98.5%.

As at 30 June 2006, total assets of the Group amounted to PLN 96,014 million and were PLN 4,401 million ¹ i.e. by 4.8% higher compared to the end of 2005.

Table 7. Main balance sheet items of the PKO BP SA Group (in PLN thousands)

Items	30.06.2006	31.12.2005	Change
1	2	3	4
ASSETS			
Cash and amounts due from the Central Bank	4 092 191	3 895 331	5.1%
Amounts due from other banks	11 887 067	12 663 295	-6.1%

¹ Any differences between totals, shares and dynamics result from rounding of amounts to million zlotys and rounding of percentages of shares to one decimal point.

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The Polish original should be referred to in matters of interpretation

Financial assets held for trading	799 756	851 003	-6.0%
Derivative financial instruments	1 207 271	1 137 227	6.2%
Other financial instruments at fair value through profit or loss	13 366 323	20 059 683	-33.4%
Loans and advances to customers	52 821 360	46 874 629	12.7%
Investment securities	7 385 316	1 881 378	292.5%
Tangible fixed assets	2 590 727	2 643 551	-2.0%
Other assets	1 864 440	1 607 084	16.0%
TOTAL ASSETS	96 014 451	91 613 181	4.8%
LIABILITIES AND EQUITY			
Liabilities, of which:	87 046 139	82 838 191	5.1%
Amounts due to the Central Bank	1 485	766	93.9%
Amounts due to other banks	2 261 474	2 083 346	8.6%
Derivative financial instruments	1 419 902	1 257 384	12.9%
Amounts due to customers	80 004 146	76 747 563	4.2%
Other liabilities	3 359 132	2 749 132	22.2%
Total equity	8 968 312	8 774 990	2.2%
TOTAL LIABILITIES AND EQUITY	96 014 451	91 613 181	4.8%

Compared to the balance as at 31 December 2005, the balance sheet of the PKO BP SA Group showed a decrease in „Financial instruments at fair value through profit or loss” (comprising securities portfolio classified into the ALPL² portfolio) and an increase „Investment securities”, comprising securities portfolio classified as available for sale. The change resulted from the activities directed to the construction of optimal relation between assets profitability and variability of the result realized on the portfolio of debt securities.

9.1.2. Off-balance sheet items

As at 30 June 2006, the total of off-balance sheet items of the PKO BP SA Group amounted to PLN 345,026 million and increased compared to the balance as at the end of 2005 by 13.5%.

The main item of the off-balance sheet items (91.7%) were liabilities relating to purchase/ sale transactions amounting to PLN 316,487 million. Compared to the balance at the end of 2005, the share of this item in the total of off-balance sheet liabilities remained at similar level (decrease by 0.1 pp) The balance comprised mainly derivative transactions and forward exchange transactions carried out by PKO BP SA to regulate the Bank's currency liquidity, as well as for speculation and arbitrage purposes.

9.1.3. Financial result and performance indicators

In the 2nd quarter of 2006, the PKO BP SA Group recorded consolidated pre-tax profit of PLN 662.9 million and net profit of PLN 509.4 million. Compared to the result for the 2nd quarter of 2005, it was higher by PLN 101.5 million and PLN 37.8 million, respectively.

In the 1st half of 2006, the Group earned a pre-tax profit of PLN 1,274.7 million. After deducting income tax charge and the profit/ (loss) attributable to minority shareholders, the resulting net profit amounted to PLN 991.3 million. Compared to the corresponding period of 1st half of 2005, the pre-tax profit and the net profit were higher by PLN 170.6 million and PLN 104.0 million, respectively.

The ratio of costs to income (C/I) after two quarters of 2006 amounted to 61.3% and was 1.0 pp. lower compared to the corresponding period of 2005.

Table 8. Main items of the profit and loss account of the PKO BP SA Group (in PLN thousands)

² Assets and liabilities at fair value through profit or loss.

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Items	I Half of 2006		I Half of 2005		Change	
	Total	Of which: II Quarter	Total	Of which: II Quarter	I Half 06/ I Half 05	II Quart 06/ II Quart 05
1. Net interest income	1 828 109	923 579	1 759 733	900 460	103.9%	102.6%
2. Net fees and commission income	791 570	385 289	600 846	321 791	131.7%	119.7%
3. Dividend income	221	221	1 570	1 570	14.1%	14.1%
4. Result from financial instruments at fair value	(54 050)	(46 752)	147 792	83 053	x	x
5. Result from investment securities	1 127	700	53 217	22 206	2.1%	3.2%
6. Foreign exchange result	292 698	145 204	331 839	158 787	88.2%	91.4%
7. Net other operating income	420 626	196 600	235 542	104 281	178.6%	188.5%
8. Total income items (1-7)	3 280 301	1 604 841	3 130 539	1 592 148	104.8%	100.8%
9. Result on impairment/write-downs	5 784	31 922	(87 571)	(57 739)	x	x
10. General administrative expenses	(2 011 581)	(982 630)	(1 949 270)	(993 238)	103.2%	98.9%
11. Share in the profits (losses) of subordinated entities	219	8 727	10 424	20 193	2.1%	43.2%
12. Profit before income tax	1 274 723	662 860	1 104 122	561 364	115.5%	118.1%
13. Income tax expense	(254 194)	(134 329)	(219 818)	(92 560)	115.6%	145.1%
Net profit (loss) (including minority shareholders)	1 020 529	528 531	884 304	468 804	115.4%	112.7%
Profit (loss) of minority shareholders	29 215	19 162	(3 052)	(2 751)	x	x
Net profit/ (loss)	991 314	509 369	887 356	471 555	111.7%	108.0%
General administrative expenses to Total income items (C/I)	61.3%	61.2%	62.3%	62.4%		

In the 1st half of 2006, the aggregated income items of the PKO BP SA Group amounted to PLN 3,280 million and were PLN 150 million i.e. 4.8% higher compared to the corresponding period of 2005. In the 2nd quarter of 2006, the aggregated income items of the PKO BP SA Group amounted to PLN 1,605 million and were nearly PLN 13 million higher compared to the 2nd quarter of 2005.

The individual items of the PKO BP SA Group profit and loss account were as follows:

- Net interest income in the 1st half of 2006 amounted to PLN 1,828 million and was PLN 68 million i.e. 3.9% higher compared to the corresponding period of 2005. The above amount comprised interest income of PLN 2,707 million and interest expenses of PLN 879 million, which were 6.0% and 21.5% lower than in the corresponding period of January-June in 2005. In the 2nd quarter of 2006, net interest income amounted to PLN 924 million and was PLN 23 million i.e. 2.6% higher compared to the prior year.

The increase in the net interest income took place when the Polish zloty interest rates were significantly lower (i.e. in the 1st half of 2006, the average 1M WIBOR was 185 base points lower than in the corresponding period of 2005) following efforts made to move the interest result from the deposit to credit side.

- Net fees and commission income in the 1st half of 2006 amounted to PLN 792 million and was 31.7% higher than in the 1st half of 2005. Of this amount, fees and commission income amounted to PLN 976 million (and was 30.2% higher than in the prior year), and costs - PLN 184 million (i.e. 24.2% higher). In the 2nd quarter of 2006, net fees and commission income was PLN 385 million and was PLN 63 million i.e. 19.7% higher compared to the 2nd quarter of 2005.

Almost the entire increase in commission income was realized by PKO BP SA and is the result, among others, of:

- a) changes in commission and charges and introduction of new items to the Tariff of banking commissions and charges of PKO BP SA as of 1 January 2006,
 - b) increase in the number of banking cards and the number of transactions made with their use,
 - c) launch of new investment products, which bring additional commission income.
- The result from financial instruments at fair value in the first half of 2006 was negative and amounted to PLN (-) 54 million and was PLN 202 million lower compared to the result achieved in the corresponding period of 2005. In the 2nd quarter of 2006, the result on financial instruments at fair value was a loss of PLN 47 million.

The above result was caused by relatively high base, of debt securities classified in the ALPL portfolio in the first half of 2005 and continued increase of uncertainty on the domestic financial market, which resulted in an increase in the risk margins of Polish treasury securities and decrease in the value of those securities.

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– The result from investment securities in the 1st half of 2006 amounted to PLN 1 million and was PLN 52 million lower compared to the 1st half of 2005, when the Bank realized profits on the sale of shares of certain listed companies. In the 2nd quarter, this result was PLN 0.7 million and was PLN 22 million lower than in the 2nd quarter of 2005.

– Foreign exchange result in the 1st half of 2006 amounted to PLN 293 million and was 11.8% lower than in the corresponding period of January-June of 2005. In the 2nd quarter of 2006, foreign exchange result amounted to PLN 145 million and was PLN 14 million lower than in the 2nd quarter of 2005.

FX SWAP and CIRS (the result from these transactions is of an interest type) and foreign exchange result accounted for the majority of the above figure. The decrease in the foreign exchange result was the effect of narrowing *spreads* between Polish and foreign interest rates after successive decreases of Polish interest rates with simultaneous increases in interest rates abroad.

– Net other operating income in the 1st half of 2006 amounted to PLN 421 million (with dynamics of 178.6%) and consisted of operating income of PLN 516 million and operating expenses of PLN 95 million. In the 2nd quarter of 2006, the net other operating income amounted to PLN 197 million and amounted to PLN 92 million higher than in the corresponding period of prior year.

The increase in net other operating income was due to the increase in revenues of consolidated entities of the PKO Inwestycje Group as a result of further development of property development activities (for information on investment projects, see point 8).

The result on impairment write-downs in the 1st half of 2006 amounted to PLN 6 million and was PLN 93 million better than in the corresponding period of 2005. This was due to better results of impairment write-downs against loans and credits and write-downs against other receivables and tangible fixed assets. In the 2nd quarter of 2006, the result amounted to PLN 32 million and was PLN 90 million more favourable compared to the result in the 2nd quarter of 2005.

In the 1st half of 2006, general administrative expenses of the PKO BP SA Group amounted to PLN 2,012 million and were 3.2% higher compared to the previous year. In the same period, general administrative expenses of PKO BP SA, as the parent company, decreased by 2.3%. The increase in the general administrative expenses was due to the increase in the costs of investment projects of the PKO Inwestycje Group carried out as part of the business activities of the entities of this Group. The increase in administrative expenses of the Group was compensated by the increase in income of the PKO Inwestycje Group, presented in „Other operating income”. Only in the 2nd quarter of 2006, general administrative expenses of the PKO BP SA Group amounted to PLN 983 million and were PLN 11 million i.e. 1.1% lower than in the corresponding period of 2005.

The financial results recorded by the PKO BP Group translated into the following indicators:

Ratio	30.06.2006	30.06.2005
<i>1</i>	<i>2</i>	<i>3</i>
1. Gross profit (loss)/ average assets (ROA ³ _{gross})	2.5%	2.2%
2. Net profit (loss)/ average assets (ROA _{net})	2.0%	1.8%
2. Gross profit (loss)/ average equity (ROA _{net})	27.4%	23.6%
3. Net profit (loss)/ average equity (ROE ⁴ _{gross})	21.5%	19.1%

9.1.4. Shareholders' equity

As at 30 June 2006, the shareholders' equity of the PKO BP SA Group amounted to a total of PLN 8,968 million and was PLN 193 million i.e. 2.2% higher than at the end of 2005.

On 18 April 2006, the Ordinary General Shareholders Meeting of Powszechna Kasa Oszczędności Banku Polskiego SA appropriated the 2005 profit of PKO BP SA in the amount of PLN 1,676,798 thousand as follows:

- Dividend to shareholders - PLN 800,000 thousand,
- Reserve capital – PLN 801,548 thousand,
- Other reserves - PLN 5,000 thousand
- General banking risk reserve (for unidentified risk of banking activities) - PLN 70,000 thousand
- Social Fund - PLN 250 thousand.

³ ROA gross and ROA net computed as proportion of gross and net profit (loss) for the period to the arithmetic average of assets at the beginning and at the end of the period.

⁴ ROE gross and ROE net computed as proportion of gross and net profit (loss) for the period to the arithmetic average of equity (including retained earnings and profit for the year/ period) at the beginning and at the end of the period, respectively.

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The retained profits of PLN 430,976 thousand were appropriated to reserve capital.

Table 9. Shareholders' equity of the PKO BP SA Group (in PLN thousands)

Item	30.06.2006	31.12.2005	Change
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
Share capital	1 000 000	1 000 000	0.0%
Other capital and reserves	7 130 730	5 850 063	21.9%
Currency translation differences on foreign operations	(5 233)	(4 082)	
Retained earnings	(221 347)	150 405	(247.2)%
Current period result	991 314	1 734 820	(42.9)%
Equity attributable to the parent company's shareholders	8 895 465	8 731 206	1.9%
Minority interest	72 848	43 784	66.4%
Total shareholders' equity	8 968 312	8 774 990	2.2%
Capital adequacy ratio (%)	13.19	13.90	(0.71) pp.

9.2 FINANCIAL PERFORMANCE OF PKO BP SA IN THE 2ND QUARTER OF 2006

In the 2nd quarter of 2006, PKO BP SA recorded a pre-tax profit of PLN 627 million and net profit of PLN 512 million. It was respectively 10.9% and 8.7% higher than in the 2nd quarter of 2005.

In the 1st half of 2006, PKO BP SA earned gross profit of PLN 1,191 million. After deducting income tax charge, the net profit amounted to PLN 965 million. Compared to the 6-month period of 2005, the pre-tax profit and net profit was 8.3% and 9.5% higher, respectively.

The costs to income (C/I) ratio for the 2 quarters of 2006 amounted to 59.4% and was 0.5 pp. lower than in the corresponding period of 2005.

Table 10. Main profit and loss items of PKO BP SA (in PLN thousands)

Item	I Half of 2006		I Half of 2005		Change	
	Total	Of which: II quarter	Total	Of which: II quarter	I half 06/ I half 05	II quart 06/ II quart 05
1. Net interest income	1 777 004	897 201	1 730 217	886 882	102.7%	101.2%
2. Net fees and commission income	812 485	417 740	579 286	310 276	140.3%	134.6%
3. Dividend income	296	296	14 272	14 272	2.1%	2.1%
4. Result from financial instruments at fair value	-54 004	-46 537	147 208	82 469	x	x
5. Result from investment securities	859	218	53 197	22 186	1.6%	1.0%
6. Foreign exchange result	284 014	138 305	342 202	164 824	83.0%	83.9%
7. Net other operating income	53 655	16 157	49 926	15 211	107.5%	106.2%
8. Total income items (1-7)	2 874 309	1 423 380	2 916 308	1 496 120	98.6%	95.1%
9. Impairment losses	22 756	44 232	-69 514	-33 839	x	x
10. General administrative expenses	-1 706 091	-841 031	-1 746 832	-897 493	97.7%	93.7%
11. Profit before income tax	1 190 974	626 581	1 099 962	564 788	108.3%	110.9%
12. Income tax expenses	-225 933	-114 946	-218 738	-94 238	103.3%	122.0%
13. Net profit	965 041	511 635	881 224	470 550	109.5%	108.7%
General administrative expenses to Total income items (C/I)	59.4%	59.1%	59.9%	60.0%	x	x

In the 1st half of 2006, the total of income items amounted to PLN 2,874 million and was PLN 42 million i.e. 1.4% lower than in the corresponding period of 2005. In the 2nd quarter of 2006, the total of income items amounted to a total of PLN 1,423 million i.e. PLN 73 million lower than in the 2nd quarter of 2005.

The individual items of the profit and loss account were as follows:

- Net interest income in the 1st half of 2006 amounted to PLN 1,777 million and was PLN 47 million i.e. 2.7% higher compared to the corresponding period of 2005. The balance of net interest income comprised interest income of PLN 2,614 million and interest expense of PLN 837 million, which were respectively 7.1% and

- 22.7% lower than in the 1st half of 2005. In the 2nd quarter of 2006, net interest income amounted to PLN 897 million and was PLN 10 million i.e. 1.2% higher than in the prior year.
- Net fees and commission income in the 1st half of 2006 amounted to PLN 813 million and was 40.3% higher than in the first 6 months of 2005. Fees and commission income amounted to PLN 995 million and was 35.8% higher than in the 1st half of 2005, while fees and commission costs amounted to PLN 183 million and were 19.2% higher than in the prior year. In the 2nd quarter of 2006, net fees and commission income amounted to PLN 418 million and was PLN 107 million, i.e. 34.6% higher than in the 2nd quarter of 2005.
 - In the 1st half of 2006, the total of result from financial instruments at fair value and result from investment securities amounted to a total of PLN (-)53 million and was PLN 254 million lower than in the prior year. In the 2nd quarter of 2006, the total result on those instruments was a loss of PLN 53 million.
 - In the 1st half of 2006, foreign exchange result amounted to PLN 284 million and was 17.0% lower than in the 1st half of 2005. In the 2nd quarter of 2006, foreign exchange result amounted to PLN 138 million and was PLN 27 million lower than in the 2nd quarter of 2005.
 - In the 1st half of 2006, net other operating income amounted to PLN 54 million (increase by 7.5%) and comprised other operating income of PLN 85 million and other operating expenses of PLN 31 million. In the 2nd quarter of 2006, net other operating income amounted to a total of PLN 16 million, i.e. 6.2% higher than in the corresponding period of prior year.

Comments to individual income items presented in the description of the results of the PKO BP SA Group (point 9.1.3) refer also to PKO BP SA, the parent company.

The result on impairment write-downs for the 1st half of 2006 amounted to PLN 23 million and was PLN 93 million better than in the corresponding period of the prior year; this was mainly due to the improvement of impairment write-downs against other receivables and tangible fixed assets. In the 2nd quarter of 2006, the balance of impairment write-downs amounted to PLN 44 million and was PLN 78 million better than in the corresponding period of the prior year.

In the 1st half of 2006, general administrative expenses of the Bank amounted to PLN 1,706 million, i.e. 2.3% lower than in the corresponding period of 2005. In the 2nd quarter of 2006, general administrative expenses of the Bank amounted to PLN 841 million and were PLN 56 million (i.e. 6.3%) lower than in the corresponding period of the prior year.

The financial results recorded by PKO BP translated into the following indicators:

Ratios	30.06.2006	30.06.2005
<i>1</i>	<i>2</i>	<i>3</i>
1. Gross profit (loss)/ average assets (ROA ⁵ _{gross})	2.4%	2.2%
2. Net profit (loss)/ average assets (ROA _{net})	1.9%	1.7%
3. Gross profit (loss)/ average equity (ROE ⁶ _{gross})	25.4%	22.7%
4. Net profit (loss)/ average equity (ROE _{net})	20.7%	18.3%

9.3 FACTORS AFFECTING FINANCIAL PERFORMANCE OF PKO BP SA

9.3.1. Macroeconomic factors

The real economy financial data (sold production of the manufacturing industry and retail sales) indicates that the boom in the market continued in the 2nd half of 2006. The improvement in the area of real economy was stimulated both by high dynamics of domestic demand on the domestic market and by positive results in the foreign trade.

In the 2nd quarter of 2006, the labour market saw a positive effect of seasonal factors, good economic situation and better absorption of the EU funds for the activation of the unemployed. All this caused a slightly higher than in the prior years decrease in the „registered” unemployment rate. In May 2006, the registered unemployment rate was 16.5%. At the same time in the 2nd quarter of 2006, the private sector recorded relatively high increase in the number of persons employed, calculated on a year-to-year basis.

During the first two months of the 2nd quarter of 2006, the inflation rate calculated on a year-to-year basis increased to 0.8% at the end of the 2nd quarter from 0.4% year-to-year at the end of the 1st quarter. The increase in the inflation rate was caused by higher prices of food, fuels and gas.

⁵ ROA gross and ROA net computed as proportion of gross and net profit (loss) for the period to the arithmetic average of assets at the beginning and at the end of the period.

⁶ ROE gross and ROE net computed as proportion of gross and net profit (loss) for the period to the arithmetic average of equity (including retained earnings and profit for the year/ period) at the beginning and at the end of the period, respectively.

During the period under review, the annualised upward trend of household deposits strengthened – at the end of June 2006, household deposits increased by 5.7%, calculated on a year-to-year basis, compared to a 3.1% growth at the end of the 1st quarter. The following factors contributed to household deposits increase: increase in the income of households, temporary decrease in the flow of funds to investment funds caused by worsening of the situation on the stock market of shares and bonds. During this period, an increase in the annual dynamics of corporate deposits was also noted at the end of June 2006: corporate deposits increased by 21.7%, calculated on a year-to-year basis, compared to 17.7%, on a year-to-year basis, at the end of March 2006.

In the 2nd quarter of 2006, the upward trend of annual dynamics of household loans and credits continued, stimulated mainly by high demand for housing loans. A slight increase in the demand for corporate loans was also noted.

During the period from April to June 2006, the Monetary Policy Council did not change interest rates and thus the reference rate of the Polish National Bank (NBP) remained at an unchanged (since the last reduction on 28 February 2006) level of 4.0%.

9.3.2. Regulatory factors

The following regulatory factors had an impact on regulated business operations of the PKO BP SA Group in the 2nd quarter of 2006:

- Recommendation „S” of the Committee for Banking Supervision concerning good practices in the area of credit exposures secured by mortgage, which required that the banks not later than by 1 July 2006, tightened the criteria for granting currency loans. The recommendations relate, among others, to:
 - implementation by banks of the requirement to assess creditworthiness of clients taking out currency loans using the same policies as for taking out and repayment of denominated in Polish zloty loans with a nominal equaling 120% of the currency loan nominal and interest defined according to the interest rate of the denominated in Polish zloty loan,
 - an ongoing monitoring of changes on the property market,
 - developing procedures to take steps in the case of decrease in the value of property pledged as collateral for the given credit exposure.

The perspective of the implementation of those new requirements caused that in the 2nd quarter of 2006 the demand for currency loans increased. This also caused higher competition between banks.

- Preparation for the implementation of policies resulting from the Directive of the Council and the EU Parliament relating to capital requirements for lending institutions and investment firms, based on the New Basel Capital Accord;
- Legislative changes relating to the Ukrainian banking system, including reduction as of 10 June 2006 by 1 pp. of the basic interest rate (from 9.5 to 8.5%); implementation as of 1 May 2006 of the new principles for creation obligatory provisions, change as of 13 April 2006 of the accounting policies to use the effective interest rate method.

9.3.3. Financial markets

In the 2nd quarter of 2006, the profitability of treasury securities increased, by approx. 50 base points in the case of one-year treasury bonds to up to 80 base points increase in the case of 2-year treasury bonds. At the same time, smaller increase was recorded on the long end of the yield curve. The increase in the profitability in the period from April to June was mainly caused by the following factors:

- increase in the interest rate in the USA and in the Euro-zone and the perspectives of further tightening of monetary policy on base markets,
- concerns of investors about possible increases in interest rates in Poland,
- outflow of capital from emerging markets,
- political events in Poland,
- unfavorable international reports about Poland, including the report of the EU Commission, and the decrease of the perspectives of the Standard & Poor's *rating* for Poland from „positive” to „stable”.

In the 2nd quarter of 2006, Polish zloty depreciated against EUR by 2.7% (to 4.04 PLN/EUR at the end of June) and appreciated by 2% against USD (to 3.18 PLN/USD at the end of June). A strong appreciation of Polish zloty was recorded in April (with a simultaneous depreciation of USD and relative stabilization of the political situation), however in May and June the above trend reversed and Polish zloty depreciated due to the increase in political uncertainty, appreciation of USD on global markets and outflow of capital from emerging markets. During the

entire period, positive trends and perspectives concerning macroeconomic foundations of the Polish economy had positive effects on Polish zloty.

10. SEASONALITY OR CYCLICAL NATURE OF ACTIVITIES IN THE REPORTING PERIOD

PKO BP SA is a universal bank, providing services on the whole territory of Poland and its activities are exposed to similar fluctuations to those affecting the entire Polish economy. The activities of other Group companies do not indicate any particular seasonality or cyclical nature.

11. ISSUANCE, REDEMPTION AND REPAYMENT OF DEBT AND EQUITY INSTRUMENTS

PKO BP SA is not an issuer of debt or equity securities.

Among other entities of the Group, only Bankowy Fundusz Leasingowy S.A. raises additional capital through the issuance of debt securities.

On 20 June 2006, the Bank signed with Bankowy Fundusz Leasingowy S.A. a new Agreement for the Organisation and Realisation of the Program of Issuance of Treasury Bonds with a value of PLN 100 million.

In the 2nd quarter of 2006, the Company:

- issued (as part of the rollover) 6,000 corporate bonds with a total value of PLN 60 million,
- issued 5,500 corporate bonds with a value of PLN 55 million (including 2,000 bonds with a total value of PLN 20 million as part of the new Agreement).

As at 30 June 2006, the Bank's portfolio consisted of 1,438 of the Company's bonds (remaining bonds were sold on the secondary market).

12. SIGNIFICANT EVENTS THAT OCCURRED AFTER THE DATE OF THE PREPARATION OF THE REPORT THAT MAY AFFECT FUTURE FINANCIAL RESULTS

On 8 August 2006, PKO BP SA concluded an agreement for the sale of shares of Wawel Hotel Development Sp. z o.o. („WHD”) with its registered office in Kraków, the Bank's jointly controlled entity. The Bank disposed off all 27,730 shares with a nominal value of PLN 500 each and a total nominal value of PLN 13,865,000 representing 35.4% of the WHD share capital and giving 35.4% votes at the WHD Shareholders' Meeting. The purchaser of the shares was Quinn Property Holdings Limited with its registered office in Dublin and the consideration paid amounted to EUR 7,297,113.22.

13. THE POSITION OF THE MANAGEMENT BOARD REGARDING THE POSSIBILITY OF ACHIEVING PREVIOUSLY PUBLISHED FORECASTS

PKO BP SA did not publish any financial forecasts for 2006.

14. INFORMATION ON DIVIDEND PAID OR DECLARED

In accordance with Resolution No. 7/2006 of the Ordinary General Shareholders' Meeting of PKO BP SA dated 18 April 2006 concerning the 2005 dividend payout, the Bank committed itself to pay dividend for 2005 in a total amount of PLN 800,000 thousand, i.e. PLN 0.80 gross per share.

The list of shareholders eligible to receive dividend for 2005 was determined as at 10 July 2006 and the payment was made on 1 August 2006.

15. SHAREHOLDERS HOLDING, DIRECTLY OR INDIRECTLY, AT LEAST 5% OF VOTES AT THE GENERAL MEETING

The interim report for the 1st quarter of 2006 was submitted to the Securities and Exchange Commission (KPWiG) on 12 May 2006.

To the best knowledge of the Bank, the shareholders with at least 5% of total votes at the General Shareholders' Meeting of the Bank, held directly or indirectly, are:

- State Treasury,
- Julius Baer Investment Management LLC.

During the period from the date of making the shares available to the eligible persons, i.e. from 6 April 2005 to 30 June 2006, the State Treasury sold to the employees entitled or their successors 104,457,415 shares of the Bank, which represented 10.45% of the total number of shares of PKO BP SA, giving 104,457,415 votes i.e. 10.45% of the total number of votes at the General Shareholders' Meeting of the Bank.

The share of the State Treasury in the shareholding structure of the Bank did not change compared to 12 May 2006. As at 30 June 2006, the State Treasury held 515,087,146 of the Bank's shares.

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According to the statement of Julius Baer Investment Management LLC, in connection with asset management of a third party portfolio to an order, and as a result of purchase by clients of Julius Baer of shares of PKO BP SA in open market transactions, as at 30 June 2006, the above shareholder held 53,150,746 of the Bank's shares.

Table 11. Possession of shares as at 30 June 2006

Shareholder	Percentage of votes as at the date of submitting previous quarterly report	Number of shares as at the date of submitting previous quarterly report	% change from the date of submitting previous quarterly report	Percentage of votes as at the date of submitting this Report	Number of shares as at the date of submitting this Report
State Treasury	51.51%	515,087,146	0.00 pp.	51.51%	515,087,146
Julius Baer Investment Management LLC	No data available	No data available	-	5.02%	53,150,746

As at the date of submitting this Report, the percentage share in the Bank's share capital held by:

- the State Treasury corresponds to the percentage of votes held at the General Shareholders Meeting,
- Julius Baer Investment Management LLC is higher by 0.3 pp. compared to the percentage share in the total votes at the General Shareholders' Meeting.

16. CHANGES IN THE NUMBER OF ISSUER'S SHARES HELD BY THE MANAGEMENT OR SUPERVISORY BOARD MEMBERS

Presented below are the shares held by the members of the Management or the Supervisory Board of the Bank as at 9 August 2006.

Table 12. Shares held by the Management of the Bank

	Name	Number of shares as at the date of submission of previous quarterly report	Purchase	Disposal	Number of shares as at the date of submission of this Report
I. Management Board					
1.	Andrzej Podsiadło, President of the Management Board	450	-----	-----	450
2.	Kazimierz Małecki, Vice-President and First Deputy of the Management Board	2627	-----	-----	2627
3.	Danuta Demianiuk, Vice-President of the Management Board	-----	-----	-----	-----
4.	Sławomir Skrzypek, Vice-President of the Management Board	-----	-----	-----	-----
5.	Jacek Obłąkowski, Member of the Management Board	512	-----	-----	512
6.	Rafał Juszcak, Member of the Management Board *	-----	-----	-----	-----
7.	Zdzisław Sokal, Member of the Management Board *	-----	-----	-----	-----
8.	Krystyna Szewczyk, Member of the Management Board **	-----	-----	-----	-----
II. Supervisory Board					
1.	Marek Głuchowski, President of the Supervisory Board	-----	-----	-----	-----
2.	Urszula Pałaszek, Vice-President of the Supervisory Board	-----	-----	-----	-----
3.	Jerzy Michałowski, Member of the Supervisory Board	-----	-----	-----	-----

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4.	Jerzy Osiatyński, Member of the Supervisory Board	-----	-----	-----	-----
5.	Tomasz Siemiątkowski, Member of the Supervisory Board	-----	-----	-----	-----
6.	Adam Skowroński, Member of the Supervisory Board	-----	-----	-----	-----
7.	Agnieszka Winnik-Kalemba, Member of the Supervisory Board	-----	-----	-----	-----

**) members of the Management Board appointed as Board Members as of 1 July 2006, based on the Resolution of the Bank's Supervisory Board dated 26 June 2006*

****) Ms Krystyna Szewczyk acted as Member of the Management Board until 26 June 2006*

17. TRANSACTIONS CONCLUDED BY THE ISSUER OR ITS SUBSIDIARY WITH OTHER GROUP ENTITIES, WITH A VALUE EXCEEDING THE PLN EQUIVALENT OF EUR 500 000 EURO

- In accordance with the Cooperation Agreement dated 10 April 2006 with its subsidiary, Inteligo Financial Services S.A. („IFS”) (superseding the Cooperation Agreement dated 29 November 2002 and Agreement dated 12 September 2003), in the 2nd quarter of 2006 PKO BP SA made payments to IFS in the total amount of PLN 28.8 million. The total value of the IFS remuneration for the period from January to June 2006 amounted to PLN 44.2 million. Based on the above Cooperation Agreement, IFS provides services to the Bank in the area of banking activities and IT-related services (i.e. ensuring electronic access of the Bank's clients to the PKO BP SA accounts of Konto Inteligo and PKO Inteligo).

Payments made in the 2nd quarter of 2006 related in particular to:

- fees for services rendered by IFS as part of its day to day operating activities,
- maintenance, service and sharing the IFS infrastructure necessary for call center activities,
- management of the production and distribution of operating materials (TAN cards and PIN-mailers),
- re-invoicing the costs of the Inteligo Electronic Banking Center and Call Center in Lublin.

Due to comprehensive regulation of all matters connected with cooperation between the parties to the agreement, the Cooperation Agreement is not a typical or routine agreement concluded by the parties in the course of their day to day operations.

- In accordance with the Lease Agreement concluded with the Bank's subsidiary, Centrum Finansowe Puławska Sp. z o.o. (“CFP”), on 7 December 1995 (amended by Annexes No. 1 to 32), in the 2nd quarter of 2006 PKO BP SA made total payments to the CFP amounting to PLN 10 million. This agreement determines the terms for the lease of space in the building located in Warsaw at ul. Puławska 15. The total value of remuneration to CFP for the period from January- June 2006 was PLN 22.2 million. This Agreement determines the terms for the lease of space in the building located in Warsaw at ul. Puławska 15.

The payments that were made by the Bank related to rental fees, maintenance costs and costs of cleaning common space.

Due to comprehensive regulation of all issues connected with cooperation between the parties to the agreement, this Agreement is not a typical or routine agreement concluded by the parties in the course of their day to day operations.

18. RESULTS OF CHANGES IN THE GROUP'S STRUCTURE, INCLUDING THE EFFECTS OF MERGER, TAKEOVER OR SALE OF THE GROUP'S ENTITIES, LONG-TERM INVESTMENTS, DIVISION, RESTRUCTURING AND DISCONTINUANCE OF ACTIVITIES

The results of changes in the Groups' structure, including the result of merger, takeover or sale of Group entities, have been described in paragraph 6.2 of this commentary.

19. FACTORS WHICH MAY AFFECT FUTURE FINANCIAL PERFORMANCE WITHIN AT LEAST THE NEXT QUARTER

In the next few quarters, the results of the Bank and PKO BP SA Group will be affected by economic processes which will take place in the Polish and global economy, as well as by reactions of the financial markets to those processes.

The policy concerning interest rates applied by the Monetary Policy Council and by other large central banks will also have a great influence on the Bank's and Group's performance.

20. SURETYSHIPS AND GUARANTEES GRANTED BY THE ISSUER OR BY ITS SUBSIDIARY TO A SINGLE ENTITY OR ITS SUBSIDIARY, IF THE TOTAL VALUE OF GRANTED SURETYSHIPS OR GUARANTEES AMOUNTS TO AT LEAST 10% OF THE ISSUER'S SHAREHOLDERS' EQUITY

During the 2nd quarter of 2006, PKO BP SA and its subsidiaries did not grant any suretyships or guarantees to a single entity or its subsidiary with the total amount of at least 10% of PKO BP SA shareholders' equity.

21. PROCEEDINGS PENDING BEFORE THE COURT, ARBITRATION TRIBUNAL OR PUBLIC ADMINISTRATIVE AUTHORITY

As at 30 June 2006, the total value of court proceedings against PKO BP SA amounted to PLN 285,767,699, while the total value of proceedings initiated by the Bank amounted to PLN 67,709,132.

No court proceedings with the participation of PKO BP SA are in progress, the value of which amounts to at least 10% of the Bank's shareholders' equity.

Other Group companies have not conducted any proceedings before the court, arbitration tribunal or public administration authority concerning receivables or liabilities, the value of which accounts for at least 10% of the shareholders' equity of PKO BP SA.

22. OTHER DISCLOSURES SIGNIFICANT FOR EVALUATION OF THE ISSUER'S HUMAN RESOURCES, FINANCIAL SITUATION, FINANCIAL PERFORMANCE AND ANY CHANGES THEREIN

- On 18 April 2006, the Ordinary Shareholders Meeting of Powszechna Kasa Oszczędności Banku Polskiego SA took place, which passed a number of resolutions. The most important of them related to the following:
 - Changes in the composition of the Supervisory Board of PKO BP SA,
 - Approval of: (i) the Directors' Report on the activities of PKO BP SA for 2005, (ii) the 2005 financial statements of PKO BP SA, (iii) the Directors' Report on the Activities of the PKO BP SA Group in 2005, (iv) the 2005 consolidated financial statements of the PKO BP SA Group,
 - Acknowledgment the fulfillment of duties in 2005 by the members of the Management and Supervisory Board,
 - Appropriation of the 2005 profit of PKO BP SA (see point 9.2.3 of this Report).

More information on the Ordinary General Shareholders' Meeting of PKO BP SA has been presented in the Commentary to the Interim Report of the PKO BP SA Group for the 1st quarter of 2006. The contents of Resolutions were published in the current Report No. 22/2006 dated 18 April 2006.

- On 28 April, 30 May, 7 and 8 June 2006, PKO BP SA signed with one borrower the following four agreements: one agreement concerning overdraft and three agreements concerning bank guarantees, for a total amount of PLN 199 million. Detailed information on the above agreements has been presented in the current Reports nos.: 24/2006, 27/2006, 29/2006 and 30/2006 dated respectively 2 May, 30 May, 7 June and 8 June 2006. The total value of contracts with this client concluded in the last 12 months to the date of signing the last of the above agreements amounted to PLN 1,038.7 million.
- On 22 June 2006, PKO BP SA and Bank Pocztowy signed a letter of intent. The Parties declared their intent to undertake the activities consisting in the conducting by Bank Pocztowy active distribution of selected products of retail banking offered by PKO BP SA. The terms and conditions of cooperation in the field of distribution will be regulated based on separate agreements.
- On 26 June 2006 during the meeting of the Supervisory Board, Mr Andrzej Podsiadło resigned as President of the Management Board of PKO BP SA. Mr Andrzej Podsiadło will hold his office until 31 October 2006.

During the same meeting of the Supervisory Board, Ms Krystyna Szewczyk resigned as Management Board Member of PKO BP SA as of 26 June 2006. Ms Krystyna Szewczyk will continue to serve as the Chief Accountant of PKO BP SA.

Additionally, the Supervisory Board of PKO BP SA appointed Mr Rafał Juszczak and Mr Zdzisław Sokal as Board Members.

- On 29 June 2006, PKO BP SA and Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej signed an Agreement Obliging to Purchase Shares of Bank Ochrony Środowiska S.A. (BOŚ) w Warszawie. Pursuant to the provisions of this Agreement, PKO BP SA will be the purchaser of shares when called up by Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej. As the purchaser of shares, PKO BP SA committed to acquire 659,999 ordinary bearer shares of BOŚ with a nominal value of PLN 10 each at a price of PLN 92 for one share, i.e. for a total amount of up to PLN 60,719,908. Shares that will be acquired by PKO BP SA as part

of that call will give 659,999 votes representing 4.999992% votes at the General Shareholders' Meeting of BOŚ and will account for 4.999992% of the share capital of BOŚ.

- In its current Report dated 29 June 2006, the Bank submitted to the Securities and Exchange Commission in Warsaw a statement of the Management Board of PKO BP SA relating to corporate governance in the company together with the Bank's comments to the document called „Good practices in public companies in 2005” accepted by the Bank's Supervisory Board. The above documents prove that PKO BP SA complies with all the requirements of corporate governance, which are binding public companies - issuers of shares, convertible bonds and bonds with pre-emptive rights, which are admitted to public trading on the regulated market, except for Rules nos.: 5, 24, 28, 38, 43, with which PKO BP SA complies partially and Rule no. 20, with which it does not comply.

23. SEGMENTATION OF ACTIVITIES OF THE PKO BP SA GROUP

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

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

Business segments

Segmentation by business is as follows:

- Corporate Segment includes transactions of the parent company with large corporate clients
- Retail Segment includes transactions of the parent company with private individuals and also small and medium sized enterprises,
- Treasury Segment includes inter-bank transactions, transactions made using derivative instruments and debt securities,
- Investments Segment includes brokerage and investing activities of the parent company,
- Housing Segment includes transactions of the parent company connected with granting housing loans and accepting housing deposits.

The Bank has not identified any other segments as a result of not having reached the thresholds set forth in IAS 14, which are as follows:

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

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

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

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	Continued activities					
For the 6-month period ended 30 June 2006	Corporate Segment	Retail Segment	Treasury Segment	Investments Segment	Housing Segment	All activities
Revenue						
External customer-related revenues	592 197	1 918 930	768 520	80 285	1 022 777	4 382 709
Inter-segment sales		19 704			1 667	21 371
Total segment revenue	592 197	1 938 634	768 520	80 285	1 024 444	4 404 080
Result						
Segment result	125 259	550 141	39 061	27 910	279399**	1 021 770
Unallocated result together with the result of non-separated segments	-	-	-	-	-	132 036
Difference between FX Swap and CIRS results reported for accounting and management information purposes (Swap points)	-	-	-	-	-	120 698
Result from continued activities before taxation	-	-	-	-	-	1 274 504
Share in the results of associates and jointly controlled entities	-	-	-	-	-	219
Result before taxation and minority interest	-	-	-	-	-	1 274 723
Income tax (tax expense)	-	-	-	-	-	(254 194)
Profit (loss) of minority shareholders	-	-	-	-	-	(29 215)
Net profit for the period	-	-	-	-	-	991 314
Assets and equity and liabilities as at 30 June 2006						
Segment assets	16 694 712	16 570 996	31 757 645	1 535 764	22 405 073	88 964 190
Investments in associates and jointly controlled entities	-	-	-	203 317	-	203 317
Unallocated assets	-	-	-	-	-	6 846 944
Total assets	-	-	-	-	-	96 014 451
Segment liabilities and equity	10 448 528	62 477 721	2 102 160	237 819	9 483 908	84 750 136
Unallocated liabilities and equity	-	-	-	-	-	11 264 315
Total liabilities and equity	-	-	-	-	-	96 014 451
Other segment information						
Result on impairment write-downs*	26 482	(72 131)	-	7 365	(10 759)	(49 043)

*without impairment write-downs relating to non-separated segments

** the effect of a significant increase in business activities on the property market (Housing Segment)

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	Continued activities					
For the 6-month period ended 30 June 2005	Corporate Segment	Retail Segment	Treasury Segment	Investments Segment	Housing Segment	All activities
Revenue						
External customer-related revenues	645 454	1 635 283	1 123 725	90 819	877 049	4 372 330
Inter-segment sales	-	22 735	-	66	2 214	25 015
Total segment sales	645 454	1 658 018	1 123 725	90 885	879 263	4 397 345
Result						
Segment result	86 747	369 894	174087**	29 040	83 457	743 225
Unallocated result together with the result of non-separated segments	-	-	-	-	-	128 402
Difference between FX Swap and CIRS results reported for accounting and management information purposes (Swap points)	-	-	-	-	-	222 071
Result from continued activities before taxation	-	-	-	-	-	1 093 698
Share in the results of associates and jointly controlled entities	-	-	-	-	-	10 424
Result before taxation and minority interest	-	-	-	-	-	1 104 122
Income tax (tax expense)	-	-	-	-	-	(219 818)
Profit (loss) of minority shareholders	-	-	-	-	-	3 052
Net profit for the year	-	-	-	-	-	887 356
Assets and equity and liabilities as at 31 December 2005						
Segment assets	15 120 877	14 758 971	33 710 060	1 633 433	19 474 081	84 697 422
Investments in associates and jointly controlled entities	-	-	-	184 345	-	184 345
Unallocated assets	-	-	-	-	-	6 731 414
Total assets	-	-	-	-	-	91 613 181
Liabilities and equity						
Segment liabilities and equity	9 667 761	60 664 568	2 140 553	468 621	9 142 438	82 083 941
Unallocated liabilities and equity	-	-	-	-	-	9 529 240
Total liabilities and equity	-	-	-	-	-	91 613 181

Other segment information						
Result on impairment write-downs*	5 714	(78 120)	-	-	(6 291)	(78 697)

*without impairment write-downs relating to non-separated segments

** the effect of including in the profit and loss account of reclassification of debt securities in the first half of the year (in accordance with IAS) from the AFS portfolio the ALPL portfolio (Treasury Segment activity)

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Segmentation by geographical region

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

The operating activities of the PKO BP SA Group, which cover all business segments, are concentrated on the activities in Poland through Bank PKO BP SA and related entities.

Except for Poland, the Group carries out its activities in Ukraine – through KREDOBANK S.A.

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

The tables below present data relating to revenues of the individual geographical segments for the 6-month period ended 30 June 2006 and 30 June 2005 and certain types of the assets as at 30 June 2006 and 31 December 2005.

For the 6-month period ended 30 June 2006	Poland	Ukraine	Total
Revenues			
Total segment revenues	4 298 481	105 599	4 404 080
Other segment information			
Segment assets	94 450 930	1 360 204	95 811 134
Unallocated assets	-	-	-
Investments in associates	203 317	-	203 317
Total assets	94 654 247	1 360 204	96 014 451

For the 6-month period ended 30 June 2005	Poland	Ukraine	Total
Revenues			
Total segment revenues	4 305 110	92 235	4 397 345
Other segment information as at 31 December 2005			
Segment assets	90 193 618	1 235 218	91 428 836
Unallocated assets	-	-	-
Investments in associates	184 345	-	184 345
Total assets	90 377 963	1 235 218	91 613 181

24. CREDIT RISK AND MARKET RISK OF THE PKO BP SA GROUP

o **Balance as at 30 June 2006**

Balance sheet instruments		
	Carrying amount	Risk weighted value
Banking portfolio	93 955 526	48 349 311
Trading portfolio	2 058 925	710 231
Total balance sheet instruments	96 014 451	49 059 542

Off-balance-sheet instruments			
	Replacement cost	Credit equivalent	Risk weighted value
Derivatives	148 204 909	2 835 940	575 957
Banking portfolio	28 354 621	1 513 064	302 759
Trading portfolio	119 850 288	1 322 876	273 198
Other off-balance-sheet instruments	31 068 425	5 097 869	3 687 806
Banking portfolio	30 283 637	4 542 723	3 132 660
Trading portfolio	784 788	555 146	555 146
Total off-balance-sheet instruments	179 273 334	7 933 809	4 263 763

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	Carrying amount and off-balance-sheet value	Risk weighted value	Capital requirement
Total banking portfolio (credit risk)	152 593 784	51 784 730	4 142 778

Capital requirements for trading portfolio (market risk)		Capital requirement
Market risk:		78 711
Currency risk		-
Commodity price risk		-
Securities price risk		447
Debt instruments specific risk		55 264
Interest rate general risk		23 000
Other:		18 760
Settlement risk - delivery and contractor		18 760
Securities underwriting risk		-
Other		-
Total capital requirement (credit and market risk)		4 240 249

The credit and market exposures were calculated based on the provisions of the Resolution of the Commission for Banking Supervision no. 4/2004 dated 8 September 2004.

• **Balance as at 31 December 2005**

Balance sheet instruments		
	Carrying amount	Risk weighted value
Banking portfolio	89 283 614	41 837 739
Trading portfolio	2 329 567	857 758
Total balance sheet instruments	91 613 181	42 695 497

Off-balance-sheet instruments			
	Replacement cost	Credit equivalent	Risk weighted value
<i>Derivatives</i>	139 779 905	2 099 078	420 980
Banking portfolio	33 068 551	1 019 986	204 380
Trading portfolio	106 711 354	1 079 092	216 600
<i>Other off-balance-sheet instruments</i>	21 694 810	3 492 744	2 113 900
Banking portfolio	21 029 940	3 008 396	1 629 552
Trading portfolio	664 870	484 348	484 348
Total off-balance-sheet instruments	161 474 715	5 591 822	2 534 880

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

Capital requirements for trading portfolio (market risk)		Capital requirement
Market risk:		108 522
Currency risk		-
Commodity price risk		-

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	-
Security price risk	249
Debt instruments specific risk	66 863
Interest rate general risk	41 410
Other:	15 474
Settlement risk - delivery and contractor	15 474
Securities underwriting risk	-
Other	-
Total capital requirement (credit and market risk)	3 617 730

The credit and market exposures were calculated based on the provisions of the Resolution of the Commission for Banking Supervision no. 4/2004 dated 8 September 2004.

Warsaw, 11 August 2006

*Bank's Director managing the
Division of Accounting and
Settlements*

Krystyna Szewczyk