Letter from the President of the PKO Bank Polski Management Board

It is a pleasure for me to summarise PKO BP's activities in 2005. This year there were many reasons to be satisfied. Our shareholders are pleased with the Bank's excellent performance and high dividends they received, our customers are satisfied with an increased quality of service and an attractive product offer, while the Bank takes pride in meeting its ambitious targets.

In 2005 the Bank again reported a record financial performance. For the first time in our history the pre-tax profit exceeded a threshold of PLN 2bn and was 15.4 % higher than in the previous year. The net profit grew by 15.7 % to the level of PLN 1.68bn. Additionally, the balance-sheet total increased and a substantial rise in the portfolio of deposits and loans was noted.

The year 2005 ended a 3-year period of the Bank's modernisation. During that time PKO BP was significantly transformed. It became a publicly held company quoted on the Warsaw Stock Exchange, reorganized its internal structure, substantially improved and updated its management system. All these provided a fertile ground for further intensive development.

In the last year PKO BP entered a decisive phase in the implementation of state-of-the-art IT solutions. In November the first branch of the Bank was connected to the Integrated IT System network. The new IT system is planned to be introduced in all the branches by 2007. After this process is finished, the Bank will have complete and up-to-date management information at its disposal and will respond more effectively and faster to customers' needs.

Despite the large market competition, PKO BP maintained its leading position and even enhanced it in some segments by extending the offer in line with customers' expectations. Within a year from the introduction of *PKO Inteligo* e-banking, the Bank already opened a million accounts with the Internet and telephone access and became the market leader in Poland. PKO BP also exceeded other thresholds – namely, six million payment cards and half a million credit cards were issued and the number of accounts held by the Bank is approaching 6 million. The sale of housing loans generated record volumes. The Bank introduced new products, such as *Visa Infinite and MasterCard Platinum* prestige credit cards for private banking customers, electronic money for local government units and innovative credit products. PKO BP is actively involved on the corporate banking market, in particular in the range of syndicated loans and service connected with the issue of securities. It remained the unquestioned leader among the arrangers of municipal bond issues.

In 2005 PKO BP continued to consolidate the position of the Capital Group companies existing on the Polish and foreign markets and providing services related, *inter alia*, to pension and investment funds, leasing, developer activity or electronic payment services. The Bank's subsidiaries recorded high growth as a result of their activity and will continue their market expansion. Furthermore, the Bank is involved in the extension of its Ukrainian presence by other countries in the region.

At the end of the year the Bank announced its new 2006-2008 strategy, called the Innovation Strategy. It is intended to intensify operations on new markets, add a new quality to the product offer and customer service based on modern management solutions, in particular in regards to the corporate culture of the organization. This will contribute to the Bank's new image.

All the results of our 2005 operations stem from the excellent work of PKO BP staff, whose involvement and creativity allow the Bank to meet its targets and bring further development opportunities. On behalf of the Management Board I would like to thank all the employees. I also wish to express my gratitude to the Supervisory Board for the professional support of our activities.

Andrzej Podsiadło
President of the PKO BP Management Board

Warsaw, March 2006

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THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP FOR 2005

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SECURITIES AND EXCHANGE COMMISSION
The annual consolidated report RS 2005

(according to § 86 par. 2 of the Decree of Council of Minister, dated 19 October 2005, Journal of Law No.209, item. 1744)

(for banks)

For the year 2005 covering period	from 2005-01-01 to 2005-12-31
Containing consolidated financial statements in accordance with	International Accounting Standards
currency	PLN
date of submission:	2006-03-28

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

data concerning consolidated financial statements	**in thousand PLN**		**in thousand EUR**	
SELECTED FINANCIAL DATA	**the period from 01.01.2005 to 31.12.2005**	**the period from 01.01.2004 to 31.12.2004** (comparative data)	**the period from 01.01.2005 to 31.12.2005**	**the period from 01.01.2004 to 31.12.2004** (comparative data)
Interest income	3 544 475	3 512 733	880 987	777 463
Fees and commission net income	1 217 882	1 583 012	302 707	350 363
Operating result	2 143 514	1 847 890	532 775	408 944
Gross profit (loss)	1 755 621	1 508 292	436 363	333 782
Net profit (loss)	1 734 820	1 506 505	431 193	333 430
Equity of the dominant company	8 731 206	8 792 103	2 262 088	2 155 456
Total equity	8 774 990	8 857 952	2 273 431	2 171 599
Net cash flow from operating activities	(3 256 545)	(1 790 201)	(809 421)	(396 220)
Net cash flow from investing activities	1 686 917	5 787 939	419 287	1 281 028
Net cash flow from financing activities	(975 985)	81 713	(242 583)	18 085
Total net cash flow	(2 545 613)	4 079 451	(632 718)	902 893

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The PKO BP SA Group in PLN thousand

THE CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE YEAR ENDED 31 December 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the years ended 31 December 2005 and 31 December 2004

	Note	01.01 - 31.12.2005	01.01 - 31.12.2004 comparative data
Interest income	9	5 662 012	5 310 475
Interest expense	9	(2 177 537)	(1 797 742)
Net interest income		**3 544 475**	**3 512 733**
Fee and commission income	10	1 537 579	1 861 390
Fee and commission expense	10	(319 697)	(278 378)
Net fee and commission income		**1 217 882**	**1 583 012**
Dividend income	11	16 112	3 396
Result from financial instruments at fair value	12	31 706	(45 675)
Result from investment securities	13	276 856	(20 651)
Foreign exchange result	14	612 101	473 436
Other operating income	15	875 997	636 281
Other operating expenses	15	(109 474)	(184 045)
Net other operating income		**766 523**	**452 236**
Impairment losses on loans and advances	17	(161 090)	(169 030)
General administrative expenses	16	(4 161 051)	(3 941 767)
Operating profit		**2 143 514)**	**1 847 690**
Share in net profits (losses) of associates	19	23 531	21 925
Profit before income tax		**2 167 045**	**1 869 815**
Income tax expense	20	(411 424)	(361 523)
Net profit (loss) (without minority interest)		**1 755 621**	**1 508 092**
(Profit) loss attributable to minority shareholders		20 801	1 587
Net profit (loss)		**1 734 820**	**1 506 705**
Earnings per share	**21**		
- basic earnings for period		**1.73**	**1.51**
- diluted earnings for period		**1.73**	**1.51**

The accompanying notes to the financial statements presented on pages 11-125 are an integral part of these financial statements.

The PKO BP SA Group in PLN thousand

CONSOLIDATED BALANCE SHEET

as at 31 December 2005 and 31 December 2004

	Note	31.12.2005	31.12.2004
ASSETS			
Cash and amounts due from Central Bank	23	3 895 331	3 525 329
Amounts due from banks	24	12 663 295	13 231 947
Financial assets held for trading	25	851 003	369 517
Derivative financial instruments	26	1 337 227	1 362 379
Other financial instruments valued at fair value through profit or loss	27	20 059 683	-
Loans and advances to customers	28	46 874 629	40 037 204
Investment securities	29	1 881 378	23 457 928
1. Available for sale		1 881 378	21 564 911
2. Held to maturity		-	1 893 017
Shares in associates and jointly controlled entities	30	184 345	156 815
Intangible assets	32	688 770	500 947
Tangible fixed assets	33	2 643 551	2 651 824
Receivable due to income tax	20	87	20 153
Deferred tax asset	20	29 101	26 644
Other assets	34	704 781	613 678
TOTAL ASSETS		**91 613 181**	**89 954 365**

LIABILITIES AND EQUITY	Note	31.12.2005	31.12.2004
Liabilities			
Amounts due to the Central Bank	36	766	144
Amounts due to other banks	37	2 083 346	998 718
Derivative financial instruments	38	1 257 384	793 739
Amounts due to customers	39	76 747 563	73 091 874
Liabilities arising from securities issued	40	68 470	21 076
Other liabilities	41	1 862 480	1 395 117
Liabilities due to income tax	20	436 766	211
Deferred tax liability	20	41 519	586 761
Provisions	42	339 897	208 773
TOTAL LIABILITIES		**82 838 191**	**77 096 413**
Equity			
Share capital	46	1 000 000	1 000 000
Other capital	47	5 850 063	6 027 024
Currency translation differences from foreign operations		(4 082)	(11 472)
Retained earnings	47	150 405	270 046
Net profit for the period		**1 734 820**	**1 506 505**
Equity assigned to shareholders of the holding company		**8 731 206**	**8 792 103**
Minority capital		43 784	65 849
TOTAL EQUITY		**8 774 990**	**8 857 952**
TOTAL EQUITY AND LIABILITIES		**91 613 181**	**85 954 365**

Capital adequacy ratio		**13.90**	**18.44**

Capital adequacy ratio as at 31 December 2004 was calculated on the basis of the comparative data which are complied with the requirements of IAS. In accordance with the authorized Consolidated Financial Statements of the Group as at 31 December 2004 the capital adequacy ratio amounted to 16.67%

The PKO BP SA Group in PLN thousand

CONSOLIDATED OFF-BALANCE SHEET ITEMS
As at 31 December 2005 and 31 December 2004

	Note	31.12.2005	31.12.2004 (comparative data)
Contingent liabilities granted:	**45**	**10 268 549**	**6 398 063**
1. financial		8 792 299	5 659 586
2. guarantee		1 476 250	738 477
Liabilities arising from the purchase/sale transactions		**279 032 415**	**170 084 929**
Other, of which:		**14 541 039**	**14 120 739**
- irrevocable liabilities	45	8 519 942	9 504 826
- collaterals received		6 021 097	4 615 913
Total off-balance sheet items		**303 872 003**	**190 603 731**

The PKO BP SA Group in PLN thousand

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

	Assigned to the shareholders of the holding company								Total	Minority capital	Total Equity
	Share capital	Other capital				Translation reserve	Retained earnings	Net profit (loss)			
		Reserve capital	Revaluation reserve	General banking risk fund	Other reserves						
Balance according to IAS at 1 January 2005	**1 000 000**	**2 790 299**	**160 673**	**1 000 000**	**1 495 495**	**(11 472)**	**212 223**	**1 506 505**	**8 153 723**	**65 849**	**8 219 772**
Transfer of net profit	-	-	-	-	-	-	1 506 505	(1 506 505)	-	-	-
Transfer from net profit to reserve capital	-	507 315	-	-	10 000	-	(517 315)		-	-	-
Transfer from net profit to dividends	-	-	-	-	-	-	(1 000 000)		(1 000 000)	-	**(1 000 000)**
Net profit (loss) for the period	-	-	-	-	-	-		1 734 820	1 734 820	-	**1 734 820**
Movement in available-for-sale investments adjusted for deferred tax	-	-	(161 727)	-	-	-		-	(164 727)	-	**(164 727)**
Appropriation of profit in the subsidiary	-	-	-	-	51 008	-	(51 008)	-	-	-	-
Movement in minority interest	-	-	-	-	-	-	-	-	-	(22 065)	**(22 065)**
Movement in exchange rates	-	-	-	-	-	7 390	-	-	7 390	-	**7 390**
Balance according to IAS at 31 December 2005	**1 000 000**	**3 297 614**	**(4 054)**	**1 000 000**	**1 556 503**	**(4 082)**	**150 405**	**1 734 820**	**8 731**	**43 784**	**8 774 990**

The accompanying notes to the financial statements presented on pages 11-125 are an integral part of these financial statements.

The PKO BP SA Group in PLN thousand

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For the year ended 31 December 2004 (comparative data)

	Attributable to the shareholders of the holding company										
		Other capital									
	Share capital	Reserve capital	Revaluation reserve	General banking risk fund	Other reserves	Translation reserve	Retained earnings	Net profit (loss)	Total	Minority capital	Total Equity
Balance according to IAS at 1 January 2004	**1 000 000**	**1 772 518**	**69 156**	**1 333 530**	**1 514 480**	**-**	**276 441**	**1 192 506**	**7 158 631**	**26 512**	**7 185 451**
Transfer of net profit	-	-	-	-	-	-	1 192 506	(1 192 506)	-	-	-
Transfer from net profit to reserve capital	-	1 017 994	-	200 000	10 000	-	(1 227 994)	-	-	-	**(200)**
Transfer from net profit to dividends	-	-	172 111	-	-	-	-	-	**172 111**	-	**172 111**
Net profit (loss) for the period	-	-	-	-	(29 093)	-	29 093	-	-	-	-
Movement in available-for-sale investments less deferred tax	-	-	-	-	-	-	-	-	-	16 588	**16 588**
Appropriation of profit in the subsidiary	-	12	-	-	108	(11 472)	-	-	**(11 352)**	23 252	**11 792**
Movement in minority interest	-	(225)	-	-	-	-	-	-	**(225)**	(503)	**(728)**
Movement in exchange rates	-	-	-	(33 567)	-	-	-	-	**(33 567)**	-	**(33 567)**
Net profit (loss)	-	-	-	-	-	-	-	1 506 505-	1 506 505	-	1 506 505
Balance according to IAS at 31 December 2004	**1 000 000**	**2 790 299**	**241 267**	**1 499 963**	**1 495 495**	**(11 472)**	**270 046**	**1 506 705**	**8 792 103**	**65 849**	**8 857 952**

The PKO BP SA Group in PLN thousand

CONSOLIDATED CASH FLOW STATEMENT

for the years ended 31 December 2005 and 31 December 2004

	Note	01.01 - 31.12.2005	01.01 - 31.12.2004 (comparative data)
Cash flow from operating activities			
Net profit (loss)		1 734 820	1 506 505
Adjustments:		(4 991 365)	(3 296 706)
Profits/losses attributable to minority shareholders		20 801	1 587
Depreciation		466 540	517 506
Foreign exchange differences		-	-
(Profit) loss from investing activities	48	15 638	41 503
Interest and dividends	48	(899 268)	(2 055 558)
Change in loans and advances to banks	48	(2 346 556)	(923 269)
Change in financial assets held for trading and other financial instruments valued at fair value through profit or loss	48	(582 989)	505 520
Change in derivative financial instruments (asset)		225 152	(1 100 868)
Change in loans and advances to customers	48	(7 483 633)	(2 783 394)
Change in assets due to deferred tax		(2 457)	(8 695)
Change in other assets		(71 037)	(30 414)
Change in amounts due to banks	48	1 010 792	(203 903)
Change in derivative financial instruments and other financial liabilities at fair value through profit or loss		463 645	567 332
Change in amounts due to customers	48	3 710 095	1 503 947
Change in liabilities arising from issued debt securities		47 394	18 176
Change in provisions	48	(532 932)	134 515
Change in other liabilities	48	1 080 823	165 013
Income tax paid		(379 244)	(329 901)
Current tax expense		411 424	361 523
Other adjustments	48	(145 553)	322 674
Net cash from operating activities		(3 256 545)	(1 790 201)
Cash flow from investing activities			
Inflows from investing activities		**2 375 002**	**6 675 791**
Sale of shares in subsidiaries, net of cash disposed		-	-
Sale of shares in associates		200	200
Sale of investment securities		2 311 722	6 648 690
Proceeds from sale of intangible assets and tangible fixed assets		34 224	26 151
Other investing inflows		28 856	750
Outflows from investing activities		**(688 085)**	**(887 852)**
Purchase of subsidiaries, net of cash acquired		(2 440)	(129 319)
Purchase of shares in jointly controlled entities		(17 498)	-
Purchase of shares in associates		(5 555)	(146 500)
Purchase of investment securities		-	-
Purchase of intangible assets and tangible fixed assets		(662 592)	(612 033)
Other investing outflows		-	-
Net cash used in investing activities		**1 686 917**	**5 787 939**
Cash flow from financing activities		**-**	**-**
Issue of shares		-	-
Issue of debt securities		-	-
Redemption of debt securities		-	-
Dividends paid to holding company shareholders		(1 000 000)	-
Dividends paid to minority shareholders		-	-
Other financing inflows/ outflows		24 015	81 713
Net cash generated from / (used in) financing act3ivities		**(975 985)**	**81 713**
Total net cash flow	48	**(2 545 613)**	**4 079 451**
Net foreign exchange differences		-	-
Cash and cash equivalents at the beginning of the period		13 936 221	9 856 770
Cash and cash equivalents at the end of the period		**11 390 608**	**13 936 221**
- included those with limited disposal		2 479	2 911

The accompanying notes to the financial statements presented on pages 11-125 are an integral part of these financial statements.

The PKO BP SA Group in PLN thousand

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2005

1. Basic information

The consolidated financial statements of the Group of Powszechna Kasa Oszczędności Bank Polski SA ("the PKO BP SA Group", "the PKO BP SA Group", "the Group", "the Group") have been prepared for the year ended 31 December 2005 and include comparative data for the year ended 31 December 2004 and comparative data as at 31 December 2004.

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

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

On 12 April 2000 PKO BP SA was entered in the Register of Entrepreneurs kept by the District Court for the capital city of Warsaw, XVI Economic Department of the National Court Register, entry no. KRS 0000026438. The Bank's share capital amounts to 1,000,000 thousand zlotys. The Bank's REGON statistical number is 016298263, and was granted on 18 April 2000.

As of 31 December 2005, the Bank's shareholders structure was as follows:

Name	Number of Shares	Number of votes %	Nominal value of the share	Share in the share capital (%)
State Treasury	515 711 446	51.57	PLN 1	51.57
Other shareholders	484 288 554	48.43	PLN 1	48.43
Total	1 000 000 000	100.00		100.00

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

Bank's business activities

The activities described in detail in the subsequent parts of this document correspond to the following activities set forth in the Polish Classification of Activities (PKD):

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

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

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

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

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

Additionally, the Bank's scope of activities includes:

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

In addition, the Bank can:

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

The Bank conducts its activities on the following markets:

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

Going concern

The consolidated financial statements of the PKO BP SA Group have been prepared on the basis that the Bank and the entities from the PKO BP SA Group will be a going concern during a period of 12 months from the balance sheet date, i.e. 31 December 2005. As at the date of signing the financial statements, the Bank's Management Board is not aware of any facts or circumstances that would indicate a threat to the continued activity of the Bank or the entities from the PKO BP SA Group in the twelve months following the balance sheet date due to an intended or compulsory withdrawal or limitation of their activities, except for Inteligo Financial Services SA for which the Bank considers full or partial incorporation (however this matter does not have any impact on the operations of the PKO BP SA Group)

Reporting periods covered by these consolidated financial statements
The consolidated financial statements of the Bank are presented for the year ended 31 December 2005, and include comparative financial data for the year ended 31 December 2004. The financial data is presented in PLN thousands.

Information on the members of the Management and Supervisory Boards of the Group's holding company
As at 31 December 2005, the Bank's Management Board consisted of:

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

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

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

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

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

On 19 May 2005, the Annual General Meeting of Shareholders of PKO BP SA appointed the following persons to the Supervisory Board:
- Urszula Pałaszek
- Krzysztof Zdanowski
- Czesława Siwek

Internal organisational units of the PKO BP SA Group
The consolidated financial statements of the PKO BP SA Group, comprising the financial data for the year ended 31 December 2005 and the consolidated comparative financial data, were prepared on the basis of the financial data submitted by all organisational units of the Bank through which it performs its activities. As at 31 December 2005, these organizational units included: the Bank's Head Office in Warsaw, BDM - Bankowy Dom Maklerski, COK - Centrum Operacji Kartowych, CBE – Centrum Bankowości Elektronicznej Inteligo, 6 specialized units, 12 regional retail braches, 13 regional corporate branches, 537 independent branches, 619 offices (subordinated branches), 13 corporate client teams, 57 corporate centres and 2,510 agencies. Except for BDM, none of the organizational units listed above prepares separate financial statements.

The PKO BP SA Group in PLN thousand

Structure of the PKO BP SA Group

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

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

*till 22 December 2005 operating under the name of Kredyt Bank Ukraina S.A.
Information regarding the changes in the share capital of the subsidiaries is presented in Note 50.

The PKO BP SA Group in PLN thousand

Jointly controlled entities

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

Associated entities

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

No.	Name	Registered Office	Activity	Percentage of share capital (%)	
				31.12.2005	31.12.2004 (comparative data)
1	Bank Pocztowy S.A.	Bydgoszcz	Financial services	25.0001	25.0001
2	Kolej Gondolowa Jaworzyna Krynicka S.A.	Krynica	Construction and operation of cable railway	37.83	37.83
3	Ekogips S.A. – (in bankruptcy)	Warsaw	Production of construction elements	60.26	60.26
4	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Poznań	Sureties in accordance with civil law and bill of exchange law	33.33	33.33
5	Hotel Jan III Sobieski Sp. z o.o.	Warsaw	Construction and operation of Jan III Sobieski Hotel	32.50	32.50
6	Agencja Inwestycyjna CORP S.A.	Warsaw	Production on the market of construction projects	22.31	22.31
An associate of Bankowe Towarzystwo Kapitałowe SA					
7	FINDER Sp. z o.o.	Warsaw	Car location and fleet management services	42.31	-

Approval of the financial statements

These consolidated financial statements were approved by the Board of the Bank for publishing on 21 March 2006.

2. Accounting Policies

Basis for preparation of financial statements and declaration of compliance

In accordance with the Accounting Act of 29 September 1994 with subsequent amendments ("Accounting Act"), effective as of 1 January 2005, the consolidated financial statements of the PKO BP SA Group have been prepared in accordance with International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and their interpretations announced as the European Commission resolutions. At present, in view of the process of implementing IFRS in EU and the Bank's activity, with respect to the accounting policies applied by the Bank, there is no differences between IFRSs and the IFRSs endorsed by the EU.

Based upon the paragraph 45 point 1c of the Act and upon the motions of the PKO BP SA shareholders' meeting no. 28/2005 dated 19 May 2005, as of 1 January 2005 the standalone financial statements of the Bank are prepared in accordance with IAS/IFRS.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and, in particular, in accordance with International Accounting Standard 1 and all regarding the Bank International Financial Reporting Standards approved by EU.

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

Reconciliations of the equity and net profit for the year ended 31 December 2004 (as well as the equity, net profit and significant adjustments to the cash flow statement as at 1 January 2005) and the equity as at 1 January 2004, prepared in accordance with PAS and IAS, are presented in Note 52.

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

- Business combination (IFRS 1.15, Appendix B)

The Group has taken advantage of the exemption relating to business combinations. Therefore, in terms of goodwill, the Group applied Polish Accounting Standards in preparing data as at 31 December 2003 and the opening balance as at 1 January 2004 and tested for impairment.

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

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

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

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

- Share-based payment transactions (IFRS 1.25B)

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

Additionally, the Group used the exemption from the requirement to restate comparatives relating to IAS 32 and IAS 39. Transactions, assets and liabilities included in those standards for the periods started on 1 January 2004 and ended on 31 December 2004 or earlier were presented in accordance with Polish Accounting Standards.

New IFRS/IAS introduction.

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

- IFRS 7 *Financial Instruments Disclosures* – this standard is effective since 1 January 2007, however earlier application is permitted. IFRS 7 replaces IAS 30 *Disclosure in the Financial Statements of Banks and Similar Financial Institutions* and disclosure requirements of IAS 32 *Financial Instruments Disclosure and Presentation* binding as at the balance sheet date. IFRS 7 extends the quantitative and qualitative disclosure requirements for financial instruments risk management: credit risk, liquidity risk and market risk. The Group assess that mainly the disclosures for market risk sensitivity will require additional information and disclosures.
- IAS 1 *Presentation of Financial Statements* – these amendments to the standard are effective from 1 January 2007, however earlier application is permitted. Amended IAS 1 requires additional disclosures related to shareholders' equity management. The Group expects that disclosures related to shareholders' equity management would require certain additional disclosures in the financial statements.
- IAS 39 Financial *Instruments: Recognition and Measurement – Fair Value Option* with resulting amendments in IFRS 1. 1 January 2006 is the effective date of these amendments, however earlier application is permitted. However, if the Group had applied the amendments earlier, i.e. before December 2005, it would not be able to apply the option of measurement at fair value of assets and liabilities other than those measured at fair value on this date.

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

The Group entities based in Poland run their accounts in accordance with Polish Accounting Standards (defined by the Accounting Act dated 29 September 1994). The consolidated financial statements include a number of adjustments that are not included in the books of account of the Group entities and are applied in order to make the financial statements compliant with standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee.

All items presented in the financial statements of the Group entities, including KREDOBANK SA, are valued in functional currency i.e. in the currency of the basic economic environment in which the given entity operates.

The Polish Zloty is the functional currency and the presentation currency of the holding company.

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

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

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

The principal accounting policies and methods used by the PKO BP SA Group during the period from 1 January to 31 December 2005:

a) Basis of consolidation

The consolidated financial statements include the financial statements of PKO BP SA and the financial statements of its subsidiaries, prepared for the year ended 31 December 2005. The financial statements of the subsidiaries cover the same reporting period as the holding company's financial statements. Consolidation adjustments are made in order to eliminate any differences in the accounting policies applied by the Bank and its subsidiaries.

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

- for the year ended 31 December 2005:

- Bankowy Fundusz Leasingowy S.A.,
- Powszechne Towarzystwo Emerytalne BANKOWY S.A. Group,
- Centrum Finansowe Puławska Sp. z o.o.,
- Centrum Elektronicznych Usług Płatniczych „eService" S.A.,
- Inteligo Financial Services S.A.,
- KREDOBANK S.A. (functioning till 22 December as Kredyt Bank (Ukraina) S.A.
- Bankowe Towarzystwo Kapitałowe S.A. (until 7 April 2005 operating under the name of Dom Maklerski BROKER S.A.),
- PKO Inwestycje Sp. z o.o. Group.

for the year ended 31 December 2004:

- Bankowy Fundusz Leasingowy S.A.,
- Powszechne Towarzystwo Emerytalne BANKOWY S.A. Group,
- Centrum Finansowe Puławska Sp. z o.o.,
- Centrum Elektronicznych Usług Płatniczych „eService" S.A.,
- Inteligo Financial Services S.A.,
- Kredyt Bank (Ukraina) S.A.,
- Dom Maklerski BROKER S.A.,
- PKO Inwestycje Sp. z o.o. Group.

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

The following items are eliminated in full at consolidation:

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

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

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

b) Minority shares purchase

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

c) Estimates

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

The estimates that were made at the transition date, i.e. 1 January 2004, and at each balance sheet date, reflect the conditions that existed at these dates (e.g. market prices, interest rates, exchange rates etc.). In spite of the fact that the estimates are based one the best understanding of the current situation and the activities that will be undertaken by the Group, the actual results may differ from those estimates.

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

- Impairment of financial assets

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

The Group uses three methods for the estimation of impairment:

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

The Group expects that the methodology used for estimating impairment write-offs in 2005 will be developed in line with the increasing possibilities of acquiring impairment data from the existing and implemented information systems and applications. As a consequence the improvement of data quality may have a significant influence on the level of impairment allowances in future.

- Impairment of investments in associates and jointly controlled entities

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

- Impairment of other non-current assets

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

- Goodwill impairment

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

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

- Valuation of derivatives and unquoted debt securities available for sale

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

- Calculation of provision for retirement benefits

The provision for retirement benefits and jubilee bonuses is created individually for each employee on the basis of the anticipated level of these obligations according to the Collective Labour Agreement (“Zakładowy Układ Zbiorowy Pracy”) being in force at the Bank. The calculation of the provision includes all bonuses and retirement benefits that may be paid in the future. The provision was created on the basis of a list including all the necessary details of the employees, in particular the length of their service, age and gender. The technical interest rate was adopted at the level of 0.5%.

d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, at nosto account in the National Bank of Poland, current amounts due from other banks, and other cash due within three months and stated at nominal value.

e) Financial assets

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

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

- Financial assets at fair value through profit or loss

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

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

Equity instruments

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

1) for those equity instruments for which there is an active market – with reference to market value,

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

Debt instruments

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

1) for those debt instruments for which there is an active market – with reference to market price,

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

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

Derivative instruments

Speculative derivative financial instruments are recognised at fair value at the date of transaction and are subsequently stated at fair value as of the balance sheet date. In the case where the estimated fair value is lower or higher than the fair value as of the preceding balance sheet date (for transactions concluded in the reporting period – acquisition cost or the sale price of the instrument), the difference is charged respectively to the result from the financial assets and liabilities at fair value through profit or loss or to the foreign exchange result (FX swap, FX forward and CIRS), in correspondence with other financial assets or liabilities arising from derivative financial instruments, as appropriate.

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

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

Embedded derivative instruments

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

Embedded derivative instruments separated from host contracts and presented separately are valued at fair value. Valuation is presented under "Derivative Financial Instruments". Changes in fair value of derivative instruments are recorded in the profit or loss account under "Result from financial assets and financial liabilities at fair value".

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

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

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

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

- Financial assets available for sale

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

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

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

Equity instruments

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

1) For equity instruments for which an active market exists – with reference to market value,

2) For equity instruments for which there is no active market:
   a) as current bid offer,
   b) valuation performed by a specialised external entity providing this kind of services,

In case there is no possibility of establishing the fair value, equity instruments are valued at acquisition costs, less the impairment write-off.

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

Debt instruments

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

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

The results of changes in fair value in relation to the carrying amount of an instrument stated at amortized cost are taken to revaluation reserve, except for impairment losses, which are charged to profit and loss account.

Interest income and discounts calculated using the effective interest rate are presented as financial income, and the gain or loss recorded in the revaluation reserve is the difference between the fair value determined at the balance sheet date and the value of these assets at amortized cost.

- Loans and other receivables

Loans and receivables comprise financial assets that are not quoted on the active market, which are featured with fixed or determinable payments, and which are not derivative instruments. This category includes debt securities acquired from the issuer for which there is no active market, loans and other receivables acquired and allowed. Loans and receivables are valued at amortized cost using the effective interest rate, with an allowance for impairment losses.

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

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

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

- Debt securities held to maturity

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

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

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

e) Accounting for transactions

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

f) Sale and repurchase contracts

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

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

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

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

g) Impairment of financial assets

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

The following are considered by the Group as loss events:

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

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

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

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

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

If there is objective evidence for the impairment of financial assets classified as loans and receivables, receivables from finance lease or investments held to maturity, the amount of the impairment loss is the difference between the carrying amount of the asset and the present value of the estimated future cash flows (excluding future losses on loans, which have not been incurred), discounted using the original effective interest rate established at the initial recognition of the financial asset.

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

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

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

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

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

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

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

h) Derecognition of financial instruments

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

In particular, the Group derecognises a loan or part of a loan, when it looses control over the rights arising from that loan or part of loan. The Group looses control, if the rights pertaining to the loan agreement expire, or the Group waives those rights or sells the loan. Usually the Group derecognises loans when they have been forgiven, when the period of limitation expired or when the loan is not recoverable.

Loans and other amounts due are written off against the impairment write-downs that were recognised for these accounts. In the case where no write-downs were recognised against the account or the amount of the write-down is less than the amount of the loan or other receivable, before the loan or receivable is written off, the amount of the impairment write-down is increased by the difference between the value of the receivable and the amount of the write-downs that have been recognised to date.

i) Tangible fixed assets, intangible assets

Tangible fixed assets are stated at the balance sheet date at acquisition cost or cost of production, less accumulated depreciation and impairment losses. This method is used also in case of real estate that have been revalued in 1995, that on the moment of transition to IAS were stated at fair value. Depreciation is charged on all fixed assets whose value decreases due to usage or passage of time, using the straight line method over the estimated useful life of the given asset. The adopted depreciation periods and depreciation rates are subject to periodic verification. If there were any events or circumstances indicating that the carrying amount of tangible fixed assets may not recoverable, then these assets are reviewed for impairment. Depreciation charges and impairment losses are expensed directly to the profit or loss account for the current period.

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

Amortisation is charged using the straight-line method over the estimated useful life of the given asset. Intangible assets with indefinite period of usage are not subject to amortisation.

Intangible assets with indefinite period of usage are subject to verification for impairment, other intangible assets are subject to verification only when there were events or circumstances indicating that their carrying amount may not be recoverable.

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

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

1) non-deductible VAT and excise tax;

2) borrowing costs related to liabilities incurred in order to finance the acquisition or production of such assets - if they are related to the acquisition, construction or production of a “qualifying asset” i.e. an asset that requires a considerable amount of time in order to be prepared for the intended use or disposal, as well as foreign exchange gains or losses, if they are considered to adjust interest costs;

3) estimated costs of dismantling and removal of an asset and the costs of renovation of the place where the asset was located, when there exists an obligation to incur such costs and the present value of the estimated future costs is considerable when compared to the acquisition cost or the cost of construction of the asset.

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

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

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

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

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

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

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

Tangible fixed assets	**Periods**
Buildings, premises, cooperative rights to premises	9-67 years
Leasehold improvements (buildings, premises)	10 years*
Plant and machinery	1,5-25 years
Computer hardware	1,5-5 years
Motor vehicles	4-7 years

* For leasehold improvements, depreciation rates depend on the term of the contract. For leasehold improvements in buildings or premises subject to rental contracts concluded for an undefined period of time, the Bank uses an individual depreciation period of 10 years.

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

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

Goodwill arising on acquisition of a business entity is initially recognised at the acquisition cost, being an excess of the costs of acquiring control over the entity over the share of the holding company in the net fair value of the identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is stated at acquisition cost, less any cumulative impairment losses. The test for impairment is carried out on an annual basis. The carrying amount of goodwill in the opening balance sheet according to IAS, i.e. as of 1 January 2004, was determined in accordance with the amount recognized on the basis of the previously used principles, subject to the requirements of IFRS 1, and was subject to an impairment test.

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

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

j) Investment property

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

k) Non-current assets held for sale

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

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

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

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

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

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

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

n) Exchange rates used by preparing the consolidated financial statements

For translation of balance sheet and off-balance sheet items as at 31 December 2005 into euro, the Group used the rate of 3.8598 PLN/EUR, which is the average NBP rate at the balance sheet date, whereas for translation of the balance sheet and off-balance-sheet items as at 31 December 2004 into euro, the Group used the rate of 4.0790 PLN/EUR, which was the average NBP rate at the balance sheet date.

The main items of the income statement and cash flow statement for 2005 have been translated into euro using the rate of 4.0233 PLN/EUR, which is the arithmetical mean of the average NBP rates at the last day of each month covered by the financial statements. The financial data concerning the income statement and cash flow statement for 2004 have been translated into euro using the rate of 4.5182 PLN/EUR, which was the arithmetical mean of the average NBP rates at the last day of each month covered by the comparative financial data.

The PKO BP SA Group in PLN thousand

EUR	**01.01 – 31.12.2005**	**01.01 – 31.12.2004** (comparative data)
Rate as at the last day of the period	3.8598	4.0790
Rate being the arithmetical average of the rates as at the last days of each month of the period	4.0233	4.5182
Highest rate in the period	4.2756	4.9149
Lowest rate in the period	3.8223	4.0518

For translation of the balance sheet and off-balance sheet items as at 31 December 2005 into UAH, Bank used the rate of 0.6465 PLN/UAH which is the average NBP rate at the balance sheet date, whereas for translation of the balance sheet and off-balance-sheet positions as at 31 December 2004 into euro the Group used the rate of 0.5642 PLN/UAH, which is the average NBP rate at the balance sheet date.

The main items of the profit and loss account and of the cash flow statement for 2005 have been translated into UAH using the rate of 0.6386 PLN/UAH which is the arithmetical mean of the average NBP rates at the last day of each month, covered by the financial statement.

The financial data concerning the income statement and the cash flow statement for 2004 have been translated into UAH with the rate of 0.6173 PLN/UAH, the arithmetical average of the average NBP rates at the last day of each month covered by the comparative financial data.

UAH	**01.01 – 31.12.2005**	**01.01 – 31.12.2004** (comparative data)
Rate as at the last day of the period	0.6465	0.5642
Rate being the arithmetical average of the rates as at the last days of each month of the period	0.6386	0.6173
Highest rate in the period	0.6729	0.6686
Lowest rate in the period	0.5570	0.5642

o) Off-balance sheet liabilities granted

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

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

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

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

p) Deferred income tax

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it

is no longer probable that sufficient taxable profit will be available to allow all or a part of the deferred tax asset to be utilized.
Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.
Income tax relating to items recognized directly in equity is recognized in equity and not in the profit and loss account.

q) Financial liabilities at fair value

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

r) Financial liabilities at amortized cost

Financial liabilities are valued at amortized cost using the effective interest rate. If a cash flow projection is not definable for a financial liability and therefore the effective interest rate cannot be reliably determined, such liability is recorded at the amount due.

s) Accruals and deferred income

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

Accruals include: accruals for costs of services performed for the Group by contractors, which will be recognised in the following periods, and accruals for amounts due to employees (e.g. bonuses, rewards and unused holiday payments).
Accruals and deferred income are stated in the balance sheet under “Other liabilities”.

t) Prepayments and deferred costs

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

u) Provisions

Provisions are liabilities of uncertain timing or amount.

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

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

v) Financial result

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

- Interest income and interest expense

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

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

- Fees and commission income and expense

Fees and commission income is generally recognised on an accruals basis at the moment when the service was performed. Fees and commission income includes one-off amounts charged by the Group for services not related to the internal rate of return on loans and other receivables, as well as amounts charged by the Group for services performed over a period exceeding 3 months, which are recognised on a straight-line basis. Fees and commission expense comprises mainly amounts of commission paid to agents, including loans, that were not states in the effective rate statement because of its immateriality.

Fees and commission income also comprises fees and commission charged on a straight-line basis, received on loans with unspecified repayment terms.

- Foreign exchange result

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

- Other operating income and expense

Other operating income and expense include income and costs not related directly to banking activity. Other operating income mostly includes income from sale or liquidation of non-current assets and assets seized in exchange for debts, recovered bad debts, received compensation, fines and penalties, income from lease/rental of properties and released provisions for amounts in dispute and assets seized in exchange of debts.

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

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

Income from construction services is stated on basis of the stage of its finishing works. The stage of its service performance – shown as percentage – is established depending on the relation of costs already incurred to the planned total cost of service performance.

w) Income tax

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

In calculating taxable income base, the Bank took into account the provisions of the Decree of the Minister of Finance dated 28 March 2003 on the extension of deadlines for payment of corporate income tax advances by banks granting housing loans from Mortgage Fund (Journal of Laws No. 58, item 511).

x) Shareholders' equity

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

- Share capital comprises only the share capital of the holding company and is stated at nominal value, in accordance with Statute and the Register of Entrepreneurs.
- Reserve capital is created according to the Statues of the Group companies, from the appropriation of net profits and from share premium.
- Revaluation reserve comprises the effects of remeasurement of financial assets available for sale and the amount of the deferred tax. In the balance sheet, the revaluation reserve is presented net.
- Other reserves as envisaged by the Statute are created by appropriation of profits.
- Currency translation adjustment includes exchange differences resulting from the translation of the net profit of a foreign operation using the weighted average rate established at the balance sheet date with reference to the average NBP rate.
- General banking risk fund in PKO BP SA is created from profit after taxation according to the Banking Law dated 29 of August 1997. In comparative data in this position also general banking risk fund is included, as described in Note 52.

Shareholders' equity also includes:

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

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

y) Social fund [*Zakładowy Fundusz Świadczeń Socjalnych*]

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

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

3. Principles and objectives relating to financial risk management

The main types of risks arising from the Group's financial instruments include credit risk, interest rate risk, liquidity risk and currency risk. The Group verifies and sets objectives and principles of management of each kind of risk – these principles are shortly discussed below. The holding company also monitors the risk of changes in market prices of all of its financial instruments. The accounting policies of the PKO BP SA Group relating to derivatives were discussed in point 2 under "Principal accounting policies and methods applied by the PKO BP SA Group".
Due to the scale of operations of PKO BP SA in relation to the other companies in the Group, the main risks to which the Group is exposed relate to PKO BP SA. As result the below description relates to the holding company risk.

Credit risk

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

In the process of credit risk management, the Bank and the Group companies follow the following principles:

- each loan transaction requires a comprehensive credit risk assessment using the internal rating or scoring assessment,
- measurement of credit risk of potential or executed loan transactions is performed on a regular basis taking into account changes in external conditions and changes in the financial situation of the borrowers,
- credit risk assessment is subject to additional verification by credit risk assessment forces independent of the business forces,
- credit risk is diversified geographically, by industry, by product and by clients,
- credit decisions may be taken only by authorized persons,
- the Bank and the Group companies hedge against credit risk by creating specific provisions for the impairment of loan exposures.

Concentration of the credit risk

The Banking Law specifies maximum concentration limits for the bank. According to Article 71.1 of the Banking Law, the total value of Bank's exposures together contingent liabilities granted related to one entity or to a group of entities related by capital or management, cannot exceed 20% of the Bank's own funds, if the entity is related to the Bank or 25% of the Bank's own funds, if the entity is not related to the Bank

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

As at 31 December 2005, the exposure of PKO BP SA towards two entities amounted respectively to: PLN 4,502,699 thousand (balance and off balance sheet exposure) and PLN 1,744,825 thousand (balance sheet exposure). According to Article 71.3 of the Banking Law, concentration limits do not apply to these exposures.

The PKO BP SA Group in PLN thousand

a) Concentration of credit risk by borrowers:

As at 31 December 2005

Exposure of the Bank towards 10 biggest borrowers			
No.	**Borrower**	**Total exposure***	**Percentage of the Bank's loan portfolio****
1	Borrower 1	2 408 699	4,94%
2	Borrower 2	1 744 825	3,58%
3	Borrower 3	753 278	1,55%
4	Borrower 4	495 965	1,02%
5	Borrower 5	397 612	0,82%
6	Borrower 6	387 400	0,80%
7	Borrower 7	222 229	0,46%
8	Borrower 8	204 517	0,42%
9	Borrower 9	199 942	0,41%
10	Borrower 10	198 556	0,41%

*Loan exposure includes loans, bought receivables, discounted bills of exchange, realised guarantees and due interest.
**The value of the loan portfolio does not comprise off-balance-sheet and equity exposures.

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

The other exposures resulted from transactions concluded with:

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

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

As at 31 December 2004
(comparative data)

Exposure of the Bank towards 10 biggest borrowers			
No.	**Borrower**	**Total exposure***	**Percentage of the Bank's loan portfolio****
1	Borrower 2	2 504 664	6,09%
2	Borrower 1	1 676 880	4,08%
3	Borrower 3	856 854	2,08%
4	Borrower 5	435 883	1,06%
5	Borrower 4	361 600	0,88%
6	Borrower 6	236 004	0,57%
7	Borrower 8	219 022	0,53%
8	Borrower 11	201 416	0,49%
9	Borrower 10	190 286	0,46%
10	Borrower 12	176 649	0,43%

*Loan exposure includes loans, bought receivables, discounted bills of exchange, realised guarantees and due interest.

**The value of credit portfolio does not comprise off-balance-sheet and equity exposures.

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

The other exposures resulted from transactions concluded with:

- Entities effectively controlled by the Bank – 0.88%

The PKO BP SA Group in PLN thousand

- Local authorities – 2.54%
- Large corporate clients – 3.08%
- Private individuals – 0%.

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

b) Concentration of credit risk by groups

As at 31 December 2005

	Percentage of the Bank's loan portfolio*
Group 1	1,39%
Group 2	1,07%
Group 3	1,04%
Group 4	0,90%
Group 5	0,88%
Total	**5,28%**

Out of the total amount of exposure towards the groups listed above, 46.4% share of the total exposure was valued according to IAS 39. Based on the Bank methodology of establishing the impairment write-offs, all these exposures are not individually impaired. For all of them there is an evidence of collective impairment and an impairment allowance has been determined on a collective basis.

As at 31 December 2004
(comparative data)

Total exposure towards 5 biggest groups that are Bank's clients	Percentage of the Bank's loan portfolio*
Group 1	2,77%
Group 2	1,35%
Group 3	1,14%
Group 4	1,03%
Group 5	0,75%
Total	**7,04%**

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

c) Concentration of credit risk by industry

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

The PKO BP SA Group in PLN thousand

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

Section	Description	Share in loan portfolio	
		31.12.2005	31.12.2004 (comparative data)
D	Manufacturing	18,2%	14,8%
E	Electricity, gas and water supply	10,3%	9,4%
F	Construction	2,6%	2,7%
G	Trade (wholesale and retail), repairs of cars, motorbikes and household and personal goods	11,9%	10,8%
K	Real estate activities, renting, and business-related services	7,8%	7,1%
L	Public administration and national defence, obligatory social security and public health insurance	38,0%	45,4%
	Other exposures	11,2%	9,8%
	Total	**100,0%**	**100,0%**

Market risk

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

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

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

The market risk reporting system, as described in Management Board resolutions, is based on the following reports:
1) daily and weekly – prepared for operational purposes,
2) monthly - considered during the meetings of Assets and Liabilities Management Committee,
3) quarterly - considered during Management Board meetings,
4) half-yearly - considered during Supervisory Board meetings.

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

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

Interest rate risk

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

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

The main tools used in interest rate risk management include:
1) internal procedures for interest rate risk management,
2) limits and thresholds for interest rate risk, and
3) defining allowable transactions for interest rates.

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

Currency risk

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

The Bank adopted the Value at Risk model to measure currency risk. Every day the model is back-tested in order to verify the assumptions used.

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

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

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

Derivative instruments risk

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

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

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

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

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

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

Capital adequacy risk

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

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

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

to banking portfolio, application of price estimation techniques used for the calculation of market results realized on positions classified to trading portfolio.

The Bank calculates capital requirements relating to the following market risks:
1) currency risk for banking and trading books jointly,
2) equity securities price risk for the trading book (general and specific risk),
3) general interest rate risk for the trading book,
4) specific risk related to the prices of debt securities in the trading book,
5) underwriting risk for the trading book,
6) counterparty risk and delivery/settlement risk for the trading book.

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

Price risk of equity securities in the trading portfolio

The objective of equity securities price risk management is to shape the Bank's balance sheet structure to ensure the adequacy of the Bank's price profile to the nature of its business activities and to reduce the impact of unfavourable changes in share prices on the Bank's financial result.
Limits for equity price risk are set separately for particular sub-portfolios of the trading book. The values that are subject to limits are open positions, daily losses and sensibility of option transactions.

Liquidity risk

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

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

The Bank uses the following tools for liquidity risk measurement:

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

The main liquidity risk management tools used by the Group include:

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

To ensure adequate liquidity level in the Bank and other entities of the PKO BP SA Group, the Bank sets limits and thresholds for liquidity risk. The limits and thresholds are used to measure both the current liquidity (to 1 month) and the medium and long-term liquidity.

The PKO BP SA Group in PLN thousand

31 December 2005

Interest rate risk*

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

	31.12.2005
Bank – Debt securities	21 797 873
Bank – Loans based on fixed interest rate	572 690
Bank – Deposits from customers based on fixed interest rate	(16 123 514)
Bank – Inter-bank and negotiable deposits	(14 029 005)
Bank – Inter-bank and negotiable receivables	12 730 534
Group Entities – Assets	978 413
Group Entities – Liabilities	1 000 247
TOTAL	**6 927 238**

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

	31.12.2005
Bank – Loans based on variable interest rate	48 007 343
Bank – Deposits from customers based on variable interest rate	(46 318 895)
Group Entities – Assets	978 413
Group Entities – Liabilities	1 000 247
TOTAL	**3 667 108**

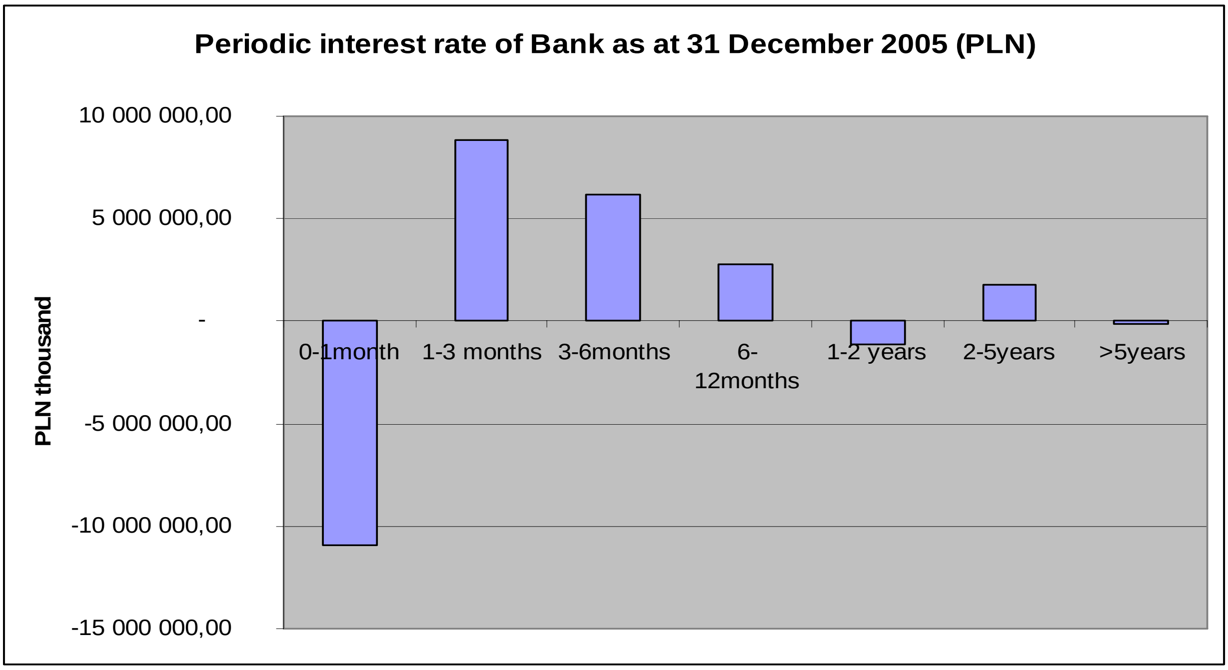
Off- balance sheet transactions – fair value[1]

	31.12.2005
Bank – Derivatives	(126 795)

PLN Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1- 2years	2– 5 years	> 5years	Total
Bank - Periodic gap	(10 910 303)	8 810 966	6 163 358	2 740 066	(1 100 302)	1 812 781	(115 177)	7 401 388
Bank – Cumulative gap	(10 910 303)	(2 099 337)	4 064 021	6 804 087	5 703 784	7 516 565	7 401 388	x
Group Entities - Periodic gap	374 043	(466 692)	98 517	12 290	-	-	653	18 810
Group Entities - Cumulative gap	374 043	(92 649)	5 867	18 157	18 157	18 157	18 810	x
TOTAL - Periodic gap	(10 536 260)	8 344 273	6 261 875	2 752 356	(1 100 302)	1 812 781	(114 525)	7 420 198
TOTAL - Cumulative gap	(10 536 260)	(2 191 987)	4 069 888	6 822 244	5 721 942	7 534 723	7 420 198	x

* - Values under the interest risk model applied in the Group
[1] Including all currencies.

The PKO BP SA Group in PLN thousand



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

USD Repricing Gap (in USD ths.)	**0-1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1- 2years**	**2– 5 years**	**> 5years**	**Total**
Bank – Periodic Gap	(579 563)	85 884	201 295	249 475	-	-	10 402	(32 507)
Bank – Cumulative Gap	(579 563)	(493 679)	(292 384)	(42 909)	(42 909)	(42 909)	(32 507)	x
Group Entities – Periodic Gap	(20 383)	(46 321)	(5 859)	7 325	70 369	-	-	5 132
Group Entities – Cumulative Gap	(20 383)	(66 704)	(72 563)	(65 238)	5 132	5 132	5 132	x
TOTAL - Periodic gap	(599 946)	39 563	195 436	256 800	70 369	-	10 402	(27 375)
TOTAL - Cumulative gap	(599 946)	(560 383)	(364 947)	(108 147)	(37 778)	(37 778)	(27 375)	x

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

EUR Repricing Gap (in EUR thousand)	0-1 month	1-3 months	3-6 months	6-12 months	1-2years	2– 5 years	> 5years	Total
Bank – Periodic Gap	(339 915)	399 937	(14 350)	(28 312)	-	65	3 818	21 243
Bank – Cumulative Gap	(339 915)	60 022	45 672	17 359	17 359	17 425	21 243	X
Group Entities – Periodic Gap	14 483	(14 961)	(2 929)	(4 190)	13 596	-	-	5 998
Group Entities – Cumulative Gap	14 483	(478)	(3 407)	(7 597)	5 998	5 998	5 998	X
TOTAL - Periodic gap	(325 432)	384 976	(17 280)	(32 502)	13 596	65	3 818	27 241
TOTAL - Cumulative gap	(325 432)	59 544	42 264	9 762	23 358	23 423	27 241	X

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

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

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

The Group's interest rate risk exposure did not exceed approved limits. The Bank was mainly exposed to the PLN interest rate risk, which constituted ca. 73% of the Bank's Value at Risk (VaR).

The interest rate risk in the Bank was on a low level. As at 31 of December 2005, the interest rate VaR for the holding period of 10 days amounted to PLN 27,164 thousand, which constituted ca. 0.45% of Bank's own funds. The interest rate risk was generated mainly by the risk of assets and liabilities repricing mismatch.

The PKO BP SA Group in PLN thousand

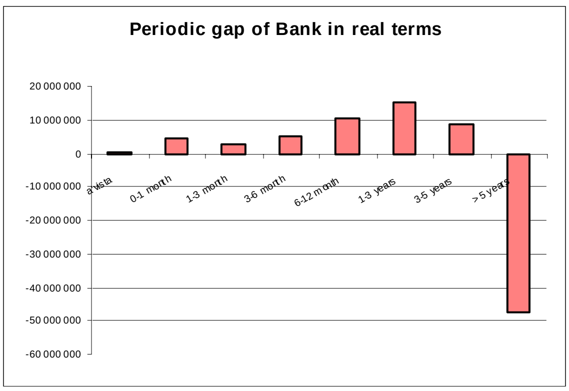
Effective interest rate (for Bank)

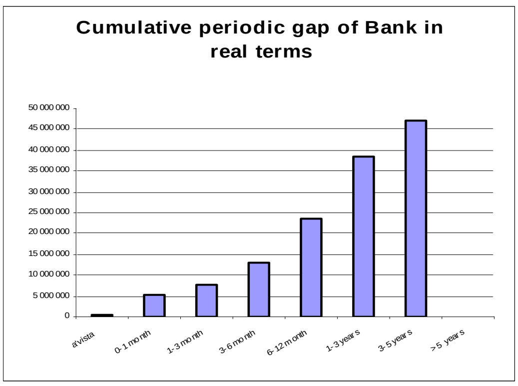
Loans	PLN	EUR	USD	GBP	CHF
Total	**8.34**	**5.63**	**7.13**	**0.00**	**3.67**
Housing loans	6.62	6.22	7.42	0.00	4.37
Economic loans	2.81	1.61	1.78	0.00	3.06
Consumption loans	13.43	10.51	12.96	0.00	9.45
Loans for small and medium enterprises	4.38	1.64	2.05	0.00	3.79
Inter-bank deposits	4.51	2.32	4.26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

Deposits	PLN	EUR	USD	GBP	CHF
Total	**2.36**	**1.16**	**1.41**	**1.20**	**0.26**
Individuals' deposits	2.19	0.99	1.05	0.93	0.16
Small and medium enterprises' deposits	3.01	1.67	3.81	3.33	0.73
Individuals' current deposits	0.25	1.30	0.15	0.15	0.10
Individuals' term deposits	2.99	1.29	1.42	1.60	0.23
IKE investment deposits	4.32	0.00	0.00	0.00	0.00
Economical entities' investment deposits	2.90	1.54	3.85	3.33	0.73
Inter-bank s' deposits	4.64	2.41	4.26	-	-

Liquidity risk of the Group

Liquidity gap	a'vista	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years
Bank - Periodic gap	432 997	4 700 737	2 787 318	4 876 571	10 659 508	15 083 781	8 736 540	(47 277 452)
Bank - Cumulative periodic gap	432 997	5 133 734	7 921 052	12 797 623	23 457 131	38 540 912	47 277 452	-
Group Entities – periodic gap	(118 517)	453 596	(57 363)	(102 000)	(59 188)	187 517	(226 307)	(77 739)
Group Entities – cumulative periodic gap	(118 517)	335 080	277 717	175 717	116 529	304 047	77 739	-
TOTAL - Periodic gap	314 480	5 154 333	2 729 955	4 774 572	10 600 320	15 271 299	8 510 232	(47 355 192)
TOTAL – cumulative periodic gap	314 480	5 468 814	8 198 769	12 973 340	23 573 661	38 844 959	47 355 192	-





In all time horizons the cumulative[2] liquidity gap of the PKO BP SA Group was positive. This indicates a surplus of assets receivable over liabilities payable.

[2] Liquidity gap of PKO BP SA Group in real terms calculated as a sum of PKO BP SA liquidity gap in real terms and contractual liquidity gaps of other entities comprising PKO BP SA Group

The PKO BP SA Group in PLN thousand

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

Balance sheet items	Up to 1 month	1 – 3 months	3 months - 1 year	1 - 5 years	Over 5 years	With no maturity stated	Impairment allowances	Total
Assets:								
Cash and balances with the Central Bank	3 895 331	-	-	-	-	-	-	**3 895 331**
Amounts due from banks	6 074 017	1 447 883	5 019 131	76 651	47 391	-	(1 778)	**12 663 295**
Financial assets held for trading	28 243	81 323	88 700	633 304	18 351	1 082	-	**851 003**
Other financial instruments at fair value through profit or loss	2 024 230	1 030 895	5 106 340	7 318 301	4 579 917	-	-	**20 059 683**
Amounts due from customers	9 631 708	1 556 880	6 658 047	16 222 258	15 758 402	35 075	(2 987 741)	**46 874 629**
Securities available for sale	191 278	269 636	134 147	1 063 208	263 329	679	(40 899)	**1 881 378**
Securities held to maturity	-	-	-	-	-	-	-	**-**
Other	153 175	92 799	97 163	82 690	75 214	5 064 595	(177 774	**5 387 862**
Total assets:	**22 997 982**	**4 479 416**	**17 103 528**	**25 396 412**	**20 742 604**	**5 101 431**	**(3 208 192)**	**91 613 181**
Liabilities:								
Amounts due to the Central Bank	766	-	-	-	-	-	-	**766**
Amounts due to banks	1 113 284	516 521	206 610	246 880	51	-	-	**2 083 346**
Amounts due to customers	46 552 717	12 951 568	15 730 170	1 468 366	44 742	-	-	**76 747 563**
Liabilities arising from debt securities issued	-	9 891	58 579	-	-	-	-	**68 470**
Other liabilities	612 920	543 288	436 939	173 963	437 632	1 736 304	-	**3 938 046**
Total liabilities:	**48 279 687**	**14 021 268**	**16 429 298**	**1 889 209**	**482 425**	**1 736 304**	-	**82 838 191**
Equity:	-	-	-	-	-	8 774 990	-	**8 774 990**
Total	**48 279 687**	**14 021 268**	**16 429 298**	**1 889 209**	**482 425**	**10 511 294**	-	**91 613 181**

Liquidity gap	**(26 281 705)**	**(9 541 852)**	**674 230**	**23 507 203**	**20 260 179**	**(5 409 863)**	**(3 208 192)**	**-**

The PKO BP SA Group in PLN thousand

Currency risk

In 2005, currency risk remained at a low level. The tables below present currency exposure broken by separate types of assets, liabilities and off-balance sheet liabilities.

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

The PKO BP SA Group in PLN thousand

31 December 2004

(comparative data)

Interest rate risk*

Financial assets and financial liabilities with interest rate risk of fair value[3]

	31.12.2004 (comparative data)
Bank – debt securities	24 193 205
Bank – Loans with fixed interest rate	442 935
Bank – Customers' deposits with fixed interest rate	(13 471 593)
Bank – Inter-bank and negotiable deposits	(15 011 284)
Bank – Inter-bank and negotiable investment deposits	12 969 101
Group entities – Assets	16 646
Group entities – Liabilities	(474 822)
Total	**8 664 188**

Financial assets and liabilities with the cash-flow risk connected with the interest rate[3]

	31.12.2004 (comparative data)
Bank – Loans with variable interest rate	33 156 888
Bank – customers' deposits with variable interest rate	(37 754 237)
Group entities – Assets	1 229 392
Group entities – Liabilities	(855 871)
Total	**(4 223 828)**

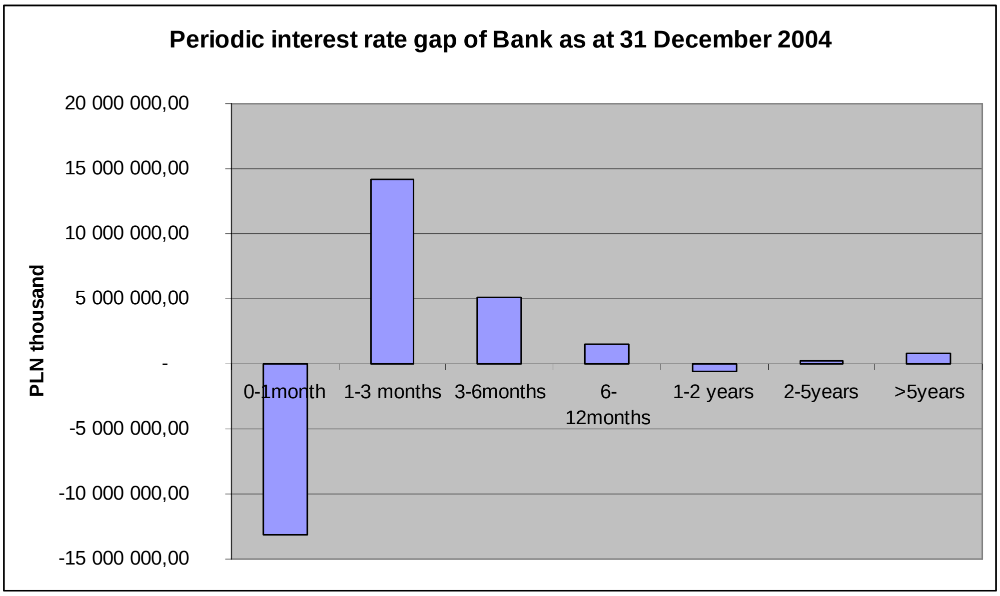
Off-balance-sheet transactions – fair value[3]

	31.12.2004 **(comparative data)**
Bank – derivatives	546 912

PLN repricing gap	**0-1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**>5 years**	**Total**
Bank - Periodic gap	(13 152 116)	14 231 609	5 100 638	1 538 575	(570 148)	281 493	858 696	8 288 747
Bank – Cumulative gap	(13 152 116)	1 079 492	6 180 130	7 718 706	7 148 558	7 430 051	8 288 746	X
Group Entities – periodic gap	61 575	(42 021)	9 340	36 059	32 113	8 114	(61 922)	43 258
Group Entities – cumulative periodic gap	61 575	19 554	28 894	64 953	97 066	105 180	43 258	X
TOTAL - Periodic gap	**(13 090 541)**	**14 189 588**	**5 109 978**	**1 574 634**	**(538 035)**	**289 607**	**796 774**	**8 332 005**
TOTAL – cumulative periodic gap	**(13 090 541)**	**1 099 047**	**6 209 024**	**7 783 659**	**7 245 624**	**7 535 231**	**8 332 005**	**X**

[3] Including all currencies.
* Values included in the interest rate risk model in the Group

The PKO BP SA Group in PLN thousand



At the end of 2004, the PKO BP SA Group had a negative cumulative PLN gap (in the positions sensitive to the interest rate risk, the surplus of liabilities over assets) in a time horizon up to 1 month and a positive cumulative gap for longer horizons. At the end of 2004, the exposure of the PKO BP SA Group to interest rate risk mainly consisted of the Bank's exposure. The PLN interest rate risk generated by the other Group companies had no significant influence on the interest rate risk of the whole Group and therefore it did not affect its risk profile.

USD Repricing gap	**0-1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**>5 years**	**Total**
Bank - Periodic gap	491	116 765	(13 171)	(86 520)	(128)	(53)	6 262	23 646
Bank – Cumulative gap	491	117 256	104 085	17 565	17 437	17 384	23 646	-
Group Entities – periodic gap	96	(1 578)	(1 580)	(3 784)	(17 740)	(18 464)	575	(42 475)
Group Entities –cumulative periodic gap	96	(1 482)	(3 062)	(6 846)	(24 586)	(43 050)	(42 475)	-
TOTAL - Periodic gap	**587**	**115 187**	**(14 751)**	**(90 304)**	**(17 868)**	**(18 517)**	**6 837**	**(18 829)**
TOTAL – cumulative periodic gap	**587**	**115 774**	**101 023**	**10 719**	**(7 149)**	**(25 666)**	**(18 829)**	-

The exposure of the Group to interest rate risk in USD – due to the USD low exposure of the Bank - consists for the most part of the exposure of the Group's entities. The interest rate risk of the Group's entities decreased the overall USD gap of the Group.

The PKO BP SA Group in PLN thousand

EUR Repricing gap	**0-1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**>5 years**	**Total**
Bank - Periodic gap	112 672	13 879	(55 819)	(40 217)	(30)	(17)	4 039	34 507
Bank – Cumulative gap	112 672	126 551	70 732	30 515	30 485	30 468	34 507	-
Group Entities – periodic gap	3 333	(135)	60	(453)	(122)	(1 985)	27	725
Group Entities – cumulative periodic gap	3 333	3 198	3 258	2 805	2 683	698	725	-
TOTAL - Periodic gap	**116 005**	**13 744**	**(55 759)**	**(40 670)**	**(152)**	**(2 002)**	**4 066**	**35 232**
TOTAL – cumulative periodic gap	**116 005**	**129 749**	**73 990**	**33 320**	**33 168**	**31 166**	**35 232**	**-**

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

CHF repricing gap	**0-1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**>5 years**	**Total**
Bank - Periodic gap	455 895	(465 857)	(2 424)	(1 576)	(6)	(5)	-	(13 973)
Bank – Cumulative gap	455 895	(9 962)	(12 386)	(13 962)	(13 968)	(13 973)	(13 973)	-
Group Entities – periodic gap	1 281	(743)	(677)	(1 735)	(1 702)	(1 075)	1 101	(3 550)
Group Entities – cumulative periodic gap	1 281	538	(139)	(1 874)	(3 576)	(4 651)	(3 550)	-
TOTAL - Periodic gap	**457 176**	**(466 600)**	**(3 101)**	**(3 311)**	**(1 708)**	**(1 080)**	**1 101**	**(17 523)**
TOTAL – cumulative periodic gap	**457 176**	**(9 424)**	**(12 525)**	**(15 836)**	**(17 544)**	**(18 624)**	**(17 523)**	**-**

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

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

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

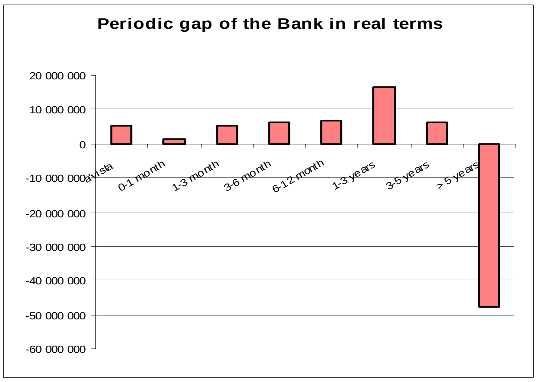
Effective interest rate

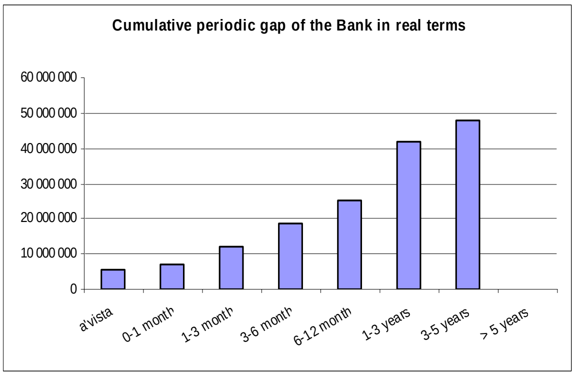
In 2004 Bank did not use the effective interest rate in establishing the result from assets and liabilities.

The PKO BP SA Group in PLN thousand

Liquidity risk

Liquidity gap	**A'vista**	**0-1 month**	**1-3 months**	**3-6 months**	**6-12 months**	**1-2 years**	**2-5 years**	**>5 years**
Bank - Periodic gap	5 439 369	1 429 331	5 353 529	6 258 913	6 890 575	16 354 387	6 035 309	(47 761 413)
Bank – Cumulative gap	5 439 369	6 868 700	12 222 229	18 481 142	25 371 717	41 726 104	47 761 413	-
Group Entities – periodic gap	(243 108)	(44 664)	16 770	33 737	50 923	57 808	(32 321)	160 855
Group Entities – cumulative periodic gap	(243 108)	(287 772)	(271 002)	(237 265)	(186 342)	(128 534)	(160 855)	-
TOTAL - Periodic gap	**5 196 261**	**1 384 667**	**5 370 299**	**6 292 650**	**6 941 498**	**16 412 195**	**6 002 988**	(47 600 558)
TOTAL –cumulative periodic gap	**5 196 261**	**6 580 928**	**11 951 227**	**18 243 877**	**25 185 375**	**41 597 570**	**47 600 558**	**-**





In all time horizons the cumulative[4] liquidity gap of the PKO BP SA Group was positive. This indicates a surplus of assets receivable over liabilities payable.

4 Liquidity gap of PKO BP SA Group in real terms calculated as a sum of PKO BP SA liquidity gap in real terms and contractual liquidity gaps of other entities comprising PKO BP SA Group

The PKO BP SA Group in PLN thousand

Assets and liabilities of the Bank as at 31 December 2004, by maturities (comparative data)

Balance sheet items	Up to 1 month	1 - 3 months	3 months - 1 year	1 -5 years	Over 5 years	With no maturity stated	Impairment allowances	Total
Assets:								
Cash and balances with the Central Bank	3 525 329	-	-	-	-	-	-	**3 525 329**
Amounts due from banks	6 802 825	3 640 463	2 790 844	-	-	-	(2 185)	**13 231 947**
Financial assets held for trading	259	84 517	93 592	181 460	4 675	5 014	-	**369 517**
Other financial instruments at fair value through profit or loss	-	-	-	-	-	-	-	**-**
Amounts due from customers	8 593 292	1 308 584	6 357 067	14 210 588	12 254 212	-	(2 686 539)	**40 037 204**
Securities available for sale	1 603 366	1 939 171	4 277 530	8 868 461	4 496 726	417 842	(38 185)	**21 564 911**
Securities held to maturity	-	124 080	1 768 937	-	-	-	-	**1 893 017**
Other	885 294	1 051	6 097	16 697	-	4 639 455	(216 154)	**5 332 440**
Total assets:	**21 410 365**	**7 097 866**	**15 294 067**	**23 277 206**	**16 755 613**	**5 062 311**	**(2 943 063)**	**85 954 365**
Liabilities :								**-**
Amounts due to the Central Bank	144	-	-	-	-	-	-	**144**
Amounts due to banks	519 794	21 111	281 487	158 314	18 012	-	-	**998 718**
Amounts due to customers	41 749 302	11 250 864	18 459 536	1 580 185	51 987	-	-	**73 091 874**
Liabilities arising from debt securities issued	-	-	21 076	-	-	-	-	**21 076**
Other liabilities	1 232 004	838	115 316	335 983	216 834	1 083 626	-	**2 984 401**
Total liabilities:	**43 501 244**	**11 272 813**	**18 877 415**	**2 074 482**	**286 833**	**1 083 626**	**-**	**77 096 413**
Equity :	-	-	-	-	-	**8 857 952**	-	**8 857 952**
Total:	**43 501 244**	**11 272 813**	**18 877 415**	**2 074 482**	**286 833**	**9 941 578**	-	**85 954 365**
								-
Liquidity gap	**(22 090 879)**	**(4 174 947)**	**(3 583 348)**	**21 202 724**	**16 468 780**	**(4 879 267)**	**(2 943 063)**	**-**

The PKO BP SA Group in PLN thousand

Currency risk

	Currency expressed in PLN – 31.12.2004 (comparative data)				
ASSSETS, of which:	**PLN**	**EUR**	**CHF**	**Other**	**Total**
Cash and balances with the Central Bank	3 281 324	113 332	7 887	122 786	**3 525 329**
Loans and other amounts due from the financial sector	4 792 285	402 628	189 025	8 130 139	**13 514 077**
Loans to non-financial sector	27 779 939	2 694 446	3 107 601	1 247 954	**34 829 940**
Loans to public sector	7 584 307	23 237	136	6 178	**7 613 858**
Securities	23 102 815	355 874	-	406 941	**23 865 630**
Non-current assets	6 649 874	-	-	83 673	**6 733 547**
Other assets and derivatives	1 078 919	33 440	40 886	987 087	**2 140 332**
TOTAL (GROSS) ASSETS	74 269 463	3 622 957	3 345 535	10 984 758	**92 222 713**
DEPRECIATION/ IMPAIRMENT	(6 110 979)	(74 530)	(6 051)	(76 788)	**(6 268 348)**
TOTAL (NET) ASSETS	68 158 484	3 548 427	3 339 484	10 907 970	**85 954 365**
LIABILITIES, of which:					
Balances with the Central Bank	144	-	-	-	**144**
Amounts due to financial sector	517 886	199 375	32 236	378 232	**1 127 729**
Amounts due to non-financial sector	62 095 674	2 355 672	48 455	3 093 523	**67 593 324**
Amounts due to public sector	5 347 592	20 497	-	1 450	**5 369 539**
Liabilities arising from securities issued	21 076	-	-	-	**21 076**
Provisions	208 378	315	-	80	**208 773**
Other liabilities and derivatives and deferred tax liability	2 708 125	40 037	151	27 515	**2 775 628**
Equity	8 849 898	-	-	8 054	**8 858 152**
TOTAL LIABILITIES	**79 748 773**	**2 615 896**	**80 842**	**3 508 854**	**85 954 365**
OFF-BALANCE SHEET LIABILITIES GRANTED	**13 253 037**	**394 402**	**448 425**	**1 807 025**	**15 902 889**

The PKO BP SA Group in PLN thousand

Exposure to the risk

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

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

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

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

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

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

Credit and market risk as at 31 December 2005:

Balance sheet instruments		
Instrument type	**Carrying amount**	**Risk weighted value**
Cash	1 267 006	-
Receivables	59 537 924	36 001 229
Debt securities	20 428 876	157 549
Other securities, shares	217 680	28 231
Non-current assets	3 332 321	2 6423 551
Other	4 499 807	3 007 179
Total banking portfolio	**89 283 614**	**41 837 739**
Debt securities	2 327 379	855 570
Reverse repo transactions	2 188	2 188
Total trading portfolio	**2 329 567**	**857 758**
Total balance sheet instruments	**91 613 181**	**42 695 497**

The PKO BP SA Group in PLN thousand

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

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

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

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

The PKO BP SA Group in PLN thousand

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

Balance-sheet instruments		
Instrument type	**Carrying amount**	**Risk weighted value**
Cash	1 238 461	-
Receivables	53 269 142	29 188 874
Debt securities	22 654 992	21 021
Other securities, shares	550 724	373 085
Non-current assets	3 152 771	2 651 825
Other	3 550 053	2 019 005
Total banking portfolio	**84 416 152**	**34 253 810**
Debt securities	1 533 199	651 887
Reverse repo transactions	5 014	5 014
Total trading portfolio	**1 538 213**	**656 901**
Total balance sheet instruments	**85 954 365**	**34 910 711**

Off-balance-sheet instruments			
Instrument type	**Replacement cost**	**Credit equivalent**	**Risk weighted value**
Derivatives			
Interest rate instruments:	*68 605 182*	*464 006*	*92 802*
FRA	23 670 000	47 725	9 545
IRS	44 935 182	416 281	83 257
Foreign currency instruments:	*12 278 404*	*421 787*	*84 510*
Currency forwards	87 062	871	267
Forwards – embedded derivatives	10 029	201	100
Swaps	9 054 509	222 247	44 449
CIRS	498	5	1
FX futures	3 120 350	198 118	39 624
Options (delta equivalent – purchase of options)	5 956	345	69
Other instruments:	*1 291 222*	*129 122*	*25 824*
SBB	1 291 222	129 122	25 824
Other	-	-	-
Total derivatives	**82 174 808**	**1 014 915**	**203 136**
of which: banking portfolio	29 158 026	758 071	151 674
trading portfolio	53 016 782	256 843	51 462

Other off-balance-sheet instruments – banking and trading portfolio			
Instrument type	**Off-balance sheet value**	**Credit equivalent**	**Risk weighted value**
Lines of credit	16 496 728	1 166 465	802 593
Guarantees issued	214 330	156 358	155 606
Letters of credit	31 308	15 583	15 583
Other	3 602 239	714 341	164 626
Total banking portfolio	**20 344 605**	**2 052 747**	**1 138 408**
underwriting guarantees	275 147	142 017	115 391
Total trading portfolio	**275 147**	**142 017**	**115 391**

	Carrying amount and off-balance-sheet value	**Risk weighted value**	**Capital requirement**
Total banking portfolio (credit risk)	**133 918 783**	**35 543 892**	**2 843 511**

The PKO BP SA Group in PLN thousand

Capital requirements for trading portfolio (Market risk)	
Market risk	**70 245**
of which:	
Currency risk	3 294
Commodity price risk	-
Securities price risk	772
Debt instruments specific risk	50 506
Interest rate general risk	15 673
Other:	
Settlement risk – delivery and contractor	4 489
Underwriting risk	1 913
Other	-
Total capital requirement	**2 920 158**

Credit and market risk were calculated according to the Resolution No. 4/2004 of the Commission for Banking Supervision dated 8 August 2004, with subsequent amendments.

4. Objectives and principles of operational risk management

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

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

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

In 2005 KREDOBANK SA prepared in cooperation with the Bank the procedures regarding the operational risk management, which become effective as of 1 January 2006. The purpose and methods for operational risk management at KREDOBANK SA are compliant with those of the Bank. The organization of operational risk management function is tailored to the specific needs of KREDOBANK SA.

Currently, BFL is in the process of organization of an operational risk management system. The company created a separate organisational entity, the purpose of which is to coordinate the development of internal regulations regarding the functioning of individual entities and organisational units of the company.

The PKO BP SA Group in PLN thousand

5. Fair value of financial assets and liabilities

The table below presents the fair values of balance-sheet financial instruments, which have not been valued at fair value at the balance sheet date. The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Since for many financial instruments there is no available market value, the presented fair values have been estimated on the basis of various valuation methods, including estimation of the present value of future cash flows.

The market quotations applied for valuation of securities held to maturity do not include any potential adjustments resulting from a limited market liquidity or transaction costs.

For certain categories of financial assets valued at the amount due with an allowance for impairment losses, it has been assumed that their fair value equals their carrying amount. This applies, in particular, to cash and cash equivalents, current receivables from and liabilities to customers, as well as other assets and liabilities. Majority of placements on the inter-bank market are short-term placements. The share of fixed interest rate loans and customer deposits in total loans and total deposits is immaterial. Majority of such loans and deposits are of short-term nature.

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

As at 31 December 2005

ASSETS, of which:	**Carrying amount**	**Fair value**
Cash and balances with the Central Bank	3 895 331	3 895 333
Amounts due from banks	12 663 295	12 919 384
Financial assets held for trading	851 003	851 003
Derivative financial instruments	1 337 227	1 337 227
Other financial instruments at fair value through profit or loss	20 059 683	20 059 683
Amounts due from customers	46 874 629	46 874 629
Investment securities	1 881 378	1 881 378
Available for sale	1 881 378	1 881 378
Held to maturity	-	-
Investments in associate and joint-venture entities	183 345	183 345
LIABILITIES, of which:		
Amounts due to the Central Bank	766	766
Amounts due to other banks	2 083 346	2 083 346
Derivative financial instruments	1 257 384	1 257 384
Amounts due to customers	76 747 563	76 747 563
Liabilities arising from debt securities issued	68 470	68 470

The PKO BP SA Group in PLN thousand

As at 31 December 2004
(comparative data)

ASSETS, of which:	**Carrying amount**	**Fair value**
Cash and balances with the Central Bank	3 525 329	3 525 329
Amounts due from banks	13 231947	13 121 108
Financial assets held for trading	369 517	369 517
Derivative financial instruments	1 362 379	1 362 379
Amounts due from customers	40 037 265	40 037 265
Investment securities	23 457 928	23 448 673
Availble for sale	21 564 911	21 564 911
Held to maturity	1 893 017	1 883 762
Investments in associate and joint venture entities	156 815	156 815
LIABILITIES, of which:		
Amounts due to the Central Bank	144	144
Amounts due to other banks	998 718	998 718
Derivative financial instruments	793 739	793 739
Amounts due to customers	73 091 874	73 091 874
Liabilities arising from debt securities issued	21 076	21 076

6. Custodial activities

The Bank is a direct participant of the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych). As at 31 December 2005, the Bank kept 10,769 securities accounts (as at 31 December 2004 – 1 securities account opened by an individual). The Bank also services customer investments accounts on foreign markets using depositary services of the State Street Bank GmbH.

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

7. Assets' securitisation

On 7 October 2005 an agreement on sales of retail receivables to the securitization fund was signed. About 73,000 retail receivables (debit balances, cash credits, renewable credits, non-cash credits given for the purchase of materials, non-cash credits for the purchase of motor vehicles, housing credits) have been sold to the securitization fund for the total value (capital, interest, costs) of about 660,000 thousand zlotys. The sold receivables have been stated both in the balance and in off-balance records.

According to the signed agreement, the selling price of the receivables – being some percentage of the sold portfolio – has been accounted for the payment of individual items of the receivables (costs, interest repayment, capital repayment).

On 20 October 2005 payment for the sold receivables portfolio has been sent to the PKO BP SA account. According to the agreed rules of clearing accounts of the price of the sold receivables portfolio, the amount of 47,710 thousand Zlotys has been assigned to the capital repayment (concerning the balance-sheet receivables).

Bank did not receive the securities due to this transaction.

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

8. Segment reporting

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 holding company with large corporate clients (in 2004 it included as well small and medium sized enterprises).
- Retail Segment includes transactions of the holding company with private individuals and starting 2005 also small and medium enterprises and individuals.
- Treasury Segment includes inter-bank transactions, transactions made using derivative instruments and debt securities.
- Investments Segment includes brokerage and investing activities of the holding company.
- Housing Segment includes transactions of the holding company connected with granting housing loans and accepting housing deposits.

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

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

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

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

The financial data for the year ended 31 December 2004 are not fully comparative due to the use by the Group of following exemptions allowed under IFRS 1, related mainly to the use of effective interest rate and calculation of impairment allowances.

The tables below present segment revenue and segment profit for the years ended 31 December 2005 and 31 December 2004, as well as selected segment assets and segment liabilities as at 31 December 2005 and 31 December 2004.

The PKO BP SA Group in PLN thousand

	Continued activities					
Year ended 31 December 2005	**Corporate Segment**	**Retail Segment**	**Treasury Segment**	**Investment Segment**	**Housing Segment**	**All activities**
Revenue						
External customer -related revenues	1 154 574	3 290 227	2 017 196	446 675	1 339 828	8 248 500
Inter-segment sales	-	42 207	-	285	-	42 492
Total segment revenue	1 154 574	3 332 434	2 017 196	446 960	1 339 828	**8 290 992**
Result						
Segment result	149 463	787 913	270 913	325 922	27 339	**1 561 550**
Unallocated result together with the result of unseparated segments.	-	-	-	-	-	213 931
Difference between FX Swap and CIRS results (swap points) reported in B/S and management accounts	-	-	-	-	-	368 033
Result from the continued activities before taxation	-	-	-	-	-	2 143 514
Share in the results of associates	-	-	-	-	-	22 531
Result before taxation and minority interest	-	-	-	-	-	2 167 045
Income tax (tax expense)	-	-	-	-	-	(411 424)
Profit/ (loss) of minority shareholders	-	-	-	-	-	(20 801)
Net profit for the year	-	-	-	-	-	**1 734 820**
Assets and equity and liabilities as at 31 December 2005						
Segment assets	14 517 929	13 503 141	33 710 060	1 989 377	19 395 940	83 116 447
Investments in associates and jointly controlled entities	-	-	-	184 345	-	184 345
Unallocated assets	-	-	-	-	-	8 312 389
Total assets	-	-	-	-	-	91 613 181
Segment liabilities and equity	9 092 918	59 381 919	2 177 388	469 689	8 863 733	79 985 647
Unallocated liabilities and equity	-	-	-	-	-	11 627 534
Total liabilities and equity	-	-	-	-	-	91 613 181

Other segment information						
Impairment allowances*	10 271	62 812	-	-	(23 000)	50 083
Capex expenditure on tangible and intangible fixed assets	-	-	-	-	-	600 596
Depreciation of tangible and amortisation of intangible fixed assets	-	-	-	-	-	466 540
Other non-cash expenditure	-	-	-	-	-	-

* item does not include impairment allowances of unseparated segments

Due to the fact that it is not possible to restate data for the year of 2004 in order to compare it with data for 2005 (division into Corporate and Retail Segments), the following tables present amounts relating to the year of 2005, which are comparative with those regarding the year of 2004.

The PKO BP SA Group in PLN thousand

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The only binding version is the original Polish version

	Continued activities					
Year ended 31 December 2005	**Corporate Segment**	**Retail Segment**	**Treasury Segment**	**Investment Segment**	**Housing Segment**	**All activities**
Revenue						
External customer -related revenues	1 689 571	2 755 230	2 017 196	446 675	1 339 828	**8 248 500**
Inter-segment sales	-	42 207	-	285	-	**42 492**
Total segment revenue	1 689 571	2 797 437	2 017 196	446 960	1 339 828	**8 290 992**
Result						
Segment result	(139 256)	1 076 632	270 913	325 922	27 339	**1 561 550**
Unallocated result together with the result of unseparated segments.	-	-	-	-	-	**213 931**
Difference between Fx Swap and CIRS results (swap points) reported in B/S and management accounts	-	-	-	-	-	**368 033**
Result from the continued activities before taxation	-	-	-	-	-	**2 143 514**
Share in the results of associates	-	-	-	-	-	**23 531**
Result before taxation and minority interest	-	-	-	-	-	**2 167 045**
Income tax (tax expense)	-	-	-	-	-	**(411 424)**
Profit/ (loss) of minority shareholders	-	-	-	-	-	**(20 801)**
Net profit for the year	-	-	-	-	-	**1 734 820**
Assets and equity and liabilities as at 31 December 2005						
Segment assets	17 429 805	10 591 265	33 710 060	1 989 377	19 395 940	**83 116 447**
Investments in associates and jointly controlled entities	-	-	-	184 345	-	**183 345**
Unallocated assets	-	-	-	-	-	**8 312 389**
Total assets	-	-	-	-	-	**91 613 181**
Segment liabilities and equity	13 529 086	54 945 751	2 177 388	469 689	8 863 733	**79 985 647**
Unallocated liabilities and equity	-	-	-	-	-	**11 627 534**
Total liabilities and equity	-	-	-	-	-	**91 613 181**

Other segment information						
Impairment allowances*	(6 463)	79 546	-	-	(23 000)	50 083
Capital expenditure on tangible and intangible fixed assets	-	-	-	-	-	600 596
Depreciation of tangible and amortisation of intangible fixed assets	-	-	-	-	-	466 540
Other non-cash expenditure	-	-	-	-	-	-

* item does not include impairment allowances of unseparated segments

The PKO BP SA Group in PLN thousand

	Continued activities					
Year ended 31 December 2004 (comparative data)	**Corporate Segment**	**Retail Segment**	**Treasury Segment**	**Investment Segment**	**Housing Segment**	**All activities**
Revenue						
External customer - related revenues	1 885 217	2 637 430	2 216 863	282 829	1 431 395	8 453 734
Inter-segment sales	-	449	-	-		449
Total segment revenue	1 885 217	2 637 879	2 216 863	282 829	1 431 395	**8 454 183**
Result						
Segment result	65 159	822 994	189 816	68 059	308 192	**1 454 220**
Unallocated result together with the result of unseparated segments.	-	-	-	-	-	184 322
Difference between Fx Swap and CIRS results (swap points) reported in B/S and management accounts	-	-	-	-	-	209 348
Result from the continued activities before taxation	-	-	-	-	-	1 847 890
Share in the results of associates	-	-	-	-	-	21 925
Result before taxation and minority interest	-	-	-	-	-	1 869 815
Income tax (tax expense)	-	-	-	-	-	(361 523)
Profit/ (loss) of minority shareholders	-	-	-	-	-	(1 587)
Net profit for the year	-	-	-	-	-	**1 506 705**
Segment assets	14 961 394	8 605 283	35 893 554	1 385 508	16 127 584	76 973 323
Investments in associates and jointly controlled entities	-	-	-	156 815	-	156 815
Unallocated assets	-	-	-	-	-	8 824 227
Total assets	-	-	-	-	-	85 954 365
Segment liabilities and equity	12 179 440	54 175 322	882 943	269 569	7 639 057	75 146 331
Unallocated liabilities and equity	-	-	-	-	-	10 808 034
Total liabilities and equity	-	-	-	-	-	85 954 365

Other segment information						
Impairment losses*	(119 198)	34 867	7 450	42 107	(6 491)	(41 265)
Capital expenditure on tangible and intangible fixed assets	-	-	-	-	-	534 797
Depreciation of tangible and amortisation of intangible fixed assets	-	-	-	-	-	517 506
Other non-cash expenditure	-	-	-	-	-	-

* item does not include impairment allowances of unseparated segments

The PKO BP SA Group in PLN thousand

Segmentation by geographical region

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

The operating activities of the PKO BP S.A. Group, which cover all business segments, are concentrated on the activities in Poland through Bank PKO BP S.A. and subordinated 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 smaller compared to the result of the whole Group.

The tables below present data on revenues, expenditures and certain types of assets of individual geographical segments for the 12 month periods ended 31 December 2005, 31 December 2004 and 31 December 2004.

Year ended 31 December 2005	**Poland**	**Ukraine***	**Total**
Revenues			
Total segment revenues	8 290 992	176 940	8 467 932
Other segment information			
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
Capital expenditure on tangible and intangible fixed assets	587 893	12 703	600 596

Year ended 31 December 2004 (comparative data)	**Poland**	**Ukraine***	**Total**
Revenues			
Total segment revenues	8 454 183	49 368	8 503 551
Other segment information			
Segment assets	85 149 499	648 051	85 797 550
Unallocated assets	-	-	-
Investments in associates	156 815	-	156 815
Total assets	85 306 314	648 051	85 954 365
Capital expenditure on tangible and intangible fixed assets	525 321	9 476	534 797

* in the business segment information, KREDOBANK S.A. is presented under unallocated balancing segments due to not reaching any of the thresholds set forth in IAS 14.

9. Interest income and expenses

Interest income

	01.01 – 31.12.2005	**01.01 – 31.12.2004 (comparative data)**
Income from credits and loans granted to customers	3 573 404	3 067 934
Income from placements with other banks	601 248	423 171
Income from investment securities	139 506	326 073
Income from other placements on the monetary market	-	-
Other	1 347 854	1 493 297
Income from securities at fair value through profit or loss	1 256 445	1 398 947
From trading securities	23 418	28 388
Other	67 991	65 962
Total	**5 662 012**	**5 310 475**

The PKO BP SA Group in PLN thousand

Interest expenses

	01.01 – 31.12.2005	01.01 – 31.12.2004 (comparative data)
Relating to amounts due to customers	(1 924 327)	(1 616 676)
Relating to placements with other banks	(71 969)	(53 905)
Relating to other placements on the monetary market	-	-
Relating to own issue of debt securities	(4 265)	(42)
Other*	(116 976)	(127 119)
Total	**(2 117 537)**	**(1 797 742)**

* For comparability purposes, for the year 2004 the Bank presented costs of settled premium on debt securities. The details of this reconciliation are presented in Note 52 – reconciliation of profit and loss account for the year ended 31 December 2004 between PAS and IFRS.

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

10. Fees and commission income and expense

Fees and commission income

	01.01 – 31.12.2005	01.01 – 31.12.2004 (comparative data)
From accounts' servicing	593 520	590 828
From payments cards	342 311	282 659
From credits and loans granted	72 983	478 374
From operations with securities	38 787	25 811
From guarantees, letters of credits and similar operations	28 917	25 098
From acquisition services	-	-
Other	461 061	458 620
From cash transactions	205 438	237 036
Other*	255 623	221 584
Total	**1 537 579**	**1 861 390**

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

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

Fees and commission expense

	01.01 – 31.12.2005	01.01 – 31.12.2004 (comparative data)
Relating to acquisition services	(116 438)	(114 056)
Relating to payment cards	(156 211)	(118 666)
Due to operations with securities	(46)	(9)
Other, of which:	(47 002)	(45 647)
commissions paid to intermediaries	(17 764)	(7 591)
commissions for services of other banks	(9 413)	(7 931)
commissions paid to PPUP	(8 033)	(9 870)
relating to settlement services	(1 439)	(304)
other	(10 353)	(19 951)
Total	**(319 697)**	**(278 378)**

The PKO BP SA Group in PLN thousand

11. Dividend income

	01.01 – 31.12.2005	01.01 – 31.12.2004 (comparative data)
Dividend income from the issuers:		
Securities classified as available for sale	16 087	3 389
Securities classified as held for trading	25	7
Securities at fair value through profit or loss	-	-
Total	**16 112**	**3 396**

12. Result from financial instruments at fair value

Result from financial assets and liabilities at fair value through profit or loss in the 12-month periods ended 31 December 2005 and 31 December 2004

	01.01 – 31.12.2005	01.01 – 31.12.2004 (comparative data)
Debt securities	208 659	19 943
Derivative instruments	(179 796)	(61 445)
Equity instruments	7 009	(427)
Loans and receivables	-	-
Other	(4 166)	(3 746)
Total	**(31 706)**	**(45 675)**

The redesignation of financial instruments classified as available for sale into the financial assets at fair value through profit and loss as of 1 January 2005 was described in Note 52.

1.01.-31.12.2005	Profits	Losses	Net result
Financial assets at fair value through profit or loss	5 057 027	(5 025 321)	31 706
Financial liabilities at fair value through profit orloss	-	-	-
Total	**5 057 027**	**(5 025 321)**	**31 706**

1.01.-31.12.2004	Profits	Losses	Net result
Financial assets at fair value through profit or loss	1 944 460	(1 990 135)	(45 675)
Financial liabilities at fair value through profit or loss	-	-	-
Total	**1 944 460**	**(1 990 135)**	**(45 675)**

Total change in the fair value of financial instruments at fair value through profit or loss determined using valuation models (where no quotations on an active market are available) in the year ended 31 December 2005 was PLN (1,161) thousand (in the year ended 31 December 2004 - PLN 60 thousand).

Changes in fair value in hedge accounting

The PKO BP S.A. Group did not apply hedge accounting in the years ended 31 December 2005 and 31 December 2004.

The PKO BP SA Group in PLN thousand

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

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

	01.01 – 31.12.2005	**01.01 – 31.12.2004** (comparative data)
Realised profits		
Financial assets available for sale	294 506	45 452
Loans and receivables (together with finance lease receivables)	-	-
Investments held to maturity	-	-
Financial liabilities (except for held for trading)	-	-
Other	-	-
Total	**294 506**	**45 452**

	01.01 – 31.12.2005	**01.01 – 31.12.2004** (comparative data)
Realised losses		
Financial assets available for sale	(17 650)	(66 103)
Loans and receivables (together with finance lease receivables)	-	-
Investments held to maturity	-	-
Financial liabilities (except for held for trading)	-	-
Other	-	-
Total	**(17 650)**	**(66 103)**

In the year ended 31 December 2005 gains from financial assets available for sale taken directly to revaluation reserve amounted to PLN (73,490) thousand (in the year ended 31 December 2004 - PLN 233,133 thousand respectively).

Gains from financial assets for the year ended 31 December 2005 taken from equity to profit or loss amounted to PLN 276,856 thousand (in the year ended 31 December 2004 - PLN (20,651) thousand).

14. Foreign exchange result

	01.01 – 31.12.2005	**01.01 – 31.12.2004** (comparative data)
Foreign exchange differences resulting from financial instruments at fair value through profit or loss	201 291	249 707
Other foreign exchange differences	410 810	223 729
Total	**612 101**	**473 436**

The PKO BP SA Group in PLN thousand

15. Other operating income and expenses

	01.01 – 31.12.2005	01.01 – 31.12.2004 (comparative data)
Other operating income		
Net sales of finished goods, goods for resale and raw materials	595 680	348 301
From asset management on behalf of third parties	85 970	86 231
Auxiliary revenues	27 740	30 436
Sale and liquidation of fixed assets and intangible assets	10 781	3 452
Lease instalments	1 165	-
Received compensations, penalties and fines	5 770	8 048
Recovery of overdue, written-off and unrecoverable receivables	33 534	36 209
Other, of which:	115 357	123 152
revenues from reversal of write-downs against other receivables	28 083	17 952
returns of debt collector advances	3 572	4 713
result on the sale of collector coins	2 013	2 325
reversed provisions for future liabilities to employees	-	2 238
Other*	81 689	95 922
Total	**875 997**	**636 281**

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

	01.01 – 31.12.2005	01.01 – 31.12.2004 (comparative data)
Other operating expense		
Cost of finished goods, goods for resale and raw materials sold	(30 127)	(37 142)
Costs of asset management on behalf of third parties	(11 566)	(8 645)
Cost of sale or liquidation of fixed assets, intangible assets and assets earmarked for disposal	(11 848)	(7 539)
Donations	(7 503)	(7 773)
Leases	(9 177)	(1 512)
Compensation, penalties and fines paid	(4 265)	(1 783)
Impairment of overdue, written-off and unrecoverable receivables	(904)	(5 281)
Other, of which:	(34 084)	(114 370)
Impairment write-downs against other receivables	(1 935)	(54 419)
paid debt collector advances	(3 509)	(4 401)
maintenance of property and intangible fixed assets	-	-
result on the sale of collector coins	(69)	(137)
costs due to unexplained cash shortages and damages	(133)	(455)
Other*	(28 438)	(54 958)
Total	**(109 474)**	**(184 045)**

* Other operating expenses include, among others, expenses from credit underpayments and credit agreements not settled, liquidation of current accounts, court charges and fees.

The PKO BP SA Group in PLN thousand

16. General administrative expenses

	01.01 – 31.12.2005	01.01 – 31.12.2004 (comparative data)
Employee benefits	(2 052 735)	(1 942 541)
Non-personnel costs	(1 566 865)	(1 406 398)
Depreciation and amortisation	(466 540)	(517 506)
Taxes and charges	(66 888)	(63 553)
Contribution and payment to Bank Guarantee Fund	(8 023)	(11 769)
Restructuring costs	-	-
Total	**(4 161 051)**	**(3 941 767)**

Remuneration / Employee costs

	01.01 – 31.12.2005	01.01 – 31.12.2004 (comparative data)
Salaries and wages	(1 708 224)	(1 613 484)
Insurance and other employee benefits	(344 511)	(329 057)
Costs of pension funds, of which:	-	-
defined contribution plans	-	-
defined benefit plans	-	-
Costs of share-based payments	-	-
Costs of other retirement benefits	-	-
Total	**(2 052 735)**	**(1 942 541)**

The PKO BP SA Group in PLN thousand

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17. Result on impairment allowances

				Increases			Decreases					
Year ended 31 December 2005	**Impairment allowances as at 31.12.2004 in accordance with PAS**	**Adjustments of impairment due to IAS**	**Impairment allowances at the beginning of the period**	**Impairment losses made during the period**	**Foreign exchange differences**	**Other**	**Decrease in impairment allowances due to de-recognition of assets**	**Reversal of the impairment losses in the period**	**Foreign exchange differences**	**Other**	**Impairment allowances at the end of the period**	**Net impact of created impairment allowances in the profit and loss account**
Impairment of the financial assets not at fair value through profit or loss	2 563 256	640 965	3 204 221	906 355	7 509	34 164	263 062	857 691	1 017	11 225	3 019 2548	(48 664)
Financial instruments valued at cost (unquoted equity instruments and underlying derivative instruments)	27 167	-	27 167	6	4	-	-	11 164	-	11 178	44 835	11 158
Financial assets available for sale valued at fair value through equity	10 398	-	10 398	-	-	15 909	-	1 360	-	47	24 900	1 360
Loans and credits to customers and receivables from banks valued at amortised cost	2 482 379	640 965	3 123 344	895 469	7 505	18 255	263 062	835 707	1 017	-	2 944 787	(59 762)
Finance lease receivables	43 312	-	43 312	10 880	-	-	-	9 460	-	-	44 732	(1 420)

*de-recognition of valuation of shares not admitted to public trading due to their transfer from “Minority shares”, in accordance with the interpretation of the Chief Inspector of Banking Supervision .

The PKO BP SA Group in PLN thousand

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Result on impairment allowances – cont.

Investments held to maturity valued at amortised cost	-	-	-	-	-	-	-	-	-	-	-	-
Impairment of the investments in associates and jointly controlled entities valued using the equity method	57 995	5 405	63 400	6 285	-	-	-	9 170	-	3 500	57 015	2 885
Other**	170 239	-	170 239	175 372	873	2 718	346	60 061	91	99 840	188 864	(115 311)
Total	**2 791 490**	**646 370**	**3 437 860**	**1 088 012**	**8 382**	**36 882**	**263 408**	**926 922**	**1 108**	**114 559**	**3 265 133**	**(161 090)**

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

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

Impairment allowances against loans, and receivables valued at amortised cost, as well as reversal of such write-downs are included in the income statement item “Impairment losses on loans and advances”.

The PKO BP SA Group in PLN thousand

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				Increases			Decreases					
Year ended 31 December 2004 (comparative data)	**Impairment allowances as at 31.12.2004 in accordance with PAS**	**Adjustments of impairment due to IAS**	**Impairment allowances at the beginning of the period**	**Impairment losses made during the period**	**Foreign exchange differences**	**Other**	**Decrease in impairment allowances due to de-recognition of assets**	**Reversal of the impairment losses in the period**	**Foreign exchange differences**	**Other**	**Impairment allowances at the end of the period**	**Net impact of created impairment allowances in the profit and loss account**
Impairment of the financial assets not at fair value through profit or loss			2 626 267	1 066 980	309	225 909	225 647	961 554	605	4 750	2 726 909	(105 426)
Financial instruments valued at cost (unquoted equity instruments and underlying derivative instruments)	800	-	800	1 010	-	26 004*	-	647	-	-	27 167	(363)
Financial assets available for sale valued at fair value through equity	10 971	-	10 971	-	-	47	-	-	-	-	11 018	-
Loans and credits to customers and receivables from banks valued at amortised cost	2 576 889	-	2 576 889	1 041 932	309	199 858	225 647	942 574	605	4 750	2 645 412	(99 358)
Finance lease receivables	37 607	-	37 607	24 038	-	-	-	18 333	-	-	43 312	(5 705)
Investments held to maturity valued at amortised cost	-	-	-	-	-	-	-	-	-	-	-	-
Impairment write-downs:			812	36 507	-	55	1 221	877	-	-	35 276	(35 630)

The PKO BP SA Group in PLN thousand

Tangible fixed assets	812	-	812	36 507	-	-	1 221	877	-	-	35 221	(35 630)
Investments property	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets	-	-		-	-	55	-	-	-	-	55	-
Goodwill	-	-										
Other intangible assets	-	-	-	-	-	55	-	-	-	-	55	-
Impairment of the investments in associates and jointly controlled entities valued using the equity method	44 022	(27 299)	16 723	54 597	-	362	-	8 282	-	-	63 400	(46 315)
Other**	148 818	-	148 818	39 868	-	28 189	6 330	58 209	-	17 373	134 963	18 341
Total	**192 840**	**(27 299)**	**2 792 620**	**1197 952**	**309**	**254 515**	**233 198**	**1 028 922**	**605**	**22 123**	**2 960 548**	**(169 030)**

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

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

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

Impairment allowances against loans and credits, and receivables valued at amortised cost, as well as reversal of such write-downs are included in the income statement item "Impairment losses on loans and advances".

The PKO BP SA Group in PLN thousand

18. Discontinued operations

In 2005, the PKO BP SA Group had no material income or cost from discontinued operations.

In the 1st quarter of 2005 a transfer of business activities from Dom Maklerski BROKER S.A. to Bankowy Dom Maklerski PKO BP SA. took place in accordance with the PKO BP SA strategy.

On 15 February 2005, the Securities Exchange Commission (KPWiG) decided, upon company's request, to cancel licence of Dom Maklerski BROKER for conducting brokerage activities.

In the 2nd quarter of 2005, after the change of its core activities the Company commenced operating in the area of venture capital. The company conducted the preliminary work for the realisation of its first projects and initial acquisition work on the market. The present name of the Company is "Bankowe Towarzystwo Kapitałowe S.A.".

19. Share in profits (losses) of jointly controlled entities and associates

Entity name	01.01 – 31.12.2005	01.01 – 31.12.2004 (comparative data)
Jointly controlled entities		
Centrum Obsługi Biznesu Sp. z o.o.	(301)	-
PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.	15 346	13 477
Wawel Hotel Development Sp. z o.o.	1 086	4 340
Associated entities		
Bank Pocztowy S.A.	7 285	2 698
Kolej Gondolowa Jaworzyna Krynicka S.A.	-	-
Ekogips S.A. (in bankruptcy)	-	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	23	24
Hotel Jan III Sobieski Sp. z o.o.	-	-
Wrocławskie Zintegrowane Centrum Logistyczne Sp. z o.o.	-	230
Agencja Inwestycyjna „CORP" S.A.	92	31
PKO Towarzystwo Finansowe Sp. z o.o.	-	1 125
Associated entity of Bankowe Towarzystwo Kapitałowe SA		
FINDER Sp. z o.o.	-	-
Total	**23 531**	**21 925**

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

20. Corporate income tax

	01.01 – 31.12.2005	01.01 – 31.12.2004 (comparative data)
Consolidated income statement		
Corporate income tax for the period		
Tax expense	840 571	313 873
Deferred tax		
Relating to timing differences arisen and reversed	(429 147)	47 650
Tax expense disclosed in the consolidated income statement	**411 424**	**361 523**
Deferred tax charged to revaluation reserve		
Relating to timing differences arisen and reversed	(38 238)	40 368
Tax expense disclosed in the consolidated equity	**(38 238)**	**40 368**
Total	**373 186**	**401 891**

The PKO BP SA Group in PLN thousand

	01.01 – 31.12.2005	01.01 – 31.12.2004 (comparative data)
Gross profit before taxation from continued activities	**2 193 589**	**1 869 615**
Loss before taxation from discontinued operations	-	-
Change of accounting policies	-	5 410
Gross profit before taxation	**2 193 589**	**1 875 025**
Corporate income tax calculated using the enacted tax rate 19% (2004: 19%)	839 356	313 508
Effect of other tax rates, i.e. in Ukraine (25%)*	1 214	365
Permanent differences between accounting gross profit and taxable profit, of which:	**5 147**	**(723 792)**
Other non-tax-deductible expenses	787 673	236 302
Reversed provisions and revaluation not constituting taxable revenue	(710 001)	(781 071)
Settlement of capitalised interest	(34 175)	(64 551)
Other non-taxable revenue	(38 759)	(66 593)
Dividend income	(28 881)	(22 291)
Other	29 290	(25 588)
Temporary differences between gross financial result and taxable income, of which:	**2 388 078**	**437 741**
Interest income and unrealised income from operations on securities	892 557	72 125
Cost of accrued income and unrealised cost of operations on securities	117 893	127 032
Creation of provisions and impairment losses not constituting tax deductible cost	128 364	578 052
Unrealised cost from derivative instruments	3 006 461	1 277 795
Income due, including from advance commissions taken to revenues for the period, to which they relate	353 156	20 323
Unrealised revenue from derivative instruments	(2 166 977)	(1 623 688)
Other	56 624	(13 898)
Other differences between gross financial result and taxable income, including donations	**(4 586)**	**(7 642)**
Effective tax rate	**18,76%**	**19,34%**
Corporate income tax in the consolidated income statement	411 424	361 523
Tax charge attributable to discontinued operations	-	-
Total	**411 424**	**361 523**

* Current income tax charge of the KREDOBANK SA in 2005 amounted to PLN 5 058 thousand (in 2004 PLN 1 520 thousand)

Liabilities/ receivables due to current income tax

	31.12.2005	31.12.2004
Receivables due to income tax	87	20 153
Liabilities due to income tax	436 766	211

The Group' companies are a corporate income tax payers. The amount of liability is transferred to Tax Authority depending on the location of the registered office. The final settlement of the Groups' entities CIT liabilities related to corporate income tax is set on 31 March 2006.

The PKO BP SA Group in PLN thousand

Deferred tax asset/liability

	Consolidated balance sheet				Consolidated income statement	
	31.12.2005	**31.12.2004** (comparative data)	**B/S** adjustments	**01.01.2005** (comparative data)	**01.01 – 31.12.2005**	**01.01 – 31.12.2004** (comparative data)
Deferred tax liability						
Interest accrued on receivables (loans)	80 992	78 652	-	78 652	2 340	18 983
Interest on securities	48 977	83 381	-	83 381	(34 404)	(16 977)
Settlement of discount from securities (less premium)	9 176	71 237	-	71 237	(62 061)	(26 819)
Capitalised interest from restructuring bonds	-	112 769	-	112 769	(112 769)	(25 799)
Interest on operations with the state budget	4 781	7 405	-	7 405	(2 624)	7 405
Capitalised interest on regular housing loans	314 184	331 044	-	331 044	(16 860)	(12 849)
Valuation of derivatives	-	71 676	-	71 676	(71 676)	65 319
Valuation of embedded derivatives	234	301	-	301	(67)	131
Other increases	52 157	58 775	-	58 775	(6 618)	3 906
Valuation of securities, of which:	20 840	37 567	20 749	58 316	-	-
- taken to profit/ (loss)	17 778	(21 570)	20 063	(1 507)	19 285	974
- taken to equity	3 062	59 137	686	59 823	-	-
Total other taxable temporary differences recognized by the Group companies	10 168	3 407	-	3 407	(6 761)	3 407
Gross deferred tax liability	**541 509**	**856 214**	**20 749**	**876 963**	**(278 693)**	**17 681**
Net deferred tax liability	**41 519**	**586 761**	**(79 207)**	**507 554**	-	-
Deferred tax asset						
Interest accrued on liabilities	144 801	152 281	-	152 281	(7 480)	14 849
Provision for future liabilities to employees	18 153	13 747	-	13 747	4 406	1 862
Provision for jubilee bonuses and retirement benefits	40 045	34 981	-	34 981	5 064	2 062
Cost of accruals	52 216	56 167	1	56 168	(3 952)	(37 259)
Interest on operations with the state budget	-	-	-	-	-	(3 050)
Valuation of derivatives	88 595	-	-	-	88 595	-
Valuation of embedded derivatives	-	-	-	-	-	-
Other	16 528	-	-	-	16 528	(6 553)
ESP valuation adjustment	126 793	-	79 506	79 506	47 287	-
Valuation of securities, of which:	12 859	12 277	20 449	32 726	-	-
- taken to income statements	8 751	9 720	456	10 176	(1 425)	(3 995)
- taken to equity	4 108	2 557	19 993	22 550	-	-
Total other deductible temporary differences recognized by the Group companies	29 101	26 644	(130)	26 514	-	-
- taken to income statement	29 210	26 672	(130)	26 542	2 668	2 107
- KBU foreign exchange differences	-	-	-	-	(1 236)	-
- taken to equity	(109)	(28)	-	(28)	-	-
Gross deferred tax asset	529 091	296 097	99 826	395 923	150 455	(29 977)
Net deferred tax asset	29 101	26 644	(130)	26 542	-	-
Total deferred tax (consolidated deferred tax liability – consolidated deferred tax asset)	12 418	560 117	(79 077)	481 040	-	-
Total deferred tax in the income statement	14 591	503 509	(59 770)	443 739	(429 147)	47 650

As at 31 December 2005, the unsettled tax loss of Group companies amounted to PLN 172,791 thousand. This loss may be utilised up to 2009. PLN 46,281 thousand out of the above mentioned amount was recognised in the deferred tax calculation.

21. Earnings per share

Basic earnings per share

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

Earnings per share

	01.01 – 31.12.2005	**01.01 – 31.12.2004** (comparative data)
Net profit attributable to ordinary shareholders (in PLN thousands)	1 734 820	1 506 505
Weighted average number of ordinary shares in the period (in thousands)	1 000 000	1 000 000
Earnings per share (in PLN per share)	1.73	1.51

Earnings per share from discontinued operations

In the years ended 31 December 2005 and 31 December 2004, the Bank did not report any material income or cost from discontinued operations.

Diluted earnings per share

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

There were no dilutive instruments in the Bank in 2005 and 2004.

Diluted earnings per share from discontinued operations

As stated above, in the years ended 31 December 2005 and 31 December 2004, the Bank did not report any material income or cost from discontinued operations.

22. Dividends paid and proposed

As of 1 January 2005, subject to appropriation is the net profit of PKO BP S.A. showed in the standalone financial statements prepared in accordance with International Accounting Standards.

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

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

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

The PKO BP SA Group in PLN thousand

23. Cash and amounts due from Central Bank

	31.12.2005	31.12.2004 (comparative data)
Current account with the Central Bank	2 626 732	2 285 043
Cash	1 265 945	1 238 461
Other funds	2 654	1 825
Total	**3 895 331**	**3 525 329**

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

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

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

24. Amounts due from banks

	31.12.2005	31.12.2004 (comparative data)
Current accounts	146 223	85 504
Placements with other banks	12 466 021	13 086 493
Loans and credits granted	26 126	29 739
Cash in transit	26 623	32 396
Other placements on the monetary market	-	-
Other receivables	**80**	-
Total	**12 665 073**	**13 234 132**
Receivables impairment write-down	(1 778)	(2 185)
Net Total	**12 663 295**	**13 231 947**

The nominal value of placements with other banks with a fixed interest rate – PLN 12,377,320 thousand (as at 31 December 2004: PLN 12,983,136 thousand). The majority of those placements were short-term. As at 31 December 2005 the nominal value of placements with other banks with a floating interest rate – PLN 103 thousand. As at 31 December 2004 Bank did not have any placements with the floating interest rate.

Amount due from banks, by maturities

According to remaining residual maturities as of the balance sheet date

	31.12.2005	31.12.2004 (comparative data)
Current accounts	146 223	85 504
Term deposits with a maturity period:	12 492 227	13 116 232
up to 1 month	5 901 171	6 684 925
from 1 to 3 months	1 447 883	3 640 463
from 3 months to 1 year	5 019 131	2 790 844
from 1 year to 5 years	76 651	-
above 5 years	47 391	-
Cash in transit	26 623	32 396
Other monetary market placements	-	-
Total	**12 665 073**	**13 234 132**
Receivables impairment write-down	(1 778)	(2 185)
Net total	**12 663 295**	**13 231 947**

The PKO BP SA Group in PLN thousand

25. Financial assets held for trading

	31.12.2005	31.12.2004 (comparative data)
Debt securities	848 815	364 503
- issued by central banks	-	-
- issued by other banks	-	-
- issued by other financial institutions	-	-
- issued by non-financial entities	-	-
- issued by the State Treasury	848 456	364 142
- issued by local government bodies	359	361
Shares in other entities – listed on stock exchange	2 188	5 014
Loans and credits	-	-
Total financial assets held for trading	**851 003**	**369 517**

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

	- up to 1 month	- from 1 to 3 months	- from 3 months to 1 year	- from 1 to 5 years	- above 5 years	with no maturity date specified	Total
Debt securities	**26 055**	**81 323**	**88 700**	**633 304**	**18 351**	**1 082**	**848 815**
- issued by central banks	-	-	-	-	-	-	**-**
- issued by other banks	-	-	-	-	-	-	**-**
- issued by other financial	-	-	-	-	-	-	**-**
- issued by non-financial entities	-	-	-	-	-	-	**-**
- issued by the State Treasury	26 055	81 323	88 341	633 304	18 351	1 082	**848 456**
- issued by local government	-	-	359	-	-	-	**359**
Shares in other entities – listed on stock exchange	**2 188**	**-**	**-**	**-**	**-**	**-**	**2 188**
Loans and credits	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total financial assets held for trading as at 31 December 2005	**28 243**	**81 323**	**88 700**	**633 304**	**18 351**	**1 082**	**851 003**

Average yield of debt securities issued by the State Treasury as at 31 December 2005 amounted to 4,93% in PLN, 3,02% in EUR and 3,00% in USD.

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

- treasury bills with a total nominal value of PLN 42,960 thousand,
- treasury bonds with a total nominal value of PLN 624,467 thousand,
- bonds denominated in USD with a total nominal value of PLN 326 thousand,
- bonds denominated in EUR with a total nominal value of PLN 8,642 thousand.

The PKO BP SA Group in PLN thousand

Financial assets held for trading, by maturities as at 31 December 2004 (comparative data)**, valued at carrying amount**

	- up to 1 month	- from 1 to 3 months	- from 3 months to 1 year	- from 1 to 5 years	- above 5 years	with no maturity date specified	Total
Debt securities	**259**	**84 517**	**93 592**	**181 460**	**4 675**		**364 503**
- issued by central banks	-	-	-	-	-	-	-
- issued by other banks	-	-	-	-	-	-	-
- issued by other financial institutions	-	-	-	-	-	-	-
- issued by non-financial entities	-	-	-	-	-	-	-
- issued by the State Treasury	259	84 517	93 592	181 460	4 314	-	**364 142**
- issued by local government bodies	-	-	-	-	361	-	**361**
Shares and stocks in other entities – listed on stock exchange	-	-	-	-	-	**5 014**	**5 014**
Loans and credits	-	-	-	-	-	-	-
Total financial assets held for trading as at 31 December 2004	**259**	**84 517**	**93 592**	**181 460**	**4 675**	**5 014**	**369 517**

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

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

- treasury bills with a total nominal value of PLN 159,710 thousand,
- treasury bonds with a total nominal value of PLN 202,325 thousand,
- municipal bonds with a total nominal value of PLN 446 thousand.

26. Derivative financial instruments

Derivatives used by the Group

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

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

Derivatives embedded in other instruments

The Group uses derivative instruments, which are part of compound financial instruments, i.e. instruments including both a derivative and a host contract, which results in a part of the cash flows from the compound instrument changing similarly to cash flows from a separate derivative. Derivatives embedded in other instruments cause that a part or all cash flows resulting from the host contract are modified on the basis of a certain interest rate, price of a security, foreign exchange rate, price index or interest rate index.

Derivatives are also embedded in loan and deposit agreements. The Group offers deposits with embedded derivative instruments. The characteristics of such derivatives are not by their nature closely related to their respective host contracts i.e. deposit agreements. Such embedded derivatives are separated from their host contracts, classified as held for trading portfolio and are subject to valuation. The valuation of such instruments is recognised in the profit and loss account. The Group has analysed the loan and other agreements portfolio in order to determine whether the embedded derivative instruments should be separated and, based on the above the Group concluded that those agreements do not require any separation and recognition of embedded derivatives.

Risk involved in financial derivatives

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

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

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

The main tools of derivative risk management are as follows:

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

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

The credit risk derivative exposure was presented in Note 3.

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

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

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

The PKO BP SA Group in PLN thousand

Derivative financial instruments as at 31 December 2005

Notional amounts and fair value of derivative financial instruments

	up to 1 month	From 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
- over the counter market	-	-	-	-	-	-		
FX Swap	7 169 207	2 912 339	2 998 854	-	-	**13 080 400**	**38 704**	**111 121**
Purchase	3 607 281	1 453 587	1 517 329	-	-	**6 578 197**		
Sale	3 561 926	1 458 752	1 481 525	-	-	**6 502 203**		
Currency Forward	15 767	123 111	300 064	-	-	**438 942**	**1 216**	**7 620**
Purchase	7 981	62 744	152 054	-	-	**222 779**		
Sale	87 786	60 367	148 010	-	-	**216 163**		
Options	-	362 827	237 710	185 036	-	**785 573**	**41 376**	**42 007**
Purchase	-	180 109	118 825	92 518	-	**391 452**		
Sale	-	182 718	118 885	92 518	-	**394 121**		
- regulated market	-	-	-	-	-	-		
FX Swap	-	-	-	-	-	-		
Purchase	-	-	-	-	-	-		
Sale	-	-	-	-	-	-		
Options	-	-	-	-	-	-		
Purchase	-	-	-	-	-	-		
Sale	-	-	-	-	-	-		
- regulated market	-	-	-	-	-	-		
Currency Futures	-	-	-	-	-	-		
Purchase	-	-	-	-	-	-		
Sale	-	-	-	-	-	-		

The PKO BP SA Group in PLN thousand

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

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
Interest rate transactions								
Interest Rate Swap (IRS)	4 040 000	15 730 000	46 084 000	55 466 440	3 759 170	125 079 610	1 076 599	705 544
Purchase	2 020 000	7 865 000	23 042 000	27 733 220	1 879 585	62 539 805		
Sale	2 020 000	7 865 000	23 042 000	27 733 220	1 879 585	62 539 805		
Forward Rate Agreement (FRA)	14 450 000	29 750 000	57 900 000	16 350 000	-	118 450 000	86 395	87 934
Purchase	8 100 000	14 750 000	31 000 000	8 050 000		61 900 000		
Sale	6 350 000	15 000 000	26 900 000	8 300 000		56 550 000		
Interest rate transactions	-	-	-	-	-	-		
Cross Currency IRS	-	-	2 998 265	8 018 222	3 632 144	14 648 631	12 644	182 871
Purchase	-	-	1 510 985	4 052 951	1 836 080	7 400 016		
Sale	-	-	1 487 280	3 965 271	1 796 064	7 248 615		
Other transactions	-	-	-	-	-	-		
SELL BUY BACK	1 098 934	3 012	-	-	-	1 101 946	450	130
Purchase	936 984	3 012	-	-	-	939 996		
Sale	161 950	-	-	-	-	161 950		
Futures on bonds	-	5 119	513	-	-	5 632		
Purchase	-	5 119	-	-	-	5 119		
Sale	-	-	513	-	-	513		
Total derivative instruments	**26 773 908**	**48 886 408**	**110 519 406**	**80 019 698**	**7 391 314**	**273 590 734**	**1 257 284**	**1 137 227**

The PKO BP SA Group in PLN thousand

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

Notional amounts and fair value of derivative financial instruments

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
- over the counter market								
FX Swap	9 191 895	5 993 447	2 246 182	-	-	**17 431 524**	77 849	716 752
Purchase	4 721 861	3 092 662	1 239 986	-	-	**9 054 509**		
Sale	4 470 034	2 900 785	1 006 196	-	-	**8 377 015**		
Currency Forward	62 734	92 678	27 425	9 218	-	**192 055**	683	3 638
Purchase	31 678	46 768	13 923	4 723	-	**97 092**		
Sale	31 056	45 910	13 502	4 495	-	**94 963**		
Options	-	-	-	356 065	-	**356 065**	21 849	21 875
Purchase	-	-	-	176 738	-	**176 738**		
Sale	-	-	-	179 327	-	**179 327**		
- regulated market	-	-	-	-	-	-		
FX Swap	-	-	-	-	-	-		
Purchase	-	-	-	-	-	-		
Sale	-	-	-	-	-	-		
Options	-	-	-	-	-	-		
Purchase	-	-	-	-	-	-		
Sale	-	-	-	-	-	-		
- regulated market	-	-	-	-	-	-		
Currency Futures	-	-	-	-	-	-		
Purchase	-	-	-	-	-	-		
Sale	-	-	-	-	-	-		

The PKO BP SA Group in PLN thousand

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

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
Interest rate transactions								
Interest Rate Swap (IRS)	6 600 000	7 632 000	39 794 000	34 288 000	1 556 364	**89 870 364**	633 220	394 050
Purchase	3 300 000	3 816 000	19 897 000	17 144 000	778 182	**44 935 182**		
Sale	3 300 000	3 816 000	19 897 000	17 144 000	778 182	**44 935 182**		
Forward Rate Agreement (FRA)	7 100 000	13 565 000	21 530 000	4 700 000	-	**46 895 000**	59 816	46 257
Purchase	3 600 000	6 970 000	10 850 000	2 250 000	-	**23 670 000**		
Sale	3 500 000	6 595 000	10 680 000	2 450 000	-	**23 225 000**		
Interest rate transactions								
Cross Currency IRS	1 091 200	1 091 480	-	3 234 880	671 210	**6 088 770**		178 937
Purchase	562 780	563 060	-	1 649 620	344 890	**3 120 350**		
Sale	528 420	528 420	-	1 585 260	326 320	**2 968 420**		
Other transactions								
SELL BUY BACK	1 274 542	353 495	-	-	-	**1 628 037**	322	870
Purchase	978 302	312 921	-	-	-	**1 291 223**		
Sale	296 240	40 574	-	-	-	**336 814**		
Futures on bonds	498	-	-	-	-	**498**		
Purchase	498	-	-	-	-	**498**		
Sale	-	-	-	-	-	**-**		
Total derivative instruments	**25 320 869**	**28 728 100**	**63 597 607**	**42 588 163**	**2 227 574**	**162 462 313**	**793 739**	**1 362 379**

The PKO BP SA Group in PLN thousand

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

	31.12.2005	1.01.2005
		(comparative data)
Debt securities	20 059 683	19 958 180
- issued by the State Treasury	14 812 090	16 079 769
- issued by central banks	4 435 795	3 874 015
- issued by other banks	794 211	-
- issued by other financial institutions	5 616	564
- issued by non-financial entities	11 971	3 832
- issued by local government bodies	-	-
Shares and stocks in other entities	-	-
- listed on stock exchange	-	-
- unlisted	-	-
Loans and advances	-	-
Total other financial instruments at fair value through profit or loss	**20 059 683**	**19 958 180**

The Group took advantage of the IFRS 1 exemption regarding the restatement of comparative data in accordance with IAS 39 compliant comparative data. For more details, see Note 52.

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

- in the holding company:

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

- in the subsidiary:

- treasury bills with a total nominal value of UAH 2,084 thousand,
- bills of exchange with a total nominal value of UAH 150 thousand,
- investment certificates with a total nominal value of UAH 2,038 thousand,
- other entities' bonds with a total nominal value of UAH 24,300 thousand
- NBU deposit certificates with a total nominal value of UAH 10,000 thousand.

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

As at 31 December 2004 the Group did not have financial instruments valued at fair value through profit or loss, as described in note 52.

As at 1 January 2005 the average yield of debt securities issued by the State Treasury and Central Bank in the portfolio of other financial instruments valued through profit or loss was 6.33% for PLN, 3.78% for EUR, 4.12% for USD.

The PKO BP SA Group in PLN thousand

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

	- up to 1 month	- from 1 to 3 months	- from 3 months to 1 year	- from 1 to 5 years	- above 5 years	With no maturity date specified	Total
Debt securities	2 024 230	1 030 895	5 106 340	7 318 301	4 579 917	-	20 059 683
- issued by the State Treasury	196 660	1 030 895	5 094 257	6 740 368	1 749 910	-	14 812 090
- issued by central banks	1 778 216	-	-	-	2 657 579	-	4 435 795
- issued by other banks	49 354	-	6 467	565 962	172 428	-	794 211
- issued by other financial institutions	-	-	5 616	-	-	-	5 616
- issued by non-financial entities	-	-	-	11 971	-	-	11 971
- issued by local government bodies	-	-	-	-	-	-	-
Shares in other entities – listed and unlisted on stock exchange	-	-	-	-	-	-	-
Loans and advances	-	-	-	-	-	-	-
Total other financial instruments at fair value through profit or loss as at 31 December 2005	**2 024 230**	**1 030 895**	**5 106 340**	**7 318 301**	**4 579 917**	**-**	**20 059 683**

The PKO BP SA Group in PLN thousand

Other financial instruments at fair value through profit or loss, by maturities as at 1 January 2005 *: carrying amount (comparative data)

	- up to 1 month	- from 1 to 3 months	- from 3 months to 1 year	- from 1 to 5 years	- above 5 years	With no maturity date specified	Total
Debt securities	**1 409 019**	**1 816 793**	**4 251 276**	**8 220 391**	**4 260 701**		**19 958 180**
- issued by central banks	1 057 050	-	85 769	90 125	2 641 071	-	3 874 015
- issued by other banks	-	-	-	-	-	-	-
- issued by other financial institutions	-	-	-	564	-	-	564
- issued by non-financial entities	-	-	1 726	2 106	-	-	3 832
- issued by the State Treasury	351 969	1 816 793	4 163 781	8 127 596	1 619 630		16 079 769
- issued by local government bodies	-	-	-	-	-	-	-
Shares in other entities – listed and unlisted on stock exchange	-	-	-	-	-	-	-
Loans and advances	-	-	-	-	-	-	-
Total other financial instruments valued at fair value through profit or loss as at 1 January 2005	**1 409 019**	**1 816 793**	**4 251 276**	**8 220 391**	**4 260 701**	**-**	**19 958 180**

* classification as at 1 January 2005, in accordance with the exemption under IFRS 1 (see Note 52)

The PKO BP SA Group in PLN thousand

28. Loans and advances to customers

As at 31 December 2005	Receivables valued using the individual method	Receivables valued using the portfolio and collective methods	Allowances against exposures with individual impairment	Allowances against exposures with collective and portfolio impairment	Total net value
Loans and advances:					
to state budget entities	6 209	6 743 012	(6 209)	(42 601)	6 700 411
to financial entities other than banks	33 824	298 903	(15 179)	(45 390)	272 158
to non-financial entities	2 167 123	39 977 921	(641 032)	(2 192 598)	39 311 414
Total	**2 207 156**	**47 019 836**	**(662 420)**	**(2 280 589)**	**46 283 983**

As at 31 December 2004	Receivables in "normal" risk category	Receivables in "watch" risk category and irregular receivables	Specific provisions for receivables in "normal" risk category	Specific provisions for receivables in "watch" risk category and irregular receivables	Total net value
Loans and advances granted :					
to state budget entities	7 569 756	44 102	-	(13 063)	7 600 795
to financial entities other than banks	181 787	98 129	(472)	(68 057)	211 387
to non-financial entities	28 032 176	6 272 990	(134 828)	(2 426 807)	31 743 531
Total	**35 783 719**	**6 415 221**	**(135 300)**	**(2 507 927)**	**39 555 713**

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

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

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

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

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

The PKO BP SA Group in PLN thousand

Additional information as at 1 January 2005, by sectors (regarding the holding company)

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

As at 31 December 2004, a subsidiary - KREDOBANK S.A., applied IAS 39 for the valuation of loans and advances. The PLN equivalent of impairment allowances as at 31 December 2004 amounted to PLN 44,231 thousand.

	31.12.2005	**31.12.2004**
	Carrying amount	**Carrying amount**
Loans and advances granted:		
to state budget entities	6 749 221	7 613 858
up to 1 month	297 966	197 098
from 1 to 3 months	72 015	80 538
from 3 months to 1 year	702 399	1 971 935
from 1 to 5 years	4 790 243	4 368 705
above 5 years	886 598	995 582
average effective rate	-	-
to financial entities other than banks	332 727	279 916
up to 1 month	94 501	79 544
from 1 to 3 months	35 697	36 997
from 3 months to 1 year	148 490	41 080
from 1 to 5 years	54 039	114 167
above 5 years	-	8 128
average effective rate	-	-
to non-financial entities	42 145 044	34 305 166
up to 1 month	9 210 678	8 248 111
from 1 to 3 months	1 412 862	1 161 125
from 3 months to 1 year	5 645 036	4 213 468
from 1 to 5 years	11 036 596	9 438 341
above 5 years	14 839 872	11 244 121
average effective rate	-	-
Total	**49 226 992**	**42 198 940**

As at 31 December 2004, the Group, except for its subsidiary, KREDOBANK S.A., took advantage of the exemption allowed under IFRS 1 and did not restate comparative data relating to the valuation of loans and advances using the effective interest rate method.

The PKO BP SA Group in PLN thousand

Finance and operating leases

Finance leases

The Group conducts leasing operations through Bankowy Fundusz Leasingowy S.A.

The gross investment in the lease and the minimum lease payments were as follows:

As at 31 December 2005

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

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

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

As at 31 December 2004
(comparative data)

Gross investment in the lease and minimum lease payments	Gross investment in the lease	Present value of minimum lease payments
Gross investment in the lease		
up to 1 year	272 723	229 047
from 1 to 5 years	328 040	289 375
above 5 years	7 604	6 381
Total	**608 367**	**524 803**
Impairment allowances	(43 312)	(43 312)
Total after impairment charges	**565 055**	**481 491**

	Gross investment in the lease	Present value of minimum lease payments	Unearned finance income
up to 1 year	272 723	229 047	43 676
from 1 to 5 years	328 040	289 375	38 665
above 5 years	7 604	6 381	1 223
Total	**608 367**	**524 803**	**83 564**

The PKO BP SA Group in PLN thousand

Net investment in the lease	
Present value of minimum lease payments	524 803
of which: un-guaranteed residual value to the lessor	67 580

Operating lease

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

In the definition of operating lease there is also included lease agreements concluded by the Bank within normal operating activity. All agreements are concluded under market terms.
The table below shows data concerning operating lease agreements concluded by the Group companies:

Total value of future lease payments under non-cancellable operating lease	**31.12.2005**	**31.12.2004** **(comparative data)**
For the period:		
up to 1 year	7 273	4 320
from 1 to 5 years	31 004	32 739
above 5 years	425 160	514 008
Total	**463 437**	**551 067**

Lease and sub-lease payments recognised as an expense of the period from 1 January to 31 December 2005 amounted to PLN 111,126 thousand (in 2004 PLN 89,261 thousand).

29. Investment securities

	31.12.2005	**31.12.2004** **(comparative data)**
Available for sale	**1 922 277**	**21 603 096**
- issued by central banks	-	3 768 909
- issued by other banks	-	235 676
- issued by other financial institutions	8 437	20 532
- issued by non-financial entities	746 145	797 816
- issued by the State Treasury	377 503	16 104 828
- issued by local government bodies	790 192	675 335
Held to maturity	**-**	**1 893 017**
- issued by central banks	-	-
- issued by other banks	-	-
- issued by other financial institutions	-	-
- issued by non-financial entities	-	-
- issued by the State Treasury	-	1 893 017
- issued by local government bodies	-	-
Total investment securities	**1 922 277**	**23 496 113**
Impairment allowances	(40 899)	(38 185)
Total net investment securities	**1 881 378**	**23 457 928**

The PKO BP SA Group in PLN thousand

Movements in investment securities

	1.01-31.12.2005	1.01-31.12.2004 (comparative data)
Available for sale		
Balance at the beginning of the period	**21 564 911**	**24 268 983**
Change in accounting principles*	(19 957 561)	-
Balance as at 1 January 2005	**1 607 350**	**24 268 983**
Consolidation of subsidiaries	-	14 628
Foreign exchange differences	(499)	(59 770)
Increases	4 527 281	41 463 834
Decreases (redemption)	(4 318 691)	(44 299 320)
Impairment allowances	-	-
Change in the fair value	65 937	176 556
Balance at the end of the period	**1 881 378**	**21 564 911**
Held to maturity		
Balance at the beginning of the period	1 893 017	3 830 979
Change in accounting principles**	170	-
Balance as at 1 January 2005	**1 893 187**	**3 830 979**
Increases	39 218	181 987
Decreases (redemption)	(1 932 405)	(2 119 949)
Impairment allowances	-	-
Changes in the fair value	-	-
Balance at the end of the period	**-**	**1 893 017**

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

** Adjustment of the effective interest rate of debt securities.

in PLN thousand

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

	- up to 1 month	- from 1 to 3 months	- from 3 months to 1 year	- from 1 to 5 years	- above 5 years	With no maturity date stated	Total
Available for sale securities							
issued by central banks	-	-	-	-	-	-	**-**
issued by other banks	-	-	-	-	-	-	**-**
issued by other financial institutions	-	-	-	-	320	640	**960**
issued by non-financial entities	150 382	268 793	14 006	176 640	102 898	4	**712 723**
issued by the State Treasury	-	-	11 196	363 050	3 257	-	**377 503**
issued by local government bodies	32	843	108 945	523 518	156 854	-	**790 192**
Total available for sale securities as at 31 December 2005	**150 414**	**269 636**	**134 147**	**1 063 208**	**263 329**	**644**	**1 881 378**

Average yield of securities available for sale as at 31 December 2005 was 4,96%.

Available for sale securities

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

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

in the subsidiary

- treasury bonds with a total nominal value of PLN 22,562 thousand.

The PKO BP SA Group in PLN thousand

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

	- up to 1 month	- from 1 to 3 months	- from 3 months to 1 year	- from 1 to 5 years	- above 5 years	With no maturity date stated	Total
Available for sale securities							
issued by central banks	1 127 839	-	-	-	2 641 070	-	**3 768 909**
issued by other banks	39 148	-	14 982	90 125	-	91 421	**235 676**
issued by other financial institutions	318	-	-	564	-	563	**1 445**
issued by non-financial entities	45 984	109 950	9 779	153 585	133 562	325 858	**778 718**
issued by the State Treasury	351 967	1 818 195	4 170 678	8 141 118	1 622 870	-	**16 104 828**
issued by local government bodies	-	11 028	82 093	482 991	99 223	-	**675 335**
Total available for sale securities as at 31 December 2004	**1 522 256**	**1 939 173**	**4 277 532**	**8 868 383**	**4 496 725**	**417 842**	**21 564 911**

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

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

- in the holding company:

- treasury bills with a total nominal value of PLN 2,252,520 thousand,
- commercial bills with a total nominal value of PLN 147,900 thousand,
- corporate bonds with a total nominal value of PLN 403,890 thousand,
- municipal bonds with a total nominal value of PLN 964,654 thousand,
- treasury bonds with a total nominal value of PLN 13,181,117 thousand,
- NBP bonds with a total nominal value of PLN 2,522,122 thousand,
- money bonds with a total nominal value of PLN 1,130,720 thousand,

- in the subsidiaries:

- state treasury bonds with a total nominal value of UAH 103 thousand,
- non-financial entities’ bonds with a total nominal value of UAH 6,500 thousand,
- bills of exchange with a total nominal value of UAH 559 thousand,
- treasury bonds with a total nominal value of PLN 24,647 thousand.

The PKO BP SA Group in PLN thousand

Available for sale securities by maturities as at 1 January 2005*: carrying amount (comparative data)

	- up to 1 month	- from 1 to 3 months	- from 3 months to 1 year	- from 1 to 5 years	- above 5 years	With no maturity date specified	Total
Available for sale securities							
issued by central banks	-	-	-	-	-	-	**-**
issued by other banks	-	-	-	-	-	91 421	**91 421**
issued by other financial institutions	70 789	-	-	-	-	39 996	**110 785**
issued by non-financial entities	36 284	109 950	8 053	151 479	133 562	334 002	**773 330**
issued by the State Treasury	-	-	-	-	-	-	**-**
issued by local government bodies	-	12 243	82 093	482 991	99 223	-	**676 550**
Total available for sale securities as at 1 January 2005	**107 073**	**122 193**	**90 146**	**634 470**	**232 785**	**465 419**	**1 652 086**

* classification as at 1 January 2005, in accordance with the exemption allowed under IFRS 1 (see Note 52).

Average yield of available for sale securities issued by the State Treasury as at 31 December 2004 amounted to 6.33% in PLN, 3.78% in EUR and 4.12% in USD

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

As at 31 December 2005 The Group did not held any securities in the held to maturity portfolio.

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

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

Average yield of held to maturity securities issued by the State Treasury as at 31 December 2004 amounted to 6.59%. As at 31 December 2004 the nominal value of debt securities classified to the held to maturity portfolio amounted to PLN 1,895,000 thousand.

The PKO BP SA Group in PLN thousand

30. Investments in associates and jointly controlled entities

a) value of the Bank's investments in jointly controlled entities (purchase cost adjusted by the change in net assets, and impairment)

Entity name	31.12.2005	31.12.2004 (comparative data)
Centrum Obsługi Biznesu Sp. z o.o*	17 197	-
PKO/CREDIT SUISSE TFI SA	27 604	24 960
Wawel Hotel Development Sp. z o.o.	19 166	18 080
Total	**63 967**	**43 040**

*Entity registered on 25 January 2005

b) value of the Bank's investments in associates (purchase cost adjusted by the change in net assets and impairment)

Entity name	31.12.2005	31.12.2004 (comparative data)
Bank Pocztowy SA	113 000	112 000
Kolej Gondolowa Jaworzyna Krynicka SA	-	-
Ekogips S.A. (in bankruptcy)	-	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 554	1 531
Hotel Jan III Sobieski Sp. z o.o.	-	-
Agencja Inwestycyjna CORP SA	269	244
FINDER Sp. z o.o.	5 555	-
Total	**120 378**	**113 775**

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

Entity name	Total assets	Total liabilities	Total revenues	Net profit (loss)	% share
31.12.2005					
Bank Pocztowy SA	1 800 930	1 608 874	239 197	25 035	25.0001%
Kolej Gondolowa Jaworzyna Krynicka SA	37 889	8 919	11 188	2 648	37.83%
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	6 711	2 017	135	95	33.33%
Hotel Jan III Sobieski Sp. z o.o.	132 434	262 629	51 821	21 625	35.50%
Agencja Inwestycyjna CORP SA	4 149	2 307	15 920	447	22.31%
Total	**1 982 112**	**1 884 746**	**318 261**	**49 850**	**---**
31.12.2004					
Bank Pocztowy SA	2 258 035	2 093 768	233 741	18 998	25.00%
Kolej Gondolowa Jaworzyna Krynicka SA	37 101	11 226	9 845	2 235	38.23%
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	4 607	7	88	59	33.33%
Hotel Jan III Sobieski Sp. z o.o.	135 146	286 996	53 047	49 974	32.50%
Agencja Inwestycyjna CORP SA	4 373	2 823	17 017	418	22.31%
Total	**2 439 262**	**2 394 820**	**313 738**	**71 684**	**---**

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

The PKO BP SA Group in PLN thousand

Summary information about jointly controlled entities presented using the equity pick-up method:

Entity name	Total assets	Total liabilities	Total revenues	Net profit (loss)	% share
31.12.2005					
Centrum Obsługi Biznesu Sp. z o.o*	62 877	21 353	87	(1 182)	41.44%
PKO/CREDIT SUISSE TFI SA	64 493	8 396	92 234	30 692	50.00%
Wawel Hotel Development Sp. z o.o.	172 314	112 901	46 326	4 428	35.40%
Total	**299 684**	**142 650**	**138 647**	**33 938**	**---**
31.12.2004					
PKO/CREDIT SUISSE TFI SA	57 329	6 575	71 955	26 835	50.00%
Wawel Hotel Development Sp. z o.o.	176 443	122 039	21 608	12 258	35.40%
Total	**233 772**	**128 614**	**93 563**	**39 093**	**---**

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

Unrecognised share in the losses of associated entities for which the Group ceased to recognise its share amounted to:

Entity name	Cumulated share in losses
31.12.2005	
Hotel Jan III Sobieski Sp. z o.o.	(51 558)
31.12.2004	
Hotel Jan III Sobieski Sp. z o.o.	(58 586)

In the consolidated financial statemen all associates and jointly controlled entities were accounted for using the equity method.

	1.01-31.12.2005	1.01-31.12.2004 (comparative data)
Investment in associate entities at the beginning of the period	**113 775**	**214**
Share in profits (losses)	7 400	2 868
Share in taxation	-	-
Dividends paid	(67)	-
Share in changes recognised directly in the equity of the entity	(730)	110 693
increase in impairment losses	(6 285)	(37 307)
transfer of PFPK from sub entities	-	1 500
Acquisition of Bank Pocztowy	-	146 500
Acquisition of FINDER Sp. z o.o.	5 555	-
Investment in associate entities at the end of the period	**120 378**	**113 775**

	1.01-31.12.2005	1.01-31.12.2004 (comparative data)
Investment in jointly controlled entities at the beginning of the period	**43 040**	**44 119**
Share in profits (losses)	16 131	17 758
Share in taxation	-	-
Dividends paid	(12 702)	(18 837)
Share in changes recognised directly in the equity of the entity	-	-
Acquisition of shares in Centrum Obsługi Biznesu Sp. z o.o.	17 498	-
Investment in jointly controlled entities at the end of the period	**63 967**	**43 040**

As at 31 December 2005 and as at 31 December 2004, the holding company had no share in contingent liabilities of associates, which were acquired together with other investors.

On 25 January 2005 PKO BP SA acquired 34,992 shares, i.e. 41.44% shares in equity and in votes at the shareholders' meeting of Centrum Obslugi Biznesu Sp. z o.o.. The acquisition price was PLN 17,498 thousand. The company is a joint enterprise of the Bank, City of Poznań and Buildco Poznań SA with the seat in Luxembourg. Its objective is the construction and exploitation of the hotel in Poznań, which will be managed by the international net operator Sheraton.

On 29 September 2005 in the National Court Register an enlargement of the equity of Kolej Gondolowa Jaworzyna Krynicka SA by PLN 426,250 thousand was registered. Shares in the enlarged equity of the company included City of Krynica Górska. After enlargement, the equity of the company amounted to PLN 41,053,150 thousand and is divided into PLN 821,063 thousand shares with a nominal value of PLN 50 each. As an effect of the enlargement of the equity, the share of the bank in the equity was reduced from 38.23% to 37.83%, and the share in votes at the shareholders' meeting decreased from 37.03% to 36.85%.

On 9 December 2005 the subsidiary Bankowe Towarzystwo Kapitałowe SA acquired from an individual – by the sales agreement of 1.930 shares of FINDER Sp. z o.o. of total nominal value of PLN 965 thousand. The price of acquires shares amounted to PLN 5.555 thousand including additional fees. As a result of this transaction, Bankowe Towarzystwo Kapitałowe SA has 42.31% of shares in the equity of the company giving 42.31% of votes at the shareholders' meeting.

31. Investments in subsidiaries

The Group owns directly or indirectly over 50% of votes in the following entities: Przedsiębiorstwo Informatyki Bankowej „Elbank" Sp. z o.o. (in liquidation), International Trade Center Sp. z o.o. (in liquidation), Sonet Hungary Kft (in liquidation). These entities have never been consolidated due to their immateriality.

On 31 March 2005 an founding act of the company POMERANKA Sp. z o.o. was signed. The shareholders of the Company on the founding day were the subsidiaries:

- PKO Inwestycje Sp. z o.o., which took charge of and paid for 498 shares with a total value of PLN 49,800 thousand,
- Bankowe Towarzystwo Kapitałowe SA, which took charge of and paid for 2 shares with a total value of PLN 200.

On 11 April 2005 the company was registered in the National Court Register. On 20 April 2005 PKO Inwestycje Sp. z o.o. acquired from Bankowe Towarzystwo Kapitałowe SA 2 shares in POMERANKA Sp. z o.o., becoming a 100% owner of shares in the equity of the company giving 100% of votes at the shareholders' meeting.

On 6 May 2005 PKO Inwestycje Sp. z o.o. acquired new shares in the enlarged equity of POMERANKA Sp. z o.o. with a total value of PLN 3,950 thousand. After enlargement, the equity of POMERANKA Sp. z o.o. amounts to PLN 4 million and is divided into 40,000 shares with a nominal value of PLN 100 each. The company was founded in order to conduct construction projects.

In 2005 the liquidation process of the subsidiary of PKO Towarzystwo Finansowe Sp. z o.o. was ended, which as of 22 February 2005 was deleted of the National Court Register.

On 10 August 2005 in the Uniform National Register of Entrepreneurs and Orgnisations of Ukraine UKRPOLINWESTYCJE Sp. z o.o. was registered. The equity of the company stated in hrywnas is the equivalent of USD 100,000 and is divided into 100 shares with a nominal value stated in hrywnas, being an equivalent of USD 1,000.

The shareholders of the company are:

- PKO Inwestycje Sp. z o.o. (subsidiary), which took charge of 55 shares, being 55% of the equity,

- JEDYNKA SA (with the seat in Rzeszów), which took charge of 30 shares being 30% of the equity,

- ETALON INCEST (Ukrainian company), which took charge of 15 shares being 15% of the equity.

The primary objective of the company is to undertake activities aiming at realizing the investment projects on the territory of Kiev or other Ukrainian cities.

On 3 November 2005 the subsidiary PKO Inwestycje Sp. z o.o. acquired from Prokom Investments SA – by the sales agreement – 1,960 shares of Wilanów Investments Sp. z o.o. of total nominal value of PLN 1,960 thousand, being 49% of the equity of the company. The price of acquired shares amounts to PLN 66 661 million. As a result of this transaction PKO Inwestycje Sp. z o.o. has 100% of shares in the equity, giving 100% of votes at the shareholders' meeting.

In case of KREDOBANK SA (Kredyt Bank (Ukraina) SA) there are certain restrictions regarding its ability to pay dividends to the investor. Ukrainian regulations allow companies to pay dividends. According to the "Capitalisation Plan" approved by the Supervisory Board of KREDOBANK SA which had been filed with the National Bank of Ukraine, any dividend payment or appropriation of KREDOBANK S.A. equity in any form was prohibited. The business plan, which was the basis for approval by the Ukraine National Committee, Management Board and Supervisory Board of KREDOBANK SA of granting a subordinate loan by PKO BP SA, did not account for the possibility to pay dividend during the whole loan term.

The PKO BP SA Group in PLN thousand

As at 31 December 2005 and as at 31 December 2004 KREDOBANK S.A. was consolidated in the consolidated financial statements of the Group using the full method.

In 2005 PKO BP SA enlarged its investment in KREDOBANK SA by acquiring 339,763,026 shares from the minority shareholders, being 2.367% of shares in the equity of the Company.

Detailed information regarding the acquisition of shares in KREDOBANK S.A. is presented in Note 50.

32. Intangible fixed assets

Year ended 31 December 2005	Development expenses	Patents and licenses	Goodwill acquired as a result of business consolidation (including goodwill of subsidiary entities)	Intangible fixed assets under construction	Total
Purchase price as at 1 January 2005 including amortisation	750	133 644	106 457	260 096	500 947
Increases due to internal development projects	-	-	-	-	-
Purchase	370	2 146	49 847	275 337	277 905
Sale	-	(486)	-	(49)	(535)
Increase resulting from mergers of business entities	-	-	-	-	-
Reversal of impairment allowances	-	-	-	-	-
Due to foreign exchange differences from translation of foreign entities to presentation currency	106	187	-	-	293
Attributable to discontinued operations	-	-	-	-	-
Impairment allowance	-	-	-	-	-
Amortisation	(263)	(133 437)	-	(3 913)	(137 613)
Other changes*	-	187 078	-	(189 100)	(2 022)
Net carrying amount	**963**	**187 279**	**156 304**	**342 371**	**688 770**
As at 31 December 2004					
Purchase price (gross carrying amount)	1 302	661 347	106 499	267 506	1 036 654
Accumulated amortisation and impairment allowance	(552)	(527 703)	(42)	(7 410)	(535 707)
Net carrying amount	**750**	**133 644**	**106 457**	**260 096**	**500 947**
As at 31 December 2005					
Purchase price (gross carrying amount)	1 862	831 134	156 336	353 219	1 342 551
Accumulated amortisation and impairment allowance	(899)	(642 002)	(32)	(10 848)	(635 707)
Net carrying amount	**963**	**189 132**	**156 304**	**342 371**	**688 770**

A significant item of intangible fixed assets under construction is represented by investment expenditures on integrated IT system (ZSI). As at 31 December 2005, investment expenditures on ZSI amounted to PLN 145,491 thousand. As at 31 December 2004, these expenditures amounted to PLN 39 748 thousand.

The PKO BP SA Group in PLN thousand

Year ended 31 December 2004 (comparative data)	Development expenses	Patents and licenses	Goodwill acquired as a result of merger of business combination (including goodwill of subsidiary entities)	Intangible fixed assets under construction	Total
Purchase price as at 1 January 2004 including amortisation	-	137 511	-	136 906	274 417
Change in accounting policies	-	-	58 943	-	58 943
Purchase price as at 1 January 2004 after changes in accounting policies	-	137 511	58 943	136 906	333 360
Full method Consolidation of the subsidiaries	664	695	-	-	1 359
Increases due to internal development projects	-	-	-	-	-
Purchase	291	6 370	47 514	223 355	277 530
Sale	-	(25)	-	(32)	(57)
Increase resulting from mergers of business entities	-	-	-	-	-
Reversal of impairment allowances	-	-	-	-	-
Due to foreign exchange differences from translation of foreign entities to presentation currency	-	-	-	-	-
Attributed to discontinued operations	-	-	-	-	-
Impairment allowance	-	(55)	-	-	(55)
Amortisation	(93)	(141 860)	-	(3 226)	(145 179)
Other changes*	(112)	131 008	-	(96 907)	33 989
Net carrying amount	**750**	**133 644**	**106 457**	**260 096**	**500 947**
As at 1 January 2004					
Purchase price (gross carrying amount)	-	525 990	58 985	139 814	724 789
Accumulated amortisation and impairment allowance	-	(388 479)	(42)	(2 908)	(391 429)
Net carrying amount	**-**	**137 511**	**58 943**	**136 906**	**333 360**
As at 31 December 2004					
Purchase price (gross carrying amount)	1 302	661 347	106 499	267 506	1 036 654
Accumulated amortisation and impairment allowance	(552)	(527 703)	(42)	(7 410)	(535 707)
Net carrying amount	**750**	**133 644**	**106 457**	**260 096**	**500 947**

* Included in „Other changes" of Patents and licences category is software transferred from investments.

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

The goodwill of KREDOBANK SA was tested for impairment; the test was based on the value in use. The basic assumption for the conducted test was the strategy for the coming years approved by the Supervisory Board of this company discounted by the Bank using the expected rate of return. In case of PTE Bankowy, the Bank applied the fair value method decreased by the costs of sales. The fair value was estimated using the average fees per member of OFE Bankowy estimated based on transactions made on the pension fund market. Any change in the above assumptions may influence the estimation of company's recoverable amount in the future.

The Group did not create any patent or license itself.

In the period from 1 January 2005 to 31 December 2005, the PKO BP SA Group incurred capital expenditure for the purchase of tangible and intangible fixed assets in the amount of PLN 600,596 thousand. In the period from 1 January 2004 to 31 December 2004 the PKO BP SA, Group incurred investment expenditure for the purchase of fixed and intangible fixed assets in the amount of PLN 535,247 thousand.

The PKO BP SA Group in PLN thousand

33. Tangible fixed assets

Year ended 31 December 2005	Land and buildings (including Investment property)	Machinery and equipment	Motor vehicles	Assets under construction	Other	Total
Gross value of tangible fixed assets at the beginning of the period	**2 424 032**	**2 394 880**	**49 831**	**260 809**	**347 126**	**5 476 678**
Increases, of which:	**98 164**	**331 423**	**13 480**	**756 846**	**27 260**	**1 227 173**
Purchase and other changes	92 014	328 315	13 078	756 466	25 554	1 215 436
Foreign exchange differences	6 150	3 108	402	380	1 697	11 737
Decreases, of which:	**(76 493)**	**(155 344)**	**(8 931)**	**(792 028)**	**(10 285)**	**(1 043 081)**
Transfer to assets available for sale	-	(279)	-	-	-	(279)
Liquidation and sale	(14 975)	(136 220)	(8 332)	(19 003)	(8 061)	(186 591)
Disposal resulting from merger of business entities	-	-	-	-	-	-
Other	(61 518)	(18 845)	(599)	(773 025)	(2 224)	(856 211)
Gross amount of fixed assets at the end of the period	**2 445 703**	**2 570 959**	**54 380**	**225 627**	**364 101**	**5 660 770**
Accumulated depreciation at the beginning of the period	**(469 706)**	**(1 986 609)**	**(36 538)**	**-**	**(296 780)**	**(2 789 633)**
Increases, of which:	**(94 086)**	**(236 046)**	**(7 521)**	**-**	**(23 953)**	**(361 606)**
Depreciation charge for the period	(83 489)	(216 111)	(6 581)	-	(22 746)	(328 927)
Other	(9 822)	(18 539)	(628)	-	(456)	(29 445)
Foreign exchange differences	(775)	(1 396)	(312)	-	(751)	(3 234)
Decreases, of which:	**16 430**	**151 845**	**8 299**	**-**	**9 977**	**186 551**
Liquidation and sale	4 433	135 373	7 810	-	7 909	155 525
Other	11 997	16 472	489	-	2 068	31 026
Accumulated depreciation at the end of the period	**(547 362)**	**(2 070 810)**	**(35 760)**	**-**	**(310 756)**	**(2 964 688)**
Impairment allowances		**-**				
Opening balance	(35 221)	-	-	-	-	(35 221)
Increases	(15 000)	(2 310)	-	-	-	(17 310)
Decreases	-	-	-	-	-	-
Closing balance	**(50 221)**	**(2 310)**	**-**	**-**	**-**	**(52 531)**
Net amount	**1 848 120**	**497 839**	**18 620**	**225 627**	**53 345**	**2 643 551**
Opening balance	**1 919 105**	**408 271**	**13 293**	**260 809**	**50 346**	**2 651 824**
Closing balance	**1 848 120**	**497 839**	**18 620**	**225 627**	**53 345**	**2 643 551**

The carrying amount of machinery and equipment as at 31 December 2005 based on the finance lease agreements and tenancy agreements with purchase option accounted for PLN 24,243 thousand (as at 31 December 2004 PLN 15,286 thousand).

In the year ended 31 December 2005 there were no restrictions on the Group’s right to use these tangible fixed assets caused by pledging them as collateral. As at 31 December 2004 the consolidated entity using the full method KREDOBANK SA had a deposit on the movables and real estate being a collateral for the received exposures amounting to UAH 72,834 thousand (the equivalent of PLN 41,093 thousand)

The PKO BP SA Group in PLN thousand

Year ended 31 December 2004 (comparable data)	**Land and buildings including Investment property**	**Machinery and equipment**	**Motor vehicles**	**Assets under construction**	**Other**	**Total**
Gross book value of tangible fixed assets as at 1 January 2004	**2 057 749**	**2 281 706**	**45 650**	**216 218**	**326 736**	**4 928 059**
Change of accounting policy – Determining deemed cost of tangible fixed assets re-measured to fair value in accordance with IFRS 1	279 217	-	-	-	-	279 217
Gross value of tangible fixed assets after change of accounting policy	**2 336 966**	**2 281 706**	**45 650**	**216 218**	**326 736**	**5 207 276**
Increases, of which:	**100 859**	**189 547**	**6 264**	**709 755**	**26 865**	**1 033 290**
Full method consolidation of the subsidiaries	41 639	17 548	2 779	456	10 396	72 818
Purchase and other changes	59 220	171 999	3 485	709 299	16 469	960 472
Foreign exchange differences	-	-	-	-	-	-
Disposal, of which:	**(13 793**	**(76 373)**	**(2 083)**	**(665 164)**	**(6 475)**	**(763 888)**
Transfer to assets available for sale	-	-	-	-	-	-
Liquidation and sale	(7 662)	(70 994)	(1 954)	(8 569)	(6 475)	(95 654)
Disposal resulting from merger of business entities	-	-	-	-	-	-
Other	(6 131)	(5 379)	(129)	(656 595)	-	(668 234)
Gross amount of fixed assets at the end of the period	**2 424 032**	**2 394 880**	**49 831**	**260 809**	**347 126**	**5 476 678**
Accumulated depreciation as at 1 January 2004	**(396 355)**	**(1 771 013)**	**(29 428)**	**-**	**(280 298)**	**(2 477 094)**
Additions, of which:	**(76 023)**	**(288 179)**	**(8 682)**	**-**	**(22 922)**	**(395 806)**
Depreciation for the period	(71 081)	(278 654)	(6 299)	-	(16 293)	(372 327)
Full method consolidation of the subsidiaries	(4 032)	(7 248)	(1 887)		(4 139)	(17 306)
Other	(910)	(2 277)	(496)	-	(2 490)	(6 173)
Decreases, of which:	**2 672**	**72 583**	**1 572**	**-**	**6 440**	**83 267**
Liquidation and sale	2 465	70 023	1 511	-	6 351	80 350
Other	207	2 560	61	-	89	2 917
Accumulated depreciation at the end of the period	**(469 706)**	**(1 986 609)**	**(36 538)**	**-**	**(296 780)**	**(2 789 633)**
Impairment allowances						
Opening balance	(121)	-	-	(683)	(8)	(812)
Increases	(35 221)	-	-	-	-	(35 221)
Decreases	121	-	-	683	8	812
Closing balance	**(35 221)**	**-**	**-**	**-**	**-**	**(35 221)**
Net amount	**1 919 105**	**408 271**	**13 293**	**260 809**	**50 346**	**2 651 824**
Opening balance	**1 940 490**	**510 693**	**16 222**	**215 535**	**46 430**	**2 729 370**
Closing balance	**1 919 105**	**408 271**	**13 293**	**260 809**	**50 346**	**2 651 824**

In 2005 the Group with exception of Bankowy Fundusz Leasingowy did not receive any compensations from third parties due to impairment or loss of tangible fixed assets. BFL received PLN 84 thousand. In 2004 the Group did not receive from third parties compensation due to impairment or loss of tangible fixed assets recognised in the profit and loss account. As at 1 January 2004 tangibles were revalued in accordance with the IFRS 1. The fair value of the revalued tangibles amounted to PLN 666 233 thousand. The book value of the revalued tangibles as at 31 December 2003 amounted to PLN 387 016 thousand.

The PKO BP SA Group in PLN thousand

Land and buildings, including investment property include land classified as investment property, which is not subject to depreciation. The largest item is the plot of land in Warsaw with the fair value estimated by an independent valuer, exceeding its carrying amount amounting to PLN 28,828 by approx. PLN 7 000 thousand. There are no contractual or restrictions to sell these properties.
The amounts of incomes/costs connected with investment properties of the Group are presented below.

	1.01-31.12.2005	**1.01-31.12.2004 (comparative data)**
Rent income from investment properties	-	-
Direct operating costs concerning investment properties (including maintenance and repair costs) that in the given period brought rental income.	-	-
Direct average operating costs concerning the investment properties (including maintenance and repair costs) that in the given period did not bring rental income.	1 434	1 384

34. Other assets

	31.12.2005	**31.12.2004 (comparative data)**
Stocks	304 046	248 690
Settlements of transactions carried out using cards	151 006	193 415
Prepayments	42 104	36 244
Settlements of securities trading transactions	190	16 217
Assets held for trading and discontinued activity	10 435	-
Inter-bank and inter- branch clearing accounts	1 686	1 800
Other	195 314	117 312
Total	**704 781**	**613 678**

Included in “Other” item are mainly receivables relating to own operations conducted by the Bank.

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

Carrying value of the provisions, by type:	**31.12.2005**	**31.12.2004 (comparative data)**
Work in progress*	298 858	238 380
Finished products	4 337	5 623
Raw materials	851	987
Materials	-	-
Other	-	5 275
Impairment allowances	-	(1 575)
Total	**304 046**	**248 690**

* balance comprises mainly out of funds for construction projects carried out by the Group entities performing development activities.

Impairment allowances	**1.01-31.12.2005**	**1.01-31.12.2004 (comparative data)**
At the beginning of the period	(1 575)	904
Impairment allowances as a cost in the given period	-	(1 575)
Reversal of impairment allowances in the profit and loss account	-	(904)
Other changes	1 575	-
At the end of the period	**-**	**(1 575)**

In 2005 and 2004 there were no carrying amount of the work in progress, finished goods or raw materials stated as collaterals.

The PKO BP SA Group in PLN thousand

35. Assets pledged as security/ collateral for liabilities

The Group has the following assets pledged as collateral/ security of the company's liabilities and the third party's liabilities:

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

PKO BP SA creates a fund for the protection of guaranteed money in accordance with Article 25 of the Act on the Bank Guarantee Fund (Bankowy Fundusz Gwarancyjny) dated 14 December 1994 (Journal of Laws of 2000, No. 9, item 131, with subsequent amendments).

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

Cash pledged as collateral for securities' transactions conducted by BDM PKO BP SA and in 2004 also Bankowe Towarzystwo Kapitałowe are deposited in the National Depository for Securities as part of the stock exchange guarantee fund.

	31.12.2005	**31.12.2004** (comparative data)
Stock exchange guarantee fund	2 479	2 911

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

As at 31 December 2005:

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

As at 31 December 2004:

- cash pledged as collateral for loans received from Ukrainian banks with a total value of UAH 38,411 thousand (equivalent of PLN 21,671 thousand),
- deposit on the movables and real estate pledged as collateral for the engagement of KREDOBANK SA with a total value of UAH 72,834 thousand (equivalent of PLN 41,093 thousand).

36. Amounts due to the Central Bank

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

The interest rate as at 31 December 2004 and 31 December 2005 amounted to 0,071%

The PKO BP SA Group in PLN thousand

37. Amounts due to other banks

	31.12.2005	31.12.2004 (comparative data)
Current accounts	11 866	6 977
Other banks' deposits	1 920 269	666 450
Loans and advances received	139 467	306 992
Cash in transit	-	-
Other deposits from money market	11 744	18 299
Total amounts due to other banks	**2 083 346**	**998 718**

Structure of amounts due to other banks by maturities

	31.12.2005	31.12.2004 (comparative data)
Current accounts	11 866	6 977
Amounts due with maturity period of:	2 071 480	991 741
Up to 1 month	1 101 418	512 817
From 1 month to 3 months	516 521	21 111
From 3 months to 1 year	206 610	281 487
From 1 year to 5 years	246 880	158 314
Over 5 years	51	18 012
Cash in transit	-	-
Other deposits from money market	-	-
Total	**2 083 346**	**998 718**

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

As at 31 December 2005 and 31 December 2004 the Group did not have other financial liabilities at fair value through profit or loss.

39. Amounts due to customers

	31.12.2005	31.12.2004 (comparative data)
Amounts due to corporates	**10 021 677**	**6 612 951**
Current accounts and O/N deposits	4 488 291	3 752 983
Term deposits	5 506 676	2 796 220
Other	26 710	63 748
Amounts due to budget entities	**3 186 260**	**5 369 539**
Current accounts and O/N deposits	2 552 775	2 420 571
Term deposits	496 354	2 745 086
Other	137 131	203 882
Amounts due to individuals	**63 539 626**	**61 109 384**
Current accounts and O/N deposits	20 707 451	17 984 832
Term deposits	42 813 572	43 086 764
Other	18 603	37 788
Total amounts due to customers	**76 747 563**	**73 091 874**

The PKO BP SA Group in PLN thousand

Structure by maturity

	31.12.2005	31.12.2004 (comparative data)
Current accounts and O/N deposits	27 748 517	24 158 386
Amounts due with maturity period of:	48 999 046	48 933 488
Up to 1 month	18 804 200	17 590 916
From 1 month to 3 months	12 951 568	11 250 864
From 3 months to 1 year	15 730 170	18 459 536
From 1 year to 5 years	1 468 366	1 580 185
Over 5 years	44 742	51 987
Other	-	-
Total	**76 747 563**	**73 091 874**

40. Liabilities arising from debt securities issued

As at 31 December 2005 and 31 December 2004, the Group had the following liabilities arising from debt securities issued.

	31.12.2005	31.12.2004 (comparative data)
Liabilities arising from issue of :		
Bonds	68 470	21 076
Certificates	-	-
Other	-	-
Total	**68 470**	**21 076**

	31.12.2005	31.12.2004 (comparative data)
Liabilities arising from issue with repayment period:		
Up to 1 month	-	-
From 1 month to 3 months	9 891	-
From 3 months to 1 year	58 579	21 076
From 1 year to 5 years	-	-
Over 5 years	-	-
Total	**68 470**	**21 076**

As at 31 December 2005 and 31 December 2004, average interest rates of the above securities were 5.29% and 7.32%, respectively.

The PKO BP SA Group in PLN thousand

41. Other liabilities

	31.12.2005	31.12.2004 (comparative data)
Accrued expenses	193 684	154 039
Income received in advance	167 989	20 084
Other liabilities	1 500 807	1 220 994
Liabilities arising from social and legal transactions	192 367	147 725
liabilities arising from transactions with non-financial entities	42 739	224 855
liabilities arising from settlements of operations on securities	414 556	73 312
liabilities arising from inter-bank and inter- branch transactions	291 827	138 521
liabilities due to suppliers	109 369	85 986
liabilities arising from foreign currency activities	181 681	43 263
settlement of purchase of machines, tools, materials, works and services regarding building of tangible assets	82 374	61 265
liabilities arising from sale of treasury stamps	20 926	22 994
liabilities relating to investment activities and own operations	19 801	101 640
liabilities arising from repayments of advances to creditors related with remission of debt against State Treasury	15 002	13 781
liabilities arising from guarantees paid by suppliers and from non-cash credits for people on industry products	9 767	4 140
liabilities relating to payments of benefits	6 967	3 010
settlements relating to the substitution service of Poczta Polska	3 621	4 836
settlements of funds for payments from Foundation "Polsko-Niemieckie Pojednanie"	3 011	13 153
liabilities relating to bank transfers to be paid out in PLN	2 934	1 895
other*	103 865	280 618
Total	**1 862 480**	**1 395 117**

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

42. Provisions

Year ended 31 December 2005	Provision for disputes	Provisions for jubilee bonuses and retirement benefits	Provisions for liabilities and guarantees granted	Other provisions	Total
As at 1 January 2005	**7 110**	**184 151**	**10 375**	**668 734**	**870 370**
Adjustments arising from application of IAS (IAS 30)			-	(661 597)	**(661 597)**
As at 1 January in accordance with IAS			**10 375**	**7 137**	**208 773**
Increase/revaluation	445	26 651	57 497	85 051	**169 644**
Utilization	(178)	(8)	-	-	**(186)**
Reversal	-	-	(51 012)	-	**(51 012)**
Change due to increase of discounted amount resulting from time passage and changes in discount rate	-	-	-	-	**-**
Acquisition/sale due to merger of business entities	-	-	-	-	**-**
Foreign exchange differences	-	-	8	-	**8**
Other changes	161	-	44	12 465	**12 670**
As at 31 December 2005	**7 538**	**210 794**	**16 912**	**104 653**	**339 897**

The PKO BP SA Group in PLN thousand

Year ended 31 December 2004	**Provision for disputes**	**Provisions for jubilee bonuses and retirement benefits**	**Provisions for liabilities and guarantees granted**	**Other provisions**	**Total**
As at 1 January 2004	**5 614**	**173 294**	**15 991**	**662 995**	**857 894**
Adjustments arising from application of IAS to opening balances, including:	-	-	-	(662 722)	**(662 722)**
IAS 27	-	-	-	(1 125)	**(1 125)**
IAS 30	-	-	-	(661 597)	**(661 597)**
Balance as at 1 January 2005 in accordance with IAS	**5 614**	**173 294**	**15 991**	**273**	**195 172**
Increase/revaluation	1 471	10 861	33 046	10 166	**55 544**
Utilization	(287)	(4)	-	-	**(291)**
Reversal	-	-	(38 620)	(3 286)	**(41 906)**
Change due to increase of discounted amount resulting from time passage and changes in discount rate	-	-	-	-	**-**
Consolidation of the subsidiaries	-	-	254	-	**254**
Purchase/sale arising from consolidation of entities					
Foreign exchange differences	-	-	-	-	**-**
Other changes	**312**	**-**	(296)	**(16)**	**-**
As at 31 December 2004	**7 110**	**184 151**	**10 375**	**7 137**	**208 773**

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

43. Employee benefits

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

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

In the consolidated balance sheet, the Group compensated the Fund's assets and liabilities due to the fact that the assets of the Social Fund are not controlled by the Group. Accordingly, the balance of the Social Fund accounts in the Group's balance sheet as at 31 December 2005 and 31 December 2004 amounted to null.

The PKO BP SA Group in PLN thousand

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

	31.12.2005	31.12.2004 (comparative data)
Loans granted to employees	90 692	74 006
Amounts on the Social Fund account	9 643	13 338
	1.01-31.12.2005	**1.01-31.12.2004** (comparative data)
Contributions to Social Fund	29 872	30 070
Non-returnable expenditure by the Fund	16 681	23 562

45. Contingent liabilities

As at 31 December 2005 the binding underwriting agreements covered following securities' programs:

Issuer of securities underwritten	Type of underwritten securities	Amount to which the Bank committed in case of realisation of underwriting agreement	Contract period	Sub-issue type
Company A	Corporate bonds	**25 000**	2006-12-30	Bonds Issue Agreement*
Company B	Corporate bonds	**200 000**	2009-12-31	Bonds Issue Agreement
Company C	Corporate bonds	**4 000**	2010-12-30	Bonds Issue Agreement
Company D	Corporate bonds	**150 000**	2006-01-14	Bonds Issue Agreement
Company E	Commercial bills of exchange	**40 000**	2006-12-30	Commercial Bill Issue Agreement
Entity A	Municipal bonds	**3 000**	2011-12-31	Bonds Issue Agreement*
Entity B	Municipal bonds	**2 000**	2014-12-31	Bonds Issue Agreement
Entity C	Municipal bonds	**6 070**	2014-12-31	Bonds Issue Agreement
Entity D	Municipal bonds	**2 000**	2012-12-30	Bonds Issue Agreement
Entity E	Municipal bonds	**3 900**	2015-12-31	Bonds Issue Agreement
Entity F	Municipal bonds	**2 500**	2011-12 -31	Bonds Issue Agreement
Entity G	Municipal bonds	**6 000**	2013-12-31	Bonds Issue Agreement
Entity H	Municipal bonds	**2 400**	2009-12-31	Bonds Issue Agreement
Entity I	Municipal bonds	**4 400**	2011-12-31	Bonds Issue Agreement
Entity J	Municipal bonds	**18 300**	2016-12-31	Bonds Issue Agreement
Entity K	Municipal bonds	**8 722**	2011-12-31	Bonds Issue Agreement
Entity L	Municipal bonds	**5 500**	2021-06-30	Bonds Issue Agreement
Entity M	Municipal bonds	**3 500**	2015-12-31	Bonds Issue Agreement
Entity N	Municipal bonds	**2 700**	2014-12-31	Bonds Issue Agreement
Entity O	Municipal bonds	**2 000**	2013-12-31	Bonds Issue Agreement
Entity P	Municipal bonds	**3 000**	2013-12-31	Bonds Issue Agreement
Entity Q	Municipal bonds	**7 000**	2001-12-31	Bonds Issue Agreement
Entity R	Municipal bonds	**2 000**	2014-12-31	Bonds Issue Agreement
Entity S	Municipal bonds	**2 000**	2014-12-31	Bonds Issue Agreement
Entity T	Municipal bonds	**2 110**	2013-12-31	Bonds Issue Agreement
Entity U	Municipal bonds	**40 500**	2017-12-31	Bonds Issue Agreement
Entity V	Municipal bonds	**5 000**	2011-12-31	Bonds Issue Agreement
Entity W	Municipal bonds	**50 000**	2011-12-31	Bonds Issue Agreement
Entity X	Municipal bonds	**2 200**	2014-12-31	Bonds Issue Agreement
Entity Y	Municipal bonds	**3 700**	2008-12-31	Bonds Issue Agreement
Entity Z	Municipal bonds	**4 000**	2015-12-31	Bonds Issue Agreement
Entity AA	Municipal bonds	**5 000**	2012-12-31	Bonds Issue Agreement
Entity BB	Municipal bonds	**5 300**	2014-12-31	Bonds Issue Agreement
Entity CC	Municipal bonds	**6 000**	2017-12-31	Bonds Issue Agreement
Entity DD	Municipal bonds	**6 100**	2012-12-31	Bonds Issue Agreement
Entity EE*	Municipal bonds	**25 745**	2009-12-30	Bonds Issue Agreement
Total of Other, which value amounts to less than PLN 2 million	Municipal bonds	**8 750**		
Total		**670 397**		

* relates to the Agreement for the Organization, Conducting and Servicing of the Bond Issuance Program
** Debt securities denominated in EUR, after translating into PLN.

The PKO BP SA Group in PLN thousand

As at 31 December 2004 the binding underwriting agreements covered following securities' programs (comparative data):

Issuer of securities underwritten	Type of underwritten securities	Amount to which the Bank committed in case of realisation of underwriting agreement	Contract period	Sub-issue type
Company A	Commercial bills of exchange	**69 871**	2005-12-31	Commercial Bill Issue Agreement
Company B	Commercial bills of exchange	**39 912**	2006-12-30	Commercial Bill Issue Agreement
Entity A	Municipal bonds	**5 000**	2011-12-31	Bonds Issue Agreement
Entity B	Municipal bonds	**4 500**	2010-12-31	Bonds Issue Agreement
Entity C	Municipal bonds	**10 000**	2010-12-31	Bonds Issue Agreement
Entity D	Municipal bonds	**5 430**	2011-12-31	Bonds Issue Agreement
Entity E	Municipal bonds	**5 900**	2011-12-31	Bonds Issue Agreement
Entity F	Municipal bonds	**700**	2009-12-31	Bonds Issue Agreement
Entity G	Municipal bonds	**5 000**	2009-12-31	Bonds Issue Agreement
Entity H	Municipal bonds	**900**	2010-12-31	Bonds Issue Agreement
Entity I	Municipal bonds	**3 000**	2011-12-31	Bonds Issue Agreement
Entity J	Municipal bonds	**11 222**	2011-12-31	Bonds Issue Agreement
Entity K	Municipal bonds	**3 800**	2012-10-01	Bonds Issue Agreement
Entity L	Municipal bonds	**5 200**	2014-12-31	Bonds Issue Agreement
Entity M	Municipal bonds	**2 400**	2009-12-31	Bonds Issue Agreement
Entity N	Municipal bonds	**2 000**	2014-12-31	Bonds Issue Agreement
Entity L	Municipal bonds	**1 700**	2012-12-31	Bonds Issue Agreement
Entity O	Municipal bonds	**2 160**	2015-07-15	Bonds Issue Agreement
Entity P	Municipal bonds	**14 000**	2013-12-30	Bonds Issue Agreement
Entity Q	Municipal bonds	**40 500**	2017-12-31	Bonds Issue Agreement
Entity R	Municipal bonds	**7 500**	2011-12-31	Bonds Issue Agreement
Entity S	Municipal bonds	**35 000**	2011-12-31	Bonds Issue Agreement
Entity T	Municipal bonds	**500**	2011-11-30	Bonds Issue Agreement
Total		**276 195**		

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

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

Potential liabilities

As at 31 December 2005, the total value of court proceedings in which the Bank is defendant (inbound) was PLN 453,788 thousand (as at 31 December 2004: the total amounted to PLN 10,000,000,391,362 thousand), while the total value of court proceedings in which the Bank filed claims (outbound) was PLN 63,017 thousand (as at 31 December 2004: PLN 92,072 thousand).

a) Unfair competition proceedings

The Bank is a party to proceedings initiated based on the decision dated 23 April 2001 of the President of the Competition and Consumer Protection Office upon request of the Polish Trade and Distribution Organization against the following: Visa CEMEA – Visa International, Europay International S.A, Visa Forum Polska and Europay Forum Polska and the banks –members of the association of payees Visa Forum Polska and Europay Forum Polska, including against the Bank, for practices limiting competition on the market of services relating to discharging consumer liabilities towards accepting parties resulting from credit card purchases of goods and services made on the territory of Poland, whereby the above named participate in agreeing of “interchange” fees for transactions made with the use of Visa credit cards (which may be in breach of Art. 5.section 1 point 1 of the Act on competition protection), participate in agreeing of “interchange” fees for transactions made with the use of Europay/ Eurocard/Mastercard cards in Poland (which may be in breach of Art. 5. section 1 point 1 and 6 of the Act on competition protection) and coordinate activities with a view to limiting an access to the corporate market for the payees, who are not members of the above systems (which may violate of Art. 5. section 1 point 1 and 6 of the Act on competition protection). The deadline for completing the proceedings was postponed several times. Based on the decision of the President of the Competition and Consumer Protection Office dated 23 February 2006, the deadline for the completion of proceedings was postponed to 27 April 2006 due to the necessity to obtain appropriate data and information and the necessity to analyze court evidence.

The PKO BP SA Group in PLN thousand

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

As at the date of these financial statements, seven administrative proceedings are pending to invalidate decisions issued by public administration authorities with respect to properties held by the Bank or, in one case, by the Bank’s subsidiary. These proceedings, in the case of an unfavourable outcome for the Bank, may result in re-privatisation claims being raised against the Bank. Only one of these proceedings relates to property which was classified by the Bank as material for its operations, i.e. property located in Warsaw at Puławska 15 Street, which houses Bank’s Headquarters. Perpetual leasehold of land to this property is held by CFP Sp. z o.o. Given the current status of these proceedings, it is not possible to assess their potential negative financial effects for the Bank. Moreover, there were submitted claims relating to property by four former owners. In one case, the legal proceedings have started. In three other cases there are conducted negotiations which aim at settling the legal status of these properties.
In the opinion of the Management Board of PKO BP SA, the probability of claims that may arise under the proceedings described in the points a) and b) above is remote.
The financial statement for the year ended 31 December 2005 does not include adjustments connected with the potential liabilities described above.

Financial liabilities granted

	31.12.2005	31.12.2004 (comparative data)
Total liabilities granted:	**17 312 241**	**15 164 412**
to the financial sector	1 299 781	1 555 171
to the non-financial sector	13 633 134	12 332 241
to the state budget	2 379 326	1 277 000
including: irrevocable liabilities granted	8 519 942	9 504 826

Guarantee liabilities granted

	31.12.2005	31.12.2004 (comparative data)
Amounts due to the financial sector:	7 674	58 497
guarantees	7 674	58 497
sureties	-	-
confirmed export letters of credit	-	-
Amounts due to the non-financial sector:	1 215 824	469 472
guarantees	1 204 420	469 033
sureties	11 404	439
confirmed export letters of credit	-	-
Amounts due to the state budget:	252 752	210 508
Guarantees	252 752	210 508
Sureties	-	-
Avails	-	-
Total guarantees granted	**1 476 250**	**738 477**

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

The PKO BP SA Group in PLN thousand

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

	up to 1 month	1-3 month	over 3 month – 1 year	1-5 years	over 5 years	Total
Financial liabilities granted	4 024 441	723 007	6 888 136	4 804 075	872 582	17 312 241
Guarantees	274 092	49 905	610 479	474 771	67 003	1 476 250
Total	**4 298 533**	**772 912**	**7 498 615**	**5 278 846**	**9 939 585**	**18 788 491**

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

(comparative data)

	up to 1 month	1-3 month	over 3 month – 1 year	1-5 years	over 5 years	Total
Financial liabilities granted	5 084 341	740 847	5 726 553	2 795 579	817 092	15 164 412
Guarantees	136 022	19 869	174 586	392 370	15 630	738 477
Total	**5 220 363**	**760 716**	**5 901 139**	**3 187 949**	**832 722**	**15 902 889**

Off-balance sheet liabilities - received

	31.12.2005	31.12.2004
Off-balance sheet received liabilities:	**5 320 868**	**5 360 301**
Financial	570 767	759 672
Guarantees	4 750 101	4 600 629

Assets pledged as collaterals for contingent liabilities

As at 31 December 2005 and 31 December 2004 the Group had no assets pledged as collaterals.

46. Share capital

In the years ended 31 December 2004 and 31 December 2005, respectively, there were no changes in the holding company’s share capital.

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

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

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

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

The PKO BP SA Group in PLN thousand

47. Other capital items and retained earnings

	31.12.2005	31.12.2004 (comparative data)
Reserve capital	3 297 614	2 790 299
share premium	-	-
other	3 297 614	2 790 299
Revaluation reserve – valuation of financial assets available for sale	(4 054)	241 267
General banking risk fund	1 000 000	1 499 963
Other reserves	1 556 503	1 495 495
Other	-	-
Retained earnings	150 405	270 046
Total	**6 000 468**	**6 297 070**

48. Additional information to the cash flow statement

Cash and cash equivalents

	31.12.2005	31.12.2004 (comparative data)
Cash and amounts in the Central Bank	3 895 331	3 525 329
Current receivables from financial institutions	7 495 277	10 410 892
Total	**11 390 608**	**13 936 221**

Cash flow from operating activities – other adjustments

	01.01-31.12.2005	01.01-31.12.2004 (comparative data)
Valuation, interest accrued, discount, premium on debt securities decreased by deferred tax	(45 293)	261 713
Disposal of tangible and intangible assets	(33 360)	(63 161)
Valuation, impairment allowances against investments in jointly controlled entities and associates	(45 103)	200 783
Utilization of provision for general banking risk	-	(33 567)
Foreign exchange differences	7 390	(11 472)
Separation of tax paid and current tax expense	(32 180)	(31 622)
Valuation at amortized cost with the use of effective interest rate	2 492	-
Financial assets impairment	501	-
Total other adjustments	**(145 553)**	**322 674**

The PKO BP SA Group in PLN thousand

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

(Profit) loss from investing activities	**01.01-31.12.2005**	**01.01-31.12.2004** comparative data
Income from sale and disposal of the tangible and intangible fixed assets	(11 618)	(20 262)
Sale and disposal costs of tangible and intangible fixed assets	27 256	61 765
(Profit) loss from investing activities - total	**15 638**	**41 503**

Interest and dividends	**01.01-31.12.2005**	**01.01-31.12.2004** comparative data
Interests from securities classified to available for sale and held to maturity portfolio, presented in the investing activities.	(870 412)	(2 055 907)
Dividends presented in the investing activities	(28 856)	(750)
Paid lease interests, presented in financial activity	-	318
Interests paid from granted loans, presented in financial activity	-	781
Interest and dividends - total	**(899 268)**	**(2 055 558)**

Change in loans and advances to banks	**01.01-31.12.2005**	**01.01-31.12.2004** comparative data
Balance sheet balances change	568 652	(5 282 735)
Change in reserves for loans and advances to banks	407	(2 185)
Exclusion of the cash and cash equivalents change	(2 915 615)	4 361 651
Change in loans and advances to banks - total	**(2 346 556)**	**(923 269)**

Change in financial assets held for trading and other financial instruments valued at fair value through profit or loss	**01.01-31.12.2005**	**01.01-31.12.2004** comparative data
Balance sheet balances change	(20 541 169)	505 520
Transfer of the ALPL portfolio to the investment activities	19 368 752	-
Transfer of the securities classified to ALPL portfolio to "Other adjustments"	589 428	-
Change in financial assets held for trading and other financial instruments valued at fair value through profit or loss - total	**(582 989)**	**505 520**

Change in loans and advances to customers	**01.01-31.12.2005**	**01.01-31.12.2004** comparative data
Balance sheet balances change	(6 837 425)	(2 711 351)
Implementation of the assets valuation with amortised cost with the use of effective interest method net of deferred tax.	(345 006)	-
Change in provisions on loans and advances due from customers	(301 202)	(72 043)
Change in loans and advances to customers - total	**(7 483 633)**	**(2 783 394)**

Change in amounts due to banks	**01.01-31.12.2005**	**01.01-31.12.2004** comparative data
Balance sheet balances change	1 085 250	(114 078)
Transfer of the repayments/received long term advances due from banks to financing activities	(74 458)	(89 825)
Change in amounts due to banks - total	**1 010 792**	**(203 903)**

The PKO BP SA Group in PLN thousand

Change in amounts due to customers	**01.01-31.12.2005**	**01.01-31.12.2004** comparative data
Balance sheet balances change	3 655 689	1 498 392
Implementation of the liabilities valuation with amortised cost with the use of effective interest method net of deferred tax.	6 512	-
Transfer of the repyments/received long term advances due from other than banks financial institutions to financing activities	47 894	5 555
Change in amounts due to customers - total	**3 710 095**	**1 503 947**

Change in provisions	**01.01-31.12.2005**	**01.01-31.12.2004** comparative data
Balance sheet balances change	(414 118)	100 634
Implementation of the IAS impairment of the loans and advances due from customers	(477 235)	-
Provisions on receivables due from banks	(407)	2 185
Provisions on receivables due from customers	301 202	72 043
Change of the deferred tax provision on the available for sale portfolio	57 626	(40 347)
Change in provisions - total	**(532 932)**	**134 515**

Change in other liabilities	**01.01-31.12.2005**	**01.01-31.12.2004** comparative data
Balance sheet balances change	903 918	163 555
Adjustment related to the adoption of IAS regarding capitalized interests of loans from “old” mortgage loans portfolio	174 356	-
Reclassification of interests repayment from loans received from others than banks institutions, revealed in financial activity	2 549	1458
Change in other liabilities - total	**1 080 823**	**165 013**

The PKO BP SA Group in PLN thousand

49. Transactions with related parties

Transactions of the holding company with joint ventures and associates valued using equity pick-up method

All described above transactions with capital and personally related entities were singed under market conditions. Terms of repayment are from 1 month to ten years.

As at 31 December 2005

Entity	Net receivables	Including gross loans	Liabilities	Total revenues	Including interest and fees commission income	Total costs	Including interest and fees commissio n costs	Off-balance sheet liabilities granted
PKO/Credit Suisse Towarzystwo Funduszy Inwesytcyjnych SA	461	-	611	21 499	21 484	26	26	218
Wawel Hotel Development Sp. z o.o.	110 155	105 860	12 974	4 636	4 571	91	90	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	4 349	2	1	146	141	-
Agencja Inwestycyjna „CORP" S.A.	181	-	26	516	-	2 209	-	-
Ekogips S.A. (in bankruptcy)	-	-	-	-	-	-	-	-
Hotel Jan III Sobieski Sp. z o.o.	76 289	76 236	-	1 930	1930	85	4	-
Kolej Gondolowa Jaworzyna Krynicka S.A.	3 750	3 750	50	1 729	1 728	27	4	-
Bank Pocztowy S.A.	-	-	-	-	-	22	-	-
Centrum Obsługi Biznesu Sp. z o.o.	17 211	16 924	4 241	104	104	14	14	80 945
FINDER Sp. z o.o.	-	-	-	-	-	-	-	-
Total	**208 047**	**202 770**	**22 251**	**30 416**	**29 818**	**2 598**	**279**	**81 163**

As at 31 December 2004 (comparative data)

Entity	Net receivables	Including gross loans	Liabilities	Total revenues	Including interest and fees commission income	Total costs	Including interest and fees commission costs	Off-balance sheet liabilities granted
PKO Towarzystwo Finansowe Sp. z o.o (in liquidation)	211	-	-	-	-	-	-	-
International Trade Centem Sp. z o.o. (in liquidation)	-	-	-	-	-	-	-	-
Przedsiębiorstwo Informatyki Bankowej Elbank Sp.z o.o (in bankruptcy)	-	-	-	-	-	-	-	-
PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.	-	-	188	1 132	1 093	-	-	67
Wawel Hotel Development Sp. z o.o.	120 637	115 950	7 371	256	224	122	122	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	2 347	4	1	27	11	-
Agencja Inwestycyjna „CORP" S.A.	203	-	-	1	-	2 169	-	-
Ekogips S.A. (in liquidation)	-	-	-	-	-	-	-	-
Hotel Jan III Sobieski Sp. z o.o.	41 952	83 793	1	2 287	2 287	219	-	-
Kolej Gondolowa Jaworzyna Krynicka S.A.	3 750	3 750	439	796	796	96	56	-
Total	**166 542**	**203 493**	**10 346**	**4 476**	**4 401**	**2 633**	**189**	**67**

Transactions with the State budget

According to the Act dated 30 November 1995 on the state support in the repayment of certain housing loans, the refund of guarantee premium to banks and amendments to certain acts (Journal of Laws 2003, No.119, item 1115 with subsequent amendments), PKO BP SA receives payments from the State budget for the redemption of interest on housing loans. As part of the realisation of statutory obligations by the State budget, during the year ended 31 December 2005 the Bank recognised income in the amount of PLN 194,400 thousand (in 2004: PLN 205,896 thousand) due to temporary redemption by the State budget of interest on housing loans from the “old” portfolio. During this period, the Bank received PLN 166,814 thousand in cash (in the corresponding period of 2004: PLN 160,507 thousand) in respect of temporary redemption by the State budget of interest on housing loans from the “old” portfolio. The difference of PLN 27,586 thousand (in 2004: PLN 45,389 thousand) between income recognised for this period and income received in cash is reflected in the balance sheet of the Bank under “Loans and advances to customers”.

PKO BP SA receives a commission for settlements relating to the redemption of interest on housing loans. In 2005, PKO BP SA received a commission for the fourth quarter of 2004 amounting to PLN 1,715 thousand (in 2004, for the fourth quarter of 2003: PLN 1,646 thousand). This commission is included in the profit and loss account under “Fees and commission income”.

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

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

In the year ended 31 December 2005, the Bank also recognised a commission income of PLN 629 thousand (in 2004: PLN 13,054 thousand) in respect of its fees for servicing compensation payments for pensioners who in 1991 lost the increases or additions to their pensions payable for performing work in specific conditions or of a specific nature, as well as for public sector employees whose salaries were not adjusted in the second half of 1991 and in the first half of 1992. This amount was included under “Fees and commission income”.

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

The PKO BP SA Group in PLN thousand

Benefits of the key management of the holding company

a) short-term personnel benefits

Benefits received from PKO BP SA

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

*Function from 19 May 2005.

Remuneration received from subsidiaries of PKO BP SA

Name	Position	01.01-31.12.2005	01.01–31.12.2004 (comparative data)
Management Board			
Podsiadło Andrzej	Board President	135	35
Małecki Kazimierz	Vice-President, Deputy President	-	68
Demianiuk Danuta	Vice-President	30	30
Skrzypek Sławomir	Vice-President	-	-
Kamiński Piotr	Board Member	76	-
Obłękowski Jacek	Board Member	-	18
Szewczyk Krystyna	Board Member	76	14
Total of short-term benefits		**317**	**165**

During 2004 and 2005 Members of the Supervisory Board did not receive any remuneration from subsidiaries, associates and jointly controlled entities of PKO BP SA.

The PKO BP SA Group in PLN thousand

b) benefits after employment

In the year ended 31 December 2005 and 31 December 2004, respectively, no benefits after employment have been paid.

c) other long-term benefits

In the year ended 31 December 2005 and 31 December 2004, respectively, no “other long-term benefits” have been paid.

d) benefits due to the termination of employment

In the year ended 31 December 2005 and 31 December 2004 no benefits due to the termination of employment have been paid.

e) Share-based payments

In the year ended 31 December 2005 and 31 December 2004 no benefits in the form of own securities have been paid.

Loans, advances, guarantees and other benefits provided by the Bank to related parties

	31.12.2005	**31.12.2004** **(comparative data)**
Employees	517 665	389 624
Members of the Management Board	433	7
Members of the Supervisory Board	204	-
Relatives of the Management Board and Supervisory Board Members	-	-
Total	**518 302**	**389 631**

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

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

	01.01 – 31.12.2005	**01.01 – 31.12.2004** **(comparative data)**
Management Board		
Short-term employee benefits	5 703	3 514
Supervisory Board		
Short-term employee benefits	1 184	1 192
Total benefits	**6 887**	**4 706**

50. Business combinations

Acquisitions of business entities

As at 31 December 2005 and 31 December 2004 there were no mergers of the holding company or any subsidiary with any other entity.

In the second half of 2004, PKO BP SA acquired from Kredyt Bank S.A. 9,567,713,000 shares of Kredyt Banku (Ukraina), which represent 66.651% of share capital and votes at the shareholders’ meeting of this company. The acquisition price was PLN 109.5 million. On 26 August 2004, after obtaining permissions from the President of the Consumer and Competition Protection Office (Urząd Ochrony Konkurencji i Konsumentów) and Anti-Monopoly Committee of Ukraine and the National Bank of Ukraine, a transfer of ownership rights to those shares to PKO BP SA took place.

The PKO BP SA Group in PLN thousand

In the second half of 2005, PKO BP SA – by the agency of "Rosan-Papiery Wartościowe" Sp. z o.o. with the registered office in Lvov- placed an acquisition offer to the minority shareholders of Kredyt Bank (Ukraina) SA regarding the acquisition of shares owned by them. As a result, Bank acquired from the minority shareholders in total 339,763,026 shares being 2,367% of shares of the equity and of the votes at the shareholders' meeting. The price for acquired shares amounted to PLN 2,439 thousand. As at 31 December 2005, PKO BP SA possesses shares of KREDOBANK SA being 69,018% of shares in the equity of the Company, giving the 69,018% of the votes at the shareholders' meeting.

Information on acquisition of shares of Kredyt Bank (Ukraina) S.A.

Entity name	KREDOBANK SA	
Date of acquisition	26.08.2004.	24.10.2005
Percentage share in the share capital of KBU	66,651%	2,367%
Acquisition price	109 531	2 439
Fair value of net assets as at 31.08.2004	93 047	84 540*
Of which:		
- Cash and amounts due from Central Bank	39 897	
- Amounts due from financial sector	132 240	
- Amounts due from other sectors	583 973	
- Debt securities	52 167	
- Intangible assets	2 505	
- Tangible fixed assets	66 366	
- Other assets	10 538	
- Prepayments and deferred costs	7 344	
- Liabilities	799 784	
- Special funds and other liabilities and equity	1 001	
- Accruals and deferred income, restricted and provisions	1 198	
Share of PKO BP SA in the fair value of net assets of KBU at acquisition date	62 017	2 001
Goodwill	47 514	438**
Goodwill as at 31.12.2004	47 514	-
Goodwill as at 31.12.2005	47 514	438

***** - For the shares acquired as at 24.10.2005 – book value***

***** - Due to lack of the possibility to separate specific cash generating units the goodwill was assigned to the whole company.***

On 3 November 2005, the Bank's subsidiary – PKO Inwestycje Sp. z o.o. acquired from Prokom Investments S.A., on the basis of a sale agreement, 1,960 shares in Wilanów Investments Sp. z o.o., of a total nominal value of PLN 1,960 thousand, accounting for 49% of the Company's share capital. The price paid for these shares, amounted to PLN 66.661 thousand, including additional fees.

As a result of the above transaction, PKO Inwestycje Sp. z o.o. holds 100% of shares in the Company's share capital, which give right to 100% of votes at the Company's Shareholders' Meeting.

The PKO BP SA Group in PLN thousand

Data regarding acquisition of Wilanów Investment shares

Entity name	Wilanów Investments Sp. z o.o.
Date of acquisition	03.11.2005
Percentage share in the share capital of KBU	49%
Acquisition price	66 661
Net assets as at 31.10.2005 r., including:	35 201
- cash and amounts due from Central Bank	13 602
- assets available for sale	
- loans and advances	
- interests from financial assets	
- tangible fixed assets	362
- intangible fixed assets	84
- other assets	131 303
- financial liabilities at amortised cost	89 162
- interests from financial liabilities	
- provisions	6
- other liabilities	20 982
Share in the net assets at acquisition date	17 249
Godwill	49 412*
Godwill as at 31.12.2005 r.	49 412

***** - Due to lack of the possibility to separate specific cash generating units the goodwill was assigned to the whole company.***

Disposal of business entities

In the first half of 2005 and in the first half of 2004 there were no disposals of subsidiaries.

51. Events after the balance sheet date

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

On 9 January 2006, Bankowe Towarzystwo Kapitałowe SA – Bank's subsidiary – took up 351 shares in the increased share capital of FINDER Sp. z o.o. The acquisition price amounted to PLN 1,000 thousand. As a result of this transaction, the share of Bankowe Towarzystwo Kapitałowe SA in the share capital and votes at the Shareholders' Meeting of FINDER Sp. z o.o. increased from 42.31% to 46.43%. This increase must be registered with the National Court Register.

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

On 25 January 2006, the Bank signed an agreement with one of its Customers for issuing banking guarantee. Under this agreement, the Bank is required to issue – to Customer's order – a guarantee to the Customs Office - in respect of excise security required by Article 43.1 of the Excise Tax Act of 23 January 2004, amounting to PLN 309,000 thousand. The agreement for issuing banking guarantee is in force from 1 February 2006 to 31 January 2007 plus a 90-day liability period. The collateral for the agreement is the clause for deducting receivables from the Customer's current account and a declaration of the Customer about submitting to enforcement, in accordance with Article 97 of the Banking Law. The interest on the potential receivables resulting from failure to pay the liabilities arising from the guarantee is based on WIBOR index plus the Bank's margin. The total value of the agreements signed by the Bank with the Customer as at the date of signing the agreement amounted to PLN 1,104,890 thousand. The signing of this agreement results in the requirement for the Bank to submit a notification about the signing of a significant agreement by the Bank, because the total value of the agreements signed with that Borrower meets the criteria defined in Article 2.1.51 in correspondence with Article 2.2 of the Decree of Finance Minister of 19 October 2005 on current and periodic information provided by the issuers of securities.

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

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

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

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

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

52. First-time adoption of International Financial Reporting Standards

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

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

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

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

Valuation of financial assets and liabilities at amortised cost

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

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

As of 1 January 2005, the Bank made adjustments in respect of the valuation of financial assets and liabilities at amortised cost using the effective interest rate method in accordance with IAS 39. The effects of the adjustments made as at 1 January 2005 are presented in the reconciliation of equity as at 1 January 2005 and in the comparison of the balance sheet prepared in accordance with IAS as at 31

December 2004 (without compliance with IAS 39) and the balance sheet in accordance with IFRS as at 1 January 2005.

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

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

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

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

Impairment of financial assets

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

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

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

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

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

Portfolios of financial assets and liabilities in accordance with IAS 39

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

The PKO BP SA Group in PLN thousand

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

Given the above, the Group designated certain financial instruments, which are to be included in the portfolio of financial assets or liabilities at fair value through profit or loss or in the available-for-sale portfolio at 1 January 2005. The transfer of instruments between portfolios valued using different principles had an effect on the profit of the Group. The effect of the adjustments made as at 1 January 2005 is presented in the reconciliation of equity as at 1 January 2005 and in the comparison of the balance sheet in accordance with IAS as at 31 December 2004 (prepared with no compliance with IAS 39) and the balance sheet in accordance with IAS as at 1 January 2005.

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

	The name of the instrument	**Fair value as at 1 January 2005**	**Previous classification**	**Carrying amount as At 31 December 2004**
Financial assets designated to financial assets valued at fair value through profit and loss as at 1 January 2005				
Holding company		**19 953 740**		**19 953 740**
	NBP bills	1 127 839	Available for sale (AFS)	1 127 839
	NBP bonds	2 641 070	AFS	2 641 070
	treasury bills	2 204 929	AFS	2 204 929
	treasury bonds	13 682 074	AFS	13 682 074
	treasury bonds – collateral of the BFG	192 720	AFS	192 720
	bonds of other banks in foreign currency	105 108	AFS	105 108
KREDOBANK SA		**4 440**		**4 440**
	Investment certificates	564	AFS	564
	Non-financials' bonds	3 832	AFS	3 832
	Treasury bonds	44	AFS	44
Total		**19 958 180**		**19 958 180**

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

Effects of hyperinflationary economy

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

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

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

Scope of consolidation

According to IFRS, the consolidated financial statements should include all subsidiaries and interests in jointly controlled entities that are material to the financial statements; the financial statements of subsidiaries should be consolidated using the full method. Companies are not consolidated if they are acquired and are held exclusively with view to their subsequent disposal in the near future or if they operate under long-term restrictions, which impair their ability to transfer funds to the holding company.

The Bank had included in the consolidated financial statements all significant subsidiaries and jointly controlled entities except those, which conduct other than financial activities or which are not the bank services auxiliary entities. Due to that, the Bank consolidated - using the equity method - its subsidiaries, PKO Inwestycje Sp. z o.o. in accordance with PAS. IAS 27 requires such entities should be consolidated using the full method. In the attached financial statements, PKO Inwestycje Sp. z o.o. was consolidated using the full method.

Share based payments

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

General banking risks reserve

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

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

The PKO BP SA Group in PLN thousand

Reconciliation of differences between IAS and PAS, between the previously published data and comparatives prepared in accordance to IFRS as at 31 December 2004

	PAS 31.12.2004	**IAS 31.12.2004**	**Difference IAS – PAS**
ASSETS			
Cash and balances with the Central Bank	3 525 323	3 525 329	6[1)]
Amounts due from banks	13 237 328	13 231 947	(5 381) [1), 2), 5)]
Financial assets held for trading	369 517	369 517	-
Derivative financial instruments	1 362 379	1 362 379	-
Other financial instruments valued at fair value through profit or loss	-	-	-
Loans and advances to customers	43 160 455	40 037 204	(3 123 251) [3), 4), 5),12)]
Investment debt securities	23 457 944	23 457 928	(16)
1. available for sale	21 561 050	21 564 911	3 861 [5)]
2. held to maturity	1 896 894	1 893 017	(3 877) [5)]
Intangible fixed assets	215 085	156 815	(58 270) [1)]
Tangible fixed assets	478 728	500 947	22 219 [1), 5),9)]
Financial assets classified as available for sale	2 366 154	2 651 824	285 670 [1), 5),7)]
Receivables due to income tax	20 153	20 153	-
Deferred tax assets	22 482	26 644	4 162[5), 8)]
Other assets	567 313	633 678	66 518 [1), 2), 3), 5)]
Total Assets	**88 762 708**	**85 954 365**	**(2 808 343)**

	PAS 31.12.2004	**IAS 31.12.2004**	**Difference IAS – PAS**
Liabilities and equity			
Amounts due to the Central Bank	144	144	-
Amounts due to other banks	980 055	998 718	18 663[1)]
Derivative financial instruments	793 739	793 739	-
Amounts due to customers	73 114 647	73 091 874	(22 773) [1), 5),12)]
Liabilities arising from securities issued	21 076	21 076	-
Other liabilities	4 356 466	1 395 117	(2 961 349) [1), 3), 5), 6),12)]
Liabilities due to income tax	211	211	
Deferred tax liability	530 302	586 761	56 459[1),8)]
Provisions	870 370	208 773	(661 597) [4),]
Equity	**8 095 698**	**8 857 952**	**762 454**
Share capital	1 000 000	1 000 000	-
Other capital items	5 564 491	6 027 024	462 533 [4), 7)]
Foreign exchange translation differences	(11 472)	(11 472)	-
Retained earnings	6 450	270 046	263 596[1), 7)]
Result for the current year	1 511 065	1 506 505	(4 360)[10),11)]
Minority capital*	25 164	65 849	40 685 [1)]
Total liabilities and equity	**88 762 708**	**85 954 365**	**(2 808 343)**

* In accordance with PAS minority capital was not presented under the equity of the parent company.

Description of changes

1) Consolidation of subsidiaries using the full method previously valued using equity method according to PAS.
2) Derecognition the receivables from Zakładowego Funduszu Świadczeń Socjalnych
3) Derecognition of the restricted interest from the balance sheet
4) General risk provision allocated to the "normal" and "watch" category receivables
5) Consolidation of the subsidiary preparing the financial statements in accordance with IFRS
6) Derecognition of a liability to Zakładowego Funduszu Świadczeń Socjalnych
7) Deemed cost of the tangible fixed assets

The PKO BP SA Group in PLN thousand

8) Change in the presentation of the deferred tax of the subsidiary regarding the subsidiaries
9) Reversal of the company's goodwill amortisation
10) Consolidation of the subsidiary preparing the financial statements in accordance with IFRS, goodwill adjustment, reversal of the goodwill amortisation
11) Distribution of the profit to Social Fund
12) Change in presentation in the subsidiary

Reconciliation of equity between the previously published data prepared in accordance with PAS and comparatives prepared in accordance with IFRS as at 1 January 2004

Equity according to PAS as at 1.01.2004	6 399 638
Transfer of the general banking risk provision to the equity	533 530
Including minority capital	26 009
Deemed cost of the tangible fixed assets valued at fair value in accordance with IFRS 1	226 166
Distribution to Social Fund	(200)
Equity according to IAS as at 1.01.2004	7 185 143

Reconciliation of equity differences between earlier published PAS data and comparative data restated to IAS as at 31 December 2004 and 1 January 2005

Equity according to PAS as at 31.12.2004	8 095 698
Adjustment of goodwill impairment	(21 820)
Reversal of impairment allowances of the goodwill of the subsidiaries	21 537
Including minority capital	42 597
Including in the consolidation of financial statements of the subsidiary – according to IAS	(5 989)
Transfer of the general banking risk provision to the equity	499 963
Deemed cost of the tangible fixed assets valued at fair value in accordance with IFRS 1	226 166
Distribution to Social Fund	(200)
Net assets according to IAS	8 857 952

Net assets according to PAS as at 31 December 2004	8 095 698
Adjustment of goodwill impairment	(21 820)
Reversal of the goodwill amortisation of subsidiaries	21 537
Including minority capital	42 597
Distribution to Social Fund	(200)
Consolidation of the subsidiary financial statements prepared in accordance with IFRS	(5 989)
Application of IAS 39, including:	(138 417)
valuation at amortised cost with use of the effective interest rate adjusted with deferred tax	(336 002)
financial assets impairment	23 229
"old portfolio" capitalized interests	174 356
Deemed cost of the tangible fixed assets valued at fair value in accordance with IFRS 1	226 166
Equity according to IAS as at 1 January 2005	8 219 572

The PKO BP SA Group in PLN thousand

Profit and loss for the 12 month period ended 31 December 2004 – Reconciliation of earlier published PAS financial data and comparative data restated to IAS.

	PAS 01.01.2004 – 31.12.2004	**IAS 01.01.2004 – 31.12.2004**	**Difference IAS-PAS**
Interest income	5 311 743	5 310 475	(1 268)[1),2), 3)]
Interest cost	(1 679 909)	(1 797 742)	(117 833)[2), 3)]
Net interest result	**3 631 834**	**3 512 733**	**(119 101)**
Fees and commission income	1 869 054	1 861 390	(7 664)[1), 3)]
Fees and commission expense	(278 378)	(278 378)	-
Net fees and commission income	**1 590 676**	**1 583 013**	**(7 664)**
Dividend income	3 396	3 396	-
Result from financial instruments valued at fair value	(47 529)	(45 675)	1 854[2), 3)]
Result from investment securities	(138 159)	(20 651)	117 508[1), 2), 3)]
Foreign exchange result	473 436	473 436	-
Other operating income	404 406	636 281	231 875[1),2), 3)]
Other operating expense	(233 552)	(184 045)	49 507[1), 2),3)4)]
Other net operating income	170 854	452 236	281 382
Impairment losses	(86 405)	(169 030)	(82 625)[2), 3)]
General administrative expenses	(3 743 750)	(3 941 767)	(198 017)[1),3)]
Operating result	**1 854 353**	**1 847 690**	**(6 663)**
Share in net profit (loss) of companies valued under the equity pick-up method	20 270	21 925	1 205[1)]
Gross profit (loss)	**1 875 073**	**1 869 615**	**(5 458)**
Taxation	**(363 960)**	**(361 523)**	**2 437**[1), 2), 3)]
Net profit/loss for the period (without minority shareholders)	**1 511 113**	**1 508 292**	**(3 021)**
(Profit) loss attributable to minority shareholders	**48**	**1 587**	**1 539**[1), 3)]
Net profit (loss)	**1 511 065**	**1 506 505**	**(4 560)**

Description of changes
[1)] Consolidation of the subsidiaries with the full method, previously under PAS, valued using of equity pick-up method
[2)] change of presentation in the subsidiaries consolidated with the full method
[3)] included in the consolidation of statements of the subsidiary prepared in accordance with IAS, adjustment of impairment of the goodwill of the company, reversal of the goodwill amortisation
[4)] profit distribution to Social Fund

Reconciliation of the net profit between the earlier published PAS data and the translated IAS comparative data for the 12 month period ended 31 December 2004.

(12 months period ended 31 December 2004)	
Net profit according to PAS	1 511 065
Reversal of the goodwill amortisation	21 537
Profit/loss of the minority shareholders	(21 820)
Included in the consolidation of financial statements of the subsidiary prepared in accordance with IAS	(4 077)
Distribution to Social Fund	(200)
Net profit according to IAS	1 506 505

The PKO BP SA Group in PLN thousand

Explanation of significant differences between earlier published PAS consolidated cash flow statement for the 12-month period ended 31 December 2004 and comparative data restated to IAS:

1. Cash and cash equivalents

Included in cash and cash equivalents are amounts due from banks with a maturity date of less than 3 month, except for cash and amounts due from Central Bank. As at 1 January 2004 the cash and cash equivalents have been adjusted by the amount of PLN 5 141 538 thousand (as at 31 December 2004 PLN 8 600 994 thousand)

2. Financial assets available for sale

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

Effect of IAS implementation on the cash flow statement

	1.01.-31.12.2005
Cash flow from operating activites	
Valuation at amortized costs using the effective interest method, adjusted by deferred tax	(336 002)
Financial assets impairment	(476 734)
Capitalized interest on ”old” portfolio housing loans	174 356
Total effect of transition to IAS	**(638 380)**

The PKO BP SA Group in PLN thousand

Signatures of all Members of the Management Board

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

Signature of a person responsible for keeping the book of account

21 March 2006

Krystyna Szewczyk

Member of the Management Board Chief Accountant of the Bank

(signature)

PKO BANK POLSKI
SPÓŁKA AKCYJNA

DIRECTORS' REPORT ON THE ACTIVITIES OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP IN 2005

WARSAW, MARCH 2006

CONTENTS:

1. INTRODUCTION

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

The PKO BP SA Capital Group reported in 2005 a positive net financial result of PLN 1,735 million, mainly due to the performance of PKO BP SA.

2. EXTERNAL FACTORS AND EVENTS WHICH ARE SIGNIFICANT TO THE GROUP'S PERFORMANCE

2.1 Macroeconomic factors

During the year 2005, the economic growth slowed down in comparison with the year 2004. According to preliminary estimations of GUS (Central Statistical Office), the growth of GDP in the most recent year amounted to 3.2%, compared to 5.3% in the year 2004. The main reason for the economic slow-down which took place in the first half of 2005 was the decline in internal demand due to the following factors: smaller growth of consumption (the effect of extinguishment of the consumption boom from the period of Poland's accession to EU), smaller growth of investments (the effect of greater than expected difficulties with acquiring financing from the EU aid funds, weaker domestic demand, appreciation of Polish zloty and increase in real interest rates) as well as a smaller increase in inventories compared to the period of Poland's accession to EU. However, in the second half of the year, the Polish economy saw certain signs of improvement: gradual increase of people's real income resulted in moderate revival in individual consumption, while the continued good financial performance of enterprises and decreased interest rates, combined with gradual restoration of domestic demand and the continued inflow of direct foreign investments contributed to moderate growth of investments. At the same time, throughout the whole period under analysis, the main driver of economic growth was the decrease in foreign trade deficit.

Despite the economic revival in the second half of 2005 and the overall improvement in companies' financial standing, in 2005 only a slight improvement was observed in the labour market. In December 2005, official unemployment rate decreased by 1.4 percentage points and amounted to 17.6%, with 2.8 million persons without regular employment.

After the period of a significant growth in the inflation rate (4.4% year-to-year at the end of 2004), the inflation rate in 2005 showed a declining trend. In the second half of the year, the inflation rate was slightly below the borderline for the inflation target of the National Bank of Poland (NBP) and oscillated around 1.5%, which was within the bottom range of fluctuations of the inflation rate around the NBP's target. The decrease of the inflation rate in the second half of the year 2005 was mainly the effect of the so called "high reference base", i.e. a considerable increase in prices in the corresponding period of the year 2004 resulting from Poland's accession to the European Union. Moderate salary increases and appreciation of the Polish zloty were also conducive to the decrease in the inflation rate. On the other hand, inflation was boosted by fuel prices, which were increasing over a prevailing part of the year due to increases in the prices of crude oil on the world markets. Eventually, the inflation rate as at the end of 2005 amounted to 0.7% on a year-to-year basis. In 2005, the average inflation rate was 2.1%, compared to 3.5% in 2004.

In 2005, household deposits increased by 3,6% due to a slow increase in the level of household income. However, the decreases in the NBP interest rates and the resulting decreases in the interest rates of bank deposits brought about a decrease in the share of bank deposits in the household savings' structure. At the same time, a growing proportion of household savings was kept in the form of trust fund units, shares or life insurance policies. The reluctance of enterprises to increase the size of investments, combined with good financial performance of enterprises, contributed to a considerable increase in the level of corporate deposits. As a result, the value of corporate deposits in December 2005 was almost 17% greater than in the corresponding period of 2004.

Household loans continued to grow during 2005, especially housing loans, which, among others, was due to the increasing level of household income and decreasing interest rates. In mid 2005, a small growth was noted in corporate loans, which, to a large extent, was due to low reference base, as monthly increases only slightly exceeded or approximated those noted in the previous year. The decline in the growing trend was due to the reluctance of enterprises to launch new investment projects and the relatively small use of external financing.

At the same time, the Group's results were affected by the macroeconomic factors in Ukraine where the subsidiary of PKO BP SA – KREDOBANK SA operates. The main factors include:

- In 2005, the pace of the economic growth slowed down, due to the deterioration of price relations in foreign trade (decline in the prices of steel– the main export product of Ukraine and increase in the prices of crude oil – imported raw material) and little increase of investments (due to unstable political situation). According to preliminary estimates, the pace of this growth in 2005 amounted to 2.4%, compared to 12.1% in the whole year 2004.
- In 2005, on the labour market a decline was noted in the unemployment rate to 3.1% (in December 2005), compared with 3.5% in December 2004. According to the International Monetary Fund, the unemployment rate in real terms is at a much higher level of 8-12%.
- In 2005, the inflation rate dropped to the level of 10.3% y/y, compared to 12.3% in December 2004. The high level of inflation was supported by: increase in demand due to the rise in salaries in the public sector and pensions at the turn of 2004 and 2005 at the time of the election campaign; gradual rise in administrative prices that were held at an underestimated level at the end of 2004. The sharp rise in the prices of crude oil boosted the inflation rate in the first half of the year (up to 14.4%) and the subsequent stabilization of these prices resulted in inflation decrease in the last months of 2005.
- In 2005, the growth of the total value of deposits amounted to app. 60% y/y, compared to 35% y/y in December 2004. In 2005, there was a significant growth in the value of deposits held in domestic currency (over 65% y/y, compared to 31% at the end of 2004), and a smaller growth in the value of deposits held in foreign currency (about 50% compared to 53% in December 2004). The change of the current trends may have resulted from a slight increase in the interest rates on deposits held in domestic currency and a decrease in the interest rates of foreign currency deposits, as well as appreciation of the Ukrainian currency (hryvna - UAH).
- The value of granted loans increased by 61.9% y/y in December 2005, compared to 30.5% in December 2004. The growth in the value of granted currency loans was about 66.3% and was higher than the growth in domestic loans by app. 58.7%. Increase in the growth of domestic loans was due to the falling interest rates, while the sharp increase in the value of foreign currency loans could have been the effect of appreciation and favourable prospects for the rate of UAH. The biggest increase was noted in the category of long-term foreign currency loans (almost 100% y/y in December 2005).
- The monetary policy of the National Bank of Ukraine in 2005 was still focused on the exchange rate level. In the face of a continued very high inflation [and] aggressive fiscal policy, the National Bank of Ukraine undertook activities aiming at the tightening of the monetary policy. In April 2005, the Central Bank allowed a 3% appreciation of the Ukrainian currency, as a result of which the rate of UAH at the end of 2005 was 5.05 UAH/USD, compared to 5.30 at the end of 2004.
- As a result of frequent interventions of the NBU on the currency market, involving the purchase of US dollars (in order to avoid the more significant growth of the value of UAH), there was a significant increase in currency reserves. At the end of December, the value of reserves grew up to almost USD 19.5 billion.
- In August 2005, the Central Bank raised the main interest rate by 50 b.p. up to the level of 9.5%, due to the high level of inflation and the high money supply in the economy.

2.2 Monetary policy of the National Bank of Poland

Pursuant to the NBP's "Monetary Policy Assumptions for the Year 2005", maintaining the annualised inflation rate at 2.5%, with allowable fluctuations of +/-1 percentage point, was the main objective in 2005. The macroeconomic data published in the first half of 2005 (relating mainly to the growth of GDP and, in particular, domestic demand) proved to be worse than expected, which resulted in NBP decreasing its projections with regard to future GDP and inflation. As it became more probable that the inflation rate in 2005-2006 will be below the NBP's inflation objective, the Polish Monetary Policy Council decided to decrease interest rates in the period from March to August by 200 base points altogether (by 225 base points in the case of the bills of exchange rediscount rate). As a result, at the end of 2005, the NBP reference rate amounted to 4.5%.

2.3 Financial market

During the year 2005, a significant decrease was recorded in the profitability of the State treasury debt securities, which varied from 190 b.p. in the case of short-term instruments to 80 b.p. in the case of long-term bonds. At the same time, in the fourth quarter of 2005 the profitability of Treasury securities increased, mainly due to increased uncertainty relating to the development of political situation after the September Parliamentary and October Presidential elections. Another factor which contributed to the decrease in the prices of Polish Treasury securities was related to the fact that investors no longer expected any further decreases in interest rates by the Monetary Policy Council.

In 2005, the Polish zloty appreciated by more than 5% in relation to euro and depreciated by 9% in relation to US dollar (data at the year-end). The depreciation of the Polish zloty in relation to the US dollar was due to a strong appreciation of the US dollar on the world markets in 2005. The appreciation of the effective PLN rate (weighted by the share of the particular currencies in the Polish exports) was due to the fact that the foundations of the Polish economy continued to be positive, as well as due to the positive influence of Poland's accession to the European Union and the high demand from investors for Central European currencies.

2.4 Regulatory environment

Major changes in the external regulatory environment which had an influence on the position of the PKO BP SA Group in 2005 related to the following:

- Amendments of 27 August 2004 (Journal of Laws No. 213 item 2155), which imposed an obligation on listed companies to prepare their consolidated financial statements in accordance with the International Accounting Standards, International Financial Reporting Standards, as well as amendments to executive regulations in the area of accounting, including the Decree of the Minister of Finance dated 10 December 2001 on the specific accounting principles for banks (Journal of Laws No. 149 item 1673 with subsequent amendments), which requires that banks measure specific financial assets and liabilities at amortised cost using the effective interest rate method,
- New rules regulating the functioning of the capital market, introduced as of 24 October 2005 by three acts comprising the new capital market law: the Act on Capital Market Supervision, the Act on Trading in Financial Instruments and the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies; together with executive regulations, those acts created conditions for further liberalisation of the capital market and increase in competition by, among others, allowing brokers to carry out transactions in securities outside the stock exchange market, enabled better protection of investors' interests, introduced changes to the reporting requirements for issuers of securities listed on the stock exchange market and made it easier to undertake brokerage activities as well as resolved taxation issues in the umbrella-type funds, which should boost the growth of such funds;
- Changes in the definition of "own funds", modification of prudence regulations, including changes in calculation of capital adequacy, made on the basis of the Banking Law Act amended in 2004 (Journal of Laws No. 91 item 870) and the executive regulations issued for this Act (Resolution 4/2004 of the Banking Supervisory Commission and Resolution 6/2004 of 8 September 2004 – NBP Journal No. 15 items 25 and 27);
- Amendments to the VAT Act and the related executive regulations relating to, among others, tax reliefs for bad debts, definition of taxable income, new exemptions in the scope of taxable trading, list of deductible input VAT items;
- Increase in banks' costs due to increased protection of consumer rights (relates to the loss of copies of certain banking documents by the clients), resulting from the Banking Law amended in 2004 (Journal of Laws No. 91 item 870);
- Decrease in the banks' share in the EU Guarantee Fund (*Fundusz Poręczeń Unijnych*) in relation to the interest revenues from the obligatory reserve, according to the Law on the EU Guarantee Fund (Journal of Laws 2004, No. 121 item 1262);

- Reduction of banks' costs relating to the bank deposits guarantee system, resulting from the decrease in the obligatory annual payment and the ratio determining the amount of the guaranteed funds;
- New requirements for banks concerning banking secrecy, resulting from the amendments to the Act on Protection of Classified Information;
- Modified requirements for reporting to the Securities and Exchange Commission (KPWiG) as well as the National Bank of Poland and the General Inspectorate for Banking Supervision (GINB) in respect of information required for defining monetary policy and assessing country's monetary situation, banks' financial standing and banking risk, as well as additional reporting requirements (effective from 30 June 2005) relating to taxation of interest on deposits held by non-residents and requirements relating to identification of such individuals;
- Changes in the conditions that must be met while carrying out brokerage activities, including with respect to services provided, settlements processing, transaction recording, loan collaterals, issuing loans for the purchase of securities admitted to public trading by banks conducting brokerage activities, as introduced by the Decree of the Council of Ministers dated 19 April 2005 and the amended reporting requirements concerning brokerage and trust fund activities;
- Changes in tax proceedings resulting from the amended Tax Ordinance Act, including in authorisation for taxpayers to issue guarantees and grant suretyships in order to secure tax liabilities;
- New and amended supervisory legislative solutions binding for banks operating in Ukraine, including liquidity risk, currency risk, mandatory reserves and specific reserves,
- Amended Act on the organization and functioning of pension funds,
- New regulations concerning operating risk management, determined in Recommendation M of the Chief Inspector for Banking Supervision.

Most of the above changes in the regulatory environment resulted in additional financial and organisational expenditures incurred by the PKO BP SA Group. Conversion to IAS/IFRS and creation of new reporting requirements by the Central European Bank obliged the Bank and its subsidiaries to introduce new formats for the Bank's reporting to the Securities and Stock Exchange Commission, the National Bank of Poland and the Banking Supervisory Commission, which required adapting information systems and personnel training. Implementation of new accounting IAS/IFRS standards affected both the amount and the structure of the Bank's assets and liabilities, including the amount of the Group's equity, the amount and structure of its financial results (including net interest income, result on financial instruments, result on investments in securities, foreign exchange result, operating expenses) as well as the level of the capital adequacy ratio.

In addition, the Group's activities in the year 2005 were also affected by the preparation for the introduction of new capital adequacy regulations based on the New Capital Accord (Basel II Accord).

2.5 Competition in the banking sector

Banking sector

In 2005, majority of banks observed an increase in income from banking activities and a significant improvement in the efficiency of operations. As a result, the banking sector reported the highest ever financial result. The most important factors that affected the development of the banking sector were as follows:

- increasing competition on the banking services market, resulting, among others, in:
  - development of financial services offered by non-banking institutions,
  - extension and modernisation of banking products for individual and corporate customers, in particular products relating to housing loans, *bancassurance*, capital market products, products enabling assimilation of the EU aid funds; banks have diversified the prices of their services by promoting loyalty programs and packages;
  - e-banking development, including the development of credit card products and on-line services for individual and corporate customers;

- extension of distribution channels for banking products; banks increased the number of outlets, concluded agreements for cooperation with financial intermediaries, agreements for mutual cash dispenser services and developed direct and Internet sales; the development of business activities was accompanied by an increase in the level of employment and the standard of customer service;
- reducing operating expenses via *outsourcing* – more and more banks opted for *outsourcing* in certain areas of their activities; this related in particular to administrative functions, IT support, legal services, debt collection and card processing;
- entrance of new foreign competitors to the Polish banking market – nearly 90 foreign banks, mainly from the European Union, expressed their interest in providing products and services in a cross-border form in the area of real estate financing, mortgage loans, asset management, servicing the most affluent clients, as well as the provision of financial services to local governments;
- merger of European financial groups, UniCredito and HVB, resulting in the potential formal merger of two Polish banks – Pekao SA and BPH SA.

Changes in the non-banking competitive environment of the Group

Changes in the non-banking environment of the PKO BP SA Group related to both to the environment of the Bank and that of its subsidiaries.

- Among other sectors of the non-banking financial market, the investment funds market was growing most rapidly, which resulted in the growth of competition in relation to bank deposits. There was an increase in both the number of investment fund companies (TFIs) and the number of funds managed by these companies. Assets managed by investment fund companies rose by 62.5% compared to the balance as at the end of 2004 and amounted to PLN 61.3 billion at the end of 2005. This meant a significant increase in the share of investment funds in the absorption of household savings. Collaboration between investment fund companies and banks, including banks from the same capital group, became stronger. The investment fund companies selling participation units in bank outlets noted the biggest inflow of cash. The importance of electronic channels in the distribution of participation units was rising. The investment fund companies were introducing new product initiatives. They introduced the umbrella-type funds, the securitization funds (the first securitization fund on the Polish market was founded by TFI PKO/Credit Suisse) and expanded the scope of their activities to include asset management. Having noticed good conditions on the real estate market, they created funds investing on the real estate market. Together with banks, they also prepared structured products.
- The open pension funds market developed dynamically. During the year 2005, the assets managed by pension fund companies rose by approximately 37%, exceeding the level of PLN 86 billion. The number of pension fund customers increased. At the same time, competition on this market also increased, which resulted in the movements of customers between different funds. Treasury securities predominated in the structure of open pension fund deposits. The funds diversified their investments in listed companies.
- There was a significant increase in trading on the Stock Exchange – in 2005, turnover was 65% higher than in 2004. The revival on the Stock Exchange resulted in an increase in the prices of shares, which was reflected in the growth of the main stock exchange indices, WIG and WIG20.
- There was a revival on the life insurance market, which was a source of competition for bank deposits. More and more insurance companies started to operate in the area of bancassurance and used electronic distribution channels to sell their services.
- The process of equity changes initiating the consolidation process on the investment funds market, pension funds market and on the insurance market was carried out. It can be expected that the process will be continued in 2006.
- Foreign entities started to operate on the investment fund market and in the insurance sector, based on the uniform passport formula.
- The importance of financial intermediary entities on the market of housing loans, investment funds (including foreign funds) and insurance funds was increasing. The most dynamically growing

entities based their activities on collaboration with several banks, investment funds and insurance companies. The activities of intermediaries dealing on the country-wide domestic market have become stronger. New entities dealing on the domestic market started their activities.

- The lease services market grew rapidly, although it clearly slowed down compared to 2004. The slowdown was the effect of decrease in the value of financed vehicles, which continue to represent the largest segment of this market. To compensate the drop of interest in the leasing of cars, leasing companies financed more and more machines and equipment. The real estate lease market developed dynamically too. Leasing companies developed the so called "tailored services" – adjusted better and better to the needs and financial capability of the customer. Growing competition resulted in the decrease of margins and profits reported by leasing companies.
- A revival was observed in the private equity/venture capital sector. Similarly to the previous years, this sector operated mainly based on capital acquired abroad.
- There was a high but stable growth in the Ukrainian banking market. The retail market developed most dynamically. There was a continued deficit of capital. New banks have been registered, most of them with the participation of foreign capital. Decreases in interest rates resulted in the growth of market competition. Consolidation process could be noted on the market, mainly on the initiative of foreign investors.

3. THE PKO BP SA GROUP'S DEVELOPMENT STRATEGY FOR THE YEARS 2006-2008

In 2005, the development of the PKO BP SA Group was entirely subordinated to the implementation of the PKO BP SA Strategy for the years 2003-2005. The Bank's subsidiaries supplemented its business offer in order to support its position of the leader of the Polish banking market. In 2005, certain initiatives were undertaken for the growth of the Capital Group, including in the segment of pension funds, investment funds, development activities and activities conducted on the markets of Central and Eastern Europe.

On 8 December 2005, the Supervisory Board of the Bank approved the Strategy of PKO BP SA for the years 2006-2008. This is an Innovation Strategy which provides for the growth of an effective Capital Group, to be achieved by the development of activities on European markets, including expansion to the most attractive markets of the Central and Eastern Europe. New capital involvements will be focused on widening the possibilities of distribution of the Bank's products and services. The Bank, as the holding entity of the Group, will take part in the processes of consolidation of the Polish financial sector and will strengthen its position on foreign markets.

In the Bank's view, capital investments and other investment initiatives are possible to achieve and will be adequate to the resources held by the Group.

4. ORGANISATION OF THE PKO BP SA GROUP

As of 31 December 2005, the PKO BP SA Group consisted of PKO BP SA as the holding company and 16 direct or indirect subsidiaries of the Bank.

In 2005, there were no changes in the basic principles of Group management.

4.1 Entities included in the consolidated financial statements

These consolidated financial statements include the Bank – which is the holding company of the PKO BP SA Group, and the Bank's subsidiaries, as defined in IAS 27 "Consolidated and separate financial statements".

Table 1. Entities comprising the PKO BP SA Group

No.	Company	Value of involvement at acquisition price	Percentage of share capital	Consolidation method
		PLN thousand	%	
Holding company				
1	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna			
Direct subsidiaries				
2	Powszechne Towarzystwo Emerytalne BANKOWY S.A.	205 786	100.00	Full
3	PKO Inwestycje Sp. z o.o.	153 403*	100.00	Full
4	Centrum Finansowe Puławska Sp. z o.o.	128 288	100.00	Full
5	KREDOBANK S.A. (former Kredyt Bank (Ukraina) S.A.)	111 970	69.018	Full
6	Inteligo Financial Services S.A.	59 602	100.00	Full
7	Centrum Elektronicznych Usług Płatniczych eService S.A.	55 500	100.00	Full
8	Bankowy Fundusz Leasingowy S.A.	30 000	100.00	Full
9	Bankowe Towarzystwo Kapitałowe S.A.	18 566	100.00	Full
Indirect subsidiaries				
	Subsidiaries of PKO Inwestycje Sp. z o.o.			
10	Wilanów Investments Sp. z o.o.	82 981	100.00	Full
11	Fort Mokotów Sp. z o.o.	32 130	51.00	Full
12	POMERANKA Sp. z o.o.	19 000	100.00	Full
13	UKRPOLINWESTYCJE Sp. z o.o.	182	55.00	Full
	Subsidiary of PTE BANKOWY S.A.			
14	Finanse Agent Transferowy Sp. z o.o.	1 861	100.00	Full

* including PLN 5.5 million of a specific extra payment.

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

No.	Company	Value of involvement at acquisition price	Percentage of share capital	Consolidation method
		PLN thousand	%	
Jointly controlled entities				
1	Centrum Obsługi Biznesu Sp. z o.o.	17 498	41.44	Equity method
2	PKO/CREDIT SUISSE Towarzystwo Funduszy Inwestycyjnych S.A.	14 000	50.00	Equity method
3	WAWEL Hotel Development Sp. z o.	13 865	35.40	Equity method
Associates				
4	Bank Pocztowy S.A.	146 500	25.0001	Equity method
5	Kolej Gondolowa Jaworzyna Krynicka S.A.	15 531	37.83	Equity method
6	Ekogips S.A. – in bankruptcy	5 400	60.26	Equity method
7	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	33.33	Equity method
8	Hotel Jan III Sobieski Sp. z o.o.	522	32.50	Equity method
9	Agencja Inwestycyjna CORP S.A.	29	22.31	Equity method
Associate of Bankowe Towarzystwo Kapitałowe SA				
10	FINDER Sp. z o.o.	5 555	42.31	Equity method

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

- International Trade Center Sp. z o.o. in liquidation,
- Przedsiebiorstwo Informatyki Biznesowej "Elbank" Sp. z o.o. in liquidation,
- Sonet Hungary Kft in liquidation (a subsidiary of Inteligo Financial Services SA).

4.2 Changes in the organization of subsidiaries, associates and jointly controlled entities

In 2005, the following events had an impact on the structure of the PKO BP SA Group:

- Acquisition of shares in the increased share capital of Centrum Obsługi Biznesu Sp. z o.o.

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

  The Company is a joint venture of the Bank, the City of Poznań and Buildco Poznań S.A. with its registered office in Luxembourg. The main area of its business activities is the construction and operation of a hotel located in Poznań, which will be managed by an international hotel chain operator, Sheraton.

- Incorporation of POMERANKA Sp. z o.o.

  On 31 March 2005, a deed of incorporation of POMERANKA Sp. z o.o. was signed. At the date of incorporation, the following subsidiaries of PKO BP SA were the shareholders of this Company:

  - PKO Inwestycje Sp. z o.o., which acquired and paid for 498 shares with a total value of PLN 49,800,

– Bankowe Towarzystwo Kapitałowe S.A. (former Dom Maklerski BROKER S.A.), which acquired and paid for 2 shares with a total value of PLN 200.

On 11 April 2005, the Company was registered with the National Court Register.

On 20 April 2005, PKO Inwestycje Sp. z o.o. purchased from Bankowe Towarzystwo Kapitałowe S.A. 2 shares in POMERANKA Sp. z o.o., and thus became the holder of 100% of shares in the company's share capital and obtained the right to exercise 100% of votes at its shareholders' meeting.

On 6 May 2005, PKO Inwestycje Sp. z o.o. took up new shares in the increased share capital of POMERANKA Sp. z o.o. with a value of PLN 3,950 thousand. Following this increase, the share capital of POMERANKA Sp. z o.o. amounts to PLN 4 million and consists of 40,000 shares with a nominal value of PLN 100 each.

The Company was set up in order to carry out development projects.

- Completion of the liquidation proceedings of the Bank's subsidiary – PKO Towarzystwo Finansowe Sp. z o.o.

On 22 February 2005, the Company was deleted from the National Court Register.

- Change of the name and the scope of activities of Bankowe Towarzystwo Kapitałowe S.A. – formerly Dom Maklerski BROKER S.A.

As part of implementation of the adopted strategy, the Company's activities relating to brokerage services were transferred to Bankowy Dom Maklerski PKO BP SA. This process was completed on 1 April 2005.

On 24 March 2005, the Company's Extraordinary General Shareholders' Meeting resolved to change the Company's Articles of Association, including changing its name to Bankowe Towarzystwo Kapitałowe S.A. and changing of the scope of its activities to venture capital activities.

These changes were registered with the National Court Register on 7 April 2005.

- Incorporation of UKRPOLINWESTYCJE Sp. z o.o. with its registered office in Kiev.

On 10 August 2005, UKRPOLINWESTYCJE Sp. z o.o. was registered with the Uniform National Register of Enterprises and Organisations of Ukraine. The company's share capital amounts to the hryvna equivalent of USD 100,000 and consists of 100 shares with a nominal value amounting to the hryvna equivalent of USD 1,000.

The Company's shareholders are:

– PKO Inwestycje Sp. z o.o. (a subsidiary of the Bank), which took up 55 shares accounting for 55% of the company's share capital,

– JEDYNKA S.A. (with registered office in Rzeszów), which took up 30 shares accounting for 30% of the share capital,

– ETALON INCEST (Ukrainian company), which took up 15 shares accounting for 15% of the share capital.

The main task of the Company is to undertake activities aimed at carrying out investment projects in Kiev or other Ukrainian cities.

- Registration of share capital increase of Kolej Gondolowa Jaworzyna Krynicka S.A.

On 29 September 2005, an increase in the Company's share capital was registered with the National Court Register, amounting to PLN 426,250. The shares in the increased share capital were taken up by the City of Krynica Górska. Following this increase, the Company's share capital amounts to PLN 41,053,150 and consists of 821,063 shares with a nominal value of PLN 50 each.

As a result of the increase in the Company's share capital, the Bank's share in its share capital decreased from 38.23% to 37.83%, and the Bank's share in votes at the Annual General Meeting decreased from 37.03% to 36.85%.

- Purchase of shares in KREDOBANK S.A. (the former Kredyt Bank (Ukraina) S.A.) from minority shareholders

PKO BP SA, acting through Przedsiębiorstwo „Rosan – Papiery Wartościowe" Sp. z o.o. with registered office in Lvov, submitted a proposal to the minority shareholders of KREDOBANK S.A. for the purchase of shares held by these shareholders. As a result, the Bank acquired 339,763,026 shares from the minority shareholders, accounting for about 2.367% of the Company's share capital. The price paid for the shares, including any additional fees and commission, amounted to PLN 2,439,350.

As a result of the above transaction, the Bank holds 69.018% of shares in the Company's share capital, which give right to 69.018% of votes at the Company's Annual General Meeting.

- Purchase of shares in Wilanów Investments Sp. z o.o.

On 3 November 2005, the Bank's subsidiary – PKO Inwestycje Sp. z o.o. acquired from Prokom Investments S.A., on the basis of a sale agreement, 1,960 shares in Wilanów Investments Sp. z o.o., of a total nominal value of PLN 1,960 thousand, accounting for 49% of the Company's share capital. The price paid for these shares, amounted to PLN 66.661 thousand, including additional fees.

As a result of the above transaction, PKO Inwestycje Sp. z o.o. holds 100% of shares in the Company's share capital, which give right to 100% of votes at the Company's Shareholders' Meeting.

- Purchase of shares from FINDER Sp. z o.o.

On 9 December 2005, the Bank's subsidiary - Bankowe Towarzystwo Kapitałowe S.A. acquired from a natural person, on the basis of sale agreement, 1,930 shares of FINDER Sp. z o.o. with a total nominal value of PLN 965 thousand. The price paid for the shares, including any additional fees, amounted to PLN 5,555 thousand.

As a result of the above transaction, Bankowe Towarzystwo Kapitałowe S.A. holds 42.31% of shares in the Company's share capital, which give right to 42.31% of votes at the Company's Shareholders' Meeting.

- Change of the name of KREDOBANK S.A. – former Kredyt Bank (Ukraina) S.A.

On 17 November 2005, the Extraordinary General Meeting of Kredyt Bank (Ukraina) S.A. resolved to change the Company's name to "KREDOBANK" S.A. and to change the Company's logo.

On 23 December 2005, the National Bank of Ukraine registered the amendment to the Company's Articles of Association introducing the new name of the Company.

- Activities aimed at increasing control over PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.

On 22 December 2005, the Management Board of the Bank notified the Securities and Exchange Commission of its intention to purchase registered shares of PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A. accounting for 25% of votes at the Annual General Meeting. As a result of this transaction, the Bank will hold the Company's shares accounting for 75% of its share capital and votes at the Annual General Shareholders Meeting.

5. MAJOR EVENTS THAT HAD AN INFLUENCE ON THE ACTIVITIES AND RESULTS OF THE PKO BP SA GROUP

The main events which influenced the activities and results of the PKO BP SA Group in 2005 were connected with the business activities carried out by the Group companies and positive results achieved by the particular entities in the Group and have been described in the following sections of this Directors' Report.

6. PERFORMANCE OF THE PKO BP SA GROUP[1]

6.1 PKO BP SA activity – the holding company of PKO BP SA Group

PKO BP SA is a universal bank that deals with individual persons and legal entities and other domestic and foreign entities. PKO BP SA may possess foreign currency as well as make foreign transactions and open and hold bank accounts in foreign banks and put funds into these accounts.

At the end of 2005:

- the Bank's gross interest-bearing assets amounted to PLN 84.5 billion and increased by PLN 6.7 billion (i.e. 8.6%) compared to 31 December 2004, of which gross loans of PKO BP SA amounted to PLN 48.7 billion and since the beginning of the year increased by PLN 7.6 billion (i.e. 18.5%). Loans accounted for 58% of the total amount of interest-bearing assets and, compared to the end of 2004, this share increased by 5 pp. due to the growth in the balance of loans which amounted to 118.5%.
- the Bank's interest-bearing liabilities amounted to PLN 78 billion and increased by PLN 4.8 billion (i.e. 6.5%) since the beginning of the year. Retail banking deposits accounted for 68.6% of the total amount of deposits and, compared to the balance at the end of 2004, this share decreased by 3.7 p.p., for the benefit of the other types of deposits. In relation to 2004, retail banking deposits increased by 1.1%, housing deposits increased by 20.6%, corporate deposits (including SMEs) increased by 12.8% and other deposits increased by 129.5%.
- the biggest part in the territorial structure of the deposit base had the following regions (total of retail and corporate): Mazowiecki (24.3%), Śląsko-Opolski (12.4%) and Wielkopolski (10.1%); their total part of all Bank's deposits amounted to 46.8% and in comparison to the year 2004 decreased by 2.2pp.,
- the number of savings-giro (ROR) accounts and Inteligo accounts increased by the total of 391 thousand and amounted to 5,903 thousand,
- the number of cards issued by PKO BP SA increased by 633 thousand and at the year end it amounted to 6,076 thousands, of which 200 thousand accounted for an increase in the number credit cards.

<u>Retail banking</u>

The Bank's activities in the area of retail banking focused on maintaining the volume of deposits and increasing the volume of loans by increasing the attractiveness of products offered by the Bank and improving service quality and sales effectiveness through the completion of the following tasks:

- with respect to new, non-standard deposit products,
- with respect to consumer loans (introduction of a new loan product - "Quick Credit Service" (*Szybki Serwis Kredytowy*)),
- with respect to investment banking, placing two new investment funds in the Bank's offer: PKO/Credit Suisse Akcji Nowa Europa [New Europe] and PKO/Credit Suisse Światowy Fundusz Walutowy [World Monetary Fund],
- with respect to development and intensification of distribution channels - launching 90 Mobile Points of Sales focusing on the sales of the Quick Credit Service and conducting an information campaign addressed to the holders of savings-giro (ROR) accounts concerning the PKO Inteligo e-banking services.

The Bank's activities in the area of Private Banking focused on increasing the number of customers covered by the Personal and Private Banking program, increasing the volume of loans while

[1] The financial data of the PKO BP SA Group companies has been presented according to these companies' IAS/IFRS financial statements.

maintaining high quality, increasing the number of issued high prestige cards and increasing the attractiveness of the Bank's offer by further tailoring it to the needs of its clients.

To the most important Bank activities for SMEs in 2005:

- improvement of Bank's offer competitiveness for SMEs and enlargement of availability of credits by implementing the new credit product "Quick Credit Service", modification of credit Hipoteka PARTNER, supporting entrepreneurs within the confines of European funds
- cooperation with European Bank for Reconstructing and Development – described in detail in point 12 of this Directors' Report

Corporate banking

In 2005, the Bank's activities in the area of corporate banking focused in particular on improving the efficiency of corporate customers service in order to strengthen business relations, improve market position and create the business image of the Bank as an active financial institution which is dynamically developing on the corporate market.

In order to improve competitiveness of PKO BP SA products designed for corporate customers, the Bank modified the existing products and introduced new products, such as: trust account, conditional settlements account, multi-purpose credit limit, the e-money instrument for entities making payments to retail customers. Moreover, cash pooling service has been implemented and the functionality of Virtual Supplier Accounts System and home-banking MultiCash system have been expanded.

Moreover, the Bank has implemented the service considering the issuance of securities, corporate bonds and bills of exchange PKO BP SA. Additionally, PKO BP SA cooperated with national financial institutions thus contributing to the increase of activity on the debt securities market.

Real estate financing

In the area of real estate financing, PKO BP SA has the following types of loans:

- housing loans,
- investment credits,
- credits supprted by the state budget which have been granted untill 31 March 1996 on the basis of other regulations

In terms of mortgage products in 2005 the main aim of PKO BP SA activity on the field of real estate financing was maintaining the dominant position on the market. As at 31 December 2005, the debt form mortgage products amounted to PLN 16.8 billion. In comparison to the year 2004 it increased by PLN 3.5 billion i.e. 26%.

The Bank maintains signifficant market share in sales of loans in PLN – on average it amounted to 40% in 2005.

The credit WŁASNY KĄT played the dominant importance in the portfolio.

To increase the attractiveness of the offer and its better adjustment to the client's needs:

- implementation of insurance in case of lost of job and hospitalization,
- modification of the Housing Custodial Account – three types of accounts have been separated adjusted to the transactions concluded on the real estate market,
- investors credits have been expanded – implemented the loan promesa,
- referential rates have been modified for individuals and investors credits.

Moreover, in order to attract new clients and expand the value of granted credits, the special offers for clients acquiring real estates realized by developers particularly investments semi financed by PKO BP SA have been prepared.

The total exposure of credits with state budget aid amounted to PLN 2,778.4 million at the end of 2005 and in comparison to the end of 2004 decreased by PLN 286.3 million (i.e. 9.3%).

The loans with transitional buyout of interest from state budget aid play dominant importance in the portfolio according to the normative and profitable rate. Their part in the portfolio amounted to 96.6%.

Money market activities

In 2005, the Bank's activity on the money market focused mainly on liquidity, interest rate and currency risk management, investment portfolio management and trade activities carried out on the inter-bank market and with the Bank's clients.

The most important activities focused on:

- Bank's debt securities portfolio management
- an increase of investments in securities denominated in foreign currencies
- assuring long-term financing in CHF
- the activity of Bank on the treasury securities market and interest rate derivatives
- development of transactions with non-banking clients

Financial results:

The relation of the total assets of PKO BP SA to the Group amounted to 98.6% in 2005 and the share of net profit PKO BP SA in the consolidated net result of the Group amounted to 96.7% in 2005. Because of that fact the Bank as a dominant entity has major impact on the balance sheet and the profit and loss account of the Group PKO BP SA. Thus, the presented consolidated financial results in point 8 reflect also results for PKO BP SA.

The activities of PKO BP SA – the Group's holding company, including its main products, services and areas of activity as well as financial performance for the year 2005 have been presented in the *Directors' Report on the activities of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna in 2005*, which is an integral part of the annual report of PKO BP SA.

6.2 Activity of other entities of PKO BP SA Group

Bankowy Fundusz Leasingowy S.A.

The Company offers operating and finance lease services in respect of vehicles, machinery, equipment and real estate as well as other financial agency services. Special services of the Company include: BanCar Leasing, representing lease of passenger cars and trucks and Bankowy Wynajem – a long-term lease of automobiles.

- The value of the Company's equity at the end of 2005 amounted to PLN 22,010 thousand.
- The Company closed the year 2005 with a net profit of PLN 2,835 thousand.
- In 2005, the Company carried out lease agreements for a total amount of PLN 455.5 million. As regards the net value of the leased assets, the Company ranked 13th at the end of 2005 (according to data published by *Rzeczpospolita* on 11 January 2006).
- In 2005, the Company commenced the program of providing leasing services to small land medium-sized enterprises making use of the EU structural funds.
- In 2005, the Company introduced a new product to its offer - Ban Truck Leasing. This product is dedicated to Companies operating in the transport services industry and deals with the lease of heavy hauling equipment.
- The Company signed a loan agreement with the European Bank for Reconstruction and Development for an amount of PLN 60 million, for the financing of lease contracts concluded with small and medium-sized enterprises.

Centrum Elektronicznych Usług Płatniczych eService S.A.

The main activities of eService S.A. include: the acquisition (to the Bank's order) of retail points, the so-called acceptors, which execute transactions with the use of cards, the management of POS terminals' network, processing of data relating to card transactions performed at POS terminals, and servicing of cash withdrawals at POS terminals installed, among other places, in PKO BP SA agencies and branches.

- The value of the Company's equity as at 31 December 2005 amounted to PLN 5,458 thousand.
- In 2005, the Company significantly improved its financial performance compared to the previous years. At the end of December 2005, the Company reported a net profit of PLN 8,739 thousand.
- The Company's share in the card acceptance market as regards the number of eService terminals reached the level of 30% at the end of 2005 and increased by 4.9% compared to the end of 2004. The number of eService terminals at the end of 2005 amounted to 29,557.
- In 2005, 49,348 thousand transactions for a total amount of PLN 8,056,806 thousand were conducted using the eService terminals. As regards the value of generated card transactions, the Company's share in the market at the end of 2005 was estimated at 25%.

<u>Centrum Finansowe Puławska Sp. z o.o.</u>

The Company manages the building „Centrum Finansowe Puławska", located at 15 Puławska Street in Warsaw.

- The value of the Company's equity at the end of 2005 amounted to PLN 199,982 thousand.
- At the end of 2005, the Company reported a net profit of PLN 122 thousand.

  The Company's financial results in 2005 were significantly affected by foreign exchange losses connected with an increase in the value of US dollar in relation to 2004, and the resulting increase in the costs of the long-term foreign currency loan taken by the Company for the construction of the Centrum Finansowe Puławska building. The currency risk related to the repayment of this loan is hedged by office space rental contracts denominated in USD. However, in accordance with the current accounting policies, the Company is not required to separate derivatives from these currency contracts, as they were concluded in a currency commonly used in such contracts.
- The rented office space and commercial area in the CFP building was subject to small fluctuations and amounted to 99% at the end of 2005.
- The Polish Building Employers Association (*Polski Związek Pracodawców Budownictwa*) prolonged the Developer's Certificate held by the Company until June 2007.

<u>Inteligo Financial Services S.A.</u>

The main area of the business activities of Inteligo Financial Services S.A. is the provision of e-banking services. The Company provides a platform for the development of electronic services of PKO BP SA in the field of keeping accounts and selling other banking products using interactive distribution channels.

- The value of the Company's equity at the end of 2005 amounted to PLN 43,153 thousand.
- The Company closed the year 2005 with a net profit of PLN 26,545 thousand. This profit is mainly the result of increase in income due to the extension of services provided by the Company to the Bank.
- The value of deposits held by PKO BP SA customers using the Inteligo accounts increased in 2005 by PLN 284 million in relation to the end of 2004, and amounted to PLN 1,523 million at the end of 2005.
- At the end of 2005, the Inteligo account with a 9% market share ranks 4th on the e-banking market in terms of the number of clients (estimates made by the Company on the basis of data provided by *Rzeczpospolita* for Quarters 1 to 3 of 2005 and information provided by mBank).
- In January 2005, the Company was awarded a certificate of compliance with the ISO 9001:2000 standard for designing software development, introducing changes to production environment, installation of changes and system maintenance.

<u>Powszechne Towarzystwo Emerytalne BANKOWY S.A.</u>

The main area of the activities of Powszechne Towarzystwo Emerytalne BANKOWY S.A. („PTE") is the management of an open-end pension fund. Since 2003, the Bank holds 100% of PTE's shares.

- The value of equity of the PTE BANKOWY S.A. Group (PTE BANKOWY S.A. and its subsidiary, Finanse Agent Transferowy Sp. z o.o.) amounted to PLN 73,829 thousand as at 31 December 2005.
- The PTE BANKOWY S.A. Capital Group closed the year 2005 with a net profit of PLN 19,107 thousand.
- In 2005, PTE reported a dynamic growth in the value of managed assets (collected in Bankowy Otwarty Fundusz Emerytalny – the open-end pension fund – "BOFE"). At the end of 2005, the value of BOFE assets amounted to PLN 2,749 million, and increased by 19% in relation to the end of 2004.
- At the end of 2005, the number of accounts kept for BOFE members amounted to 455,941.
- At the end of 2005, BOFE was ranked 8th on the market of pension funds, both as regards the value of assets and the number of accounts.
- In the ranking of the rates of return published by the Insurance and Pension Funds Supervisory Commission (KNUiFE) in April 2005, BOFE was ranked 1st on the listing of rates of return with the result of 45.759%, while the weighted average was 41.480%. In September 2005, BOFE achieved a rate of return approximating the weighted average rate of return and was ranked 7th on the list.

PKO Inwestycje Sp. z o.o.

The Company's main activity is construction and development. PKO Inwestycje Sp. z o.o. specializes in the management of big development Project.

Development projects are carried out by the Company itself or by its subsidiaries, which are set up together with specialized developers.

- The value of equity of the PKO Inwestycje Sp. z o.o. Group (PKO Inwestycje Sp. z o.o. and its subsidiaries) amounted to PLN 174,410 thousand at the end of 2005.
- The PKO Inwestycje Sp. z o.o. Group closed the year 2005 with a net profit of PLN 20,833 thousand.

In 2005, the Company's activities focused on the following development projects:

- Project "Marina Mokotów"

The project is carried out by the Company's special purpose vehicle, Fort Mokotów Sp. z o.o., in which PKO Inwestycje Sp. z o.o. holds 51% of shares. The project includes construction and sale of private lodgings and business premises located in Warsaw, at 107 Racławicka Street.

The project is progressing according to the plan.

- Project "Nowy Wilanów"

The Project is carried out by a special purpose vehicle, Wilanów Investments Sp. z o.o., which was set up in March 2004 and in which PKO Inwestycje Sp. z o.o. holds 100% of shares. The project includes construction and sale of private lodgings and business premises located in the prestigious Warsaw district, Wilanów.

At the end of 2005, the project was completed in 78% as regards Phase I and 17% as regards Phase II.

- Project "Trzy Gracje"

The project includes construction and sale of a housing and commercial complex in Sopot, and it has been carried out directly by PKO Inwestycje Sp. z o.o. All private lodgings were sold until the end of 2005 in accordance with the plan. Business premises still remain to be sold.

- Project "Centrum Biznesu Fort Mokotów"

In 2005, the Company conducted research work with regard to the construction project "Centrum Biznesu Fort Mokotów". As a result of the analyses performed by the Company, the Company withdrew from realization of this project. At the same time, the Company started to perform analyses connected with an alternative construction project.

- Project "Neptun Park"

In March 2005, a company was set up under the name of POMERANKA Sp. z o.o., in which PKO Inwestycje Sp. z o.o. holds 100% of shares, for the purpose of carrying out a housing construction project. In accordance with the plan, in December 2005 the Company commenced work related to Phase I (construction of 5 buildings) in Gdańsk Jelitkowo.

Another company was set up under the name of UKRPOLINWESTYCJE Sp. z o.o., in which PKO Inwestycje Sp. z o.o. holds 55% of shares in the share capital, and whose purpose is to carry out development activities on the territory of Ukraine. Currently the Company conducts research on the Ukrainian development market.

Bankowe Towarzystwo Kapitałowe S.A.

In 2005, the Company carried out work relating to commencement of its activities in the field of venture capital.

- The value of the Company's equity at the end of 2005 amounted to PLN 18,393 thousand.
- The Company closed the year 2005 with a net loss of PLN 1,353 thousand.

KREDOBANK S.A. (the former Kredyt Bank (Ukraina) S.A.)

KREDOBANK S.A. in Lvov conducts banking activities in Ukraine.

- The value of equity of KREDOBANK S.A. as at 31 December 2005 amounted to UAH 134,208 thousand.
- KREDOBANK S.A. closed the year 2005 with a net profit of UAH 10,145.7 thousand.
- At the end of 2005, KREDOBANK S.A. achieved a 0.95% share in the Ukrainian banking services market as regards the value of net assets, and was ranked 22nd among Ukrainian banks.
- In 2005, KREDOBANK S.A. continued to be classified in Group II of the Ukrainian banks – "big banks", i.e. with the value of assets exceeding UAH 1,300 million.
- The loan portfolio (gross) of KREDOBANK S.A. increased by UAH 584.1 million i.e. 56.7% in relation to the balance at the end of 2004 and amounted to UAH 1,613.6 at the end of December 2005.
- "A vista" deposits increased by UAH 213.5 million i.e. 88.0% in relation to the balance at the end of 2004, and amounted to UAH 456.1 million at the end of December 2005.
- Clients' term deposits increased by UAH 326.9 million i.e. 45.2% since the beginning of the year and amounted to UAH 1,050.1 million at the end of December 2005.
- In 2005, KREDOBANK S.A. concluded a loan agreement with PKO BP SA, under which KREDOBANK S.A. was granted a revolving working capital loan in the amount of USD million.
- In 2005, PKO BP SA extended two loans to KREDOBANK S.A. for an amount of USD 7 million and USD 7.5 million, each of them for the period of 8 years, which, following the consent of the National Bank of Ukraine, were included in own capital of KREDOBANK S.A.
- In cooperation with PKO BP SA, KREDOBANK S.A. developed a Strategy for expansive development of KREDOBANK S.A. in the years 2005 – 2008, which provides for a dynamic development of the Bank in the area of retail banking.

7. OTHER SIGNIFICANT SUBORDINATED ENTITIES

PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych SA

The business activities of PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych include setting up and management of investment funds.

- As at 31 December 2005, the value of the Company's equity amounted to PLN 55,209 thousand[2],
- The Company closed the year 2005 with a net profit of PLN 30,692 thousand,
- The value of assets of the funds managed by the Company amounted to PLN 5,205 thousand at the end of 2005, which gave the Company an 8.5% share in the investment fund market and

[2] The financial data of PKO/Credit Suisse TFI SA is presented in accordance with the Company's PAR financial statements.

ranked it 4th among such companies (3rd at the end of 2004). The value of assets increased by 56% compared to the end of 2004.

- In 2005, the Company included the following products in its offer: Fundusz Rynku Pieniężnego (Money Market Fund), S-Collect (non-standardized securitization fund), Fundusz Akcji Nowa Europa (New Europe securities fund), Fundusz Obligacji Ekstra (bonds fund "Extra"), Światowy Fundusz Walutowy (International Monetary Fund), including: Papierów Dłużnych EUR (EUR debt securities), Papierów Dłużnych USD (USD debt securities), Papierów Dłużnych CHF (CHF debt securities), Papierów Dłużnych GBP (GBP debt securities) and Małych Japońskich Spółek (small Japanese companies). In addition, the Company introduced to its offer an Investment Deposit (Lokata Inwestycyjna), a product offered together with the Bank which combines the features of a deposit placement and an investment in a Balanced Fund (Fundusz Zrównoważony).
- In May 2005, the Company paid out to the shareholders a dividend from the profit for the year 2004 amounting in total to PLN 25.4 million (gross).

8. FINANCIAL PERFORMANCE OF THE PKO BP SA GROUP

Neither the Bank nor any other companies from the PKO BP SA Group published any forecasts relating to the financial results for the year 2005.

8.1 Balance sheet structure

The balance sheet of the holding company has the most significant influence on the balance sheet of Capital Group. It determines both the value and the structure of the Group's assets and liabilities. As at 31 December 2005, total assets of PKO BP SA accounted for 98.6% of total assets of the Group.

As at 31 December 2005, total assets of the Group amounted to PLN 91,613 thousand and increased by PLN 5,659, i.e. 6.6%, compared to the end of 2004.

8.1.1 Assets

Table 3. Major asset categories of the PKO BP SA Group (in PLN thousands)

Assets	As at		Change	
	31.12.2005	**31.12.2004**	**PLN thousands**	**%**
1	*2*	*3*	*4*	*5*
1. Cash and balances with the Central Bank	3 895 331	3 525 329	370 002	10.5%
2. Amounts due from banks	12 663 295	13 231 947	(568 652)	(4.,3)%
3. Financial assets	851 003	369 517	481 486	130.,3%
4. Derivative financial instruments	1 137 227	1 362 379	(225 152)	(16.,5)%
5. Other financial instruments valued at fair value through profit or loss	20 059 683	0	20 059 683	x
6. Loans and advances to customers	46 874 629	40 037 204	6 837 425	17.,1%
7. Investment securities	1 881 378	23 457 928	(21 576 550)	(92.,0)%
8. Property, plant and equipment	2 643 551	2 651 824	(8 273)	(0.,3)%
9. Other assets	1 607 084	1 318 237	288 847	21.,9%
Total assets	**91 613 181**	**85 954 365**	**5 658 816**	**6.,6%**

In comparison to the end of 2004, the most significant change in the assets' structure is the transfer of assets from "Investment securities" to "Other financial instruments valued at fair value through profit or loss" in connection with separation of the ALPL[3] portfolio from the previous "available for sale" portfolio. This allowed the Bank to reflect the results from valuation of hedged items and hedging instruments within the same category of the profit and loss account, which increased the transparency of presented results from valuation of debt securities.

[3] Assets and liabilities at fair value through profit and loss

As at 31 December 2005, the most significant item in the PKOBP SA Group's assets (51.2%) consists of loans and advances to customers.

Table 4. Loans and advances granted to the customers of the PKO BP SA Group (in PLN thousands)

Assets	As at		Change	
	31.12.2005	31.12.2004	PLN thousands	%
1	*2*	*3*	*4*	*5*
I. Loans granted to customers	46 283 983	39 555 713	6 728 270	17.0%
1. Gross loans and advances granted to customers, of which:	49 226 992	42 198 940	7 028 052	16.7%
- public sector	6 749 221	7 613 858	(864 637)	(11.4)%
- financial sector (except for banks)	332 727	279 916	52 811	18.9%
- non-financial sector	42 145 044	34 305 166	7 839 878	22.9%
2. Allowances for loans showing indicators of impairment	(2 943 009)	(2 643 227)	(299 782)	11.3%
II. Net receivables due to financial leasing	590 646	481 491	109 155	22.7%
Loans and advances to customers	**46 874 629**	**40 037 204**	**6 837 425**	**17.1%**

Receivables from customers with maturities over 1 year had a predominant role in the aging structure of gross loans and advances as at 31 December 2005 and 2004. Their total share in the Bank's loan portfolio increased from 62.0% at the end of 2004 to 64.2% at the end of 2005. In the aging structure of receivables, the greatest increase (by 2.9 pp.) was observed in the category of receivables due in more than 5 years, which was mainly due to the high dynamics of long-term housing loans.

Further information concerning the maturity terms of credits and loans given to clients of the Group is stated in the note 28 of Additional Information of Financial Statement.

8.1.2 Equity and Liabilities

Liabilities

Table 5. Major items of liabilities and equity of the PKO BP SA Group (in PLN thousands)

Item	As at		Change	
	31.12.2005	31.12.2004	PLN thousands	%
1	*2*	*3*	*4*	*5*
1. Liabilities, of which:	82 838 191	77 096 413	5 741 778	7.4%
- Amounts due to the Central Bank	766	144	622	431.9%
- Amounts due to other banks	2 083 346	998 718	1 084 628	108.6%
- Derivative financial instruments	1 257 384	793 739	463 645	58.4%
- Amounts due to customers	76 747 563	73 091 874	3 655 689	5.0%
- Other liabilities	2 749 132	2 211 938	537 194	24.3%
2. Total equity	8 774 990	8 857 952	(82 962)	(0.9)%
Total liabilities and equity	**91 613 181**	**85 954 365**	**5 658 816**	**6.6%**

The most significant item of the Group's liabilities and equity (83.8%) consists of amounts due to customers, which amounted to PLN 76,748 million as at 31 December 2005 and increased by 5.0% compared to the balance at the end of 2004. It was the main source of financing of the Group.

As at 31 December 2005, the main item in the Group's liabilities to customers (accounting for 82.8% of the total balance) consisted of amounts due to private customers, which amounted to PLN 63,540 million. The most significant item in this category consisted of term deposits, which amounted to PLN 42,814 million at the end of 2005 and decreased by 0.6% compared to the end of 2004.

The following changes took place in amounts due to customers compared to the end of 2004:

- amounts due to corporate entities increased by PLN 3,409 million, i.e. 51.5%, and this mainly related to term deposits, which increased almost twice,
- amounts due to private customers increased by PLN 2,430 million, i.e. 4.0% (of which current deposits increased by PLN 2,723 million, i.e. 15.1%),
- amounts due to public sector entities decreased by PLN 2,183 million (i.e. 40.7%) – the main reason for such a decrease was the withdrawal of funds by the Ministry of State Treasury in accordance with the Act on Bank Gospodarstwa Krajowego of 14 March 2003 and the Decree of the Minister of Finance dated 28 December 2004 on the rules for investing public funds.

In the amounts due to the customers of the Group by maturity, compared to the end of 2004, an increase was observed in amounts due to customers within up to 3 months (including current accounts and overnight deposits), which increased by 12.3% compared to the end of 2004, while the balance of deposits with maturities over 3 months decreased by 15.4%. This had an impact on the aging structure of amounts due to customers, in which the percentage of amounts due to customers within up to 3 months increased from 72.5% to 77.5%, with a corresponding decrease in the percentage of liabilities with longer maturity periods. The share of amounts due within one year amounted to 2% of the total amounts due to the customers.

8.2 Off-balance sheet items

Table 6. Off-balance sheet items (in PLN thousands)

Item	As at		Change	
	31.12.2005	31.12.2004	PLN thousands	%
1	*2*	*3*	*4*	*5*
I. Contingent liabilities	**10 268 549**	**6 398 063**	**3 870 486**	**60.5%**
1. Financial	8 792 299	5 659 586	3 132 713	55.4%
2. Guarantees	1 476 250	738 477	737 773	99.9%
II. Liabilities arising from purchase/sale transactions	**279 032 415**	**170 084 929**	**108 947 486**	**64.1%**
III. Other	**14 571 039**	**14 120 739**	450 300	**3.2%**
1. Irrevocable liabilities	8 519 942	9 504 826	(984 884)	(10.4)%
2. Collaterals received	6 051 097	4 615 913	1 435 184	31.1%
Total off-balance sheet items	**303 872 003**	**190 603 731**	**113 268 272**	**59.4%**

In comparison to the end of 2004, the total off-balance sheet items PKO BP SA increased by 59.4% mainly due to increase in liabilities related to purchase/sale transactions, which increased by 64.1%. This item mainly consisted of derivative transactions and forward exchange transactions which were concluded by PKO BP SA in order to manage the Bank's foreign currency liquidity as well as for speculation and arbitrage purposes.

Additionally, the description of the total off-balance sheet transactions is stated in the Note 45 of the Additional Notes to consolidated financial statements.

8.3 Profit and loss account

Table 7. Main items of the profit and loss account of the PKO BP SA Group (in PLN thousands)

Item	2005	2004	Dynamics
1	*2*	*3*	*4*
1. Net interest income	3 544 475	3 512 733	100.9%
2. Net fees and commission income	1 217 882	1 583 012	76.9%
3. Dividend income	16 112	3 396	474.4%
4. Result from financial instruments at fair value	31 706	(45 675)	x
5. Result from investment securities	276 856	(20 651)	x
6. Foreign exchange result	612 101	473 436	129.3%
7. Net other operating income	766 523	452 236	169.5%
8. Total income items (1-7)	**6 465 655**	**5 958 487**	**108.5%**
9. Impairment losses	(161 090)	(169 030)	95.3%
10. General administrative expenses	(4 161 051)	(3 941 767)	105.6%
11. Share in the profits (losses) of associates	23 531	21 925	107.3%
12. Profit before taxation	**2 167 045**	**1 869 615**	**115.9%**
13. Income tax expense	(411 424)	(361 523)	113.8%
14. Profits (losses) of minority shareholders	20 801	1 587	1310.7%
15. Net profit	**1 734 820**	**1 506 505**	**115.2%**

8.3.1 Income items

In the Group's profit and loss account for the year 2005, the total of income items amounted to PLN 6,466 million and was PLN 507 million (i.e. 8.5%) higher than in 2004. The main items comprising this amount were net interest income and net fees and commission income.

Net interest income

Table 8. Interest income and expense of the PKO BP SA Group

Item	2005	2004	Dynamics
1	*2*	*3*	*4*
1. Interest income, of which:	**5 662 012**	**5 310 475**	**106.6%**
- from loans and advances granted to customers	3 573 404	3 067 934	116.5%
- from securities at fair value through profit or loss	1 256 445	1 398 947	89.8%
- from placements with other banks	601 248	423 171	142.1%
- from investment securities	139 506	326 073	42.8%
- other	91 409	94 350	96.9%
2. Total interest expense, of which:	**(2 117 537)**	**(1 797 742)**	**117.8%**
- relating to amounts due to customers	(1 924 327)	(1 616 676)	119.0%
- relating to deposits from other banks	(71 969)	(53 905)	133.5%
- other	(121 241)	(127 161)	95.3%
Net interest income	**3 544 475**	**3 512 733**	**100.9%**

The net interest income consists of interest income of PLN 5,662 million and interest expense of PLN 2,118 million, which increased, respectively, by 6.6% and 17.8% in comparison to 2004. Higher dynamics of expenses was connected to an increase in the volume of deposits and better competitive position of the Group with respect to deposit interest rates.

The most significant item in the Group's interest income in 2005 was income from loans and advances granted to customers, which accounted for 63.1% of total interest income (5.3 pp. increase in relation to 2004), and then income from securities at fair value through profit or loss, which accounted for

22.2% of total interest income (4.1 pp. decrease in relation to 2004). These securities mainly included bonds and Treasury and money bills.

In the structure of interest expense in 2005, the most significant item was the expense related to amounts due to customers, which accounted for 90.9% of total interest expense and increased by 1.0 pp. in relation to 2004.

In 2005, the average interest rate of PKO BP SA loans was 7.7%[4], while the average interest rate of deposits was 2.6%[5]. Compared to 2004, these rates sustained at the same level in the case of loans, and increased by 0.3 pp. in the case of deposits.

Net fees and commission income

Table 9. Fees and commission income and expense of the PKO BP SA Group (in PLN thousands)

Item	2005	2004	Dynamics
1	*2*	*3*	*4*
1. Fees and commission income, of which:	1 537 579	1 861 390	82.6%
- from loans and advances granted by the Group	72 983	478 374	15.3%
- other	1 464 596	1 383 016	105.9%
2. Fees and commission expense	(319 697)	(278 378)	114.8%
Net fees and commission income	**1 217 882**	**1 583 012**	**76.9%**

In 2005 net fees and commission income decreased by 23.1% in relation to 2004. This amount consists of fees and commission income amounting to PLN 1,538 million (i.e. 17.4% decrease in relation to 2004) and fees and commission expense of PLN 320 million (i.e. 14.8% increase in relation to previous year).

The decrease in fees and commission income mainly relates to income from loans and advances, which decreased by 84.7% due to the fact that, starting from 2005, such income is deferred and accounted at amortized cost using the effective interest rate, which discounts the expected cash flow to net carrying amount over the period to maturity of the loan. Fees and commissions are included in the calculation of the effective interest rate because they are an integral part of the effective return on the loan or advance and adjust their carrying amount.

In terms comparable with 2004, i.e. including all fees and commissions recognised on a cash basis in 2005, the dynamics of fees and commission income would amount to approximately 113%.

As of 1 January 2006, the Bank introduced a new "Table of Banking Fees and Commission Rates". This change resulted from market conditions and new products and services offered by the Bank.

Other income items

The total of other income items (other than net interest income and net fees and commission income) amounted to PLN 1,703 million and increased by 97.4% in comparison to 2004. This was due to the following:

- The result from financial instruments at fair value amounted to PLN 32 million and was PLN 77 million higher than corresponding balance in the previous year;
- The result from investment securities amounted to PLN 277 million (an increase of PLN 298 million compared to 2004) – the increase was a result of an increased activity of the holding company on the Stock Exchange, especially in the third quarter of 2005, due to the boom on the stock exchange market during this period;

[4] The average interest rate for loans was calculated as the relation of interest income from loans to the average balance of loans in the reporting period.

[5] The average interest rate for deposits was calculated as the relation of interest expense relating to deposits to the average balance of deposits in the reporting period.

- Foreign exchange result amounted to PLN 612 million and increased by 29.3% in relation to 2004, mainly due to better result on FX SWAP and CIRS transactions (the result on these transactions is of an interest type); these transactions are used in order to hedge currency liquidity, including that related to housing loans;
- Net other operating income amounted to PLN 767 million (an increase of 169.5%) and consisted of other operating income of PLN 876 million and other operating expense of PLN 109 million; the increase in this item was due to the growth of income of the consolidated company Fort Mokotów Sp. z o.o., which is part of the PKO Inwestycje Group, due to the development of its activity, and consolidation of Wilanów Investment Sp. z o.o. in 2005 (also from the PKO Inwestycje Group);
- Dividend income amounted to PLN 16.1 million (more than four times higher compared to 2004).

8.3.2 Impairment losses

The result from impairment losses amounted to PLN (-) 161 million in 2005 and improved by PLN 8 million compared to 2004. This was due to better quality of the loan portfolio as well as the finalisation in the fourth quarter of 2005 of the sale of a portfolio of non-performing retail loans.

8.3.3 General administrative expenses

In 2005, the Group's general administrative expenses amounted to PLN 4,161 million and increased by 5.6% in relation to 2004. In the same period, general administrative expenses of PKO BP SA as a holding company decreased by 0.4%. The increase in general administrative expenses was due to the previously mentioned consolidation of Wilanów Investments Sp. z o.o. and an increase in the costs of Fort Mokotów Sp. z o.o. due to the development of its activities. The increase in the administrative expenses of the above-mentioned Group companies has been compensated by the growth of their income, recorded under "Other operating income".

The individual expense items were as follows:

- Employee costs – personnel costs incurred by the Group in 2005 amounted to PLN 2,053 million and increased by PLN 110 million, i.e. 5.7%, comparing to 2004. The main reason for the increase was a change in the salaries level in PKO BP SA; the increase in the costs of salaries was the result of the Bank's strategy aimed at adjusting the salaries level in the Bank to the average salaries level in the banking sector in Poland and the planned restructuring of employment;
- Non-personnel costs amounted to PLN 1,576 million in 2005 and increased by 11.4% compared to 2004;
- Depreciation of tangible fixed assets and amortization of intangible assets amounted to PLN 467 million in 2005 and decreased by PLN 51 million, i.e. 9.8%, compared to 2004;
- Other administrative expenses in 2005 amounted to PLN 74.9 million, which was slightly less than in 2004. The main items are: taxes and charges, which amounted to PLN 66.9 million in 2005 and increased by 5.2% compared to 2004, and contribution to the Banking Guarantee Fund, calculated as a specific percentage of assets weighted by risk (determined separately for each year), which in 2005 contribution to the Banking Guarantee Fund amounted to PLN 8 million and decreased by PLN 3.7 million, i.e. 31.8%, compared to 2004.

8.3.4 Key financial ratios

The financial results of the PKO BP SA Group for 2005 resulted in the following levels of the key financial ratios:

Ratio	2005	2004
1	*2*	*3*
1. Profit (loss) before taxation / average assets (ROA[6] $_{gross}$)	2.44%	data not available[7]
2. Net profit (loss) / average assets (ROA $_{net}$)	1.95%	data not available
3. Profit (loss) before taxation / average equity (ROE[8] $_{gross}$)	24.58%	data not available
4. Net profit (loss) / average equity (ROE $_{net}$)	19.68%	data not available
5. General administrative expenses / total income items (C/I)	64.36%	66.15%

8.4 Equity and Capital Adequacy Ratio

Table 10. Equity of the PKO BP SA Group (PLN thousands)

Item	As at:		Change by:
	31.12.2005	31.12.2004	
1	*2*	*3*	*4*
1. Share capital	1 000 000	1 000 000	0.0%
2. Other capital items	5 850 063	6 027 024	(2.9)%
3. Currency translation adjustments	(4 082)	(11 472)	(64.4)%
4. Retained earnings	150 405	270 046	(44.3)%
5. Net profit for the period	1 734 820	1 506 505	15.2%
Equity attributable to the shareholders of the holding company	8 731 206	8 792 103	(0.7)%
Minority interest	43 784	65 849	(33.5)%
Total equity	**8 774 990**	**8 857 952**	**(0.9)%**
Capital adequacy ratio	**13.90%**	**18.44%**	**4.54 pp.**

In comparison to 2004 , the Group's equity decreased by 0.9%. A decrease in the Group's equity comparing to 31 December 2004 in spite of the relatively high net profit for the period was the effect of a number of factors, among which the most significant were: the appropriation of PLN 1 billion from the net profit for 2004 to shareholder dividends, adjustments made in respect of IAS 39 and reduction of the revaluation reserve.

The Group's capital adequacy ratio as at 31 December 2005 was 13.90% and decreased by 4.54 percentage points in relation to 2004.

The following reasons contributed to the decrease of the capital adequacy ratio:

[6] *The ROA gross and ROA net ratios are calculated as the relation of, respectively, gross profit (loss) and net profit (loss) to the arithmetical mean of the balances of assets at the beginning and end of the reporting period.*

[7] *ROA and ROE for the year 2004 cannot be calculated on a basis comparable to 2005 due to the lack of information on the opening balances of assets and equity according to IFRS , i.e. as at 31 December 2003.*

[8] *The ROE gross and ROE net ratios are calculated as the relation of, respectively, gross profit (loss) and net profit (loss) to the arithmetical mean of the balances of shareholders' equity (including accumulated profits from previous years and net profit for the period) at the beginning and end of the reporting period.*

- decrease of the Shareholders' funds used in the calculation of the ratio - mainly as a result of reduction of the revaluation reserve (due to revaluation gains realised on the sale of available for sale financial assets and transferred from the revaluation reserve to the result on financial operations in the profit and loss account) and an increase in the PKO BP SA loan portfolio which decreases the amount of the Group's funds used in calculation of the capital adequacy ratio,
- increase of the total capital requirement - mainly due to the increase of assets with a risk weighting of 100% as a result of growth of the loan portfolio and the application of the amended rules for calculating capital requirements which came into force on 1 January 2005.

9. RISK MANAGEMENT POLICY

Risk management is one of the most important internal processes of the PKO BP SA and the other entities of the Group – particularly in KREDOBANK SA and in Bankowy Fundusz Leasingowy SA (BFL SA). The aim of this process is to ensure an appropriate level of security and profitability of lending activities in a changing legal and economic environment. Risk management covers both credit risk management and market risk and operating risk management.

9.1 Credit risk

Development of an effective credit risk management system aims at increasing the security and profitability of the services offered by the Group. In credit risk management, the Bank and the Group entities follow the following rules:

- each loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk relating to potential and concluded loan transactions is measured on a regular basis taking into consideration changing external conditions and changes in the financial standing of the borrowers,
- credit risk assessment is additionally verified by independent units responsible for credit risk assessment,
- credit risk is diversified by geographic regions, industry, products and clients,
- credit decisions may only be taken by authorised persons,
- the Bank and the Group entities hedge against credit risk by creating allowances (specific provisions) for the impairment of loan exposures.

In 2005, KREDOBANK SA amended its internal regulations relating to credit policy, authorisations to take credit decisions, activities of credit committees and recognition of specific provisions.

9.2 Financial risk

The structure of the balance sheet and off-balance sheet liabilities of the PKO BP SA Group do not expose the Group to the risk of loss of liquidity understood as the ability to meet current and future obligations. Because of the Group's structure, the risk is generated mainly by PKO BP SA - the holding company of the Group.

The Bank has a consistent and well-developed liquidity risk management system, a stable deposit base and a portfolio of liquid securities which ensure high financial liquidity of the Bank.

In 2005, market risk management principles and methods were introduced in BFL SA and were modified in KREDOBANK SA.

The description of assets and liabilities at the point of liquidity of the Group PKO BP SA was stated in the Note 3 of the Additional Notes to the consolidated financial statements.

9.3 Operational risk

Operational risk is understood as the risk of a loss arising from non-compliance or weakness of internal processes, people and systems or from external events. The objective of operational risk management is to optimise operational efficiency by reducing operating losses and costs and increasing the speed and adequacy of Group companies' response to events which are beyond their control.

In the field of operational risk management, PKO BP SA follows the following rules:

- operational risk management principles and procedures cover the full scope of the Bank's activities,
- the Bank defined specific responsibilities and reporting lines in the area of operational risk management at different decision-taking levels,
- the Bank's internal regulations define the process of identification and assessment of operational risks for all major areas of the Bank's activity,
- the Bank regularly monitors operational events exceeding PLN 40,000 and communicates them to the Bank's Management Board,
- operational risk management is performed at the level of comprehensive system solutions and day-to-day risk management activities,
- comprehensive operational risk management is delegated to selected head office units and specialized organisational units, which are responsible for setting detailed targets,
- the process of operational risk management is coordinated by the Bank's Credit and Operational Risk Department.

In 2005, KREDOBANK SA issued – in agreement with the Bank – internal regulations for operational risk management, which became effective on 1 January 2006. The operational risk management objectives and instruments in the company are consistent with the objectives and instruments used in the Bank. The organisation of the operational risk management process has been adjusted to the specific nature of this entity.

BFL SA is in the process of organizing its operational risk management system. The company appointed a task force for the purpose of coordinating the process of developing internal regulations for the functioning of the individual organisational units of this entity.

10. MAJOR EQUITY INVESTMENTS

<u>Powszechna Kasa Oszczędności Bank Polski SA</u>

The Bank acquired shares in Centrum Obsługi Biznesu Sp. z o. o. accounting for 41.44% of the Company's share capital and votes at the shareholders' meeting.

The Bank purchased from minority shareholders the shares of KREDOBANK S.A. accounting for 2.367% of the Company's share capital and votes at the Annual General Meeting.

The Bank sold 5 shares of Łódzka Agencja Rozwoju Regionalnego S.A. (ŁARR S.A.) to the Łódzkie Voivodship. The value of the transaction amounted to PLN 50 thousand. The shares subject to the transaction accounted for 2.42% votes at the Annual General Shareholders' Meeting of ŁARR S.A.

The Bank sold 50,312,200 shares in Wschodni Bank Cukrownictwa S.A. (WBC S.A.) to Getin Holding S.A. The value of the transaction amounted to PLN 52,827,810. The shares subject to the transaction accounted for 25.1321% of the share capital and 25.1441% of votes at the Annual General Shareholders' Meeting of WBC S.A. The Bank acquired the shares in WBC S.A. in 2003 as a result of realisation of the restructuring program of WBC S.A.

The Bank made an additional payment to PKO Inwestycje Sp. z o.o. in the total amount of PLN 87,500 thousand for realization of investment projects.

In 2005 PKO BP SA made equity investments on the regulated market by making transactions within the portfolios controlled by the Equity Investment Department and BDM. The total value of the portfolios at acquisition cost as at 31 December 2005 was PLN 15.6 million and decreased by PLN 339.4 million in comparison to 31 December 2004.

<u>PKO Inwestycje Sp. z o.o.</u>

The Company acquired and took up shares in a newly created company, POMERANKA Sp. z o.o., accounting for 100% of shares in the Company's share capital and votes at the shareholders' meeting, for a total amount of PLN 4 million, and made an additional payment to the company at an amount of PLN 15 million.

The company acquired, from Prokom Investments S.A., shares in Wilanów Investments Sp. z o.o. accounting for 49% of the company's share capital, for a total amount of PLN 66,661 thousand, and made an additional payment to the Company for a total amount of PLN 2,350 thousand. As a result of this transaction, PKO Inwestycje Sp. z o.o. holds 100% of shares in the company's share capital, which give right to 100% of votes at its shareholders' meeting.

The company took up shares in a newly created company, UKRPOLINWESTYCJE Sp. z o.o., accounting for 55% of shares in the company's share capital and votes at its shareholders' meeting, for a total amount of PLN 182 thousand.

Bankowe Towarzystwo Kapitałowe S.A.

As part of its venture capital activities, the company acquired, from a natural person, shares in FINDER Sp. z o.o., accounting for 42.31% of shares in the company's share capital and votes at its shareholders' meeting, for a total amount of PLN 5,555 thousand.

11. RELATED PARTY TRANSACTIONS

In 2005, PKO BP SA provided the following services to related (effiliated) entities:

- keeping bank accounts,
- accepting deposits,
- granting loans and advances,
- issuing debt securities,
- granting bank guarantees and conducting foreign exchange operations.

In addition:

- Under the cooperation agreement with Inteligo Financial Services S.A., in 2005 the Bank made payments to the company for a total amount of PLN 106.9 million; these payments were mainly related to remuneration for services arising from the company's day-to-day operating activities and the re-invoicing of the costs of Centrum Bankowości Elektronicznej Inteligo and the Call Center in Lublin;
- Under the lease agreement with Centrum Finansowe Puławska Sp. z o.o., in 2005 the Bank made payments to the company for a total amount of PLN 59.7 million; these payments were mainly related to rent and operating fees.

The significant transactions between PKO BP SA and its subsidiaries, including credits exposure of these entities as at 31 December 2005, were presented in Additional Information for the Financial Statement for 2005.

Granted off-balance sheet liabilities

Off-balance sheet liabilities of a financial and guarantee nature granted to related entities as at the end of 2005 amounted to PLN 453.3 million, and decreased by PLN 259.0 million in comparison to the end of 2004.

Out of the total amount of these liabilities, PLN 328.3 million relates to liabilities granted to Bankowy Fundusz Leasingowy S.A., mainly in respect of open credit lines and issued guarantees, while PLN 81 million represents financial liabilities and open credit lines granted to Centrum Obsługi Biznesu Sp. z o.o.

All transactions with related entities were made on an arm's length basis. Maturity dates range from 1 month to 10 years.

12. INTERNATIONAL COOPERATION

European Bank for Reconstruction and Development

PKO BP SA participates in the "Loan Window" programme being a part of the "UE/EBRD SME Finance Facility" (on the basis of the Loan Agreement of 21 February 2003 concluded by PKO BP SA and the

European Bank for Reconstruction and Development for the financing of small and medium-sized enterprises).

As at 31 December 2005, the Bank has signed 1,775 loan agreements for a total amount of EUR 32.7 million. Apart from granting loans from the funds provided by EBRD, PKO BP SA also participated in improving the lending process and identifying the needs of small and medium-sized enterprises in their relations with banks.

As regards the other companies from the PKO BP SA Group:

- In September 2005, Bankowy Fundusz Leasingowy S.A. signed a loan agreement with EBRD for a total amount of PLN 60 million. The funds received under the *„The EU/EBRD SME Finance Facility*" programme, which are provided, among others, by the European Commission, are allocated for the development of small and medium-sized enterprises.
- In December 2005, KREDOBANK S.A. signed a loan agreement with EBRD for a total amount of USD 10 million. These funds are to be used for issuing medium- and long-term loans to private individuals secured by a mortgage.

Co-operation with other foreign institutions

PKO BP SA signed five ISDA agreements with foreign banks and one annex to a previously signed framework agreement as well as one note agreement with a foreign bank.

Three *nostro* accounts have been closed. At 31 December 2005, the Bank has 28 *nostro* accounts at correspondent banks, denominated in 12 currencies, and keeps 31 *loro* accounts denominated in three currencies for foreign banks.

The Bank signed two additional agreements to the Global Loan Agreement with the European Investment Bank:

- Amendment No. 1 dated 31 October 2005 – which postpones all deadlines in the agreement by one year,
- Amendment No. 2 dated 28 November 2005 – which supplements the agreement with the rules for using the Municipal Finance Facility and the Municipal Infrastructure Facility (credit lines available under the Global Loan and sponsored by the European Commission).

The Bank cannot use the Global Loan facility due to the fact that EIB did not agree the procedures for establishing pledges on Treasury securities in the National Depository for Securities (*Krajowy Depozyt Papierów Wartościowych - KDPW*).

KREDOBANK S.A. processes settlements in 17 currencies. It holds 43 *nostro* accounts and keeps 75 *loro* accounts. Thanks to co-operation with its shareholders, i.e. PKO BP SA and EBRD as well as the main correspondent banks, it provides its clients with a wide range of services in the area of international transactions.

Since September 2005, KREDOBANK S.A. has received several loans from CARGILL FINANCIAL SERVICES INTERNATIONAL INC. (USA), an international financial organisation, for a total amount of USD 11,754 thousand.

In September 2005, an agreement was signed in Prague between KREDOBANK S.A. and HVB Bank Czech Republic a.s. for an inter-bank loan to be used for financing delivery of machinery and equipment from Czech Republic to Ukraine.

Cooperation with rating agencies

Rating scores are currently assigned to PKO BP SA by four rating agencies: Moody's, Standard & Poor's, Capital Intelligence and Fitch Ratings. These ratings are granted free of charge on the basis of generally available information, in particular interim and annual reports, and on the basis of information provided by the Bank directly to the above agencies.

In 2005, the following rating agencies changed the ratings of PKO BP SA:

- Moody's – increased its financial strength rating twice: on 13 January from D+ to C- and on 28 November from C- to C,

– Capital Intelligence – on 1 February, the Bank received a report from this agency on PKO BP SA, dated December 2004, in which the support rating was decreased from 1 to 2.

Increases in the Bank's ratings are constrained by Poland's country ceiling, i.e. the level of ratings assigned by the agencies to the Polish economy.

Table 11. PKO BP SA ratings as at 31 December 2005

FITCH RATINGS	
Support rating	2
STANDARD AND POOR'S	
Long-term domestic currency liabilities rating	BBBpi
MOODY'S INVESTORS SERVICE LTD.	
Long-term deposit rating	A2 stable outlook
Short-term deposit rating	Prime-1 stable outlook
Financial strength	C stable outlook
CAPITAL INTELLIGENCE	
Long-term foreign currency liabilities rating	BBB+
Short-term foreign currency liabilities rating	A2
Domestic strength	BB+
Support rating	2
Outlook	stable

13. INVESTOR RELATIONSHIPS

13.1 Shareholders' holdings, directly or indirectly through subsidiaries, at least 5% of total votes at the Annual General Meeting

According to the Bank's knowledge, the State Treasury is a shareholder which holds, directly or indirectly through subsidiaries, at least 5% of total votes at the Bank's Annual General Meeting.

According to the Bank's knowledge, the State Treasury had the following number of PKO BP SA shares as at 31 December 2005:

Table 12. Shares held by the State Treasury as at 31 December 2005

Shareholder	Number of shares held	Percentage of Bank's share capital	Number of votes at AGM resulting from shares held	Percentage of votes held at AGM
State Treasury	515 711 446	51.57%	515 711 446	51.57%

13.2 Changes in Articles of Association

During the year, the Bank's Articles of Association were changed by two resolutions of the Ordinary Annual Meeting of PKO BP SA adopted on 19 May 2005:

– Resolution No. 29/2005 regarding amendments to the Articles of Association of PKO BP SA – the contents of § 6 of the Articles were changed; the previous registered "B" and "C" series shares were converted to bearer shares, and sections 3 and 4 were deleted from § 6 of the Articles,

– Resolution No. 30/2005 regarding amendments to the Articles of Association of PKO BP SA – the contents of § 11 section 1 were changed; in accordance with the new wording of § 11 section 1 of the Articles, Supervisory Board is appointed for a common term; other contents of § 11 section 1 did not change.

The consolidated text of the Bank's Articles of Association is included on the website of PKO BP SA.

13.3 Securities' issues

The Bank did not issue any securities in the period covered by this report.

13.4 Re-acquisition of own shares

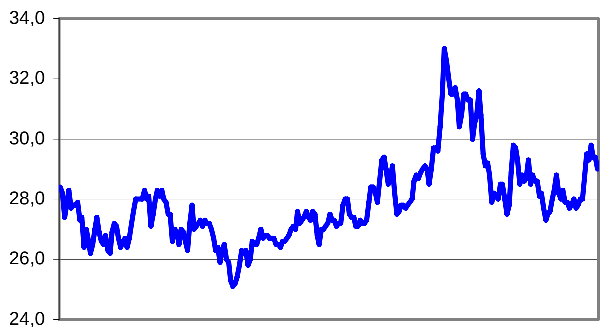
During the period covered by this report, the Bank did not re-acquire its shares on its own account.

13.5 Listed price of the Bank's shares

The price of the Bank's shares as at 31 December 2005 amounted to PLN 29.00 and increased by PLN 1.20 i.e. 4.3% compared to the price as at 31 December 2004.

During the year 2005, the price of the PKO BP SA shares fluctuated from PLN 25.10 as at 28 April 2005 to PLN 33.00 as at 19 September 2005. The following factors had impact on the level of the prices of the Bank's shares: trends prevailing on the Stock Exchange and the Bank's financial results.

PKO BP shares price (period 03.01.2005-31.12.2005) (PLN)



13.6 Compliance with corporate governance rules

PKO BP SA complies with all corporate governance rules enacted by resolution no. 44/1062/2004 of the Stock Exchange Board dated 15 December 2004 on adopting corporate governance rules for joint stock companies being the issuers of shares, convertible bonds or bonds with priority right admitted to trading on the official market, except for the following rules: Rule 5 (relating to the requirement to document the participation of a shareholder's representative at AGM), Rule 24 (relating to the details of personal, factual or organisational relations between members of the Supervisory Board and the given shareholder), Rule 28 (relating to the activities of the Supervisory Board, including appointment of Audit and Remuneration Committees), Rule 38 (relating to the salaries of Management Board members), Rule 43 (relating to selection of the auditors), with which the Bank complies only partially, and Rule 20 (relating to independent members of Supervisory Board), which the Bank does not comply with at all.

13.7 Employee shares

Acting at the request of the State Treasury Minister under the Act of 30 August 1996 on commercialisation and privatisation (Journal of Laws 2002 No. 171, item 1397 with subsequent amendments) and § 14 section 1 of the decree of the State Treasury Minister dated 29 January 2003 on detailed principles for dividing entitled employees into groups, determining the number of shares falling to each of those groups and the procedure for acquiring shares by entitled employees (Journal of Laws No. 35, item 303), the Bank, on 4 April 2005, notified the public of commencing the process of free-of-charge transfer of 105,000,000 "B" series PKO BP SA shares to entitled employees. As at 31 December 2005, the number of shares assigned to employees amounted to 103,763,142.

The process of a free-of-charge transfer of shares to entitled persons, including the signing of agreements for a free-of-charge transfer of shares and the issuing of deposit certificates confirming the transfer of ownership to the entitled person, was carried out starting from 6 April 2005 at locations and dates which were determined separately for the employees entitled to acquire PKO BP SA shares free of charge and the successors of the entitled employees.

In accordance with Art. 38.3 of the Act on Commercialisation and Privatisation, in correspondence with Art. 48 of the Banking Law, employee shares which were acquired free of charge by entitled employees may not be disposed of within 2 years of the date on which the first shares were sold by the State Treasury, and the employee shares acquired by members of Management Board – within 3 years of the date on which the first shares were sold by the State Treasury.

13.8 Holders of any type of securities giving special control rights with respect to the issuer

PKO BP SA does not issue any securities which give special control rights with regard to the Bank. However, the State Treasury holds a package of 515,711,446 shares which give right to 51.57% of votes at the Annual General Meeting.

13.9 Restrictions for the transfer of ownership of securities and exercising voting rights

In accordance with the provisions of the Bank's Articles of Association, the transfer of "A" series shares requires consent of the Council of Ministers in the form of resolution. The transfer of "A" series shares after acquiring such consent results in the expiry of the above restrictions.

14. SERVICE PROMOTION AND IMAGE BUILDING

- Promotional activities of the Bank in 2005 concentrated mainly upon the following:
  - building up the image of the Bank as a modern leader in the area of banking, providing a multi-channel access to products and services,
  - strengthening positive and consistent image of the Bank as a patron of Polish national culture and sponsor of Polish Olympic organisations,
  - maintaining the leading position of the Bank on the retail market,
  - strengthening the Bank's position in the corporate market by creating an image of the Bank as professional advisor in the market of financial services.

  Promotional activities <u>on the retail market</u> were carrying out mainly as promotional campaigns for the Bank's products and services, including: a new cash loan facility called QUICK CREDIT SERVICE, the AUTO PARTNER loan, mortgage loan WŁASNY KĄT ("Own flat"), subscribed deposits, credit cards, including in particular the MasterCard UEFA Champions League, QUICK CREDIT LIMIT FOR BUSINESSES – a new offer for small and medium-sized enterprises. in Autumn 2005, the Bank carried out an image and product campaign "E-baking leader", which finalised the 2005 campaign supporting the sales of the PKO-Inteligo e-banking services. The aim of this campaign was to strengthen the positive features of the Bank's image as a reliable and safe financial institution and, at the same time, emphasize the changes connected with innovation and improvement of the efficiency of PKO BP SA operations. The projects used during this campaign were of innovative nature and definitely differed from those carried out so far.

  Promotional activities <u>aimed at supporting private and personal banking</u> – essential for enhancing the prestige of the PKO BP SA brand – were carried out in the form of an annual program involving PR and advertising activities.

  The Bank carried out intense <u>promotional activities in the area of corporate banking</u> by making an effective use of selected business events (seminars, conferences, meetings, business competitions), especially of a local nature, as well as promoting individual financial services addressed to various client segments. In doing this, the Bank referred to successful sale of its products, such as syndicated loans, municipal bonds or the European Program.

  As part of implementation of the Bank's <u>marketing strategy for T-bonds</u>, the Bank carried out a multimedia campaign for T-bonds based on a new graphic layout of advertisements.

- Promotional activities of other members of the PKO BP SA Group in 2005 focused mainly upon the following:
  - ensuring advertising support for the sale of products, especially new products and services, and creating positive image of the company (KREDOBANK S.A.),
  - promoting housing estates in the course of construction: "Neptun Park" in Gdańsk, "Trzy Gracje" in Sopot and "Marina Mokotów" and "Nowy Wilanów" in Warsaw (PKO Inwestycje Sp. z o.o. and its subsidiaries),
  - sponsorship of socially significant cultural events (including events held in Centrum Finansowe Puławska), sports events, educational events and other healthcare and charity projects, especially for children in need (Centrum Finansowe Puławska Sp. z o.o.),
  - activities supporting the image of Bankowy Fundusz Leasingowy S.A., including sponsorship of the ranking of the most dynamically developing companies "Gazele Biznesu 2005" and carrying out advertising campaigns in selected newspapers,
  - promotional campaigns and competitions addressed to customers of Inteligo Financial Services S.A., e.g. "Płacę z Inteligo" ("I pay by Inteligo"),
  - promotion of the financial results of Bankowy OFE and services provided to members of the fund, among others through the development of the www service and advertising campaign on professional web portals.

The Bank's sponsorship and charity activities were aimed at supporting culture, life-saving and health care. The Bank has supported almost 2,000 undertakings. In 2005, the Bank continued the long-term program "PKO Bank Polski Kulturze Narodowej" (PKO BP for National Culture), under which the Bank acted as the patron of: renovation of a replica of Michelangelo's fresco "The Last Judgment" and the ceremony of making this works available to the public, which was held at the National Museum in Cracow, ceremonial concert "V Wielki Recital" (Fifth Great Recital) held to commemorate the 85th anniversary of foundation of the Adam Mickiewicz University in Poznań, exhibition of manuscripts accompanying the Ninth Easter Ludwig van Beethoven Festival and anniversary concerts of Wanda Warska and Hanna Banaszak. The Bank continued to cooperate with the National Philharmonic, National Library and the National Museum in Warsaw (exhibition of sculptures by W. Hasior). The Bank was the general sponsor of another edition of the Polish Radio Music Festival, which commemorated the 80th anniversary of the Polish Radio, the Andrzej Drawicz Prize, the "Rawa Blues" Festival at Rawa Mazowiecka and the 48th International Festival of Contemporary Music "Warszawska Jesień" (Warsaw Autumn).

As part of the "PKO Bank Polski Blisko Ciebie" (PKO BP Close to You) program, the Bank sponsored, among others, the Stage-play Song Competition (Przegląd Piosenki Aktorskiej) in Wrocław and an international cross-country skiing event "Bieg Piastów", and subsidized the continuation and promotion of two social programs: "Cała Polska czyta dzieciom" (Whole Poland Reads to Children) and educational program "Zostańcie z nami" (Stay with Us), organised by the Foundation of the Weekly Polityka (Fundacja Tygodnika Polityka). The Bank sponsored also a few Students' Days (Juwenalia)

As part of the "PKO Bank Polski Reprezentacji Olimpijskiej" (PKO BP for the Olympic Representation) program, in 2005 the Bank continued its cooperation with the Polish Olympic Foundation (Polska Fundacja Olimpijska). The Bank was a sponsor of the Polish women's foil team and the title sponsor of the Word Cup in women's foil "Dwór Artusa PKO BP" and the sponsor of "For Wołodyjowski's Sabre Competition (Turniej o Szablę Wołodyjowskiego).

In the area of health care and health promotion, the Bank provided financing for, among others, Fundacja Rozwoju Kardiochirurgii (Foundation for Cardiosurgery Development) – to support the Polish artificial heart program, Fundacja na rzecz Przeszczepów Wątroby i Wspierania Postępu w Chirurgii Przewodu Pokarmowego (Liver Transplant Foundation), Fundacja Służby Zdrowia Samodzielnego Publicznego Wojewódzkiego Szpitala Zespolonego w Szczecinie (the Szczecin Public Hospital Foundation), Śląska Akademia Medyczna (The Silesian Medical Academy) – for the purchase of special apparatus for laparoscopic surgery, Szpital Uniwersytecki w Krakowie (The University Hospital in Cracow), Szpital Zachodni im. Jana Pawła II w Grodzisku Mazowieckim (a hospital in Grodzisk Mazowiecki), Caritas Polska and PCK Zarząd Główny (Polish Red Cross Central Management Board) – assistance for the victims of natural disasters in Asia. Additionally, the Bank made a donation for the "Różowa Konwalia" (Pink Lily of the Valley) program carried out by Polskie Towarzystwo Ginekologii

Onkologicznej (Polish Oncologic Gynaecology Association), provided financing for the purchase of specialist medical equipment for Fundacja "Spełnionych Marzeń" (Dreams Fulfilled Foundation) and Stowarzyszenie Pomocy Dzieciom z Chorobami Serca i Nerek (Association for Children with Heart and Kidney Diseases).

KREDOBANK S.A., apart from its activities on the financial market, supports cultural and artistic projects, and assists in solving current social problems. The main directions of its activity in this area include providing assistance to children-orphans and supporting arts, culture and sports. To recognise the charity activities of KREDOBANK S.A., in June 2005 the Regional Charity Fund honoured the President of the Bank's Management Board with the King Dynała Order of 3rd degree.

Awards and Distinctions

In 2005, PKO BP SA together with other members of the PKO BP Group, received a number of awards and distinctions. The most important are listed below:

- "Debut of the Year 2004" (Debiut 2004 Roku) on the Warsaw Stock Exchange - an award granted by the Stock Exchange Newspaper PARKIET for the last-year privatisation of PKO BP SA – the biggest one in the history of the Warsaw Stock Exchange (February 2005);
- "Superbrands Polska 2004" - title granted to the Bank in recognition of the leading Polish brand in the financial sector (February 2005);
- "Employer of the Year" (Pracodawca Roku) – title awarded by a students' organisation, AIESEC (April 2005),
- "European Medal" – an award granted to the Bank in the "services" category for the "European Program" and to the Bank's subsidiary „eService" for "Authorisation of transactions carried out using cards" in the 10th edition of the competition organised by BCC and the European Integration Committee (April 2005);
- Europroduct – Promotional title granted Bank's products and services in the 8th Competition Edition organised by Polish Trade Association, in "service" category – for The European Program and in "product" category – for the Consolidation Loan, "Nasz Remont" loan, STUDENT credit card, and for current account SUPERKONTO with INTELIGO package (June 2005).
- "Benefactor of the Year 2004" (Dobroczyńca Roku 2004) – two titles granted to PKO BP SA in annual competition organised by the Academy for the Development of Philanthropy in Poland (Akademia Rozwoju Filantropii w Polsce); in the "culture and arts" category – for supporting culture and arts institutions, including the National Philharmonic in Warsaw, and in the "health care and health promotion" category – together with Inteligo Financial Services – for providing financial assistance for the Polish Artificial Heart Program (April 2005);
- Golden Rock 2004 – prize awarded by MasterCard Europe for issuing the PKO Euro Biznes card – the first in Poland MasterCard credit card for small and medium-sized enterprises (April 2005);
- Rock Awards 2004 – an award granted to the Bank's subsidiary, „eService", for the greatest achievement in developing the network of points of sale accepting MasterCard cards (April 2005);
- European Medal awarded to „eService" for "Authorization of transactions carried out using cards" by the Office of the European Integration Committee and Business Centre Club;
- Golden Jubilee Award – granted to the President of PKO BP SA by MasterCard Europe for a continued support of MasterCard Europe in Poland, and in particular for acting as chairman of Europay Forum Polska (April 2005);
- "Brand Worth of European Trust" (Marka Godna Europejskiego Zaufania) – title granted to the Bank by "Reader's Digest" in the current year edition of the European market research among its readers (April 2005);
- First place in Newsweek's ranking of "the most valuable company" (April 2005);
- "The Philharmonic's Sponsor of the Year" (Sponsor Roku Filharmonii) – title granted to the Bank for its last-year cooperation with the National Philharmonic (June 2005);
- Diamond to the Golden Statue of the Polish Business Leader awarded by the Business Centre Club to companies that were previously awarded the Polish Business Leader statue. PKO BP SA received the Diamond award for the third time (June 2005);

- A distinction granted to PKO BP SA in Students' Employers' Ranking KOMPAS, in the "financial institution" category (June 2005);
- First place in FORBES's ranking (September issue) granted to PKO BP SA in the category of "quick loans" for one of the cheapest revolving loan facilities and reasonable credit card interest rates;
- Arts & Business Awards 2005 of the Commitment to Europe arts & business Foundation; PKO BP SA received an award in the "Sponsor art & business" category; in addition, the Bank received a distinction in the category of "Partnership of the Year" for its long-term cooperation with Willa Decjusza in Cracow, which may serve as an example of a long-term and mutually beneficial cooperation of a commercial firm with a cultural institution (November 2005);
- "Laureate" title in the "Bank Dostępny" (Accessible Bank) competition organised by the Foundation "Otwarte Drzwi" (Open Door) and the National Bank of Poland, in two categories: Clients Award – granted to PKO BP SA for the Inteligo account, and in the "Duży Bank" (Big Bank) category – granted to the First Branch of PKO BP SA in Lwówek Śląski (December 2005);
- awards and distinctions granted to KREDOBANK S.A.:
  - Ranked 4th among financial institutions in the 4th national Ukrainian competition for the best periodic report for the year 2004 provided by joint-stock companies and enterprises - issuers of bonds, as part of the program "Your share – your capital", organised by the Securities and Exchange Commission of Ukraine;
  - Diploma of the Supreme Council of Ukraine granted to the President of KREDOBANK S.A. for the bank's contribution in the development of banking system in Ukraine (June 2005);
  - Certificate granted to KREDOBANK S.A. by the economic weekly "Inwestgazeta" as a confirmation of the Bank's entering in the ranking of "TOP 100. The best companies of the financial sector" (July 2005);
  - First place in the "Banking, insurance and financial services" category in the national Ukrainian competition for "The best national product of the year". (November 2005).

15. SIGNIFICANT CONTRACTS AND IMPORTANT AGREEMENTS WITH THE CENTRAL BANK OR SUPERVISORY BODIES

During the year 2005, the Bank singed the following significant contracts:

- On 1 June 2005, the Bank signed a contract with a consulting firm for the provision of consulting services relating to preparation and implementation of a plan for optimisation of selected costs of the Bank.
- On 29 July 2005, PKO BP SA signed a Letter of Intent with Poczta Polska (Polish Mail) regarding an extension of cooperation between these two companies.
- On 28 August 2005, the Bank concluded property and civil liability insurance contracts (in total, four insurance policies). Insurance coverage was provided to the Bank by a co-insurance pool comprising: TU Allianz Polska SA (60% share in risk) and PZU SA (40% share in risk).
- On 7 October 2005, the Bank signed a contract for the sale of a portfolio of retail non-performing loans classified as "loss" (balance sheet and off-balance sheet items). The amount due under this transaction was received by the Bank into its bank account on 20 October 2005.
- During the year 2005, the Bank signed 12 significant loan agreements with one borrower, for a total amount of PLN 3,760 million.
- On 22 December 2005, the Bank signed a syndicated loan agreement with a significant borrower from the fuel industry, which consists of tranche A of EUR 250 million and tranche B of EUR 750 million (the share of the Bank amounted respectively to: EUR 22.7 million and EUR 68.2 million). The total value of services arising from long-term agreements with that borrower meets the criteria referred to in § 2 section 2 of the Decree of the Minister of Finance of 19 October 2005 on current and periodic information provided by the issuers of securities.
- The Bank concluded a syndicated loan agreement with a customer from the gas fuel production and distribution industry, which consists of tranche A of EUR 600 million and tranche B of EUR 300 million, and which can be used in either EUR, USD or PLN. The share of PKO BP SA in these tranches amounts to EUR 100 million and EUR 50 million, respectively.

In 2005, the Bank did not enter into any important agreements with either the Central Bank or the supervisory bodies.

As at the date of this Report, the Bank is not aware of any agreements which might result in changes to the proportion of shares held by its current shareholders besides the contract joining PKO BP SA and the Ministry of Treasury concerning the Bank's shares to be available to authorized personnel according to the law as at 30 August 1996 of commercialisation and privatisation.

In 2005, the other companies from the PKO BP Group did not conclude any significant contracts or enter into any important agreements with either the Central Bank or the supervisory bodies.

16. LOANS TAKEN, AND LOAN, GUARANTEE AND SURETYSHIP AGREEMENTS

During the year 2005, PKO BP SA did not take out any loans or advances or receive any guarantees or suretyships that were not related to its operating activity.

During the year 2005, KREDOBANK S.A. did not take out any loans or advances or receive any guarantees or suretyships that were not related to its operating activity.

17. UNDERWRITING AGREEMENTS AND GUARANTEES GRANTED TO SUBSIDIARIES

In 2005, PKO BP SA did not sign any underwriting agreements with Group companies.

The guarantee granted by PKO BP SA to its subsidiary - Bankowe Towarzystwo Kapitałowe S.A. (formerly Dom Maklerski BROKER S.A.) for an amount of PLN 105 million expired on 31 January 2005. This guarantee was issued as a security for the company's payments to the Stock Exchange Transaction Settlement Guarantee Fund (*Fundusz Gwarantowania Rozliczeń Transakcji Giełdowych*).

On 6 October 2005, PKO BP SA issued a guarantee to its subsidiary – Bankowy Fundusz Leasingowy S.A. for an amount up to PLN 22 million. The guarantee provides a security for the company's repayment of the first tranche of the loan granted by the European Bank for Reconstruction and Development of London.

On 7 November 2005, PKO BP SA issued a guarantee to its subsidiary - Centrum Elektronicznych Usług Płatniczych eService S.A. for an amount up to PLN 100 thousand. The guarantee provides a security for a contract concluded with POLKOMTEL S.A. for the sale of prepaid phone card units.

As at 31 December 2005, the value of guarantee arising from the Agreement for Organisation, Conducting and Servicing of a Bonds Issuance Program, concluded between PKO BP SA and its subsidiary - Bankowy Fundusz Leasingowy S.A., amounted to PLN 25 million. This guarantee relates to the closing of an issue of bonds.

18. ENFORCEABLE TITLES ISSUED BY THE GROUP

During the year 2005, PKO BP SA issued 30,284 banking enforceable titles for a total amount of PLN 324,204,403.

As regards KREDOBANK S.A., the law of Ukraine does not provide for issuing banking enforceable titles by banks in the meaning defined in the Polish Banking Law.

19. MANAGEMENT AND SUPERVISORY BOARDS OF PKO BP SA IN THE REPORTING PERIOD

<u>Members of Management Board in the reporting period</u>

Starting from 19 May 2005, members of the Bank's Management Board are appointed for a common term of three years.

Table 13. Members of Management Board in the reporting period

No.	Name and surname	Function	Date of appointment
1.	Andrzej Podsiadło	President of Management Board	20.06.2002; 19.05.2005 re-appointed to another term
2.	Kazimierz Małecki	First Deputy President	04.07.2002; 19.05.2005 re-appointed to another term
3.	Jacek Obłękowski	Member	20.06.2002; 19.05.2005 re-appointed to another term
4.	Danuta Demianiuk	Deputy President	02.01.2003; 16.09.2005 re-appointed to another term
5.	Sławomir Skrzypek	Deputy President	20.12.2005
6.	Piotr Kamiński	Member	10.03.2003; 16.09.2005 re-appointed to another term
7.	Krystyna Szewczyk	Member	14.05.2004; 16.09.2005 re-appointed to another term

Other functions performed by Board members during the reporting period

Table 14. Other functions performed by Board members during the reporting period

No.	Name and surname	Assets and Capital & Liabilities Management Committee	Credit Committee	Steering Committee for the Integrated Information System	Steering Committee for Implementation of Branch Modernisation Program (set up on 15.03.2005)
1.	Kazimierz Małecki	Chairman		Chairman	
2.	Danuta Demianiuk	Vice-chairman	Chairman	Member	Vice-chairman until 19.12.2005
3.	Sławomir Skrzypek				Vice-chairman since 20.12.2005
4.	Piotr Kamiński		Vice-chairman		
5.	Jacek Obłękowski			Vice-chairman	Chairman
6.	Krystyna Szewczyk	Member		Vice-chairman	Member

Members of Supervisory Board

Table 15. Supervisory Board in the reporting period

No.	Name and surname	Function	Date of appointment
1.	Bazyl Samojlik	Chairman Member Chairman	25.08.2003 19.05.2005 20.05.2005
2.	Urszula Pałaszek	Member Vice-chairman	19.05.2005 20.05.2005
3.	Krzysztof Zdanowski	Member Secretary	19.05.2005 23.06.2005
4.	Andrzej Giryn	Member Member	25.03.2002 19.05.2005
5.	Stanisław Kasiewicz	Member Member	25.08.2003 19.05.2005
6.	Ryszard Kokoszczyński	Vice-chairman Member	06.06.2002 19.05.2005
7.	Jerzy Osiatyński	Member Member	25.03.2002 19.05.2005
8.	Czesława Siwek	Member	19.05.2005
9.	Władysław Szymański	Member Member	25.03.2002 19.05.2005
10.	Arkadiusz Kamiński*	Secretary	25.04.2002

* The appointment of Mr Arkadiusz Kamiński expired on 29 April 2005 due to submitted resignation.

Holders of commercial powers of attorney, Board meetings and implementation of resolutions of General Meetings and recommendations of the State Treasury Minister

As at 31 December 2004, there were 17 holders of commercial powers of attorney in PKO BP SA. During the year 2005, the Management Board of the Bank appointed 4 and dismissed 3 holders of commercial powers of attorney. As at 31 December 2005, there were 18 holders of commercial powers of attorney.

During the year 2005, the Management Board held 51 minuted meetings and took 364 resolutions.

The most important activities and decisions taken by the Management Board, which had an influence on the economic and financial position and activity of the Bank, have been presented in the relevant parts of this Directors' Report.

The Annual General Meeting of PKO BP SA was held on 19 May 2005.

The resolutions passed during the Annual General Meeting were implemented by PKO BP SA.

Rules for appointing and dismissing members of Management Board

In accordance with § 19 of the Bank's Articles of Association, Management Board members are appointed by the Supervisory Board for a common three-year term. Board members may only be dismissed for important reasons.

Authorisations granted to members Management Board

In accordance with § 20 of the Bank's Articles of Association, the scope of Management Board responsibilities includes all matters related to the conducting of Bank's affairs that have not been reserved by law or Articles of Association for the General Meeting or Supervisory Board, including purchase and disposal of property, property interests or perpetual usufruct, which do not require consent of the General Meeting in accordance with § 9 section 1 point 5 of the Bank's Articles of Association.

Contracts concluded between the issuer and persons performing management functions

In accordance with the definition contained in § 1 section 2.1 point 35 letter a) of the Decree of the Minister of Finance of 19 October 2005 on current and periodic information provided by the issuers of securities (Journal of Laws No. 209 item 1744), members of Management Board are the persons who manage the Bank.

With each member of Management Board, the Bank concluded two contracts binding in 2005, which provide for compensation in the event of resignation or dismissal without an important reason:

- employment contract, which provides for a severance payment amounting to a 3-month basic salary recently received by the Board member,
- anti-competition contract, which provides compensation for complying with competition ban over a 6-month period after termination of the employment contract. This compensation amounts to 100% of the monthly basic salary received by the Board member prior to termination of the employment contract and is to be paid in arrears over the period of the ban.

The monthly basic salary is the equivalent of six times average remuneration determined in the Act of 3 March 2000 on the remuneration of persons managing certain legal entities (Journal of Laws No. 26, item 306 with subsequent changes).

Emoluments and other benefits provided to members of management and supervisory boards

Full information on emoluments and other benefits provided to members of the Bank's Management and Supervisory Boards in the reporting period has been presented in the Note 46 of the PKO BP SA Financial Statement for 2005.

Bank's shares held by members of Management and Supervisory Boards

Bank's shares held by members of the Bank's Management and Supervisory Boards as at 31 December 2005. The nominal value is PLN 1 per share.

Table 16. Shares held by Members of the Bank's Management and Supervisory Boards

No.	Name and surname	Number of shares held at the date of submitting this report
I.	**Management Board**	
1.	Andrzej Podsiadło	450
2.	Kazimierz Małecki	2627
3.	Sławomir Skrzypek	--------------------
4.	Danuta Demianiuk	--------------------
5.	Piotr Kamiński	--------------------
6.	Jacek Obłękowski	512
7.	Krystyna Szewczyk	--------------------
II.	**Supervisory Board**	
1.	Bazyl Samojlik	--------------------
2.	Urszula Pałaszek	--------------------
3.	Krzysztof Zdanowski	--------------------
4.	Andrzej Giryn	--------------------
5.	Stanisław Kasiewicz	106
6.	Ryszard Kokoszczyński	--------------------
7.	Jerzy Osiatyński	--------------------
8.	Czesława Siwek	4000
9.	Władysław Szymański	----------------------------

Members of the Bank's Management and Supervisory Boards as at 31 December 2005 have no shares in subordinate entities.

20. SIGNIFICANT POST BALANCE SHEET EVENTS

- On 1 January 2006, PKO BP SA introduced a new Table of Banking Fees and Commission Rates. The changes result from market conditions and the significantly extended scope of the Bank's operations.
- On 24 January 2006, PKO BP SA concluded with Credit Suisse Asset Management Holding Europe (Luxembourg) S.A. a conditional agreement for the sale of 45,000 registered preference shares of PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A. The Bank will acquire these shares once it fulfils all the conditions specified in the agreement. The expected transfer of the shares will take place by the end of the first quarter 2006. The shares acquired by the Bank account for 25% of votes at the company's Annual General Meeting. As a result of this acquisition, PKO BP SA will hold 75% of shares in the company's share capital and votes at the Annual General Meeting. The price for the shares acquired by the Bank amounts to PLN 55 million.
- On 25 January 2006, PKO BP SA concluded an agreement with its customer for issuing banking guarantee. Under this agreement, the Bank is required to issue, at the request of the customer, a guarantee to the Customs Office in respect of an excise security amounting to 309 million. The agreement for issuing banking guarantee binds from 1 February 2006 to 31 January 2007, plus a 90-day liability period. As at the date of this agreement, the total value of all agreements signed by the Bank with that customer amounted to PLN 1,104.9 million.
- On 27 January 2006, PKO BP SA concluded a Partners' Agreement with the City of Sopot and NDI S.A., with the participation of Centrum Haffnera Sp. z o.o., for an investment project relating to re-vitalisation of Sopot's tourist centre.

The Bank's will engage through take up app. 49.4% of shares in Centrum Haffnera Sp. z o.o.) and loan exposure.

The Bank will participate in the above project upon the fulfilment of the conditions specified in the Agreement.

- On 14 February 2006, the Bank received a report from the rating agency Capital Intelligence in which the rating for the financial strength of PKO BP SA was increased from BB+ to BBB- with a stable outlook. This change was made owing to the improving quality of the Bank's loan portfolio and increasing effectiveness of its operations.
- On 8 March 2006 the Bank's Supervisory Board made a resolution accepting Mr Piotr Kamiński membership resignation in the PKO BP SA Supervisory Board starting from 9 March 2006 that is at the date of Mr Piotr Kaminski election at the position of Vice President at Bank Pocztowy SA
- On 16 March 2006 PKO BP SA received the approval of the Chairmen of Office of Competition and Customer Protection for concentration resulting from the overtake the control through PKO BP SA over PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych SA

Significant post-balance sheet events in other PKO BP SA Group companies:

- On 9 January 2006, Bankowe Towarzystwo Kapitałowe S.A. – PKO BP SA subsidiary – took up 351 shares in the increased share capital of FINDER Sp. z o.o. The acquisition price amounted to PLN 1 million. As a result of the above transaction, the share of Bankowe Towarzystwo Kapitałowe S.A. in the share capital and votes at the Shareholders' Meeting of FINDER Sp. z o.o. increased from 42.31% to 46.43%. The increase in the share capital was registered with the National Court Register.
- On 9 March 2006 the Extraordinary General Shareholders Meeting of KREDOBANK SA – of the Bank's subsidiary made a resolution to increase the share capital by UAH 75,750 thousands. The subscription period will be last from 26 April to 26 October 2006.

21. CONTRACT WITH THE ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS

On 8 August 2005, the Bank entered into a contract with Ernst & Young Audit Sp. z o.o., an entity authorised to audit financial statements, for an audit of stand-alone financial statements and consolidated financial statements for the years ending 31 December 2005, 2006 and 2007 and a review of stand-alone financial statements and consolidated financial statements for 6-month periods ending 30 June 2005, 2006 and 2007.

Total fees under the contracts concluded by Ernst & Young Audit Sp. z o.o. and Group entities related to reviews and audits of standalone and consolidated financial statements amounted to PLN 2,247.0 thousand (net of VAT) for the year 2005 and PLN 1,568.2 thousand (net of VAT) for the year 2004.

The total amount of fees arising from contracts concluded with Ernst & Young Audit Sp. z o.o. for remaining services other than reviews and audits of financial statements was as follows: PLN 2,319.4 thousand (net of VAT) for the year 2005 and PLN 2,889.0 thousand (net of VAT) for the year 2004.

The significant part of remuneration arising from contracts other than reviews and audits of financial statements concluded between the Bank and Ernst & Young Audit Sp. z o.o. was associated with the assistance in IFRS implementation in 2005 and activities concerning the privatisation of the Bank in 2004.

22. MANAGEMENT BOARD REPRESENTATIONS

The Management Board of PKO BP SA hereby represents that, according to its best knowledge:

– the annual financial statements and comparative data were prepared in accordance with the accounting principles in force and give a true and fair view of the Group's financial position and results;

– the annual Directors' Report on the activities of the PKO BP SA Group gives a true view of the Group's development, achievements and standing, including a description of the main risks.

The Management Board of PKO BP SA hereby represents that the entity authorised to audit financial statements which performed an audit of the annual financial statements of PKO BP SA was selected in accordance with law, and that both this entity and the certified auditors who performed this audit met the conditions required to issue an impartial and independent audit opinion, in accordance with the relevant national laws.

This *Directors' Report on the activities of the PKO BP SA Group in 2005* consists of 43 consecutively numbered pages.

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President of Management Board
Andrzej Podsiadło

_ _

First Deputy President
Kazimierz Małecki

_ _

Deputy President
Danuta Demianiuk

_ _

Deputy President
Sławomir Skrzypek

_ _

Member
Jacek Obłękowski

_ _

Member
Krystyna Szewczyk

INDEPENDENT AUDITORS' OPINION

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

1. We have audited the attached consolidated financial statements for the year ended 31 December 2005 of the Powszechna Kasa Oszczedności Bank Polski Spółka Akcyjna Group (the "Group"), with the holding company being Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the "Bank", the "holding company") located at Warsaw, Puławska 15 Street, including:
   - the consolidated profit and loss account for the period from 1 January 2005 to 31 December 2005 with a net profit amounting to 1,734,820 thousand zlotys,
   - the consolidated balance sheet as at 31 December 2005 with total assets amounting to 91,613,181 thousand zlotys,
   - the consolidated statement of changes in shareholders' equity for the period from 1 January 2005 to 31 December 2005 with a net increase in shareholders' equity amounting to 555,418 thousand zlotys,
   - the consolidated cash flow statement for the period from 1 January 2005 to 31 December 2005 with a net cash outflow amounting to 2,545,613 thousand zlotys, and
   - the additional notes and explanations ("the attached consolidated financial statements").

2. The truth and fairness of the attached consolidated financial statements and the proper maintenance of the consolidation documentation are the responsibility of the Bank's Management Board. Our responsibility was to audit the attached consolidated financial statements and to express an opinion whether, based on our audit, these financial statements, in all material respects, present true and fair view of the Group and its result.

3. We conducted our audit of the consolidated financial statements in accordance with the following regulations being in force in Poland:
   - chapter 7 of the Accounting Act, dated 29 September 1994 (the "Accounting Act"),
   - the auditing standards issued by the National Chamber of Auditors,

   in order to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used by the Group and significant estimates made by the Management of the holding company, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. In our opinion, the attached consolidated financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2005 to 31 December 2005, as well as its financial position as at 31 December 2005;
   - have been prepared, in all material aspects correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the European Union;
   - are, in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

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

on behalf of
Ernst & Young Audit Sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Ident. No. 130

(-)

Dominik Januszewski
Certified Auditor No 9707/7255

(-)

Dorota Snarska-Kuman
Certified Auditor No 9667/7232

Warsaw, 21 March 2006

POWSZECHNA KASA OSZCZĘDNOŚCI
BANK POLSKI SPÓŁKA AKCYJNA GROUP

LONG-FORM REPORT
SUPPLEMENTING THE INDEPENDENT AUDITORS' OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

I. GENERAL NOTES

1. Background

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

The holding company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards (EC Official Journal L243 dated 11 September 2002, page 1, Polish special edition chapter 13, title 29 page 609) and, based on the article 55.6a of the Accounting Act dated 29 September 1994 (uniform text: Journal of Laws of 2002, No. 76 with subsequent amendments – "the Accounting Act"), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU. This requirement relates to the consolidated financial statements for the financial year beginning in 2005.

On 12 July 2001 the Bank was entered in the Register of Entrepreneurs of the National Court Register, entry no. KRS 0000026438.

The Bank's NIP number is 525-000-77-38, which was granted on 14 June 1993 and its REGON statistical number is 016298263, which was granted on 18 April 2000.

The list of the subsidiaries, jontly controlled entities and associates were presented in the Note 1 of the additional notes and explanations to the audited consolidated financial statements for the year ended 31 December 2005.

The holding company business activities include:

- accepting call (demand) or term deposits and keeping deposit accounts,
- keeping other types of bank accounts,
- extending loans,
- extending cash advances,
- extending bank guarantees and sureties,
- performing bank settlements in the forms recognized in both domestic and foreign banking environment,
- operations including cheques and bills of exchange,
- issuing bank securities,
- issuing payment cards and performing operations using such cards,
- conducting forward transactions with domestic and foreign banks and other financial institutions,
- purchase and disposal of debt,
- issuing electronic money instruments,
- performing operations relating to the issue of securities,

- safekeeping of valuables and securities, and provision of safe deposit facilities,
- performing banking activities on behalf of other banks,
- conducting the Building Society operations,
- purchase and sale of foreign exchange,
- intermediation in money transfers and settlements in foreign exchange trade,
- granting and confirming of sureties.

Additionally, the Bank's scope of activities includes:

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

Furthermore, the Bank can:

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

Types of activities of the subsidiaries, jontly controlled entities and associates were presented in Note 1 of the additional notes and explanations to the audited consolidated financial statements.

(in thousand zlotys)

As of 31 December 2005 Bank's share capital amounted to 1,000,000 thousand zlotys and it comprised of 510,000,000 registered shares of the series A, 105,000,000 registered shares of the series B and 385,000,000 bearer shares of the series C, with the nominal amount 1 zloty each. Group's equity at this date amounted to 8,774,990 thousand zlotys.

According to the letter of the Investor Relations Bureau dated 15 March 2006 as of 31 December 2005 the Bank's shareholders structure comprised of:

	Number of shares	Number of votes	Nominal value of the shares (PLN)	Share in the share capital
State Treasury	515,711,446	51.57%	515,711,446	51.57%
Other share holders	484,288,554	48.43%	484,288,554	48.43%
Total	1,000,000,000	100.0%	1,000,000,000	100.0%

On 19 May 2005, the Annual Shareholders' Meeting resolved to introduce new Statutes of the holding company. As a result, registered shares of the series B and C were changed into the bearer status. This change did not have any impact on share capital value.

Members of the Bank's Management Board as at 21 March 2006 were as follows:

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

During 2005 there was one change in the Management Board – on 8 December 2005 the Bank's Supervisory Board appointed Sławomir Skrzypek as a Vice-President, effective 20 December 2005.

Furthermore on 8 March 2006 the Bank's Supervisory Board accepted resignation of Piotr Kamiński from duties of a Board Member.

(in thousand zlotys)

2. Group Structure

As at 31 December 2005, the PKO BP Group consisted of the following subsidiaries, which were consolidated using the full method or valued under equity accounting method:

Name	Consolidation /valuation method	Type of opinion	Name of authorised entity that audited financial statements	Balance sheet date
Bankowy Fundusz Leasingowy S.A.	full	audit in progress	Ernst & Young Audit Sp. z o.o.	31-12-2005
Powszechne Towarzystwo Emerytalne BANKOWY SA	full	with an emphasis of matter	Ernst & Young Audit Sp. z o.o.	31-12-2005
Bankowe Towarzystwo Kapitałowe S.A.*	full	audit in progress	Ernst & Young Audit Sp. z o.o.	31-12-2005
KREDOBANK S.A.**	full	audit in progress	Ernst & Young (Ukraine)	31-12-2005
Centrum Finansowe Puławska Sp. z o.o.	full	with an emphasis of matter	Ernst & Young Audit Sp. z o.o.	31-12-2005
Centrum Elektronicznych Usług Płatniczych „eService" S.A.	full	with an emphasis of matter	Ernst & Young Audit Sp. z o.o.	31-12-2005
Inteligo Financial Services S.A	full	audit in progress	Ernst & Young Audit Sp. z o.o.	31-12-2005
PKO Inwestycje Sp. z o.o.	full	audit in progress	Ernst & Young Audit Sp. z o.o.	31-12-2005
Indirect subsidiaries				
Fort Mokotów Sp. z o.o.	full	with an emphasis of matter	Ernst & Young Audit Sp. z o.o	31-12-2005
POMERANKA Sp. z o.o.	full	audit in progress	Ernst & Young Audit Sp. z o.o	31-12-2005
Wilanów Investments Sp. z o.o.	full	with an emphasis of matter	Ernst & Young Audit Sp. z o.o	31-12-2005
UKROPOLINWESTYCJE Sp. z o.o.	full	-	No requirement to audit financial statements	31-12-2005
Finanse Agent Transferowy Sp. z o.o.	full	without qualifications	Ernst & Young Audit Sp. z o.o	31-12-2005

* until 7 April 2005 operating under the name Dom Maklerski BROKER S.A.

** until 22 December 2005 operating under the name Kredyt Bank (Ukraina) S.A., As at 31 December 2005 shares in the following associates (direct and indirect) were recognised in the Group's consolidated financial statements using the equity method:

No.	**Name**	**registered office**	**Type of activity**
1	Bank Pocztowy S.A.	Bydgoszcz	Financial services
2	Kolej Gondolowa Jaworzyna Krynicka S.A.	Krynica	Construction and operation of cable railway
3	Ekogips S.A. – w upadłości	Warsaw	Production of construction elements
4	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Poznań	Sureties in accordance with civil law and bill of exchange law
5	Hotel Jan III Sobieski Sp. z o.o.	Warsaw	Hotel services
6	Agencja Inwestycyjna CORP S.A.	Warsaw	Production on the market of construction projects
Associate of Bankowe Towarzystwo Kapitałowe S.A.			
7	FINDER Sp.z o.o.	Warsaw	Car location and fleet management

Details of the type and impact of changes in entities included in the consolidation as compared to the prior year may be found in Note 1 and 31 of the additional notes and explanations to the consolidated financial statements of the Group for the year ended 31 December 2005.

3. Consolidated Financial Statements

3.1. Auditor's opinion and audit of consolidated financial statements

Ernst & Young Audit Sp. z o.o. with its registered office in Warsaw, Rondo ONZ 1, is a certified entity entered on the list of certified auditors under no. 130.

Ernst & Young Audit Sp. z o.o. was elected by the Bank's Supervisory Board on 7 April 2005 to audit the Group's consolidated financial statements for 2005.

Ernst & Young Audit Sp. z o.o. and the auditor managing the audit meet the conditions, as defined by art. 66 clause 2 and 3 of the Accounting Act dated September 29, 1994 (uniform text: Journal of Laws of 2002, No 76) ("the Accounting Act"), enabling them to express an impartial and independent opinion on the financial statements.

Pursuant to the agreement executed on 8 August 2005 with the holding company Management Board, we have audited the financial statements for the year ended 31 December 2005.

Our responsibility was to express an opinion on the consolidated financial statements based on our audit. The auditing procedures applied to the consolidated financial statements were designed to enable us to express an opinion on the consolidated financial statements taken as a whole.

Our procedures did not extend to supplementary information that does not have an impact on the consolidated financial statements taken as a whole.

Based on our audit, we issued an unqualified auditor's opinion dated 1 March 2006, stating the following:

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

1. We have audited the attached consolidated financial statements for the year ended 31 December 2005 of the Powszechna Kasa Oszczedności Bank Polski Spółka Akcyjna Group (the "Group"), with the holding company being Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the "Bank", the "holding company") located at Warsaw, Puławska 15 Street, including:
    - the consolidated profit and loss account for the period from 1 January 2005 to 31 December 2005 with a net profit amounting to 1,734,820 thousand zlotys,
    - the consolidated balance sheet as at 31 December 2005 with total assets amounting to 91,613,181 thousand zlotys,
    - the consolidated statement of changes in shareholders' equity for the period from 1 January 2005 to 31 December 2005 with a net increase in shareholders' equity amounting to 555,418 thousand zlotys,

- the consolidated cash flow statement for the period from 1 January 2005 to 31 December 2005 with a net cash outflow amounting to 2,545,613 thousand zlotys, and
- the additional notes and explanations ("the attached consolidated financial statements").

2. The truth and fairness of the attached consolidated financial statements and the proper maintenance of the consolidation documentation are the responsibility of the Bank's Management Board. Our responsibility was to audit the attached consolidated financial statements and to express an opinion whether, based on our audit, these financial statements, in all material respects, present true and fair view of the Group and its result.

3. We conducted our audit of the consolidated financial statements in accordance with the following regulations being in force in Poland:
   - chapter 7 of the Accounting Act, dated 29 September 1994 (the "Accounting Act"),
   - the auditing standards issued by the National Chamber of Auditors,

   in order to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used by the Group and significant estimates made by the Management of the holding company, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. In our opinion, the attached consolidated financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2005 to 31 December 2005, as well as its financial position as at 31 December 2005;
   - have been prepared, in all material aspects correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the European Union;
   - are, in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

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

   We carried out the audit of the Group's consolidated financial statements from 7 November 2005 to 21 March 2006. We were present on the Bank's premises from 7 November 2005 to

23 December 2005 and from 9 January 2006 to 21 March 2006 and in the Bank's branches from 28 November 2005 to 7 December 2005.

3.2. Representations provided and availability of data

The Management Board of the holding company confirmed its responsibility for the truth and fairness of the consolidated financial statements and has stated that it has provided us with all financial statements of affiliated companies, consolidation documentation and other required documents as well as all necessary explanations. The Management Board of the holding company has also provided a written representation dated 21 March 2006 confirming that:

- the consolidation information disclosed was complete,
- all contingent liabilities have been included in the consolidated financial statements,
- all material events from the balance sheet date to the date of the representation had been disclosed in the consolidated financial statements,

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

3.3. Materiality level

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

3.4. Consolidated financial statements for prior financial year

The Group's consolidated financial statements, prepared in accordance with the Polish Accounting Standards for the year ended 31 December 2004 were audited by Dominik Januszewski - certified auditor no. 9707/7255 acting on behalf of Ernst & Young Audit Sp. z o.o. with its registered office in Warsaw at Emilii Plater Street 53 (number in the auditors' register 130).

The certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2004.

The Group's consolidated financial statements for the year ended 31 December 2004 were approved by the General Shareholders' Meeting on 19 May 2005.

The consolidated financial statements for the financial year ended 31 December 2004 together with the auditor's opinion, the excerpt from the resolution approving the consolidated financial statements, the excerpt from the resolution on the distribution of profit, the Directors' Report on the Group's activities were filed on 23 May 2005 in the National Court Register.

The introduction to the consolidated financial statements, consolidated balance sheet as at 31 December 2004, consolidated profit and loss account, consolidated statement of changes in shareholders' equity and consolidated cash flow statement for the year ended 31 December 2004 together with the auditor's opinion, the excerpt from the resolution approving the financial statements and the excerpt from the resolution on the distribution of profit were published on 19 August 2005, in Monitor Polski-B No. 1290.

(in thousand zlotys)

4. Analytical Review

4.1. Basic data and financial ratios

Presented below are selected financial ratios indicating the financial performance of the Group for the years 2004 - 2005. The ratios for years 2004 and 2005 were calculated on the basis of the financial information included in the consolidated financial statements for the year ended 31 December 2005. Certain data and ratios for 2003 were omitted from calculations due to the fact that the Group changed its accounting policies into International Financial Reporting Standards, approved by the European Union in 2005. Therefore, the preceding data is not available.

	2005	2004*
Gross profit	2,167,045	1,869,615
Net profit	1,734,820	1,506,505
Shareholders' funds	8,774,990	8,857,952
Total assets	91,613,181	85,954,365
Capital adequacy ratio of Bank in accordance with NBP methodology	13.90%	18.44%
Cost to income ratio overhead costs / income from operations	64.36%	66.15%
Profitability ratio gross profit / overhead costs	52.08%	47.43%
Return on Equity (ROE) net profit / average shareholders' funds	24.58%	n/a
Return on Assets (ROA) net profit / average assets	1.95%	n/a
Rate of inflation:		
Yearly average	2.1%	3.5%
December to December	0.7%	4.4%

* - comparable data

4.2 Comments

Trends in the financial ratios were as follows:

- Net profit for 2005 amounted to 1,734,820 thousand zlotys in comparison to the net profit for 2004 amounting to 1,506,505 thousand zlotys (according to the comparable data presented in the Group's consolidated financial statements for year ended 31 December 2005) ,
- There was an increase of the total assets. The total assets as at 31 December 2005 amounted to 91,613,181 thousand zlotys.
- The cost to income ratio decreased to 64.36% comparing with 66.15% in 2004
- The profitability ratio increased from 47.43% in 2004 to 52.08% in 2005,
- As at 31 December 2005 the return on equity and return on assets ratios amounted to:
  - Return on equity 24.58%
  - Return on assets 1.95%
- The Bank' capital adequacy ratio amounted to 13.90% as at 31 December 2005 comparing with 18.44% as at the end of 2004.

4.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the holding company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2005 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 1 of the Introduction to the Group's audited consolidated financial statements for the year ended 31 December 2005, the holding company's Management Board has stated that the financial statements were prepared on the assumption that the holding company and subsidiaries will continue as a going concern for a period of at least twelve months subsequent to 31 December 2005 and that there are no circumstances that would indicate a threat to its continued activity. Except for Inteligo Financial Services S.A. operations which are being considered by the Bank to be either fully or partially incorporated (this matter however does not have any impact on the Group's operations).

II. DETAILED REPORT

1. Completeness and accuracy of consolidation documentation

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

2. Accounting policies for the valuation of assets and liabilities

Changes of the Group's accounting policies and rules for the presentation of data are detailed in Note 2 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2005. In order to comply with art. 55.6a, the Group changed its accounting policy in 2005 into International Financial Reporting Standards, approved by European Union. The impact of that change on the financial statements of the Group was presented in Note 52 of the additional notes and explanations to the consolidated financial statements for the year ended 31 December 2005.

3. Structure of consolidated assets, liabilities and equity

The structure of the Group's assets and liabilities and equity is presented in the audited consolidated financial statements for the year ended 31 December 2005. The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

3.1 Goodwill on consolidation and write offs

The method of determining goodwill / negative goodwill on consolidation, the method on determining impairment of goodwill, the impairment charged in the financial year and up to the balance sheet date were presented in Note: 2 and 32 of the additional notes and explanations to the consolidated financial statements.

3.2. Shareholders' funds including minority shareholders' interest

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. The shareholders' funds as at 31 December amounted to 43,784 thousand zlotys. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in Notes 46 and 47 of the additional notes and explanations to the audited consolidated financial statements.

3.3. Financial year

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2005 and include the financial data for the period from 1 January 2005 to 31 December 2005.

4. Consolidation adjustments

4.1. Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities

All eliminations of inter-company balances and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

4.2. Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

5. Disposal of all or part of shares in a subsidiaries, joint-ventures and associates

During the financial year the Group did not sell any significant shares in subsidiaries, joint-ventures and associates.

6. Items which have an impact on the Group's result for the year

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2005.

7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in the International Financial Reporting Standards approved by the European Union

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting that would have resulted in the modifications in the auditors' opinion.

8. Specific matters for the audit of banks

We have addressed the issue of complying by the Bank with the obligatory norms mitigating banking risks and the issue of correctness of calculation of capital adequacy ratio in our report dated 21 March 2006, supplementing the auditors' opinion on the financial statements of the Bank for the year ended 31 December 2005.

9. Work of the Expert

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

- property value experts – in the calculations regarding the fair value of the real estate in accordance with IFRS 1, owned by the Bank as at 1 January 2004,
- property value experts – in the calculation regarding the level of impairment for loan receivables we took into consideration the value of collaterals established in valuations performed by property value experts engaged by the Bank;
- actuary – calculation of pension and disability provisions.

on behalf of
Ernst & Young Audit Sp. z o.o.
Rondo ONZ 1
00-124 Warsaw
Ident. no. 130

(-)
Dominik Januszewski
Certified Auditor No 9707/7255

(-)
Dorota Snarska-Kuman
Certified Auditor No 9667/7232

Warsaw, 21 March 2006