Consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group, prepared in accordance with International Financial Reporting Standards for the 6 month period ended 30 June 2006, together with the condensed standalone financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna, prepared in accordance with International Financial Reporting Standards for the 6 month period ended 30 June 2006.

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The only binding version is the original Polish version.

SECURITIES AND EXCHANGE COMMISSION
The semi- annual consolidated report PSr 2006

(according to § 86.1 par. 2 of the Decree of the Council of Ministers, dated 19 October 2005, Journal of Law No. 209, item. 1744)

(for banks)

for the 6 month period of 2006 covering the period	from 2006-01-01 to 2006-06-30
containing consolidated financial statements in accordance with	International Financial Reporting Standards
currency	PLN
containing condensed financial statements in accordance with	International Financial Reporting Standards
currency	PLN
date of submission:	2006-09-22

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
(full name of issuer)

PKO BP SA
(abbreviated name of issuer)

02-515		**Warszawa**
(postal code)		(city)
Puławska		**15**
(street)		(number)
(22) 521-71-12	**521-71-11**	
(telephone)	(fax)	(e-mail)
525-000-77-38	**016298263**	**www.pkobp.pl**
(NIP)	(REGON)	(www)

data concerning consolidated financial statements	**in PLN thousand**		**in EUR thousand**	
SELECTED FINANCIAL DATA	**the period from 01.01.2006 to 30.06.2006**	**the period from 01.01.2005 to 30.06.2005**	**the period from 01.01.2006 to 30.06.2006**	**the period from 01.01.2005 to 30.06.2005**
Interest income	1 828 109	1 759 733	468 722	431 254
Net fees and commission income	828 721	600 846	212 482	147 248
Operating result	1 222 189	1 093 698	313 366	268 030
Net profit (loss) (including minority interest)	982 550	884 304	251 923	216 715
Net profit (loss)	952 692	887 356	244 267	217 463
Equity assigned to the shareholders of the holding company	8 855 519	8 023 836	2 190 117	1 986 049
Total equity	8 918 689	8 090 760	2 205 740	2 002 614
Net cash flow from operating activities	4 693 054	387 751	1 203 285	95 025
Net cash flow from investing activities	(5 699 349)	1 959 006	(1 461 297)	480 090
Net cash flow from financing activities	(1 265)	(76 247)	(324)	(18 686)
Total net cash flows	(1 007 560)	2 270 510	(258 335)	556 429
Basic earnings per share	0.95	0.89	0.24	0.22
Diluted earnings per share	0.95	0.89	0.24	0.22

data concerning condensed financial statement	**in PLN thousand**		**in EUR thousand**	
SELECTED FINANCIAL DATA	**the period from 01.01.2006 to 30.06.2006**	**the period from 01.01.2005 to 30.06.2005**	**the period from 01.01.2006 to 30.06.2006**	**the period from 01.01.2005 to 30.06.2005**
Interest income	1 777 004	1 730 217	455 619	424 021
Net fees and commission income	812 485	579 286	208 319	141 964
Operating result	1 148 154	1 099 962	294 383	269 565
Gross profit (loss)	1 148 154	1 099 962	294 383	269 565
Net profit (loss)	934 563	881 224	239 619	215 960
Total equity	8 888 229	8 123 133	2 198 207	2 010 627
Net cash flow from operating activities	4 679 192	79 773	1 199 731	19 550
Net cash flow from investing activities	(5 634 508)	2 155 013	(1 444 672)	528 125
Net cash flow from financing activities	(1 245)	(1 330)	(319)	(326)
Total net cash flows	(956 561)	2 233 456	(245 259)	547 349
Basic earnings per share	0.93	0.88	0.24	0.22
Diluted earnings per share	0.93	0.88	0.24	0.22

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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 6 MONTH PERIOD ENDED 30 JUNE 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the 6 month periods ended 30 June 2006 and 30 June 2005

	Note	01.01-30.06.2006 unaudited	01.01-30.06.2005 unaudited
Interest income	9	2 707 242	2 879 808
Interest expense	9	(879 133)	(1 120 075)
Net interest income		**1 828 109**	**1 759 733**
Fee and commission income	10	1 012 979	749 212
Fee and commission expense	10	(184 258)	(148 366)
Net fee and commission income		**828 721**	**600 846**
Dividend income	11	3 502	1 570
Result from financial instruments at fair value	12	(57 892)	147 792
Result from investment securities	13	1 127	53 217
Foreign exchange result	14	292 698	331 839
Other operating income	15	430 559	302 173
Other operating expenses	15	(94 706)	(66 631)
Net other operating income		**335 853**	**235 542**
Result on impairment	17	(40 548)	(87 571)
General administrative expenses	16	(1 969 381)	(1 949 270)
Operating profit		**1 222 189**	**1 093 698**
Share in net profits (losses) of associates	19	(1 248)	10 424
Profit before income tax		**1 220 941**	**1 104 122**
Income tax expense	20	(238 391)	(219 818)
Net profit (loss) (including minority interest)		**982 550**	**884 304**
(Profit) loss attributable to minority shareholders		29 858	(3 052)
Net profit (loss)		**952 692**	**887 356**

Earnings per share:	21		
– Basic earnings per share for the period		0.95	0.89
– Diluted earnings per share for the period		0.95	0.89

The accompanying notes to the consolidated financial statements presented on pages 12-119 are an integral part of these consolidated financial statements.

The PKO BP SA Group in PLN thousand

CONSOLIDATED BALANCE SHEET
as at 30 June 2006 and 31 December 2005

	Note	30.06.2006 Unaudited	31.12.2005
ASSETS			
Cash and amounts due from the Central Bank	23	4 092 191	3 895 331
Amounts due from banks	24	11 887 067	12 663 295
Financial assets held for trading	25	799 756	851 003
Derivative financial instruments	26	1 108 058	1 137 227
Other financial instruments at fair value through profit or loss	27	13 366 323	20 059 683
Loans and advances to customers	28	52 821 360	46 874 629
Investment securities	29	7 385 316	1 881 378
1. Available for sale		7 385 316	1 881 378
2. Held to maturity		-	-
Investments in associates and jointly controlled entities	30	185 940	184 345
Intangible assets	32	801 213	688 770
Tangible fixed assets	33	2 560 728	2 643 551
Receivables from income tax	20	-	87
Deferred tax asset	20	103 384	29 101
Other assets	34	846 505	704 781
TOTAL ASSETS		**95 957 841**	**91 613 181**

LIABILITIES AND EQUITY			
LIABILITIES			
Amounts due to the Central Bank	36	1 485	766
Amounts due to other banks	37	2 261 474	2 083 346
Derivative financial instruments	26	1 324 531	1 257 384
Amounts due to customers	39	80 004 146	76 747 563
Liabilities arising from securities issued	40	98 533	68 470
Other liabilities	41	2 788 264	1 862 480
Liabilities due to income tax	20	189 204	436 766
Deferred tax liability	20	23 009	41 519
Provisions	42	348 506	339 897
TOTAL LIABILITIES		**87 039 152**	**82 838 191**
EQUITY			
Share capital	46	1 000 000	1 000 000
Other capital	47	7 130 731	5 850 063
Currency translation differences from foreign operations		(5 233)	(4 082)
Retained earnings	47	(222 671)	150 405
Net profit for the period		952 692	1 734 820
Equity assigned to the shareholders of the holding company		**8 855 519**	**8 731 206**
Minority capital		63 170	43 784
TOTAL EQUITY		**8 918 689**	**8 774 990**
TOTAL EQUITY AND LIABILITIES		**95 957 841**	**91 613 181**

Capital adequacy ratio	**13.33**	**13.90**

The accompanying notes to the consolidated financial statements presented on pages 12-119 are an integral part of these consolidated financial statements.

The PKO BP SA Group in PLN thousand

CONSOLIDATED OFF-BALANCE SHEET ITEMS
As at 30 June 2006 and 31 December 2005

	Note	30.06.2006 unaudited	31.12.2005
Off-balance sheet contingent liabilities granted:	45	**12 167 124**	**10 268 549**
1. financial		9 927 870	8 792 299
2. guarantee		2 239 254	1 476 250
Liabilities arising from the purchase/sale transactions		**316 534 225**	**279 032 415**
Other, of which:		**16 371 368**	**14 571 039**
- irrevocable liabilities	45	9 603 578	8 519 942
- collaterals received		6 767 790	6 051 097
Total off-balance sheet items		**345 072 717**	**303 872 003**

The PKO BP SA Group | in PLN thousand

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 6 month period ended 30 June 2006 (unaudited)

	Assigned to the shareholders of the holding company								Total	Minority capital	Total Equity
		Other capital									
	Share capital	Reserve capital	Revaluation reserve	General banking risk fund	Other reserves	Translation reserve	Retained earnings	Net profit (loss)			
As at 1 January 2006	**1 000 000**	**3 297 614**	**(4 054)**	**1 000 000**	**1 556 503**	**(4 082)**	**150 405**	**1 734 820**	**8 731 206**	**43 784**	**8 774 990**
Transfer of net profit from previous years	-	-	-	-	-	-	1 734 820	(1 734 820)	-	-	-
Transfer from net profit to equity	-	1 232 524	-	70 000	5 122	-	(1 307 896)	-	(250)	-	**(250)**
Transfer from net profit to dividends	-	-	-	-	-	-	(800 000)	-	(800 000)	-	**(800 000)**
Movement in available for sale investments less deferred tax	-	-	(26 978)	-	-	-	-	-	(26 978)	-	**(26 978)**
Movement in minority interest	-	-	-	-	-	-	-	-	-	19 386	**19 386**
Movement in exchange rates	-	-	-	-	-	(1 151)	-	-	(1 151)	-	**(1 151)**
Net profit (loss) for the period	-	-	-	-	-	-	-	952 692	952 692	-	**952 692**
As at 30 June 2006	**1 000 000**	**4 530 138**	**(31 032)**	**1 070 000**	**1 561 625**	**(5 233)**	**(222 671)**	**952 692**	**8 855 519**	**63 170**	**8 918 689**

The accompanying notes to the consolidated financial statements presented on pages 12-119 are an integral part of these consolidated financial statements.

The PKO BP SA Group — in PLN thousand

For the 6 month period ended 30 June 2005 (unaudited)

	Assigned 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
As 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**	**8 219 572**
Transfer of net profit	-	-	-	-	-	-	1 506 505	(1 506 505)	-	-	-
Transfer from net profit to equity	-	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	-	-	-	-	-	-	-	887 356	887 356	-	**887 356**
Movement in available for sale investments less deferred tax	-	-	(26 265)	-	-	-	-	-	(26 265)	-	**(26 265)**
Appropriation of profit in the subsidiary	-	-	-	-	50 923	-	(50 923)	-	-	-	-
Movement in minority interest	-	-	-	-	-	-	-	-	-	1 075	**1 075**
Movement in exchange rates	-	-	-	-	-	9 022			9 022		**9 022**
As at 30 June 2005	**1 000 000**	**3 297 614**	**134 408**	**1 000 000**	**1 556 418**	**(2 450)**	**150 490**	**887 356**	**8 023 836**	**66 924**	**8 090 760**

*Opening balance adjustments due to the conversion to IFRS were presented in Note 52 of the consolidated financial statements of the PKO BP SA Group for the year ended 31 December 2005.

The PKO BP SA Group in PLN thousand

CONSOLIDATED CASH FLOW STATEMENT

for the 6 month periods ended 30 June 2006 and 30 June 2005

	Note	01.01-30.06.2006 unaudited	01.01-30.06.2005 unaudited
Cash flow from operating activities			
Net profit (loss)		952 692	887 356
Adjustments:		3 740 362	(499 605)
Profits/losses attributable to minority shareholders		29 858	(3 052)
Depreciation		172 821	220 368
(Profit) loss from foreign exchange		-	-
(Profit) loss from investing activities	48	(30 671)	8 992
Interest and dividends	48	(51 113)	(781 110)
Change in amounts due from banks	48	(426 809)	(41 123)
Change in financial assets held for trading and other financial instruments at fair value through profit or loss	48	6 744 607	(346 763)
Change in derivative financial instruments (asset)		29 169	(15 738)
Change in loans and advances to customers	48	(5 920 504)	(2 348 304)
Change in deferred tax assets		(74 283)	(28 888)
Change in other assets		(141 637)	(139 689)
Change in amounts due to banks	48	177 583	776 439
Change in derivative financial instruments and other financial liabilities at fair value through profit or loss		67 147	689 411
Change in amounts due to customers	48	3 257 372	1 302 769
Change in liabilities arising from issued debt securities		30 063	51 961
Change in provisions	48	(31 301)	105 979
Change in other liabilities	48	679 962	1 578 924
Income tax paid		(131 417)	(157 220)
Current tax expense		238 391	219 818
Other adjustments	48	(878 876)	(1 592 379)
Net cash from operating activities		**4 693 054**	**387 751**
Cash flow from investing activities			
Inflows from investing activities		**36 674**	**2 207 151**
Sale of shares in subsidiaries, net of cash disposed		-	-
Sale of shares in associates		-	-
Sale of investment securities		-	1 415 713
Proceeds from sale of intangible assets and tangible fixed assets		36 599	5 337
Other investing inflows		75	786 101
Outflows from investing activities		**(5 736 023)**	**(248 145)**
Purchase of subsidiaries, net of cash acquired	50	(55 055)	-
Purchase of shares in jointly controlled entities	30	(44 370)	(17 498)
Purchase of shares in associates		(4 248)	-
Purchase of investment securities		(5 475 047)	-
Purchase of intangible assets and tangible fixed assets		(157 303)	(230 647)
Other investing outflows		-	-
Net cash generated from/ (used in) investing activities		**(5 699 349)**	**1 959 006**

The accompanying notes to the consolidated financial statements presented on pages 12-119 are an integral part of these consolidated financial statements.

The PKO BP SA Group in PLN thousand

	Note	01.01-30.06.2006 unaudited	01.01-30.06.2005 unaudited
Cash flow from financing activities			
Issue of shares		-	-
Issue of debt securities		-	-
Redemption of debt securities		-	-
Dividends paid to holding company shareholders		-	-
Dividends paid to minority shareholders		-	-
Other financing inflows/ outflows		(1 265)	(76 247)
Net cash generated from / (used in) financing activities		**(1 265)**	**(76 247)**
Total net cash flows		**(1 007 560)**	**2 270 510**
Net foreign exchange differences		-	-
Cash and cash equivalents at the beginning of the period		11 390 608	13 812 825
Cash and cash equivalents at the end of the period	48	**10 383 048**	**16 083 335**
included those with limited disposal		1 978	2 374

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 30 June 2006

1. Basic information

The consolidated financial statements of the Group of Powszechna Kasa Oszczędności Bank Polski SA (hereinafter referred to as "the PKO BP SA Group", "the Group") have been prepared for the 6 month period ended 30 June 2006 and include comparative data for the 6 month period ended 30 June 2005 (consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement) and comparative data as at 31 December 2005 (consolidated balance sheet and consolidated off-balance sheet liabilities).

The holding company of the 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, 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. At present, the appropriate District Court is the District Court for the capital city of Warsaw, XIII Economic Department of the National Court Register under entry no. KRS 0000026438. The Bank's share capital amounts to PLN 1,000,000 thousand. The Bank's REGON statistical number is 016298263 and was granted on 18 April 2000.

As of 30 June 2006 and 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 (%)**
As at 30 June 2006				
State Treasury	515 087 146	51.51	PLN 1	51.51
Julius Baer Investment Management LLC	53 150 746	5.02	PLN 1	5.32
Other shareholders	431 762 108	43.47	PLN 1	43.17
Total	**1 000 000 000**	**100.00**	**---**	**100.00**
As at 31 December 2005				
State Treasury	515 711 446	51.57	PLN 1	51.57
Other shareholders	484 288 554	48.43	PLN 1	48.43
Total	**1 000 000 000**	**100.00**	**---**	**100.00**

PKO BP SA is a public company quoted on the Warsaw Stock Exchange. According to Warsaw Stock Exchange bulletin (*Ceduła 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 retail, corporate and other entities, 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 National Bank of Poland (hereinafter referred to as "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 twelve months from the balance sheet date, i.e. 30 June 2006. 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. In the first half of 2006, the Bank's Management Board signed a new contract with Inteligo Financial Services S.A., that redefined the responsibilities of Inteligo Financial Services S.A. within the Group of PKO BP SA.

Reporting periods covered by these consolidated financial statements

The financial statements of the PKO BP SA Group are presented for the 6 month period ended 30 June 2006, and include comparative financial data for the 6 month period ended 30 June 2005 (consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement) and comparative data as at 31 December 2005 (consolidated balance sheet and consolidated off-balance sheet liabilities). 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 30 June 2006, 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
- Jacek Obłękowski Board Member

On 8 March 2006 the Bank's Supervisory Board adopted a resolution accepting the resignation of Mr. Piotr Kamiński from the function of the Member of the Bank's Management Board relating to his appointment to the Management Board of Bank Pocztowy SA.

On 26 June 2006, at the meeting of the Bank's Supervisory Board, Mr. Andrzej Podsiadło resigned from the function of the President of the Bank's Management Board. At the request of the Bank's Supervisory Board, Mr. Andrzej Podsiadło will stay on the position of the President of the Bank's Management Board till 31 October 2006.

At the same meeting, Mrs. Krystyna Szewczyk resigned from the function of the Member of the Bank's Management Board as of 26 June 2006.

On 26 June 2006 the Bank's Supervisory Board adopted resolutions appointing:

- Mr. Zdzisław Sokal for the position of the Member of the Bank's Management Board,
- Mr. Rafał Juszczak for the position of the Member of the Bank's Management Board.

According to the resolutions, Mr. Zdzisław Sokal and Mr. Rafał Juszczak were appointed for the above positions as of 1 July 2006 for the joint term of office of the Management Board which has started on 19 May 2005.

As at 30 June 2006, the Bank's Supervisory Board consisted of:

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

On 18 April 2005, the Annual General Meeting of Shareholders of PKO BP SA dismissed the following members of the Bank's Supervisory Board:

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

On the same meeting, the Annual General Meeting of Shareholders of PKO BP SA appointed the following members to the Bank's Supervisory Board:

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

The PKO BP SA Group in PLN thousand

Internal organisational units of the Bank

The financial statements of the Bank, comprising the financial data for the 6 month period ended 30 June 2006 and the 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 30 June 2006, these organizational units included: the Bank's Head Office in Warsaw, Dom Maklerski PKO BP S.A., COK - Centrum Operacji Kartowych, CBE – Centrum Bankowości Elektronicznej Inteligo, 6 specialized units, 12 regional retail braches, 13 regional corporate branches, 574 independent branches, 579 offices (subordinated branches), 13 corporate client teams, 57 corporate centres and 2,285 agencies. Except for Dom Maklerski PKO BP S.A., none of the organizational units listed above prepares separate financial statements.

Structure of the PKO BP SA Group

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

No.	Name	Registered office	Activity	Percentage of share capital held by the Bank (%)	
				30.06.2006	31.12.2005
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	Management and operation of Centrum Finansowe Puławska	100.00	100.00
4	PKO Inwestycje Sp. z o.o.	Warsaw	Real estate development	100.00	100.00
5	Inteligo Financial Services S.A.	Warsaw	Technical servicing of Internet banking	100.00	100.00
6	Centrum Elektronicznych Usług Płatniczych eService S.A.	Warsaw	Processing and settlement of card transactions	100.00	100.00
7	Bankowy Fundusz Leasingowy S.A.	Łódź	Leasing	100.00	100.00
8	Bankowe Towarzystwo Kapitałowe S.A.	Warsaw	Financial intermediation	100.00	100.00
9	PKO Towarzystwo Funduszy Inwestycyjnych S.A.*	Warsaw	Investment fund management	75.00	-
10	KREDOBANK S.A.	Lviv, Ukraine	Financial services	69.018	69.018
	Indirect subsidiaries				
	Subsidiary of PTE BANKOWY S.A.				
11	Finanse Agent Transferowy Sp. z o.o.	Warsaw	Financial intermediation	100.00	100.00
	Subsidiaries of PKO Inwestycje Sp. z o.o.				
13	POMERANKA Sp. z o.o.	Warsaw	Real estate development/ Construction	100.00	100.00
14	Wilanów Investments Sp. z o.o.	Warsaw	Real estate development/ Construction	100.00	100.00
14	UKROPOLINWESTYCJE Sp. z o.o.	Kiev, Ukraine	Real estate development/ Construction	55.00	55.00
15	Fort Mokotów Sp. z o.o.	Warsaw	Real estate development/ Construction	51.00	51.00

* Till 19 March 2006 operating under the name of PKO/CREDIT SUISSE Towarzystwo Funduszy Inwestycyjnych S.A. As at 31 December 2005 the Company was a jointly controlled entity.

Information regarding the changes in the share capital of the subsidiaries is presented in Note 50.

The PKO BP SA Group in PLN thousand

Other subordinated entities included in the consolidated financial statements:

Jointly controlled entities

No.	Name	Registered office	Activity	Percentage of share capital held by the Bank (%)	
				30.06.2006	31.12.2005
1	CENTRUM HAFFNERA Sp. z o.o.	Sopot	Real estate development/ Construction	49.43	-
2	Centrum Obsługi Biznesu Sp. z o.o.	Poznań	Construction and operation of a hotel	41.44	41.44
3	PKO Towarzystwo Funduszy Inwestycyjnych S.A.*	Warsaw	Investment fund management	-	50.00
4	WAWEL Hotel Development Sp. z o.o.**	Kraków	Hotel services	-	35.40

Indirectly jointly controlled entities					
Subsidiaries of CENTRUM HAFFNERA Sp. z o.o. (indirectly jointly controlled by PKO BP SA)					
5	Centrum Majkowskiego Sp. z o.o.	Sopot	Real estate development/ Construction	100.00	-
6	Kamienica Morska Sp. z o.o.	Sopot	Real estate development/ Construction	100.00	-
7	Sopot Zdrój Sp. z o.o.	Sopot	Real estate development/ Construction	100.00	-
8	Promenada Sopocka Sp. z o.o.	Sopot	Real estate development/ Construction	100.00	-

* Till 19 March 2006 operating under the name of PKO/CREDIT SUISSE Towarzystwo Funduszy Inwestycyjnych S.A. As at 30 June 2006 the Company was a subsidiary.

** As at 30 June 2006 investment in the Company was reclassified as non-current assets held for sale (according to IFRS 5).

The PKO BP SA Group in PLN thousand

Associated entities

In addition the holding company has a significant influence on the following associated entities.

No.	Name	Registered office	Activity	Percentage of share capital held by the Bank (%)	
				30.06.2006	31.12.2005
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	Office real estate management	22,31	22,31
Indirect associates					
Associate of Bankowe Towarzystwo Kapitałowe S.A.					
7	FINDER Sp.z o.o.	Warsaw	Car location and fleet management services	46,43	42,31
8	INTER FINANCE Polska Sp. z o.o.	Suchy Las near Poznan	Investments in finance intermediary branch on Ukrainian market	45,00	-

Approval of the financial statements
These consolidated financial statements were approved by the Management Board of the Bank for publishing on 19 September 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 (hereinafter referred to as "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 Group's activity, with respect to the accounting policies applied by the Group, there are no differences between IFRSs and the IFRSs endorsed by the EU.

Based upon the paragraph 45 point 1c of the Accounting Act and upon the resolution 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 interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, and, in particular, in accordance with International Accounting Standard 34 and all the relevant International Financial Reporting Standards approved by EU.

Changes in accounting policies

In the year beginning on 1 January 2006, the following new standards and interpretations and amendments to the existing standards came into force which may have an effect on the consolidated financial statements of the Group:

- Amendments to IAS 39 *Fair value option* – these amendments restrict the application of the option to measure financial instruments at fair value through profit or loss. Due to the fact that the Group included only financial instruments held for trading in the category of financial instruments at fair value through profit or loss, the amendments to IAS 39 did not affect the presentation or value of assets and liabilities.

In the consolidated financial statements for the year ended 31 December 2005, the Group applied the amendments to IAS 39 *Financial instruments: recognition and measurement* and IFRS 4 *Insurance contracts* relating to financial guarantee contracts, which were issued by the IASB on 18 August 2005 and were endorsed by the EU on 11 January 2006.

Changes to the existing standards and new regulations for periods beginning on 1 January 2007.

The following standards and interpretations which may have impact on the consolidated financial statements of the Group were issued by the IASB or IFRIC though have not yet come into force:

- Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures* (effective from 1 January 2007)
- IFRS 7 *Financial Instruments: Disclosures* (effective from 1 January 2007)
- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* (effective from 1 March 2006)
- IFRIC 8 *Scope of IFRS 2* (effective from 1 May 2006)
- IFRIC 9 *Reassessment of Embedded Derivatives* (effective from 1 June 2006)

The Bank's Management Board assumes that the introduction of the above standards and interpretations will not have any material impact on the accounting policies used by the Group.

Due to introduction of IFRS 7 and changes to IAS 1, the Group is obliged to include additional disclosures concerning financial instruments and equity. The Group is analysing these requirements in order to disclose appropriate information in the consolidated financial statements for the year beginning from 1 January 2007.

The Bank and its direct subsidiaries with their registered office in Poland starting from 1 January 2006 run their books of accounts according to the International Accounting Standards.

Items in the consolidation packages of the Group companies, including KREDOBANK S.A., are valued in the functional currency, i.e. the basic currency of the primary economic environment in which the entity operates.

The presentation currency of the consolidated financial statements is Polish Zloty. The functional currency of the holding company and other companies included in the consolidated financial statements, apart from KREDOBANK S.A., is Polish Zloty. The functional currency of KREDOBANK S.A. is Ukrainian Hryvnia.

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 currencies at the 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 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:

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 6 month period ended 30 June 2006. 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 6 month period ended 30 June 2006:
  - 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.,
  - Bankowe Towarzystwo Kapitałowe S.A.,
  - PKO Inwestycje Sp. z o.o. Group,
  - PKO Towarzystwo Funduszy Inwestycyjnych S.A.
- 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.,
  - Bankowe Towarzystwo Kapitałowe S.A.,
  - PKO Inwestycje Sp. z o.o. Group,

- for the 6 month period ended 30 June 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.,
  - Kredyt Bank (Ukraina) S.A.,
  - Dom Maklerski BROKER S.A. (since 7 April 2005 operating under the name of Bankowe Towarzystwo Kapitałowe 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 as at the acquisition date 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 by the Group to the day when it ceases.

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 acquisition

If the Group increases/decreases its share in the net assets of its controlled subsidiary, 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 Bank makes certain estimates and assumptions, which have a direct influence on the financial statements presented and the amounts presented in the financial statements and in the notes to the financial statements.

The estimates 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 Group assesses whether there is any objective evidence that the value of a given financial asset or a group of financial assets is impaired. Evidence indicating impairment are events or groups of events which occurred after the date of the initial recognition of the asset 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 Group estimates the amounts of write-downs 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-downs are estimated on the basis of the expected time when the losses will be identified, the probability of the losses being identified and the expected amount of the loss at the moment when it is identified.

The Group expects that the methodology used for estimating impairment write-downs 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, acquiring new data may have an impact on the level of impairment write-downs in the 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, among others, 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, among others, 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 debt securities available for sale, assumptions are also made about the counterparty'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 in 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 1.0%.

- Useful life of fixed assets and intangible assets

Useful life of fixed assets and intangible assets is estimated based on:

- average useful lives used for particular types of assets, based on the pace of their depreciation, intensity of the usage, etc.,
- technical obsolence,
- period of exercising control over the asset and other legal restrictions concerning the usage period,
- relation between the usage of the asset and other assets,
- other conditions, that influence the usage of this type of assets.

If the usage of an asset arises from contractual titles, the usage period is coherent with the usage period defined by the titles, unless the estimated usage is shorter. In that case, the estimated usage is taken as the useful life of an asset.

d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, at nostro 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 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 reflected in the result on financial assets and liabilities at fair value through profit or loss.

Derivative instruments

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

An 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 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 the profit and loss account.

The fair value of financial instruments which are traded on the market is their market price, less the costs of concluding the 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 pricing models, option and yield curves models.

- 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 the 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) through 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 cost, less the impairment write-down.

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-downs, which are charged to the 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 debt instruments for which there is an active market – with reference to market price,
b) For 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 adjusted by the risk margin established at issuance of the security.

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 the 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 other receivables are non-derivative financial assets, with fixed or determinable payments, not quoted in an active market, other than:

- financial assets that the entity intends to sell immediately or in the near term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss,
- financial assets that the Group upon initial recognition designates as available for sale, or
- financial assets for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

This category includes loans and other receivables acquired and allowed. Loans and receivables are valued at amortized cost using the effective interest rate less impairment write-downs.

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 write-downs.

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

- Financial assets 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 and loss account under “Interest income”.

Debt instruments quoted on an active market and held to maturity are presented at acquisition cost, adjusted by accrued interest, discount and premium (calculated using the effective interest rate) less impairment write-downs.

f) 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.

g) 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 and advances 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.

h) 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 write-downs. 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 to the issuer or to the borrower, for economic or legal reasons relating to their financial difficulty, of a concession that would not otherwise be granted;
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 advances, receivables from finance lease or investments held to maturity, the amount of the impairment write-down 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 date on which the indication of impairment occured.

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

The calculation of the present value of estimated cash flows relating to a financial asset for which the 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 write-down 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 write-down 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 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 the profit and loss account.

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

i) 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.

j) 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 write-downs. 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 be recoverable, then these assets are reviewed for impairment. Depreciation charges and impairment losses are expensed directly to the profit and loss account for the current period.

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

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

Intangible assets with indefinite useful life 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 of 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.

The PKO BP SA Group in PLN thousand

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)	10-40 years*
Plant and machinery	1.5-25 years
Computer hardware	1.5-3 years
Motor vehicles	5-7 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 40 years.

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

Intangible assets	Periods
Licences for computer software	4-10 years
Copyright, including rights to computer software	4-10 years
Other intangible assets	4-10 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 write-downs. The test for impairment is carried out on an annual basis.

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.

k) Investment property

Initially, investment property is measured at its acquisition cost, which includes transaction costs. After initial recognition, investment property is stated according to requirements of the cost model. Investment property is derecognized 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.

l) 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 write-downs of non-current assets held for sale are recognized in the profit and loss account for a period in which these impairment write-downs were made.

m) 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.

The PKO BP SA Group in PLN thousand

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.

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

The monetary balance sheet and off-balance sheet assets and liabilities of the Group in foreign currency are translated into Polish zloty using the average NBP rate for a given currency prevailing as at the balance sheet date. Impairment write-downs, 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 and loss account.

o) Exchange rates used by preparing the consolidated financial statements

For translation of balance sheet and off-balance sheet items as at 30 June 2006 into EUR, the Group used the rate of 4.0434 PLN/EUR, which is the average NBP rate at the balance sheet date, whereas for translation of the balance sheet and off-balance-sheet items as at 31 December 2005 into EUR, the Group used the rate of 3.8598 PLN/EUR, which was the average NBP rate at the balance sheet date.

The main items of the income statement and cash flow statement for the 6 month period ended 30 June 2006 have been translated into EUR using the rate of 3.9002 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 the 6 month period ended 30 June 2005 have been translated into EUR using the rate of 4.0805 PLN/EUR, which was the arithmetical mean of the average NBP rates at the last day of each month covered by the comparative financial data.

EUR	**01.01. - 30.06.2006**	**01.01. - 30.06.2005**
Rate as at the last day of the period	4.0434	4.0401
Rate being arithmetical average of the rates as at the last days of each month of the period	3.9002	4.0805
The highest rate in the period	4.0434	4.2756
The lowest rate in the period	3.7726	3.8223

For translation of the balance sheet and off-balance sheet items as at 30 June 2006 into UAH, the Group used the rate of 0.6340 PLN/UAH which is the average NBP rate at the balance sheet date, whereas for translation of the balance sheet and off-balance-sheet items as at 31 December 2005 into UAH the Group used the rate of 0.6465 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 the 6-month period ended 30 June 2006 have been translated into UAH using the rate of 0.6256 PLN/UAH 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 the cash flow statement for the 6 month period ended 30 June 2005 have been translated into UAH with the rate of 0.6198 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. - 30.06.2006**	**01.01. - 30.06.2005**
Rate as at the last day of the period	0.6340	0.6644
Rate being arithmetical average of the rates as at the last days of each month of the period	0.6256	0.6198
The highest rate in the period	0.6420	0.6644
The lowest rate in the period	0.6089	0.5570

p) Off-balance sheet liabilities granted

Within its operations, the Bank enters into transactions, which, at the time of their conclusion, are not recognized in the balance sheet as assets or liabilities, but give rise to 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 entities of 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 guarantees 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.

q) Deferred income tax

Due to timing differences between the moment income is recognised as earned and cost as incurred according to the financial accounting rules and to tax regulations, the Group recognises deferred tax liabilities (provisions) and deferred tax assets. The amount of deferred tax is determined, using the balance sheet method, as a change in the balance of assets and 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 the revaluation reserve, where changes in the balance of a deferred tax liability or deferred tax asset are accounted for in correspondence with the 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.

r) Financial liabilities at fair value

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

s) Financial liabilities at amortized cost

Financial liabilities are valued at amortized cost using the effective interest rate. If 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.

t) 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 and 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 presented in the balance sheet under "Other liabilities".

u) 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 settled over the appropriate period of time. Prepayments and deferred costs are presented in the balance sheet under "Other assets".

v) 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 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.

w) 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 write-downs.

- Interest income and interest expense

Interest income and interest expense includes interest, together with discounts and premium, recognized in accordance with accruals principle using 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. Till the end of March 2006, fees and commission expense comprising mainly commission paid to agents, including those relating to loans were not included in the effective interest rate calculation because of their immateriality. Starting from 1 April 2006, new rules concerning the recording of settlements with agents were introduced. Currently, only net commission i.e. commission due for Bank less third party remuneration, is settled over time.

Fees and commission income also comprises fees and commission charged on a straight-line basis, received on loans and advances 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 at the balance sheet date and from the fair value valuation of outstanding derivatives (FX forward, FX swap, CIRS).

- Other operating income and expense

Other operating income and expense include income and costs not related directly to banking activity. Other operating income mainly 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 mainly 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 subordinated entities – net income from sale of finished goods, goods for resale and raw materials and the corresponding costs of their production.

Income from construction services is recognized on the basis of stage of completion method. The stage of completion of a contract is determined based on the proportion that contract costs incurred for work performed to date to the estimated total contract costs.

x) 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 impairment write-downs 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).

y) Shareholders' equity

Shareholders' equity comprises the share capital and funds created by Group companies in accordance with the binding legal regulations and the Statute. Shareholders' equity includes also 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 achieved 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 the 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 from 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 in accordance with the Banking Law dated 29 August 1997.

Shareholders' equity also includes:

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

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

z) Social fund [Zakładowy Fundusz Świadczeń Socjalnych]

According to the Social Fund Act dated 4 March 1994 (Journal of Laws of 1994, No. 43, item 163, 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 assets consist of accumulated contributions made by the Bank to the Social Fund, reduced by non-refundable expenditures from the Social Fund.

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

3. Principles and objectives relating to financial risk management

Risk management is one of the crucial internal processes both in the Bank, and in the PKO BP SA Group entities. It aims at providing the adequate safety level and profitability of loan granting activity in the changing legal and economic environment. Risk management consists of credit risk management, market risk management and operating 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".

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. Creation of effective credit risk management aims at increasing the safety level and the profitability of services offered. 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 loan transactions is performed on a cyclical basis taking into account changing 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, taking into account the conditions of their initiation,
- 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 recognizing impairment write-downs for the impairment of loan exposures.

In the first half of 2006, KREDOBANK S.A. introduced new internal regulations concerning credit policies, ratings of debtors (physical entities) and accepting and monitoring of collateral.

BFL S.A. secures credit risk by creating individual impairment write-downs for leasing exposures.

Furthermore, in the first half of 2006, the Company concluded a contract on cooperation with Krajowy Rejestr Długów Biura Informacji Gospodarczej S.A. Thanks to this cooperation the Company can identify unreliable debtors in more efficient manner, and safeguards from concluding lease agreement with unreliable party.

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 with contingent liabilities granted, shares held directly or indirectly in an entity, contributions to limited liability company or contributions or limited partnership sums, depending which of them is greater, to the limited partnership or limited joint-stock partnership, 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 any of these entities is related to the Bank or 25% of the Bank's own funds, if these entities are 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 exposure exceeds 10% of the Bank's own funds, cannot exceed 800% of the Bank's own funds.

As at 30 June 2006, the exposure of PKO BP SA towards two entities amounted respectively to: PLN 3,768,334 thousand, PLN 1,070,667 thousand (balance and off-balance sheet exposure) and PLN 2,808,334 thousand and PLN 1,070,667 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 30 June 2006

Exposure of the Bank towards 10 biggest borrowers			
No.	**Borrower**	**Total loan exposure***	**Share in the Bank's loan portfolio (%)****
1	Borrower 1	2 808 334	5.16%
2	Borrower 2	1 070 667	1.97%
3	Borrower 3	690 437	1.27%
4	Borrower 4	622 120	1.14%
5	Borrower 5	406 145	0.75%
6	Borrower 6	367 858	0.68%
7	Borrower 7	213 314	0.39%
8	Borrower 8	206 234	0.38%
9	Borrower 9	190 597	0.35%
10	Borrower 10	184 598	0.34%

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

The two biggest exposures towards 10 biggest borrowers amounted to 5.16% and 1.97%, respectively. The risks related to these exposures corresponded to the State Treasury risk. Therefore, this concentration does not result in an increase of the Bank's credit risk.

The other exposures resulted from transactions concluded with:

- Entities effectively controlled by the Bank – 1.14%
- Local authorities – 1.27%
- Large corporate clients – 2.88%
- Private individuals – 0%.

As at 31 December 2005

Exposure of the Bank towards 10 biggest borrowers			
No.	**Borrower**	**Total loan exposure***	**Share in 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 6	397 612	0.82%
6	Borrower 5	387 400	0.80%
7	Borrower 8	222 229	0.46%
8	Borrower 10	204 517	0.42%
9	Borrower 9	199 942	0.41%
10	Borrower 11	198 556	0.41%

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

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. Therefore, this concentration does not result in an increase of the Bank's credit risk.

The other exposures resulted from transactions concluded with:

- Entities effectively controlled by the Bank – 1.02%
- Local authorities – 1.55%

The PKO BP SA Group in PLN thousand

- Large corporate clients – 2.90%
- Private individuals – 0.41%.

b) Concentration of credit risk by groups

As at 30 June 2006 (unaudited)

Total exposure towards 5 biggest capital groups that are Bank's clients	Share in the Bank's loan portfolio (%)*
Group 1	1.88%
Group 2	1.12%
Group 3	1.00%
Group 4	0.91%
Group 5	0.80%
Total	**5.71%**

*The value of credit portfolio does not include off-balance sheet liabilities and equity involvement

Out of the total amount of exposure towards the capital groups listed above, 35% share of the total exposure was a basis for calculating impairment write-downs on an individual or collective basis. Based on the Bank methodology, all these exposures are not individually impaired. For all of them there is an evidence of group impairment.

As at 31 December 2005

Total exposure towards 5 biggest capital groups that are Bank's clients	Share in the Bank's loan portfolio (%)*
Group 1	1.39%
Group 2	1.07%
Group 3	1.04%
Group 4	0.90%
Group 5	0.88%
Total	**5.28%**

*The value of credit portfolio does not include off-balance sheet liabilities and equity involvement

Out of the total amount of exposure towards the capital groups listed above, 46.4% share of the total exposure was a basis for calculating impairment write-downs on an individual or collective basis. Based on the Bank methodology, all these exposures are not individually impaired. For all of them there is an evidence of group impairment.

c) Concentration of credit risk by industry

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

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

Section	Description	Share in the loan portfolio (%)	
		30.06.2006 unaudited	31.12.2005
D	Manufacturing	20.8%	18.2%
E	Electricity, gas and water supply	10.1%	10.3%
F	Construction	3.5%	2.6%
G	Trade (wholesale and retail), repairs of cars, motorbikes and household and personal goods	13.6%	11.9%
K	Real estate activities, rental, and business-related services	7.9%	7.8%
L	Public administration and national defence, obligatory social security and public health insurance	27.9%	38.0%
	Other exposures	16.2%	11.2%
	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 medium 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 Asset and Liability 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 SA Group is attached to the monthly and quarterly reports at the end of each quarter.

The companies in the PKO BP SA 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 within the adopted interest rate risk profile.

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

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

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

Currency risk

The objective of currency risk management is to identify currency risk areas and to take measures to reduce the currency risk to the accepted levels. 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 adequate for the activity relating to currency transactions.
The Bank adopted the Value at Risk model to measure currency risk. Every day the model is back-tested (historical and revaluation back-testing) 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 daily 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 used in these transactions,
4) defining data used for the purpose of currency 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 of the usage of limits 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, from the point of view of required funds, measurement methods for capital adequacy for specific types of risk, according to Resolution No. 4/2004 of the Banking Supervision,
2) internal procedures for capital adequacy defining: classification of new transactions to trading and banking 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 relating to the prices of debt securities in the trading book,
5) counterparty risk and delivery/settlement risk for the trading book.

The PKO BP SA Group in PLN thousand

The companies in the PKO BP SA Capital 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 in order to ensure the adequacy of the Bank's price risk profile to the nature of its business activities consisting in the reduction of 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 sensitivity 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 measures 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:
• internal procedures for liquidity risk management,
• limits and thresholds reducing liquidity risk,
• 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 Capital Group, the Bank sets limits and thresholds for liquidity risk. The limits and thresholds are used to measure both the current liquidity and the medium and long-term liquidity.

30 June 2006

Interest rate risk
Financial assets and financial liabilities with interest rate risk of fair value[1]

	30.06.2006 unaudited
Bank – Debt securities	18 635 578
Bank – Loans based on fixed interest rates	782 359
Bank – Deposits from customers based on fixed interest rates	(15 527 693)
Bank – Inter-bank and negotiable deposits	(16 135 633)
Bank – Inter-bank placements	11 606 825
Group Entities – Assets	1 334 862
Group Entities – Liabilities	(633 209)
Total	**63 089**

Financial assets and liabilities with the cash-flow risk connected with the interest rate[1]

[1] Total for all currencies

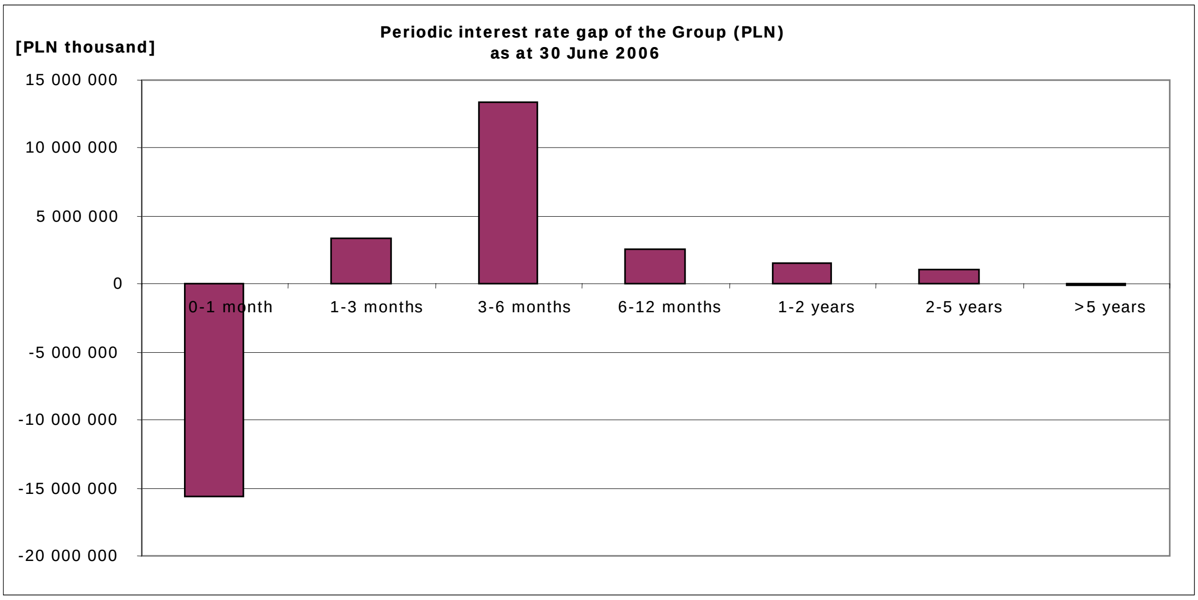
The PKO BP SA Group in PLN thousand

	30.06.2006 unaudited
Bank - Debt securities	2 412 391
Bank – Loans based on variable interest rates	53 797 506
Bank – Deposits from customers based on variable interest rates	(48 465 436)
Group Entities – Assets	801 076
Group Entities – Liabilities	(1 567 045)
Total	**6 978 492**

Off-balance-sheet transactions – fair value[1, 2]

	30.06.2006 unaudited
Bank – Derivatives	(256 972)
Group Entities – Derivatives	-
Total - Derivatives	**(256 972)**

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	(15 410 369)	3 259 883	13 601 236	2 553 717	1 474 559	1 026 636	(26 711)	**6 478 951**
Bank - Cumulative gap	(15 410 369)	(12 150 486)	1 450 750	4 004 467	5 479 026	6 505 662	6 478 951	**X**
Group Entities - Periodic gap	(159 484)	56 448	(230 011)	(4 616)	25 792	(86)	-	**(311 957)**
Group Entities - Cumulative gap	(159 484)	(103 036)	(333 047)	(337 663)	(311 871)	(311 957)	(311 957)	**X**
TOTAL - Periodic gap	**(15 569 853)**	**3 316 331**	**13 371 225**	**2 549 101**	**1 500 351**	**1 026 550**	**(26 711)**	**6 166 994**
TOTAL - Cumulative gap	**(15 569 853)**	**(12 253 522)**	**1 117 703**	**3 666 804**	**5 167 155**	**6 193 705**	**6 166 994**	**X**



In the first half of 2006, 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 3 months and a positive cumulative gap for longer horizons. In the first half of 2006, 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 change significantly its risk profile.

[2] Fair value

The PKO BP SA Group in PLN thousand

USD Repricing Gap (in USD ths.)	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
Bank - Periodic gap	(123 742)	155 366	(55 233)	38 263	-	-	7 834	**22 488**
Bank - Cumulative gap	(123 742)	31 624	(23 609)	14 654	14 654	14 654	22 488	**X**
Group Entities - Periodic gap	(23 855)	(8 693)	(29 335)	(24 865)	29 010	54 134	33 789	**30 185**
Group Entities - Cumulative gap	(23 855)	(32 548)	(61 883)	(86 748)	(57 738)	(3 604)	30 185	**X**
TOTAL - Periodic gap	**(147 597)**	**146 673**	**(84 568)**	**13 398**	**29 010**	**54 134**	**41 623**	**52 673**
TOTAL - Cumulative gap	**(147 597)**	**(924)**	**(85 492)**	**(72 094)**	**(43 084)**	**11 050**	**52 673**	**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 horizon up to 1 month, from 3 to 6 months, from 6 to 12 months, from 1 to 2 years and above 5 years. In the remaining time horizons (from 1 to 3 months and 2 to 5 years), the subsidiaries' risk decreased the Group's interest rate risk.

EUR Repricing Gap (in EUR ths.)	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
Bank - Periodic gap	(344 082)	210 235	(3 042)	2 332	70 450	5 459	9 136	**(49 512)**
Bank - Cumulative gap	(344 082)	(133 847)	(136 889)	(134 557)	(64 107)	(58 648)	(49 512)	**X**
Group Entities - Periodic gap	(23 020)	(463)	(5 756)	(6 092)	6 675	17 178	1 006	**(10 472)**
Group Entities - Cumulative gap	(23 020)	(23 483)	(29 239)	(35 331)	(28 656)	(11 478)	(10 472)	**X**
TOTAL - Periodic gap	**(367 102)**	**209 772**	**(8 798)**	**(3 760)**	**77 125**	**22 637**	**10 142**	**(59 984)**
TOTAL - Cumulative gap	**(367 102)**	**(157 330)**	**(166 128)**	**(169 888)**	**(92 763)**	**(70 126)**	**(59 984)**	**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 change its risk profile.

CHF Repricing Gap (in CHF ths.)	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
Bank - Periodic gap	1 541 415	(1 841 219)	(526)	(1 840)	(994)	-	-	**(303 164)**
Bank - Cumulative gap	1 541 415	(299 804)	(300 330)	(302 170)	(303 164)	(303 164)	(303 164)	**X**
Group Entities - Periodic gap	(1 590)	-	-	-	-	-	-	**(1 590)**
Group Entities - Cumulative gap	(1 590)	(1 590)	(1 590)	(1 590)	(1 590)	(1 590)	(1 590)	**X**
TOTAL - Periodic gap	**1 539 825**	**(1 841 219)**	**(526)**	**(1 840)**	**(994)**	-	-	**(304 754)**
TOTAL - Cumulative gap	**1 539 825**	**(301 394)**	**(301 920)**	**(303 760)**	**(304 754)**	**(304 754)**	**(304 754)**	**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 did not have a significant influence on the Group's interest rate risk and therefore did not change its risk profile.

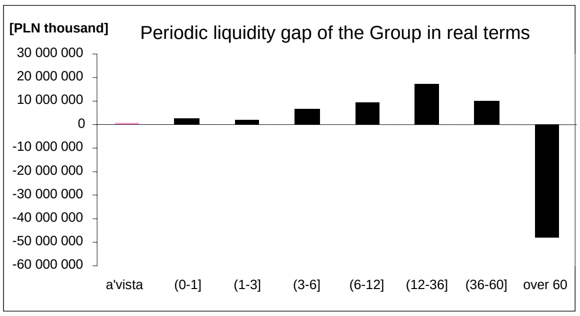
The Group's interest rate risk exposure was on a level not presenting any threat to the Group. The Bank was mainly exposed to the PLN interest rate risk, which constituted approximately 97% of the Bank's Value at Risk (VaR).

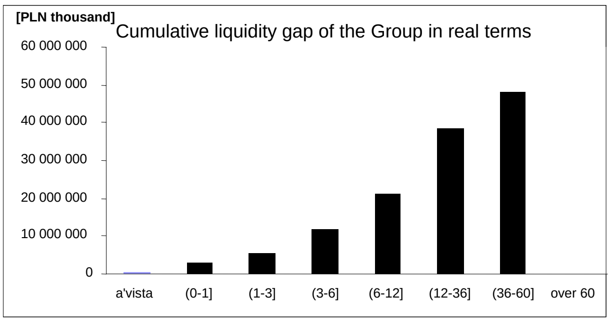
The PKO BP SA Group in PLN thousand

The interest rate risk in the Bank was on a low level. As at 30 June 2006, the interest rate VaR of the Bank for the holding period of 10 days amounted to PLN 15,426 thousand, which constituted approximately 0.23% of the Bank's own funds. The interest rate risk was generated mainly by the risk of assets and liabilities repricing mismatch.

Liquidity risk of the PKO BP SA 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	460 133	2 713 344	2 341 702	6 747 654	9 463 270	17 043 229	9 416 310	(48 185 642)
Bank - Cumulative gap	460 133	3 173 477	5 515 179	12 262 833	21 726 103	38 769 332	48 185 642	-
Group Entities - Periodic gap	(59 065)	12 047	(56 849)	(195 737)	(115 155)	58 036	420 989	(64 266)
Group Entities - Cumulative gap	(59 065)	(47 018)	(103 867)	(299 604)	(414 759)	(356 723)	64 266	-
TOTAL - Periodic gap	**401 068**	**2 725 391**	**2 284 853**	**6 551 917**	**9 348 115**	**17 101 265**	**9 837 299**	**(48 249 908)**
TOTAL - Cumulative gap	**401 068**	**3 126 459**	**5 411 312**	**11 963 229**	**21 311 344**	**38 412 609**	**48 249 908**	**X**





In all time horizons the cumulative[3] liquidity gap of the PKO BP SA Group was positive. This indicates a surplus of assets receivable over liabilities payable.

[3] Liquidity gap in real terms of PKO BP SA Group was calculated as the sum of liquidity gap in real terms of PKO BP SA and contractual liquidity gaps in real terms of other Group companies.

The PKO BP SA Group — in PLN thousand

Assets and liabilities of the Bank as at 30 June 2006, by maturities (unaudited)

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	4 092 191	-	-	-	-	-	-	**4 092 191**
Amounts due from banks	5 009 001	1 311 833	5 387 602	132 893	46 133	-	(395)	**11 887 067**
Financial assets held for trading	10 998	75 481	256 706	270 952	185 615	4	-	**799 756**
Other financial instruments at fair value through profit or loss	1 641 673	407 685	5 442 851	3 347 088	2 511 181	15 845	-	**13 366 323**
Loans and advances to customers	10 623 538	1 555 039	6 243 052	20 577 818	16 783 427	-	(2 961 514)	**52 821 360**
Securities available for sale	53 914	190 684	79 828	3 873 212	3 217 245	588	(30 155)	**7 385 316**
Securities held to maturity	-	-	-	-	-	-	-	-
Other	2 705 691	1 367 886	8 234	82 474	361 804	1 255 968	(176 229)	**5 605 828**
Total assets:	**24 137 006**	**4 908 608**	**17 418 273**	**28 284 437**	**23 105 405**	**1 272 405**	**(3 168 293)**	**95 957 841**
Liabilities:								
Amounts due to the Central Bank	1 485	-	-	-	-	-	-	**1 485**
Amounts due to banks	1 584 100	326 682	273 337	77 355	-	-	-	**2 261 474**
Amounts due to customers	50 347 202	11 849 418	16 619 203	1 147 745	40 578	-	-	**80 004 146**
Liabilities arising from debt securities issued	-	-	98 533	-	-	-	-	**98 533**
Other liabilities	1 754 001	1 989 313	86 816	141 363	435 196	266 825	-	**4 673 514**
Total liabilities:	**53 686 788**	**14 165 413**	**17 077 889**	**1 366 463**	**475 774**	**266 825**	-	**87 039 152**
Equity:	-	-	-	-	-	**8 918 689**	-	**8 918 689**
Total:	**53 686 788**	**14 165 413**	**17 077 889**	**1 366 463**	**475 774**	**9 185 514**	-	**95 957 841**
Liquidity gap	**(29 549 782)**	**(9 256 805)**	**340 384**	**26 917 974**	**22 629 631**	**(7 913 109)**	**(3 168 293)**	-

The PKO BP SA Group in PLN thousand

Currency risk

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

	Currency expressed in PLN – 30.06.2006 *unaudited*				
Assets, of which:	**PLN**	**EUR**	**CHF**	**Other**	**Total**
Cash and balances with the Central Bank	3 857 685	91 866	7 596	135 044	**4 092 191**
Loans and other amounts due to the financial sector	7 190 794	735 562	329 987	3 940 086	**12 196 429**
Loans to non-financial sector	35 010 145	2 607 224	9 924 763	1 644 853	**49 186 985**
Loans to public sector	6 235 369	10 379	86	41 088	**6 286 922**
Securities	18 221 451	2 459 646	-	900 453	**21 581 550**
Non-current assets	7 259 277	-	-	126 812	**7 386 089**
Other assets and derivatives	1 979 688	85 486	3 032	56 770	**2 124 976**
TOTAL GROSS ASSETS	79 754 409	5 990 163	10 265 464	6 845 106	**102 855 142**
DEPRECIATION/ IMPAIRMENT	(6 668 511)	(83 476)	(23 311)	(122 003)	**(6 897 301)**
TOTAL NET ASSETS	73 085 898	5 906 687	10 242 153	6 723 103	**95 957 841**
LIABILITIES, of which:					
Balances with the Central Bank	1 485				**1 485**
Amounts due to financial sector	990 312	1 171 005	10 429	341 911	**2 513 657**
Amounts due to non-financial sector	68 969 411	3 055 615	2 684 577	1 246 292	**75 955 895**
Amounts due to public sector	3 775 557	16 927	-	3 584	**3 796 068**
Liabilities arising from securities issued	98 533	-	-	-	**98 533**
Provisions	348 185	24	-	297	**348 506**
Other liabilities and derivatives and deferred tax provisions	4 189 770	55 287	34 689	45 262	**4 325 008**
Shareholders' equity	8 889 412	-	-	29 277	**8 918 689**
TOTAL LIABILITIES	87 262 665	4 298 858	2 729 695	1 666 623	**95 957 841**
OFF-BALANCE SHEET LIABILITIES GRANTED	**18 583 218**	**1 539 645**	**990 937**	**656 902**	**21 770 702**

The PKO BP SA Group in PLN thousand

31 December 2005

Interest rate risk

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

	31.12.2005
Bank – Debt securities	19 869 505
Bank – Loans and advances based on fixed interest rates	572 690
Bank – Deposits from customers based on fixed interest rates	(16 123 514)
Bank – Inter-bank and negotiable deposits	(14 029 005)
Bank – Inter-bank and negotiable placements	12 730 534
Group Entities – Assets	978 413
Group Entities – Liabilities	(1 000 247)
Total	**2 998 376**

Financial assets and liabilities with the cash-flow risk connected with the interest rate[4]

	31.12.2005
Bank - Debt securities	1 928 368
Bank – Loans and advances based on fixed interest rates	48 007 343
Bank – Deposits from customers based on variable interest rates	(46 318 895)
Group Entities – Assets	978 413
Group Entities – Liabilities	(1 000 247)
Total	**3 594 982**

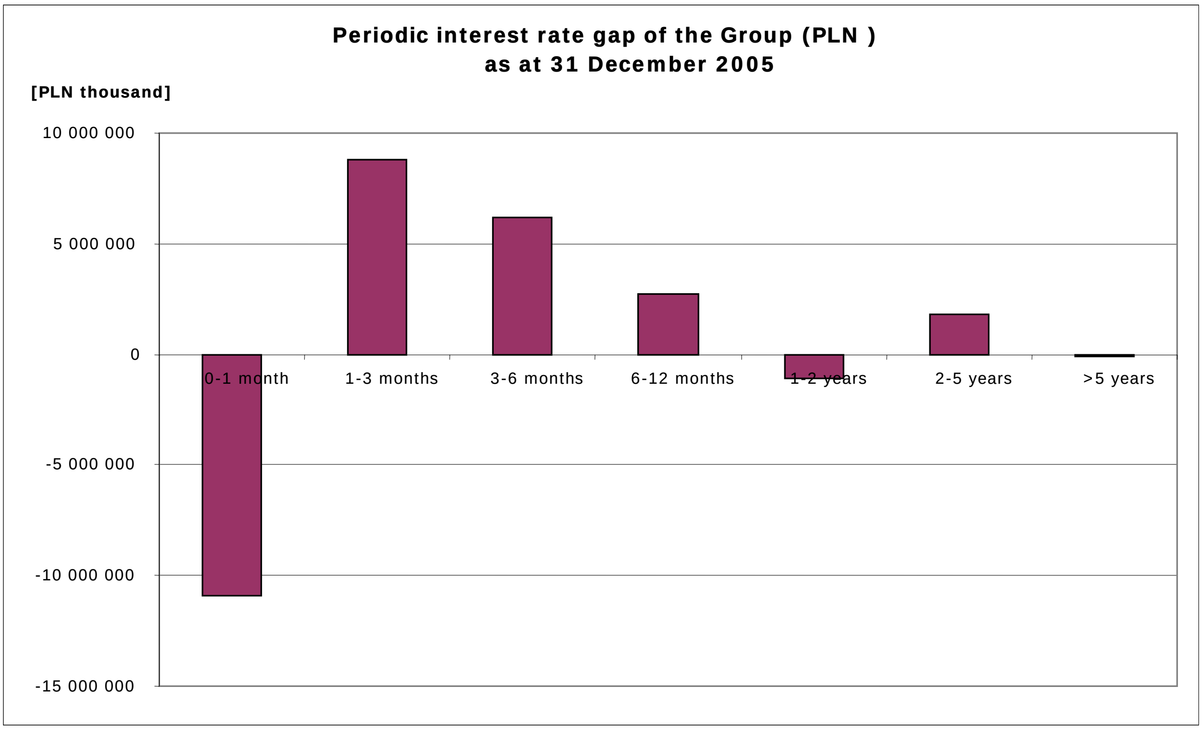
Off-balance-sheet transactions – fair value[4]

	31.12.2005
Bank – Derivatives	(126 795)
Group Entities – Derivatives	-
Total - Derivatives	**(126 795)**

PLN Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
Bank - Periodic gap	(10 910 303)	8 810 966	6 163 358	2 740 066	(1 100 302)	1 812 781	(115 177)	**7 401 389**
Bank - Cumulative gap	(10 910 303)	(2 099 337)	4 064 021	6 804 087	5 703 785	7 516 566	7 401 389	**X**
Group Entities - Periodic gap	374 043	(466 692)	98 517	12 290	-	-	653	**18 811**
Group Entities - Cumulative gap	374 043	(92 649)	5 868	18 158	18 158	18 158	18 811	**X**
TOTAL - Periodic gap	**(10 536 260)**	**8 344 274**	**6 261 875**	**2 752 356**	**(1 100 302)**	**1 812 781**	**(114 524)**	**7 420 200**
TOTAL - Cumulative gap	**(10 536 260)**	**(2 191 986)**	**4 069 889**	**6 822 245**	**5 721 943**	**7 534 724**	**7 420 200**	**X**

[4] 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 change significantly its risk profile.

USD Repricing Gap (in USD ths.)	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	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	-	-	**5 131**
Group Entities - Cumulative gap	(20 383)	(66 704)	(72 563)	(65 238)	5 131	5 131	5 131	**X**
TOTAL - Periodic gap	**(599 946)**	**39 563**	**195 436**	**256 800**	**70 369**	-	**10 402**	**(27 376)**
TOTAL - Cumulative gap	**(599 946)**	**(560 383)**	**(364 947)**	**(108 147)**	**(37 778)**	**(37 778)**	**(27 376)**	**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 horizon up to 1 month, from 6 to 12 months, from 1 to 2 years. In the remaining time horizons (from 1 to 3 months, from 3 to 6 months), the subsidiaries' risk decreased the Group's interest rate risk.

The PKO BP SA Group in PLN thousand

EUR Repricing Gap (in EUR ths.)	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	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	17 360	17 360	17 425	21 243	**X**
Group Entities - Periodic gap	14 483	(14 961)	(2 929)	(4 190)	13 596	-	-	**5 999**
Group Entities - Cumulative gap	14 483	(478)	(3 407)	(7 597)	5 999	5 999	5 999	**X**
TOTAL - Periodic gap	**(325 432)**	**384 976**	**(17 279)**	**(32 502)**	**13 596**	**65**	**3 818**	**27 242**
TOTAL - Cumulative gap	**(325 432)**	**59 544**	**42 265**	**9 763**	**23 359**	**23 424**	**27 242**	**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 did not change its risk profile.

CHF Repricing Gap (in CHF ths.)	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	48 220	48 016	48 016	48 016	48 016	**X**
Group Entities - Periodic gap	33 352	(28 776)	-	-	-	-	-	**4 576**
Group Entities - Cumulative gap	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 did not have a significant influence on the Group's interest rate risk and therefore did not change its risk profile.

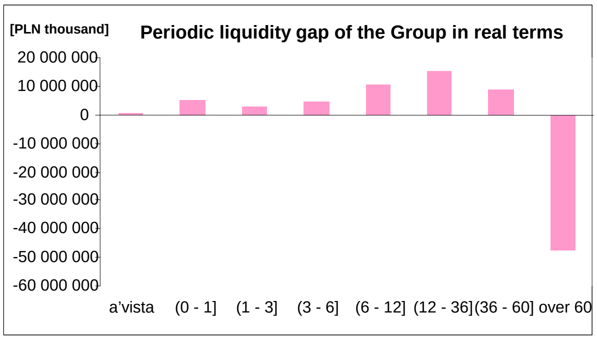
The Group's interest rate risk exposure was on a low level. The Bank was mainly exposed to the PLN interest rate risk, which constituted approximately 73% of the Bank's Value at Risk (VaR).

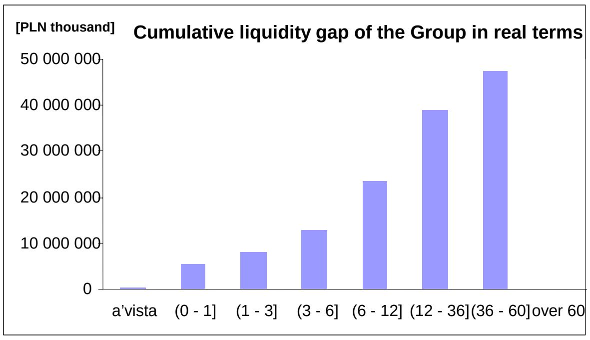
The interest rate risk in the Group was within the accepted limits. As at 31 December 2005, the interest rate VaR for the holding period of 10 days amounted to PLN 27,164 thousand, which constituted approximately 0.45% of Bank's own funds. The interest rate risk was generated mainly by the risk of assets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

The PKO BP SA Group in PLN thousand

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	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 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 gap	(118 517)	335 079	277 716	175 716	116 528	304 045	77 738	-
TOTAL - Periodic gap	**314 480**	**5 154 333**	**2 729 955**	**4 774 571**	**10 600 320**	**15 271 298**	**8 510 233**	**(47 355 191)**
TOTAL - Cumulative gap	**314 480**	**5 468 813**	**8 198 768**	**12 973 339**	**23 573 659**	**38 844 957**	**47 355 190**	**-**





In all time horizons, the cumulative[5] liquidity gap of the PKO BP SA Group in real terms was positive. This indicates a surplus of assets receivable over liabilities payable.

[5] 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

 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**
Loans and advances to 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	2 903 997	1 162 457	97 708	87 983	129 746	1 183 745	(177 774)	**5 387 862**
Total assets:	**24 748 804**	**5 549 074**	**17 104 073**	**25 401 705**	**20 797 136**	**1 220 581**	**(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	433 939	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	**(23 530 883)**	**(8 472 194)**	**674 775**	**23 512 496**	**20 314 711**	**(9 290 713)**	**(3 208 192)**	

The PKO BP SA Group in PLN thousand

Currency risk

	Currency expressed in PLN – 31.12.2005				
Assets, 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 to 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 provisions	3 413 547	156 538	8 121	19 943	**3 598 149**
Shareholders' 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**
OFF-BALANCE SHEET LIABILITIES GRANTED	**16 073 293**	**823 609**	**665 001**	**1 226 588**	**18 788 491**

The PKO BP SA Group in PLN thousand

Exposure to the risk

The tables below present 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 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 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 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 30 June 2006:

Balance sheet instruments		
Instrument type	**Carrying amount** unaudited	**Risk weighted value** unaudited
Cash	1 268 757	-
Receivables	64 708 427	42 116 420
Debt securities	19 452 118	234 113
Other securities, shares	226 300	77 521
Non-current assets	3 361 941	2 560 727
Other	4 881 373	3 359 744
Total banking portfolio	**93 898 916**	**48 348 525**
Debt securities	2 055 426	706 732
Equity instruments held for trading classified to the trading book of the Bank	3 499	3 499
Total trading portfolio	**2 058 925**	**710 231**
Total balance sheet instruments	**95 957 841**	**49 058 756**

The PKO BP SA Group in PLN thousand

Off-balance sheet instruments			
Instrument type	**Replacement cost** unaudited	**Credit equivalent** unaudited	**Risk weighted value** unaudited
Derivatives			
Interest rate instruments:	*128 997 953*	*1 483 995*	*296 799*
FRA	57 675 000	338 299	67 660
IRS	71 322 953	1 145 696	229 139
Foreign currency instruments:	*18 202 136*	1 348 450	*278 460*
Currency forwards	920 282	62 080	19 916
Forwards – embedded derivatives	2 360	489	245
Swaps	7 661 385	261 270	52 254
CIRS	62 049	3 076	615
FX futures	9 505 573	1 017 177	203 436
Options (delta equivalent – purchase of options)	50 487	4358	1 994
Other instruments:	*1 004 820*	*100 985*	*20 197*
SBB	1 004 820	100 985	20 197
Other	-	-	-
Total derivatives	**148 204 909**	**2 933 430**	**595 456**
of which:			
banking portfolio	28 354 621	1 513 064	302 759
trading portfolio	119 850 288	1 420 366	292 697

Other off-balance sheet instruments			
Instrument type	**Off-balance sheet value** unaudited	**Credit equivalent** unaudited	**Risk weighted value** unaudited
Credit liabilities	21 989 116	2 512 167	2 315 115
Guarantees issued	405 664	270 098	263 086
Letters of credit	141 882	58 291	57 620
Others	7 767 705	1 702 168	496 839
Total banking portfolio	**30 304 367**	**4 542 724**	**3 132 660**
Underwriting guarantees	784 788	555 146	555 146
Total trading portfolio	**784 788**	**555 146**	**555 146**

	Carrying amount and off-balance-sheet value unaudited	**Risk weighted value** unaudited	**Capital requirement** unaudited
Total banking portfolio (credit risk)	**152 557 904**	**51 783 944**	**4 142 716**

The PKO BP SA Group in PLN thousand

Capital requirements for trading portfolio (market risk)	Capital requirements unaudited
Market risk	**78 711**
of which:	
Currency risk	-
Commodity price risk	-
Securities price risk	447
Debt instruments specific risk	55 264
Interest rate general risk	23 000
Other:	**18 760**
Settlement risk – delivery and contractor	18 760
Other	
Total capital requirement (credit and market risk)	**4 240 187**

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	2 643 551
Other	4 499 807	3 007 179
Total banking portfolio	**89 283 614**	**41 837 739**
Debt securities	2 327 379	855 570
Equity instruments held for trading classified to the trading book of the Bank	2 188	2 188
Total trading portfolio	**2 329 567**	**857 758**
Total balance sheet instruments	**91 613 181**	**42 695 497**

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

The PKO BP SA Group in PLN thousand

Other off balance sheet instruments			
Instrument type	**Carrying amount and off-balance-sheet value**	**Risk weighted value**	**Capital requirement**
Credit liabilities	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
Other	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 (market risk)	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
Securities issue underwriting risk	-
Other	-
Total capital requirement (credit and market risk)	**3 617 730**

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 of reaction to events as they occur.

The Bank uses the following rules in operating risk management:

- 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,
- process of identification and assessment of threats relating to operational risk for all significant areas of Bank’s activities defined in internal regulations of the Bank,
- regular monitoring by the Bank of operating events exceeding PLN 40,000 and submitting to the Management Board information on the results of this monitoring,
- operational risk management is performed at the level of system solutions and current risk management,
- delegating comprehensive operational risk management to selected Head Office units and specialized organizational units, which are responsible for defining detailed targets,
- operational risk management process is coordinated by the Bank’s Credit and Operational Risk Department.

In first half of 2006 KREDOBANK SA implemented the internal regulations regarding the operational risk management together with the procedure concenring the identyfication of operational risk. The new regulation that enabled records keeping and valuation of operational events was prepared and approved. The objectives and methods of operational risk management in the Company are coherent with those in the Bank.

The PKO BP SA Group in PLN thousand

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

Other PKO BP SA Group entities use internal regulations concerning assurance of continuity of business processes, adjusted to the scope of their business activities.

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 but independent, 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 significantly the fair value of this group of assets.

As at 30 June 2006
unaudited

ASSETS, of which:	**Carrying amount**	**Fair value**
Cash and balances with the Central Bank	4 092 191	4 092 191
Amounts due from banks	11 887 067	11 863 473
Financial assets held for trading	799 756	799 756
Derivative financial instruments	1 108 058	1 108 058
Other financial instruments at fair value through profit or loss	13 366 323	13 366 323
Loans and advances to customers	52 821 360	52 821 360
Investment securities	7 385 316	7 385 316
Available for sale	7 385 316	7 385 316
Held to maturity	-	-
Investments in associates and jointly controlled entities	185 940	185 940
LIABILITIES, of which:		
Amounts due to the Central Bank	1 485	1 485
Amounts due to other banks	2 261 474	2 261 474
Derivative financial instruments	1 324 531	1 324 531
Amounts due to customers	80 004 146	80 004 146
Liabilities arising from debt securities issued	98 533	98 533

The PKO BP SA Group in PLN thousand

As at 31 December 2005

ASSETS, of which:	Carrying amount	Fair value
Cash and balances with the Central Bank	3 895 331	3 895 331
Amounts due from banks	12 663 295	12 919 384
Financial assets held for trading	851 003	851 003
Derivative financial instruments	1 137 227	1 137 227
Other financial instruments at fair value through profit or loss	20 059 683	20 059 683
Loans and advances to 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 associates and jointly controlled entities	184 345	184 345
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

6. Custodial activities

The Bank is a direct participant of the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych). As at 30 June 2006, the Bank kept 12,873 securities accounts (as at 31 December 2005 – the Bank kept 10,769 securities accounts). 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 have been sold to a securitization fund for the total value of approximately PLN 660,000 thousand. The receivables sold had been evidenced both in the balance and in off-balance records. As a result of the transaction above, the Bank did not receive any securities. According to the agreed settlement conditions concerning price of the receivables portfolio subject to sale, the amount appropriated to pay back the debt concerning balance sheet receivables totaled to approximately PLN 47,710 thousand.

In accordance with the receivables sale agreement 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 a result, the created provision amounted to PLN 78,614 thousand.

In the first half of 2006, the Bank continued works relating to the trenched sale of the balance sheet and off-balance sheet receivables classified as “lost”, due from corporate clients and physical persons related to them.

As a result of a tender process, the agreement concerning the sale of receivables was signed on 28 April 2006 with a securitization fund. As at 15 June 2006, there were 1,012 receivables selected for sale, with the nominal value amounting to approximately PLN 748 million. The sale agreement was signed on 29 August 2006.

The subsequent agreement concerning the sale of receivables to a securitization fund in the amount of approximately 65 thousand receivables and the value of PLN 600 million is forecasted to be signed at the end of September 2006.

Additionally, the cooperation of Group entities with third parties concerning the management of problematic receivables is being continued.

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.

The presented split into segments, differently to previous approach, includes in industry segments except for the activity of the holding company also activities of subsidiaries. As a consequence, unallocated items balances decreased.

The data for the first half of 2005 were appropriately restated to ensure comparability.

Business segments

Segmentation by business is as follows:

- Corporate Segment includes transactions of the holding company with large corporate clients and activity of a subsidiary assigned to this segment.
- Retail Segment includes transactions of the holding company with small and medium enterprises and individuals and activities of a subsidiaries assigned to this segment.
- Treasury Segment includes inter-bank transactions, transactions with derivative instruments and debt securities.
- Investments Segment includes brokerage and investing activities of the holding company and activity of a subsidiary assigned to this segment.
- Housing Segment includes transactions of the holding company connected with granting housing loans and accepting housing deposits and activity of a subsidiary assigned to this segment.

The Bank has not created other segments as a result of not having reached the thresholds set forth in IAS 14, which are as 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 tables below present segment revenue and segment results for the 6 month periods ended 30 June 2006 and 30 June 2005, as well as selected segment assets and segment liabilities as at 30 June 2006 and 31 December 2005.

The PKO BP SA Group in PLN thousand

	Continued activities					
6 month period ended 30 June 2006 unaudited	**Corporate Segment**	**Retail Segment**	**Treasury Segment**	**Investment Segment**	**Housing Segment**	**All activities**
Revenue						
External customer -related revenues	592 197	1 918 930	768 520	94 651	1 022 777	**4 397 075**
Inter-segment sales	-	19 704	-	-	1 667	**21 371**
Total segment revenue	592 197	1 938 634	768 520	94 651	1 024 444	**4 418 446**
Result						
Segment result **	125 259	566 424	39 061	42 276	279 399	**1 052 419**
Unallocated result together with the result of unseparated segments.	-	-	-	-	-	**49 072**
Difference between FX Swap and CIRS results (swap points) reported in B/S and management accounts	-	-	-	-	-	**120 698**
Result from the continued activities before taxation	-	-	-	-	-	**1 222 189**
Share in the results of associates	-	-	-	-	-	**(1 248)**
Result before taxation and minority interest	-	-	-	-	-	**1 220 941**
Income tax (tax expense)	-	-	-	-	-	**(238 391)**
Profit/ (loss) of minority shareholders	-	-	-	-	-	**29 858**
Net profit for the year	-	-	-	-	-	**952 692**
Assets and equity and liabilities as at 30 June 2006 (unaudited)						
Segment assets	16 694 712	16 570 996	31 757 645	1 553 140	22 405 073	**88 981 566**
Investments in associates and jointly controlled entities	-	-	-	185 940	-	**185 940**
Unallocated assets	-	-	-	-	-	**6 790 335**
Total assets	-	-	-	-	-	**95 957 841**
Segment liabilities	10 448 528	62 494 004	2 102 160	252 185	9 483 908	**84 780 785**
Unallocated liabilities	-	-	-	-	-	**11 177 056**
Total liabilities	-	-	-	-	-	**95 957 841**

Other segment information (unaudited)						
Impairment allowances*	26 482	(72 131)	-	7 365	(10 759)	**(49 043)**
Capex expenditure on tangible and intangible fixed assets	-	-	-	-	-	**156 617**
Depreciation of tangible and amortisation of intangible fixed assets	-	-	-	-	-	**172 821**
Other non-cash expenditure	-	-	-	-	-	-

* does not contain the result on impairment write-downs relating to unallocated segments

** the effect of the increase activity of the real estate market (relates to Housing Segment)

The PKO BP SA Group in PLN thousand

	Continued activities					
6 month period ended 30 June 2005 unaudited	**Corporate Segment**	**Retail Segment**	**Treasury Segment**	**Investment Segment**	**Housing Segment**	**All activities**
Revenue						
External customer -related revenues	645 454	1 635 283	1 123 725	90 819	877 049	**4 372 330**
Inter-segment sales	-	22 735	-	66	2 214	**25 015**
Total segment revenue	645 454	1 658 018	1 123 725	90 885	879 263	**4 397 345**
Result						
Segment result	86 747	369 894	174 087	29 040	83 457	**743 225**
Unallocated result together with the result of unseparated segments.	-	-	-	-	-	**128 402**
Difference between Fx Swap and CIRS results (swap points) reported in B/S and management accounts	-	-	-	-	-	**222 071**
Result from the continued activities before taxation	-	-	-	-	-	**1 093 698**
Share in the results of associates	-	-	-	-	-	**10 424**
Result before taxation and minority interest	-	-	-	-	-	**1 104 122**
Income tax (tax expense)	-	-	-	-	-	**(219 818)**
Profit/ (loss) of minority shareholders	-	-	-	-	-	**(3 052)**
Net profit for the year	-	-	-	-	-	**887 356**
Assets and equity and liabilities as at 31 December 2005						
Segment assets	15 120 877	14 758 971	33 710 060	1 633 433	19 474 081	**84 697 422**
Investments in associates and jointly controlled entities	-	-	-	184 345	-	**184 345**
Unallocated assets	-	-	-	-	-	**6 731 414**
Total assets	-	-	-	-	-	**91 613 181**
Segment liabilities	9 667 761	60 664 568	2 140 553	468 621	9 142 438	**82 083 941**
Unallocated liabilities	-	-	-	-	-	**9 529 240**
Total liabilities	-	-	-	-	-	**91 613 181**

Other segment information						
Impairment allowances*	5 714	(78 120)	-	-	(6 291)	**(78 697)**
Capex expenditure on tangible and intangible fixed assets	-	-	-	-	-	**214 683**
Depreciation of tangible and amortisation of intangible fixed assets	-	-	-	-	-	**220 368**
Other non-cash expenditure	-	-	-	-	-	-

* does not contain the result on impairment write-downs relating to unallocated 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 relatively small compared to the result of the whole Group.

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

6 month period ended 30 June 2006 Unaudited	**Poland**	**Ukraine**	**Total**
Revenues			
Total segment revenues	4 291 746	105 599	4 397 345
Other information relating to the segment unaudited			
Segment assets	94 411 697	1 360 204	95 771 901
Unallocated assets	-	-	-
Investments in associates	185 940	-	185 940
Total assets	94 597 637	1 360 204	95 957 841
Capital expenditure on tangible and intangible fixed assets	135 341	21 276	156 617

6 month period ended 30 June 2005 Unaudited	**Poland**	**Ukraine**	**Total**
Revenues			
Total segment revenues	8 198 757	92 235	8 290 992
As at 31 December 2005			
Other information relating to the segment			
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	205 087	9 596	214 683

The PKO BP SA Group in PLN thousand

9. Interest income and expense

Interest income

	01.01 – 30.06.2006 unaudited	01.01 – 30.06.2005 unaudited
Income from credits and loans granted to customers	1 855 774	1 797 856
Income from placements with other banks	274 962	309 397
Income from investment securities	55 448	98 336
Income from other placements on the monetary market	-	-
Other	521 058	674 219
Income from securities at fair value through profit or loss	478 585	627 349
From trading securities	12 195	9 633
Other	30 278	37 237
Total	**2 707 242**	**2 879 808**

Interest expenses

	01.01 – 30.06.2006 unaudited	01.01 – 30.06.2005 unaudited
Relating to amounts due to customers	(776 580)	(1 035 874)
Relating to placements of other banks	(40 234)	(36 360)
Relating to other placements from the monetary market	(2 704)	-
Relating to own issue of debt securities	(1 995)	-
Other	(57 620)	(47 841)
including: costs of settled premium for the period	(47 864)	(43 118)
Total	**(879 133)**	**(1 120 075)**

In the 6 month period ended 30 July 2006, 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 2,216,462 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 827,684 thousand.

10. Fees and commission income and expense

Fees and commission income

	01.01 – 30.06.2006 unaudited	01.01 – 30.06.2005 unaudited
From accounts' servicing	365 692	284 479
From payments cards	186 530	157 279
From credits and loans granted	103 381	64 661
From operations with securities	33 267	15 398
From guarantees, letters of credits and similar operations	1 958	14 729
From acquisition services	-	-
Other	322 151	212 666
From cash transactions	102 949	114 385
From wholesale foreign operations	15 856	-
From servicing investment funds	44 080	9 723
From sale and distribution of duty stamps	26 014	18 888
Other*	133 252	69 670
Total	**1 012 979**	**749 212**

* Included in "Other" items are, among others: income on servicing bills of exchange and fees from the contractors who render services to eService concerning card payments, based on the agreements signed by eService on behalf of PKO BP S.A..

The PKO BP SA Group in PLN thousand

Fees and commission expense

	01.01 – 30.06.2006 unaudited	01.01 – 30.06.2005 unaudited
Relating to acquisition services	(59 847)	(54 815)
Relating to payment cards	(90 263)	(70 729)
Due to operations with securities	(64)	-
Other, of which:	(34 084)	(22 822)
commissions paid to intermediaries	(7 083)	(6 760)
commissions for services of other banks	(5 820)	(4 411)
commissions paid to PPUP	(3 313)	(3 937)
relating to settlement services	(647)	(1 417)
other	(17 221)	(6 297)
Total	**(184 258)**	**(148 366)**

11. Dividend income

	01.01 – 30.06.2006 unaudited	01.01 – 30.06.2005 unaudited
Dividend income from the issuers:		
Securities classified as available for sale	3 281	1 561
Securities classified as held for trading	221	9
Securities at fair value through profit or loss	-	-
Total	**3 502**	**1 570**

12. Result from financial instruments at fair value

Result from financial assets and liabilities at fair value through profit or loss in the 6 month periods ended 30 June 2006 and 30 June 2005:

	01.01 – 30.06.2006	01.01 – 30.06.2005
Debt securities	(237 946)	362 457
Derivative instruments	176 615	(211 363)
Equity instruments	(710)	(612)
Loans and receivables	-	-
Other	4 149	(2 690)
Total	**(57 892)**	**147 792**

01.01.-30.06.2006 unaudited	Profits	Losses	Net result
Financial assets at fair value through profit or loss	3 911 157	(3 969 049)	(57 892)
Financial liabilities at fair value through profit or loss	-	-	-
Total	**3 911 157**	**(3 969 049)**	**(57 892)**

01.01.-30.06.2005 unaudited	Profits	Losses	Net result
Financial assets at fair value through profit or loss	3 625 477	(3 477 685)	147 792
Financial liabilities at fair value through profit or loss	-	-	-
Total	**3 625 477**	**(3 477 685)**	**147 792**

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 6 month period ended 30 June 2006 amounted to PLN (54,050) thousand [in the 6 month period ended 30 July 2005 - PLN 147,792 thousand].

Changes in fair value in hedge accounting

The PKO BP SA Group in PLN thousand

The PKO BP S.A. Group did not apply hedge accounting in the 6-month periods ended 30 July 2006 and 30 June 2005.

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

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

	01.01 – 30.06.2006 unaudited	**01.01 – 30.06.2005** unaudited
Realised profits		
Financial assets available for sale	3 208	53 217
Loans and receivables (together with finance lease receivables)	-	-
Investments held to maturity	-	-
Financial liabilities (except for held for trading)	-	-
Other	-	-
Total	**3 208**	**53 217**

	01.01 – 30.06.2006 unaudited	**01.01 – 30.06.2005** unaudited
Realised losses		
Financial assets available for sale	(2 081)	-
Loans and receivables (together with finance lease receivables)	-	-
Investments held to maturity	-	-
Financial liabilities (except for held for trading)	-	-
Other	-	-
Total	**(2 081)**	**-**

In the 6 month period ended 30 June 2006 gains or losses from financial assets available for sale taken directly to revaluation reserve amounted to PLN (33,189) thousand [in the 6 month period ended 30 June 2005 - PLN (51,447) thousand, respectively].

Gains or losses from financial assets for the 6 month period ended 30 June 2006 taken from equity to profit or loss amounted to PLN 1,127 thousand [in the 6 month period ended 30 June 2005 - PLN 53,217 thousand].

14. Foreign exchange result

	01.01 – 30.06.2006 unaudited	**01.01 – 30.06.2005** unaudited
Foreign exchange differences resulting from financial instruments at fair value through profit or loss	(253 215)	101 056
Other foreign exchange differences	545 913	230 783
Total	**292 698**	**331 839**

The PKO BP SA Group in PLN thousand

15. Other operating income and expenses

	01.01 – 30.06.2006 unaudited	01.01 – 30.06.2005 unaudited
Other operating income		
Net sales of finished goods, goods for resale and raw materials	306 809	211 074
From asset management on behalf of third parties	32 746	38 565
Auxiliary revenues	13 144	13 609
Sale and liquidation of fixed assets and intangible assets	10 058	4 238
Lease instalments	-	3 973
Received compensations, penalties and fines	7 300	3 932
Recovery of overdue, written-off and unrecoverable receivables	2 934	2 394
Other, of which:	57 568	24 388
revenues from reversal of write-downs against other receivables	4 776	-
returns of debt collector advances	1 348	1 732
result on the sale of collector coins	563	1 005
released provisions for future liabilities to employees	4 335	-
other*	46 546	21 651
Total	**430 559**	**302 173**

* “Other” item includes, among others: income from servicing and management of bonds issue.

	01.01 – 30.06.2006 unaudited	01.01 – 30.06.2005 unaudited
Other operating expense		
Cost of finished goods, goods for resale and raw materials sold	(7 278)	(5 415)
Costs of asset management on behalf of third parties	(7 237)	(3 886)
Cost of sale or liquidation of fixed assets, intangible assets and assets earmarked for disposal	(9 266)	(3 610)
Donations	(4 542)	(3 044)
Leases	(2 723)	(2 203)
Compensation, penalties and fines paid	(769)	(1 318)
Impairment of overdue, written-off and unrecoverable receivables	(13)	(141)
Other, of which:	(62 878)	(47 014)
impairment write-downs against other receivables	(4 463)	(13 741)
paid debt collector advances	(2 135)	(1 682)
maintenance of property and intangible fixed assets	(816)	(817)
result on the sale of collector coins	(22)	(16)
costs due to unexplained cash shortages and damages	(21)	(9)
other*	(55 421)	(30 749)
Total	**(94 706)**	**(66 631)**

* “Other” item includes, among others: costs of receivables sold and costs of GSM top-ups.

The PKO BP SA Group in PLN thousand

16. General administrative expenses

	01.01 – 30.06.2006 unaudited	01.01 – 30.06.2005 unaudited
Employee benefits	(1 033 671)	(990 602)
Non-personnel costs	(722 589)	(699 233)
Depreciation and amortisation	(172 821)	(220 368)
Taxes and charges	(35 071)	(35 056)
Contribution and payment to Bank Guarantee Fund	(5 229)	(4 011)
Restructuring costs	-	-
Total	**(1 969 381)**	**(1 949 270)**

Remuneration / Employee costs

	01.01 – 30.06.2006 unaudited	01.01 – 30.06.2005 unaudited
Salaries and wages	(859 185)	(813 800)
Insurance and other employee benefits	(174 486)	(176 802)
Costs of share-based payments	-	-
Costs of other retirement benefits	-	-
Total	**(1 033 671)**	**(990 602)**

The PKO BP SA Group in PLN thousand

17. Result on impairment allowances

		Increases			Decreases					
6 month period ended 30 June 2006 unaudited	**Impairment allowances at the beginning of the period**	**Impairment allowances made during the period**	**Foreign exchange differences**	**Other**	**Decrease in impairment allowances due to de-recognition of assets, not impacting the profit and loss account**	**Impairment allowances reversed during 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	3 030 419	442 858	112	167	67 506	394 882	1 450	17 654	2 992 064	(47 976)
Financial instruments valued at cost (unquoted equity instruments and underlying derivative instruments)	16 000	13	-	-	-	858	-	-	15 155	845
Financial assets available for sale valued at fair value through equity	24 900	-	-	-	-	163	-	9 737	15 000	163
Loans and advances to customers and amounts due from banks valued at amortised cost	2 944 787	442 479	112	167	67 506	393 861	1 450	7 452	2 917 276	(48 618)
Finance lease receivables	44 732	366	-	-	-	-	-	465	44 633	(366)
Investments held to maturity valued at amortised cost	-	-	-	-	-	-	-	-	-	-
Impairment of the investments in associates and jointly controlled entities valued using the equity method	57 015	2 184	-	-	-	-	-	-	59 199	(2 184)
Other*	188 864	17 792	144	7 428	533	27 404	253	26 972	159 066	9 612
Total	**3 276 298**	**462 834**	**256**	**7 595**	**68 039**	**422 286**	**1 703**	**44 626**	**3 210 329**	**(40 548)**

* "Other" item mainly includes 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 advances, and receivables valued at amortised cost, as well as reversal of such write-downs are included in the profit and loss account's item "Result on impairment".

The PKO BP SA Group in PLN thousand

		Increases			Decreases					
6 month period ended 30 June 2005 unaudited	**Impairment allowances at the beginning of the period**	**Impairment allowances made during the period**	**Foreign exchange differences**	**Other**	**Decrease in impairment allowances due to de-recognition of assets, not impacting the profit and loss account**	**Impairment allowances reversed during 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	3 204 221	416 144	8 434	2 474	51 662	330 878	520	28 763	3 219 450	(85 266)
Financial instruments valued at cost (unquoted equity instruments and underlying derivative instruments)	27 167	-	5	-	-	-	-	27 136	36	-
Financial assets available for sale valued at fair value through equity	10 398	-	45	822	-	732	-	196	10 337	732
Loans and credits to customers and receivables from banks valued at amortised cost	3 123 344	408 339	8 384	1 652	51 662	325 107	520	1 431	3 162 999	(83 232)
Finance lease receivables	43 312	7 805	-	-	-	5 039	-	-	46 078	(2 766)
Investments held to maturity valued at amortised cost	-	-	-	-	-	-	-	-	-	-
Impairment of the investments in associates and jointly controlled entities valued using the equity method	63 400	5 286	-	-	-	9 170	-	3 500	56 016	3 884
Other*	170 239	42 373	1 937	14 714	438	36 184	58	18 670	173 913	(6 189)
Total	**3 437 860**	**463 803**	**10 371**	**17 188**	**52 100**	**376 232**	**578**	**50 933**	**3 449 379**	**(87 571)**

* “Other” item mainly includes 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 “Result on impairment”.

The PKO BP SA Group in PLN thousand

18. Discontinued operations

In the first half of 2006, the PKO BP SA Group had no material income or cost from discontinued operations.

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

Entity name	01.01 – 30.06.2006 unaudited	01.01 – 30.06.2005 unaudited
Jointly controlled entities		
Centrum Obsługi Biznesu Sp. z o.o.	(92)	(25)
PKO Towarzystwo Funduszy Inwestycyjnych S.A. (former PKO/Credit Suisse TFI S.A.)	(1 467)	5 413
WAWEL Hotel Development Sp. z o.o.	(1 789)	(263)
Centrum Haffnera Sp. z o.o. Group	(158)	-
Associated entities		
Bank Pocztowy S.A.	2 185	5 286
Kolej Gondolowa Jaworzyna Krynicka S.A.	-	-
Ekogips S.A. (in bankruptcy)	-	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	21	8
Hotel Jan III Sobieski Sp. z o.o.	-	-
Agencja Inwestycyjna „CORP” S.A.	52	5
Associated entity of Bankowe Towarzystwo Kapitałowe S.A.		
FINDER sp. z o.o.	-	-
Total	**(1 248)**	**10 424**

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

20. Corporate income tax

	01.01 – 30.06.2006 unaudited	01.01 – 30.06.2005 unaudited
Consolidated income statement		
Corporate income tax for the period	327 824	589 798
Tax expense	327 824	589 798
Deferred tax	(89 433)	(369 980)
Relating to timing differences arisen and reversed	(89 433)	(369 980)
Tax expense disclosed in the consolidated income statement	**238 391**	**219 818**
Deferred tax charged to revaluation reserve		
Relating to timing differences arisen and reversed	(5 760)	(15 706)
Tax expense disclosed in the consolidated equity	**(5 760)**	**(15 706)**
Total	**232 631**	**204 112**

The PKO BP SA Group in PLN thousand

	01.01 – 30.06.2006 unaudited	01.01 – 30.06.2005 unaudited
Gross profit before taxation from continued activities	**1 220 941**	**1 104 122**
Loss before taxation from discontinued operations	-	-
Groff financial result before taxation	**1 220 941**	**1 104 122**
Corporate income tax calculated using the enacted tax rate in Poland 19% (2005: 19%)	324 658	587 091
Effect of other tax rates, i.e. in Ukraine (25%)	3 166	2 707
Permanent differences between accounting gross profit and taxable profit, of which:	**(27 754)**	**34 759**
Other non-tax-deductible expenses	327 039	31 105
Reversed provisions and upward revaluation not constituting taxable revenue	(307 585)	16 109
Settlement of capitalised interest	(5 433)	(4 134)
Other non-taxable revenue	(19 402)	(7 209)
Dividend income	(18 504)	(14 273)
Other	(3 869)	13 161
Temporary differences between gross financial result and taxable income, of which:	**543 377**	**1 983 120**
Interest income and unrealised income from operations on securities	70 743	560 660
Cost of accrued income and unrealised cost of operations on securities	328 342	331 404
Creation of provisions and impairment losses not constituting tax deductible cost	116 047	84 879
Unrealised cost from derivative instruments	2 791 929	3 213 565
Income due, including from advance commissions taken to revenues for the period, to which they relate	15 885	180 554
Unrealised revenue from derivative instruments	(2 734 315)	(2 389 858)
Other	(45 254)	1 916
Other differences between gross financial result and taxable income, including donations	**(13 998)**	**(1 708)**
Effective tax rate	**19.53%**	**19.91%**
Corporate income tax in the consolidated income statement	238 391	219 818
Tax charge attributable to discontinued operations	-	-
Total	**238 391**	**219 818**

* Current income tax charge of the KREDOBANK S.A. in the first half of 2006 amounted to PLN 3,166 thousand (in the first half of 2005 PLN 2,721 thousand)

Liabilities/ receivables due to current income tax

	30.06.2006 unaudited	31.12.2005
Receivables due to income tax	-	87
Liabilities due to income tax	189 204	436 766

The Group' companies are 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 relating to corporate income tax was set on 31 March 2006.

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The PKO BP SA Group in PLN thousand

Deferred tax asset/liability

	Consolidated balance sheet		Consolidated profit and loss account	
	30.06.2006 unaudited	31.12.2005	01.01 – 30.06.2006 unaudited	01.01 – 30.06.2005 unaudited
Deferred tax liability				
Interest accrued on receivables (loans)	87 523	80 992	6 531	(298)
Interest on securities	23 183	48 977	(25 794)	(38 144)
Settlement of discount from securities (less premium)	18 417	9 176	9 241	(23 199)
Capitalised interest from restructuring bonds	-	-	-	(112 769)
Interest on operations with the state budget	3 704	4 781	(1 077)	(2 677)
Capitalised interest on regular mortgage loans	304 752	314 184	(9 432)	(7 764)
Valuation of derivatives	-	-	-	(71 676)
Valuation of embedded derivatives	88	234	(146)	(56)
Other increases	61 835	52 157	9 676	-
Valuation of securities, of which:	2 042	20 840	-	-
- taken to income statement	1 557	17 778	(16 221)	42 018
- taken to equity	485	3 062	-	-
Total other taxable temporary differences recognized by the Group companies	22 826	10 168	12 658	(2 185)
Other adjustments		1 591	(1 591)	
Gross deferred tax liability	**524 369**	**541 509**	**(16 153)**	**(216 750)**
Net deferred tax liability	**(5 320)**	**41 519**	-	-
Deferred tax asset				
Interest accrued on liabilities	158 569	144 801	13 768	33 128
Provision for future liabilities to employees	29 048	18 153	10 895	11 850
Provision for jubilee bonuses and retirement benefits	39 311	40 045	(734)	-
Cost of accruals	52 432	52 216	216	(382)
Interest on operations with the state budget	-	-	-	-
Valuation of derivatives	98 806	88 595	10 211	85 693
Valuation of embedded derivatives	-	-	-	-
Other	26 852	16 528	10 324	1 695
ESP valuation adjustment	133 989	126 793	7 196	21 322
Valuation of securities, of which:	37 591	12 859	-	-
- taken to income statements	29 848	8 751	21 097	(2 461)
- taken to equity	7 743	4 108	-	-
Total other deductible temporary differences recognized by the Group companies	28 146	29 101	-	-
- taken to income statement	28 138	29 210	(1 072)	3 953
- KBU foreign exchange differences	-	-	-	(1 568)
- taken to equity	8	(109)	-	-
Other adjustments		(1 377)	1 377	
Gross deferred tax asset	**604 744**	**529 091**	**73 278**	**153 230**
Net deferred tax asset	**28 146**	**29 101**	-	-
Total deferred tax (consolidated deferred tax liability – consolidated deferred tax asset)	**(80 375)**	**12 418**	-	-
Total deferred tax in the income statement	**(73 109)**	**14 591**	**(89 433)**	**(369 980)**

As at 30 June 2006, the unsettled tax loss for 2006 of Group companies amounted to PLN 19,469 thousand. This loss may be utilised up to 2009. The amount of PLN 18,261 thousand out of the above mentioned amount was recognised in the deferred tax asset as at 30 June 2006.

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 – 30.06.2006 unaudited	**01.01 – 30.06.2005** unaudited
Net profit attributable to ordinary shareholders (in PLN thousand)	952 692	887 356
Weighted average number of ordinary shares in the period (in thousand)	1 000 000	1 000 000
Earning per share (in PLN per share)	0.95	0.89

Earnings per share from discontinued operations

In the 6 month periods ended 30 June 2006 and 30 June 2005, the Group 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 the first half of 2006 and 2005.

Diluted earnings per share from discontinued operations

As stated above, in the 6 month periods ended 30 June 2006 and 30 June 2005, the Bank did not report any material income or cost from discontinued operations.

22. Dividends paid and proposed

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

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

According to the Resolution No. 6/2006 of the Ordinary Annual General Meeting of PKO BP SA dated 18 April 2006, the dividend for 2005 was set at the total level of PLN 800,000 thousand i.e. PLN 0.80 gross per share. The list of the shareholders entitled to receive dividend was determined as of 10 July 2006 and the payment took place on 1 August 2006.

As at 30 June 2006, 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 2005: PLN 1,000,000 thousand).

23. Cash and amounts due from Central Bank

	30.06.2006 unaudited	**31.12.2005**
Current account with the Central Bank	1 268 354	2 626 732
Cash	2 819 610	1 265 945
Other funds	4 227	2 654
Total	**4 092 191**	**3 895 331**

The PKO BP SA Group in PLN thousand

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 at 30 June 2006 this interest rate was 4.25%

As at 30 June 2006 and 31 December 2005 there were no restrictions regarding the use of these funds.

24. Amounts due from banks

	30.06.2006 unaudited	31.12.2005
Current accounts	174 943	146 223
Placements with other banks	11 568 747	12 466 021
Loans and credits granted	113 758	26 126
Cash in transit	29 977	26 623
Other placements on the monetary market	-	-
Other receivables	37	80
Total	**11 887 462**	**12 665 073**
Impairment write-downs	(395)	(1 778)
Net Total	**11 887 067**	**12 663 295**

The nominal value of placements with other banks with a fixed interest rate as at 30 June 2006 amounted to PLN 11,425,686 thousand (as at 31 December 2005: PLN 12,377,320 thousand). The majority of those placements were short-term. As at 30 June 2006 the nominal value of placements with other banks with a floating interest rate amounted to PLN 5,210 thousand (as at 31 December 2005: PLN 103 thousand).

Amounts due from banks, by maturities

According to remaining residual maturities as of the balance sheet date

	30.06.2006 unaudited	31.12.2005
Current accounts	174 943	146 223
Term deposits with a maturity period:	11 682 542	12 492 227
up to 1 month	4 804 081	5 901 171
from 1 to 3 months	1 311 833	1 447 883
from 3 months to 1 year	5 387 602	5 019 131
from 1 year to 5 years	132 893	76 651
above 5 years	46 133	47 391
Cash in transit	29 977	26 623
Other monetary market placements	-	-
Total	**11 887 462**	**12 665 073**
Impairment write-down	(395)	(1 778)
Net total	**11 887 067**	**12 663 295**

As at 30 June 2006

Effective interest rate	**PLN**	**EUR**	**USD**	**GBP**	**CHF**
Inter-bank placements	4.12	2.70	4.71	4.30	1.70

As at 31 December 2005

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

The PKO BP SA Group in PLN thousand

25. Financial assets held for trading

	30.06.2006 unaudited	31.12.2005
Debt securities	796 253	848 815
- issued by central banks	-	-
- issued by other banks	-	-
- issued by other financial institutions	-	-
- issued by non-financial entities	-	-
- issued by the State Treasury	795 883	848 456
- issued by local government bodies	370	359
Shares in other entities – listed on stock exchange	3 499	2 188
Shares in other entities – not listed on stock exchange	4	-
Total financial assets held for trading	**799 756**	**851 003**

The PKO BP SA Group in PLN thousand

Financial assets held for trading, by maturities as at 30 June 2005, at carrying amount (unaudited)

	- 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	**10 998**	**71 982**	**256 706**	**270 952**	**185 615**	**-**	**796 253**
- issued by central banks	-	-	-	-	-	-	-
- issued by other banks	-	-	-	-	-	-	-
- issued by other financial institutions	-	-	-	-	-	-	-
- issued by other non-financial institutions	-	-	-	-	-	-	-
- issued by the State Treasury	10 998	71 982	256 336	270 952	185 615		**795 883**
- issued by local government bodies	-	-	370	-	-	-	**370**
Shares in other entities – listed on stock exchanges	**-**	**3 499**	**-**	**-**	**-**	**-**	**3 499**
Shares in other entities – not listed on stock exchanges	**-**	**-**	**-**	**-**	**-**	**4**	**4**
Total financial assets held for trading as at 30 June 2006	**10 998**	**75 481**	**256 706**	**270 952**	**185 615**	**4**	**799 756**

Average yield of debt securities issued by the State Treasury as at 30 June 2006 amounted to 4.47% for treasury bills in PLN, 4.89% for treasury bonds, 4.48 % in EUR (treasury bonds).

As at 30 June 2006, the held for trading portfolio included:

- treasury bills with a total nominal value of PLN 82,560 thousand,
- treasury bonds with a total nominal value of PLN 612,356 thousand,
- bonds denominated in EUR with a total nominal value of PLN 109,172 thousand,
- municipal bonds with a total nominal value of PLN 362 thousand.

The PKO BP SA Group in PLN thousand

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 institutions	-	-	-	-	-	-	-
- issued by other non-financial institutions	-	-	-	-	-	-	-
- issued by the State Treasury	26 055	81 323	88 341	633 304	18 351	1 082	848 456
- issued by local government bodies	-	-	359	-	-	-	359
Shares in other entities – listed on stock exchanges	2 188	-	-	-	-	-	2 188
Loans and advances	-	-	-	-	-	-	-
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, 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

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 forward contracts. As at 30 June 2006 and as at 31 December 2005, the Group had the following derivative instruments:

	30.06.2006 unaudited		**31.12.2005**	
Type of contract	**Assets**	**Liabilities**	**Assets**	**Liabilities**
IRS	793 802	880 700	705 544	1 076 599
FRA	97 972	104 042	87 934	86 395
FX Swap	162 708	90 605	111 121	38 704
CIRS	24 295	228 852	182 871	12 644
Forward	24 000	11 182	7 620	1 216
Options	4 778	6 863	42 007	41 376
SBB	503	2 287	130	450
Total	**1 108 058**	**1 324 531**	**1 137 227**	**1 257 384**

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 causes that a part of the cash flows from the compound instrument changes 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 financial instrument, commodity price, foreign exchange rate, price index or interest rate index, credit rating or credit index; and other variable, based on the condition that the non-financial variable is not specific for any contract party.

Derivatives are also embedded in loan and deposit agreements. The Group has analysed the loan, deposit and other non-financial agreements portfolio in order to determine whether the embedded derivative instruments should be separated and, based on the above the Group concluded that the Group’s offer consists of deposits with embedded derivatives. The characteristics of such derivatives are not by their nature closely related to their respective host contracts i.e. deposit agreements. Such embedded derivatives were 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. There were no loans with embedded derivatives that require separate disclosure of embedded derivatives. Within the Group, there are however regular (non-financial) agreements with embedded derivatives, being a subject to separate disclosure and valuation as in case of deposits with 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 with 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.

Derivative financial instruments valuations become assets when their fair value is positive and liabilities when their fair value is negative.

The PKO BP SA Group in PLN thousand

Derivative financial instruments as at 30 June 2006 (unaudited)

Notional amounts of underlying instruments 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	3 630 919	6 774 112	4 874 208	-	-	**15 279 239**	90 605	162 708
Purchase	1 827 941	3 387 912	2 445 532	-	-	**7 661 385**		
Sale	1 802 978	3 386 200	2 428 676	-	-	**7 617 854**		
Currency Forward	100 457	285 372	530 448	923 022	-	**1 839 299**	11 182	24 000
Purchase	50 335	141 193	263 617	467 497	-	**922 642**		
Sale	50 122	144 179	266 831	455 525	-	**916 657**		
Options	51 092	184 994	326 052	-	-	**562 138**	1 143	2 145
Purchase	25 721	92 834	163 531	-	-	**282 086**		
Sale	25 371	92 160	162 521	-	-	**280 052**		
- regulated market	-	-	-	-	-	**-**		

The PKO BP SA Group in PLN thousand

Notional amounts of underlying instruments 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)	4 750 000	13 542 000	41 890 000	76 105 174	6 358 732	**142 645 906**	880 700	793 802
Purchase	2 375 000	6 771 000	20 945 000	38 052 587	3 179 366	**71 322 953**		
Sale	2 375 000	6 771 000	20 945 000	38 052 587	3 179 366	**71 322 953**		
Forward Rate Agreement (FRA)	12 950 000	25 700 000	56 275 000	21 750 000	-	**116 675 000**	104 042	97 972
Purchase	6 350 000	12 250 000	28 075 000	11 000 000	-	**57 675 000**		
Sale	6 600 000	13 450 000	28 200 000	10 750 000	-	**59 000 000**		
Interest rate transactions								
Cross Currency IRS	760 787	-	4 327 810	6 613 662	7 535 981	**19 238 240**	228 852	24 295
Purchase	373 741	-	2 134 555	3 268 174	3 729 104	**9 505 574**		
Sale	387 046	-	2 193 255	3 345 488	3 806 877	**9 732 666**		
Other transactions								
SELL BUY BACK	1 226 624	337 653	26 214	-	-	**1 590 491**	2 287	503
Purchase	649 225	329 380	26 214	-	-	**1 004 819**		
Sale	577 399	8 273	-	-	-	**585 672**		
Futures on bonds	-	61 377	-	-	-	**61 377**		
Purchase	-	61 377	-	-	-	**61 377**		
Sale	-	-	-	-	-	**-**		
WIG futures	-	448	224	-	-	**672**		
Purchase		448	224			**672**		
Sale						**-**		
WIG options	-	2 209	-	53 509	-	**55 718**	5 720	2 633
Purchase		1 426				**1 426**		
Sale		783		53 509		**54 292**		
Total derivative instruments	**23 469 879**	**46 888 165**	**108 249 956**	**105 445 367**	**13 894 713**	**297 948 080**	**1 324 531**	**1 108 058**

The PKO BP SA Group in PLN thousand

Derivative financial instruments as at 31 December 2005

Notional amounts of underlying instruments 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	7 786	60 367	148 010	-	-	**216 163**		
Options	-	362 827	237 710	185 036	-	**785 573**	41 376	42 007
Purchase	-	180 109	118 825	92 518	-	**391 452**		
Sale	-	182 718	118 885	92 518		**394 121**		
- regulated market	-	-	-	-	-	-	-	-

The PKO BP SA Group in PLN thousand

Notional amounts of underlying instruments 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**	**1 257 384**	**1 137 227**

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

	30.06.2006 unaudited	31.12.2005
Debt securities	13 350 478	20 059 683
- issued by the State Treasury	11 054 567	14 812 090
- issued by central banks	1 106 888	4 435 795
- issued by other banks	1 170 565	794 211
- issued by other financial institutions	5 505	5 616
- issued by non-financial entities	12 953	11 971
- issued by local government bodies	-	-
Shares and stocks in other entities	15 845	-
- listed on stock exchanges	-	-
- unlisted	15 845	-
Total other financial instruments at fair value through profit or loss	**13 366 323**	**20 059 683**

As at 30 June 2006 and 31 December 2005 the portfolio of securities valued at fair value through profit or loss included:

- in the holding company:

		30.06.2006 unaudited		31.12.2005	
▪	treasury bonds with a total nominal value of	7 772 024	PLN thousand	13 376 331	PLN thousand
▪	treasury bills with a total nominal value of	1 005 000	PLN thousand	2 449 820	PLN thousand
▪	NBP bills with a total nominal value of	1 107 760	PLN thousand	1 779 640	PLN thousand
▪	USD bonds with a total nominal value of	866 827	PLN thousand	872 235	PLN thousand
▪	EUR bonds with a total nominal value of	2 399 758	PLN thousand	1 254 435	PLN thousand

- in the subsidiaries:

		30.06.2006 unaudited		31.12.2005	
▪	treasury bonds with a total nominal value of	2 064	UAH thousand	2 084	UAH thousand
▪	bills of exchange with a total nominal value of	150	UAH thousand	150	UAH thousand
▪	investment certificates with a total nominal value of	2 038	UAH thousand	2 038	UAH thousand
▪	other entities' bonds with a total nominal value of	26 300	UAH thousand	24 300	UAH thousand
▪	NBU deposit certificates with a total nominal value of	-	-	10 000	UAH thousand
▪	treasury bonds with a total nominal value	27 423	PLN thousand	-	-
▪	treasury bills with a total nominal value of	3 650	PLN thousand	-	-

As at 30 June 2006 the average yield of debt securities issued by the State Treasury and Central Bank and included in the portfolio of other financial instruments at fair value through profit or loss was 4.30% for PLN treasury bonds, 5.45% for PLN treasury bills, 4.55% for EUR, 5.89% for USD.

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

The PKO BP SA Group in PLN thousand

Other financial instruments at fair value through profit or loss, by maturities as at 30 June 2006: carrying amount (unaudited)

	- 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	**1 641 673**	**407 685**	**5 442 851**	**3 347 088**	**2 511 181**	**-**	**13 350 478**
- issued by central banks	1 106 888	-	-	-	-	-	**1 106 888**
- issued by other banks	-	-	201 909	794 378	174 278	-	**1 170 565**
- issued by other financial institutions	1 382	-	4 123	-	-	-	**5 505**
- issued by non-financial entities	341	-	1 818	10 794	-	-	**12 953**
- issued by the State Treasury	533 062	407 685	5 235 001	2 541 916	2 336 903		**11 054 567**
- issued by local government bodies	-	-	-	-	-	-	-
Shares in other entities – listed and unlisted on stock exchange	**-**	**-**	**-**	**-**	**-**	**15 845**	**15 845**
Total other financial instruments at fair value through profit or loss as at 30 June 2006	**1 641 673**	**407 685**	**5 442 851**	**3 347 088**	**2 511 181**	**15 845**	**13 366 323**

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

28. Loans and advances to customers

As at 30 June 2006 unaudited	**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	6 280 713	(6 209)	(34 675)	6 246 038
to financial entities other than banks	28 592	280 375	(14 782)	(44 073)	250 112
to non-financial entities	2 060 271	46 334 560	(596 028)	(2 221 114)	45 577 689
Total	**2 095 072**	**52 895 648**	**(617 019)**	**(2 299 862)**	**52 073 839**

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**

The PKO BP SA Group in PLN thousand

Structure of loans and advances to customers, by maturities

	30.06.2006 unaudited	31.12.2005
	Carrying amount	**Carrying amount**
Gross loans and advances granted		
to public entities	6 286 922	6 749 221
up to 1 month	372 757	297 966
from 1 to 3 months	67 345	72 015
from 3 months to 1 year	343 222	702 399
from 1 year to 5 years	4 675 211	4 790 243
over 5 years	828 387	886 598
to financial entites other than banks	308 967	332 727
up to 1 month	90 801	94 501
from 1 to 3 months	39 281	35 697
from 3 months to 1 year	151 024	148 490
from 1 year to 5 years	21 643	54 039
over 5 years	6 218	-
to non-financial entities	48 394 831	42 145 044
up to 1 month	10 081 164	9 210 678
from 1 to 3 months	1 403 077	1 412 862
from 3 months to 1 year	5 568 373	5 645 036
from 1 year to 5 years	15 427 820	11 036 596
over 5 years	15 914 397	14 839 872
Total	**54 990 720**	**49 226 992**

Effective interest rate (for Bank)

As at 30 June 2006

Loans	PLN	EUR	USD	GBP	CHF
Total	**7.99**	**5.65**	**8.45**	**-**	**4.88**
Mortgage loans	6.43	7.28	9.17	-	4.44
Corporate loans	5.30	3.64	7.11	-	4.60
Consumption loans	12.80	10.09	13.31	-	9.89
Loans for business entities	5.90	3.62	6.87	-	5.44

As at 31 December 2005

Loans	PLN	EUR	USD	GBP	CHF
Total	**8.34**	**5.63**	**7.13**	**-**	**3.67**
Mortgage loans	6.62	6.22	7.42	-	4.37
Corporate loans	2.81	1.61	1.78	-	3.06
Consumption loans	13.43	10.51	12.96	-	9.45
Loans for business entities	4.38	1.64	2.05	-	3.79

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 30 June 2006

Finance lease receivables	**Gross investment in the lease** unaudited	**Present value of minimum lease payments** unaudited
Gross investment in the lease and minimum lease payments		
Gross lease receivables		
up to 1 year	354 108	304 567
from 1 to 5 years	511 242	453 163
above 5 years	41 950	34 424
Total	**907 300**	**792 154**
Impairment allowance	(44 633)	(44 633)
Total after impairment allowances	**862 667**	**747 521**

	Gross investment in the lease unaudited	**Present value of minimum lease payments** unaudited	**Unearned finance income** unaudited
up to 1 year	354 108	304 567	49 541
from 1 to 5 years	511 242	453 163	58 079
above 5 years	41 950	34 424	7 526
Total	**907 300**	**792 154**	**115 146**

Investment in the lease	
Present value of minimum lease payments	792 154
of which: not-guaranteed residual value to the lessor	69 566

The PKO BP SA Group in PLN thousand

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		
Invoiced 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 allowances (capital)	(18 755)	(18 755)
Impairment allowances (invoiced receivables)	(25 977)	(25 977)
Total after impairment charges	**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 (unaudited)	
Present value of minimum lease payments	635 378
of which: not-guaranteed residual value to the lessor	97 659

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.

Lease agreements concluded by the Bank within normal operating activity also fall in the scope of the definition of operating lease. All agreements are concluded at arm's length.

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	30.06.2006 unaudited	31.12.2005
For the period:		
up to 1 year	9 193	7 273
from 1 to 5 years	43 273	31 004
above 5 years	543 405	425 160
Total	**595 871**	**463 437**

Lease and sub-lease payments recognised as an expense of the period from 1 January 2006 to 30 June 2006 amounted to PLN 62,812 thousand (in the period from 1 January 2005 to 30 June 2005 PLN 56,319 thousand).

The PKO BP SA Group in PLN thousand

29. Investment securities

	30.06.2006 unaudited	31.12.2005
Available for sale	**7 415 471**	**1 922 277**
- issued by central banks	2 551 162	-
- issued by other banks	2 242	-
- issued by other financial institutions	6 149	8 437
- issued by non-financial entities	596 375	746 145
- issued by the State Treasury	3 568 901	377 503
- issued by local government bodies	690 642	790 192
Held to maturity	-	-
- issued by central banks	-	-
- issued by other banks	-	-
- issued by other financial institutions	-	-
- issued by non-financial entities	-	-
- issued by the State Treasury	-	-
- issued by local government bodies	-	-
Total investment securities	**7 415 471**	**1 922 277**
Impairment allowances	(30 155)	(40 899)
Total net investment securities	**7 385 316**	**1 881 378**

Movements in investment securities

	1.01-30.06.2006 unaudited	1.01-30.06.2005 unaudited
Securities available for sale		
Balance at the beginning of the period	1 881 378	21 564 911
Change in accounting principles*	-	(19 957 561)
Balance at the beginning of the period, after change in accounting principles	**1 881 378**	**1 607 350**
Consolidation of subsidiaries	-	-
Foreign exchange differences	1 018	94
Increases	8 470 175	1 356 935
Decreases (redemption)	(2 934 868)	(1 372 510)
Impairment allowances	-	-
Change in the fair value	(32 387)	35 529
Balance at the end of the period	**7 385 316**	**1 627 398**
Securities held to maturity		
Balance at the beginning of the period	-	1 893 017
Change in accounting principles**	-	170
Balance at the beginning of the period, after change in accounting principles	**-**	**1 893 187**
Increases	-	34 815
Decreases (redemption)	-	(1 534 882)
Impairment allowances	-	-
Change in the fair value	-	-
Balance at the end of the period	**-**	**393 120**

* 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.

The PKO BP SA Group in PLN thousand

Available for sale securities by maturities as at 30 June 2006: carrying amount (unaudited)

	- 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
Securities availabe for sale							
issued by central banks	-	-	-	-	2 551 162	-	**2 551 162**
issued by other banks	-	-	-	-	-	-	**-**
issued by other financial institutions	-	-	-	-	320	588	**908**
issued by non-financial entities	20 967	171 881	23 992	253 835	103 028		**573 703**
issued by the State Treasury	-	6 487	16 635	3 129 543	416 236		**3 568 901**
issued by local government bodies	2 792	12 316	39 201	489 834	146 499		**690 642**
Total available for sale securities as at 30 June 2006	**23 759**	**190 684**	**79 828**	**3 873 212**	**3 217 245**	**588**	**7 385 316**

Average yield of securities available for sale as at 30 June 2006 was 4.67% for treasury bonds and 5.57% for NBP bonds.

As at 30 June 2006, the portfolio of available for sale debt securities included:

In the holding company:

- commercial bills with a total nominal value of PLN 194,000 thousand,
- corporate bonds in PLN with a total nominal value of PLN 352,350 thousand,
- corporate bonds in EUR with a total nominal value of PLN 23,812 thousand,
- municipal bonds with a total nominal value of PLN 674,173 thousand,
- treasury bonds with a total nominal value of PLN 3,446,000 thousand,
- NBP bonds with a total nominal value of PLN 2,552,112 thousand,

in the subsidiary:

- treasury bonds with a total nominal value of PLN 79,412 thousand.

The PKO BP SA Group 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
Securities availabe for sale							
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 yields of available for sale securities issued by the State Treasury as at 31 December 2005 amounted to 4.96%.

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

- in the holding company:

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

- in the subsidiaries:

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

Held to maturity securities by maturities as at 30 June 2006: carrying amount

As at 30 June 2006 and as at 31 December 2005 the Group did not hold any securities in the held to maturity portfolio.

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 (cost of acquisition adjusted by the change in net assets less impairment write-downs)

Entity name	30.06.2006 unaudited	31.12.2005
Centrum Obsługi Biznesu Sp. z o.o	17 104	17 197
PKO TFI S.A. (former PKO/Credit Suisse TFI S.A.)*	-	27 604
Wawel Hotel Development Sp. z o.o.**	-	19 166
Centrum Haffnera Sp. z o.o. Group***	44 212	-
Total	**61 316**	**63 967**

*As at 6 April the Company became a part of PKO BP SA Group
**As at 30 June 2006 investment in this company was reclassified as non-current asset held for sale (according to IFRS 5)
*** On 2 June 2006 the increase in the Company's share capital was registered

b) value of the Bank's investments in associates (cost of acquisition adjusted by the change in net assets less impairment write-downs)

Entity name	30.06.2006 unaudited	31.12.2005
Bank Pocztowy SA	113 000	113 000
Kolej Gondolowa Jaworzyna Krynicka SA	-	-
Ekogips S.A. (in bankruptcy)	-	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 575	1 554
Hotel Jan III Sobieski Sp. z o.o.	-	-
Agencja Inwestycyjna CORP SA	246	269
FINDER Sp. z o.o.	6 555	5 555
INTER FINANCE Polska Sp. z o.o.	3 248	-
Total	**124 624**	**120 378**

Summary information about associated entities valued using the equity method:

Entity name	Total assets	Total liabilities	Total revenues	Net profit (loss)	% share
30.06.2006 (unaudited)					
Bank Pocztowy SA	3 262 685	3 062 443	117 203	11 880	25.0001%
Kolej Gondolowa Jaworzyna Krynicka SA	37 730	4 738	9 403	4 023	37.83%
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	10 963	6 202	85	89	33.33%
Hotel Jan III Sobieski Sp. z o.o.	137 470	274 423	26 336	(7 700)	32.50%
Agencja Inwestycyjna CORP SA	3 856	2 061	7 180	295	22.31%
Total	**3 452 704**	**3 349 867**	**160 207**	**8 587**	**---**
31.12.2005					
Bank Pocztowy SA	1 801 105	1 610 038	239 171	23 927	25.0001%
Kolej Gondolowa Jaworzyna Krynicka SA	37 882	8 914	11 189	2 647	37.83%
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	6 701	2 026	135	70	33.33%
Hotel Jan III Sobieski Sp. z o.o.	132 434	262 629	51 821	21 625	32.50%
Agencja Inwestycyjna CORP SA	4 241	2 518	15 972	525	22.31%
Total	**1 982 363**	**1 886 125**	**318 288**	**48 794**	**---**

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

The PKO BP SA Group in PLN thousand

Summary information about jointly controlled entities valued using the equity method:

Entity name	Total assets	Total liabilities	Total revenues	Net profit (loss)	% share
30.06.2006 (unaudited)					
Centrum Obsługi Biznesu Sp. z o.o	90 177	48 898	97	(361)	41.44%
Centrum Haffnera Sp. z o.o. Group	90 142	715	338	(321)	49.43%
Total	**180 319**	**49 613**	**435**	**(682)**	---
31.12.2005					
Centrum Obsługi Biznesu Sp. z o.o	63 026	21 359	20	(1 043)	41.44%
PKO TFI S.A. (former PKO/Credit Suisse TFI S.A.)	93 039	37 468	92 234	30 154	50.00%
Wawel Hotel Development Sp. z o.o.	172 340	112 901	40 064	4 412	35.40%
Total	**328 405**	**171 728**	**132 318**	**33 523**	---

The data presented in the above table derives from the companies' audited financial statements prepared in accordance with Polish Accounting Standards. Data for Centrum Haffnera Sp. z o.o. derives from consolidated financial statement of Centrum Haffnera Sp. z o.o. Group.

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

30.06.2006 (unaudited)	
Hotel Jan III Sobieski Sp. z o.o.	(54 060)
31.12.2005	
Hotel Jan III Sobieski Sp. z o.o.	(51 558)

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

	1.01.-30.06.2006 unaudited	**1.01.-30.06.2005** unaudited
Investment in associates at the beginning of the period	**120 378**	**113 775**
Share in profits (losses)	2 258	5 299
Dividends paid	(75)	-
Share in changes recognised directly in the equity of the entity	4 248	-
acquisition of shares in FINDER Sp. z o.o.	1 000	-
acquisition of shares in INTER FINANCE Polska Sp. z o.o.	3 248	-
Impairment of investment	(2 185)	(5 286)
Investment in associates at the end of the period	**124 624**	**113 788**

	1.01.-30.06.2006 unaudited	**1.01.-30.06.2005** unaudited
Investment in jointly controlled entities at the beginning of the period	**63 967**	**43 040**
Share in profits (losses)	(251)	5 125
Dividends paid	-	(12 702)
Share in changes recognised directly in the equity of the entity	44 370	17 498
aquisition of shares in Centrum Haffnera Sp. z o.o.	44 370	-
aquisition of shares in Centrum Obsługi Biznesu Sp. z o.o.	-	17 498
Movement of PKO TFI S.A. to subsidiaries	(27 604)	-
Reclassification of Wawel Hotel Development Sp. z o.o. to non-current assets held for sale	(19 166)	
Investment in jointly controlled entities at the end of the period	**61 316**	**52 961**

As at 30 June 2006 and as at 31 December 2005, the holding company had no share in contingent liabilities of associates, which were acquired together with other investors.

On 9 January 2006, Bankowe Towarzystwo Kapitałowe S.A. – Bank's subsidiary – took up 351 shares in the increased share capital of FINDER Sp. z o.o. with the total nominal amount of PLN 175.5 thousand. The acquisition price amounted to PLN 1 million. At present, the share of Bankowe Towarzystwo Kapitałowe S.A. in the share capital and votes at the Shareholders' Meeting of FINDER Sp. z o.o. amounts to 46.43%.

On 11 May 2006, Bankowe Towarzystwo Kapitałowe S.A – Bank's subsidiary – took up 409 shares in the increased share capital of INTER FINANCE Polska Sp. z o.o. with a total nominal value of PLN 409 thousand. The acquisition cost amounted to PLN 3,247.70 thousand. As a result of the above transaction, Bankowe Towarzystwo Kapitałowe S.A. owns 45.0% in the share capital and votes at the Shareholders' Meeting.

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

CENTRUM HAFFNERA Sp. z o.o owns 100% share (and 100% of votes at the Shareholders' Meeting) in the following subsidiaries: Centrum Majkowskiego Sp. z o.o., Kamienica Morska Sp. z o.o., Promenada Sopocka Sp. z o.o. oraz Sopot Zdrój Sp. z o.o.

Shares in CENTRUM HAFFNERA Sp. z o.o were classified as investment in jointly controlled entity and the company itself as the jointly controlled entity, as according to IAS 31. As stated in the Partners Agreement *("Umowa Wspólników")* and the Contract of Partnership *("Umowa Spółki")*, the decisions of the Supervisory Board and Shareholders' Meetings are made unanimously.

In June 2006 the Bank, taking into account the advancement of works relating to the sale of investment in Wawel Hotel Development Sp. z o.o. reclassified this investment to non-current assets held for sale (according to IFRS 5). Before, the Company was presented as Bank's jointly controlled entity and consolidated using the equity method.

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 24 January 2006, PKO BP SA concluded a conditional agreement with Credit Suisse Asset Management Holding Europe (Luxembourg) S.A. concerning acquisition by the Bank of 45,000 subscribed shares, with preference to votes, representing 25% of votes at the Shareholders' Meeting and 25% share in the share capital of PKO Towarzystwo Funduszy Inwestycyjnych S.A. (before operating as: PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.[6])

On 6 April 2006, once all the contract conditions were fulfilled (including obtaining the approval of the President of the Competition and Consumer Protection Office for concentration resulting from acquiring control over the Company by PKO BP SA), the ownership of shares was transferred to PKO BP SA. The acquisition price, including additional costs, amounted to PLN 55,055 thousand. After the transaction, PKO BP SA owns 75% of total shares of the share capital and 75% of votes in the General Shareholders' Meeting. PKO Towarzystwo Funduszy Inwestycyjnych S.A. became a part of PKO BP SA Group. Detailed information concerning the acquisition of 25% shares of PKO TFI S.A. is presented in Note 50.

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

[6] As at 20 March 2006, the change of name PKO Towarzystwo Funduszy Inwestycyjnych S.A. – previously operating as PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A. was registered in the National Registry Court.

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

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

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

KREDOBANK S.A. has a limited ability to pay dividends to investors. According to the decision of Extraordinary General Meeting of Shareholders of KREDOBANK S.A., dated 17 November 2005, the payment of dividend for years 2005-2008 became the subject of respite *("moratorium")*, as per approved "Strategy of dynamic development of KREDOBANK S.A."

In the consolidated financial statements as at 30 June 2006 and 31 December 2005, KREDOBANK S.A. was consolidated using the full consolidation method.

The PKO BP SA Group in PLN thousand

32. Intangible fixed assets

6 month period ended 30 June 2006 unaudited	**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 2006 including amortisation	963	189 132	156 304	342 371	**688 770**
Full method consolidation of subsidiaries	-	229	49 351	4	**49 584**
Increases due to internal development projects	-	-	-	-	**-**
Purchase	97	2 107	-	89 864	**92 068**
Sale	-	-	-	-	**-**
Reversal of impairment allowances	-	-	-	-	**-**
Due to foreign exchange differences from translation of foreign entities to presentation currency	(21)	(29)	-	-	**(50)**
Attributable to discontinued operations	-	-	-	-	**-**
Impairment allowance	-	-	-	-	**-**
Amortisation	(148)	(25 025)	-	(1 294)	**(26 467)**
Other changes*	-	57 690	-	(60 382)	**(2 692)**
Net carrying amount	**891**	**224 104**	**205 655**	**370 563**	**801 213**
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)	**(653 781)**
Net carrying amount	**963**	**189 132**	**156 304**	**342 371**	**688 770**
As at 30 June 2006					
Purchase price (gross carrying amount)	1 922	888 958	205 687	381 224	**1 477 791**
Accumulated amortisation and impairment allowance	(1 031)	(664 854)	(32)	(10 661)	**(676 578)**
Net carrying amount	**891**	**224 104**	**205 655**	**370 563**	**801 213**

* “Other changes” in Patents and licences category comprises mainly software transferred from investments.

A significant item of Group’s intangible assets under construction are investment expenditures on the integrated IT system (ZSI). Total investment expenditures on ZSI in years 2003-2006 amounted to PLN 403,242 thousand.

The PKO BP SA Group in PLN thousand

6 month period ended 30 June 2005 unaudited	**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	-	1 655	-	140 903	**142 558**
Sale	-	(583)	-	(263)	**(846)**
Reversal of impairment allowances	-	-	-	-	-
Due to foreign exchange differences from translation of foreign entities to presentation currency	133	217	-		**350**
Attributable to discontinued operations	-	-	-	-	-
Impairment allowance	-	-	-	-	-
Amortisation	-	(60 036)	-	(1 517)	**(61 553)**
Other changes*	(883)	136 233	-	(134 817)	**533**
Net carrying amount	**-**	**211 130**	**106 457**	**264 402**	**581 989**
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 30 June 2005					
Purchase price (gross carrying amount)	1 302	796 574	106 499	273 267	**1 177 642**
Accumulated amortisation and impairment allowance	(1 302)	(585 444)	(42)	(8 865)	**(595 653)**
Net carrying amount	**-**	**211 130**	**106 457**	**264 402**	**581 989**

* "Other changes" in Patents and licences category comprises software transferred from investments.

Since 1 January 2005 the goodwill has not been amortised and has been annually tested for impairment.

According to IAS 39, as at 30 June 2006 the Bank analyzed whether there are any indicators of impairment of goodwill from acquisition of Centrum Finansowe Puławska Sp. z o.o., KREDOBANK S.A., Powszechne Towarzystwo Emerytalne BANKOWY S.A., PKO Towarzystwo Funduszy Inwestycyjnych S.A. and companies from PKO Inwestycje Sp. z o.o. Group. The results of the analysis indicated no necessity of performing tests on impairment. The subsequent test for goodwill impairment is scheduled on 31 December 2006.

The Group does not create any patents or licenses itself.

In the period from 1 January 2006 to 30 June 2006, the PKO BP SA Group incurred capital expenditure for the acquisition of tangible and intangible assets amounting to PLN 156,617 thousand. In the period from 1 January 2005 to 30 June 2005 the PKO BP SA Group incurred investment expenditure for the purchase of fixed and intangible assets in the amount of PLN 214,683 thousand.

The PKO BP SA Group | in PLN thousand

33. Tangible fixed assets

6 month period ended 30 June 2006 unaudited	Land and buildings, including investment property	Machinery and equipment	Motor vehicles	Assets under construction	Other	Total
Gross value of tangible fixed assets at 01.01.2006	**2 445 703**	**2 570 959**	**54 380**	**225 627**	**364 101**	**5 660 770**
Increases, of which:	**5 163**	**26 569**	**10 471**	**389 588**	**5 267**	**437 058**
Full method consolidation of subsidiaries	390	817	289	-	555	**2 051**
Purchase and other changes	4 773	25 752	10 182	389 588	4 712	**435 007**
Foreign exchange differences	-	-	-	-	-	-
Decreases, of which:	**(3 560)**	**(54 572)**	**(5 859)**	**(367 247)**	**(3 432)**	**(434 670)**
Transfer to assets available for sale	-	-	-	-	-	-
Liquidation and sale	(1 113)	(50 622)	(5 660)	-	(3 093)	**(60 488)**
Transfer of assets to the leessee under finance lease	-	-	-	(333 143)	-	**(333 143)**
Foreign exchange differences	(1 132)	(558)	(71)	(16)	(301)	**(2 078)**
Other	(1 315)	(3 392)	(128)	(34 088)	(38)	**(38 961)**
Gross amount of fixed assets at the end of the period	**2 447 306**	**2 542 956**	**58 992**	**247 968**	**365 936**	**5 663 158**
Accumulated depreciation at the beginning of the period	**(547 362)**	**(2 070 810)**	**(35 760)**	**-**	**(310 756)**	**(2 964 688)**
Increases, of which:	**(39 195)**	**(98 517)**	**(3 643)**	**-**	**(7 376)**	**(148 731)**
Depreciation charge for the period	(38 926)	(97 817)	(3 430)	-	(6 978)	**(147 151)**
Full method consolidation of subsidiaries	(112)	(650)	(197)	-	(359)	**(1 318)**
Other	(157)	(50)	(16)	-	(39)	**(262)**
Decreases, of which:	**868**	**51 323**	**5 610**	**-**	**3 188**	**60 989**
Liquidation and sale	226	50 530	5 503	-	3 040	**59 299**
Other	642	793	107	-	148	**1 690**
Accumulated depreciation at the end of the period	**(585 689)**	**(2 118 004)**	**(33 793)**	**-**	**(314 944)**	**(3 052 430)**
Impairment allowances	-	-	-	-	-	-
Opening balance	(50 221)	(2 310)	-	-	-	**(52 531)**
Increases	-	-	-	-	-	-
Decreases	221	2 310	-	-	-	**2 531**
Closing balance	(50 000)	-	-	-	-	**(50 000)**
Net amount	**1 811 617**	**424 952**	**25 199**	**247 968**	**50 992**	**2 560 728**
Opening balance	**1 848 120**	**497 839**	**18 620**	**225 627**	**53 345**	**2 643 551**
Closing balance	**1 811 617**	**424 952**	**25 199**	**247 968**	**50 992**	**2 560 728**

The carrying amount of machinery and equipment used as at 30 June 2006 based on the finance lease agreement and tenancy agreements with purchase option accounted for PLN 21,238 thousand (as at 30 June 2005 PLN 13,135 thousand). In the 6 month periods ended 30 June 2006 and 30 June 2005 there were no restrictions on the Group’s right to use these tangible fixed assets caused by pledging them as collateral.

 in PLN thousand

6 month period ended 30 June 2005 unaudited	**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:	**39 598**	**132 045**	**9 558**	**66 713**	**7 383**	**255 297**
Purchase and other changes	32 108	128 260	9 068	66 251	5 317	**241 004**
Foreign exchange differences	7 490	3 785	490	462	2 066	**14 293**
Decreases, of which:	**(14 785)**	**(12 310)**	**(2 377)**	**(157 082)**	**(12 476)**	**(199 030)**
Transfer to assets available for sale	-	-	-	-	-	-
Liquidation and sale	(4 555)	(11 606)	(2 035)	-	(1 850)	**(20 046)**
Disposal resulting from merger of business entities	-	-	-	-	-	-
Other	(10 230)	(704)	(342)	(157 082)	(10 626)	**(178 984)**
Gross amount of fixed assets at the end of the period	**2 448 845**	**2 514 615**	**57 012**	**170 440**	**342 033**	**5 532 945**
Accumulated depreciation at the beginning of the period	**(469 706)**	**(1 986 609)**	**(36 538)**	**-**	**(296 780)**	**(2 789 633)**
Increases, of which:	**(37 724)**	**(117 400)**	**(3 758)**	**-**	**(8 378)**	**(167 260)**
Depreciation charge for the period	(36 177)	(111 842)	(3 333)	-	(7 463)	**(158 815)**
Other	(590)	(3 783)	(34)	-	(8)	**(4 415)**
Foreign exchange differences	(957)	(1 775)	(391)	-	(907)	**(4 030)**
Decreases, of which:	**1 332**	**11 535**	**2 209**	**-**	**6 322**	**21 398**
Liquidation and sale	1 292	11 138	1 906	-	1 855	**16 191**
Other	40	397	303	-	4 467	**5 207**
Accumulated depreciation at the end of the period	**(506 098)**	**(2 092 474)**	**(38 087)**	**-**	**(298 836)**	**(2 935 495)**
Impairment allowances	-	-	-	-	-	-
Opening balance	(35 221)	-	-	-	-	**(35 221)**
Increases	-	-	-	-	-	-
Decreases	-	-	-	-	-	-
Closing balance	**(35 221)**	-	-	-	-	**(35 221)**
Net amount	**1 907 526**	**422 141**	**18 925**	**170 440**	**43 197**	**2 562 229**
Opening balance	**1 919 105**	**408 271**	**13 293**	**260 809**	**50 346**	**2 651 824**
Closing balance	**1 907 526**	**422 141**	**18 925**	**170 440**	**43 197**	**2 562 229**

In the first half of 2006 the Group with did not receive any compensations due to impairment or loss of tangible fixed assets recognised in the profit and loss account. The amount of compensations received from third parties due to impairment or loss of tangible fixed assets recognized in the profit or loss account for the 6 month period ended 30 June 2005 amounted to PLN 3,932 thousand.

The PKO BP SA Group in PLN thousand

The item "Land and buildings, including investment property" include land, 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 28,031 thousand by approx. PLN 7,000 thousand. There are no restrictions to sell these properties. There are no contractual liabilities concerning them.

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

	1.01.-30.06.2006 unaudited	1.01.-30.06.2005 unaudited
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.	743	758

34. Other assets

	30.06.2006 unaudited	31.12.2005
Inventory	280 518	304 046
Settlements of transactions carried out using cards	173 498	151 006
Settlements of securities trading transactions	95 686	190
Prepayments	35 564	42 104
Non-current assets held for sale and discontinued activity	28 095	10 435
Inter-bank and inter- branch clearing accounts	-	1 686
Other	233 144	195 314
Total	**846 505**	**704 781**

"Other" includes mainly receivables relating to own operations conducted by the Bank.

On 29 June 2006 an Agreement Obliging to Acquire Shares („Agreement") in Bank Ochrony Środowiska S.A. in Warsaw ("BOŚ") was entered into between PKO BP SA and the National Fund for Environmental Protection and Water Management. Pursuant to the Agreement, PKO BP SA intends to act as the purchaser of shares under a public bid announced by the National Fund for Environmental Protection and Water Management. As the purchaser PKO BP SA undertook to acquire 659,999 (six hundred fifty nine thousand nine hundred ninety nine) ordinary bearer shares in BOŚ having the nominal value of PLN 10 (ten) each (the "Shares") for PLN 92 (ninety two) per Share, i.e., for a total of PLN 60,719,908 (sixty million seven hundred nineteen thousand nine hundred eight). The Shares acquired by PKO BP under the public offering will confer up to 659,999 voting right representing 4.999992% of votes at the BOŚ General Meeting and 4.999992% of BOŚ share capital.
As a participant of a call for shares in Bank Ochrony Środowiska S.A., the Bank placed on 30 June 2006 a deposit in the amount of PLN 60,720 thousand equal to the value of the transaction planned.

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

Carrying value of inventory	30.06.2006 unaudited	31.12.2005
Work in progress*	276 859	298 858
Finished goods	3 085	4 337
Materials	557	851
Products	-	-
Other	17	-
Impairment allowances for inventory	-	-
Total	**280 518**	**304 046**

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

The PKO BP SA Group in PLN thousand

Impairment allowances for inventory	01.01 - 30.06.2006 unaudited	01.01 - 31.12.2005
Balance at the beginning of the period	-	(1 575)
Impairment allowances for inventory charged as an expense to the profit and loss account	-	-
Reversal of impairment allowances for inventory in the profit and loss account	-	-
Other changes	-	1 575
Balance at the end of the period	**-**	**-**

In the 6 month period ended 30 June 2006 and in the 6 month period ended 30 June 2005 there were no work in progress, finished goods or raw materials given as collaterals.

Non-current assets held for sale	30.06.2006 unaudited	31.12.2005
Shares in subordinated entities*	17 376	-
Leased assets	1 809	2 189
Assets held for sale	8 646	7 967
Other	264	279
Balance at the end of the period	**28 095**	**10 435**

* As at 30 June 2006, the investment in Wawel Hotel Development Sp. z o.o. was reclassified as non-current asset held for sale (according to IFRS 5).

35. Assets pledged as security/ collateral for liabilities

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

Fund for the Protection of Guaranteed Money

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

	30.06.2006 unaudited	31.12.2005
Fund's value	141 951	92 009
Nominal value of collateral/ security	143 000	93 000
Type of collateral/ security	treasury bonds	treasury bonds
Maturity of collateral/ security	24.03.2007	24.03.2007
Carrying amount of collateral/ security	145 480	92 669

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

	30.06.2006 unaudited	31.12.2005
Stock exchange guarantee fund	1 978	2 479

Besides, KREDOBANK SA - the entity consolidated under full method - had the following assets being the collateral of its own liabilities.

As at 30 June 2006:

- cash pledged as collateral for loans received from foreign financial organizations with a total value of UAH 73,634 thousand (equivalent of PLN 46,684 thousand)

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)

The PKO BP SA Group in PLN thousand

36. Amounts due to the Central Bank

	30.06.2006 unaudited	31.12.2005
Current accounts	-	-
Up to 1 month	1 485	766
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	**1 485**	**766**

The interest rate as at 30 June 2006 and 31 December 2005 amounted to 0.0071%

37. Amounts due to other banks

	30.06.2006 unaudited	31.12.2005
Current accounts	14 291	11 866
Other banks' deposits	2 068 501	1 920 269
Loans and advances received	150 026	139 467
Cash in transit	-	-
Other deposits from money market	28 656	11 744
Total amounts due to other banks	**2 261 474**	**2 083 346**

Structure of amounts due to other banks by maturities

	30.06.2006 unaudited	31.12.2005
Current accounts	14 291	11 866
Amounts due with maturity period of:	2 247 183	2 071 480
Up to 1 month	1 569 809	1 101 418
From 1 month to 3 months	326 682	516 521
From 3 months to 1 year	273 337	206 610
From 1 year to 5 years	77 355	246 880
Over 5 years	-	51
Cash in transit	-	-
Other deposits from money market	-	-
Total	**2 261 474**	**2 083 346**

As at 30 June 2006

Effective interest rate	**PLN**	**EUR**	**USD**	**GBP**	**CHF**
Inter-bank deposits	3.94	2.75	5.11	4.21	1.19

As at 31 December 2005

Effective interest rate	**PLN**	**EUR**	**USD**	**GBP**	**CHF**
Inter-bank deposits	4.64	2.41	4.26	-	-

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

As at 30 June 2006 and 31 December 2005 the Group did not have other financial liabilities at fair value through profit or loss.

The PKO BP SA Group in PLN thousand

39. Amounts due to customers

	30.06.2006 unaudited	31.12.2005
Amounts due to corporate clients	**10 455 561**	**10 021 677**
Current accounts and O/N deposits	4 029 257	4 488 291
Term deposits	6 339 303	5 506 676
Other	87 001	26 710
Amounts due to budget entities	**3 796 068**	**3 186 260**
Current accounts and O/N deposits	2 947 311	2 552 775
Term deposits	734 387	496 354
Other	114 370	137 131
Amounts due to individuals	**65 752 517**	**63 539 626**
Current accounts and O/N deposits	21 986 192	20 707 451
Term deposits	43 746 519	42 813 572
Other	19 806	18 603
Total amounts due to customers	**80 004 146**	**76 747 563**

Structure by maturity

	30.06.2006 unaudited	31.12.2005
Current accounts and O/N deposits	28 962 760	27 748 517
Amounts due with maturity period of:	51 041 386	48 999 046
Up to 1 month	21 384 442	18 804 200
From 1 month to 3 months	11 849 418	12 951 568
From 3 months to 1 year	16 619 203	15 730 170
From 1 year to 5 years	1 147 745	1 468 366
Over 5 years	40 578	44 742
Other	-	-
Total	**80 004 146**	**76 747 563**

40. Liabilities arising from debt securities issued

As at 30 June 2006 and 31 December 2005, the Group had the following liabilities arising from debt securities issued.

	30.06.2006 unaudited	31.12.2005
Liabilities arising from the issue of		
Bonds	98 533	68 470
Certificates	-	-
Other	-	-
Total	**98 533**	**68 470**

	30.06.2006 unaudited	31.12.2005
Liabilities arising from the issue of securities with maturities:		
Up to 1 month	-	-
From 1 month to 3 months	-	9 891
From 3 months to 1 year	98 533	58 579
From 1 year to 5 years	-	-
Over 5 years	-	-
Total	**98 533**	**68 470**

The average interest rates of the above securities as at 30 June 2006 were 4.80% and as at 31 December 2005 5.29%, respectively.

The PKO BP SA Group in PLN thousand

Effective interest rate (for the Bank)

As at 30 June 2006

Deposits	PLN	EUR	USD	GBP	CHF
Total	**1.89**	**1.38**	**2.18**	**1.28**	**0.21**
Retail deposits	1.73	1.12	1.96	0.99	0.22
Deposits of business entities	2.19	1.78	4.21	3.92	0.11
Retail deposits - current	0.17	0.34	0.18	0.16	0.11
Retail deposits - term	2.45	1.46	2.64	1.65	0.03
IKE placement deposits	3.92	0.00	0.00	0.00	0.00
Corporate deposits	2.19	1.78	4.21	3.92	0.11

As at 31 December 2005

Deposits	PLN	EUR	USD	GBP	CHF
Total	**2.36**	**1.16**	**1.41**	**1.20**	**0.26**
Retail deposits	2.19	0.99	1.02	0.93	0.16
Deposits of business entities	3.01	1.67	3.81	3.33	0.73
Retail deposits - current	0.25	0.30	0.15	0.15	0.10
Retail deposits - term	2.99	1.29	1.42	1.60	0.23
IKE placement deposits	4.32	0.00	0.00	0.00	0.00
Corporate deposits	2.90	1.54	3.85	3.33	0.73

41. Other liabilities

	30.06.2006 unaudited	**31.12.2005**
Prepayments	235 949	193 684
Accrued income	292 712	167 989
Other liabilities	2 259 603	1 500 807
declared dividend	800 000	-
liabilities arising from settlements of operations on securities	296 153	414 556
inter-bank and inter- branch clearing accounts	289 083	291 827
liabilities arising from joint banking projects, including syndicated loans	205 845	-
liabilities relating to operations with financial entities	132 543	42 739
liabilities arising from foreign currency activities	115 182	181 681
legal-public settlements	90 201	192 367
liabilities due to suppliers	106 800	109 369
liabilities arising from repayments of advances to creditors related with remission of debt against State Treasury	23 169	15 002
liabilities arising from sale of treasury stamps	21 533	20 926
liabilities arising from guarantees paid by suppliers and from non-cash credits for people on industry products	9 319	9 767
liabilities relating to investment activities and Bank's resource management	4 818	19 801
liabilities relating to payments of benefits	3 280	6 967
liabilities due to bank transfers to be paid in PLN	2 471	2 934
settlements of funds for payments from Foundation "Polsko-Niemieckie Pojednanie"	1 245	3 011
settlements related to acquision of machines, tools, materials, works and services regarding building of tangible assets	705	82 374
settlements relating to the substitution service of Poczta Polska	-	3 621
other	157 256	103 865
Total	**2 788 264**	**1 862 480**

* “Other” includes, among others: as at 30 June 2006 various operating liabilities amounting to PLN 42,511 thousand (as at 31 December 2005: PLN 13,733 thousand) and settlements relating to transactions performed with the use of cards amounting to PLN 24,414 thousand (as at 31 December 2005: 2,395 thousand).

The PKO BP SA Group in PLN thousand

42. Provisions

6 month period ended 30 June 2006 unaudited	Provision for disputes	Provisions for jubilee bonuses and retirement benefits	Provisions for liabilities and guarantees granted	Other provisions*	Total
As at 1 January 2006	**7 538**	**210 794**	**16 912**	**104 653**	**339 897**
Increase/revaluation	265	-	25	19 203	**19 493**
Utilization	(205)	-	-	-	**(205)**
Reversal	-	(3 864)	(6 980)		**(10 844)**
Change due to increase of discounted amount resulting from time passage and changes in discount rate	-	-	-	-	-
Consolidation of subsidiaries	-	7	-	-	**7**
Foreign exchange differences	-	-	(5)	-	**(5)**
Other changes and reclassifications	31	12	120	-	**163**
As at 30 June 2006	**7 629**	**206 949**	**10 072**	**123 856**	**348 506**

* "Other provisions" include, among others, securitization provision amounting to PLN 78,614 thousand, described in detail in Note 7.

6 month period ended 30 June 2005 unaudited	Provision for disputes	Provisions for jubilee bonuses and retirement	Provisions for liabilities and guarantees granted	Other provisions	Total
As at 1 January 2005	**7 110**	**184 151**	**10 375**	**7 137**	**208 773**
Increase/revaluation	148	-	28 960	-	**29 108**
Utilization	(44)	(3)	-	-	**(47)**
Reversal	-	-	(21 605)	(10 865)	**(32 470)**
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	-	-	15	-	**15**
Other changes	162	-	-	16 354	**16 516**
As at 30 June 2005	**7 376**	**184 148**	**17 745**	**12 626**	**221 895**

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 of 2002, No 171, item 1397 with subsequent 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.

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 30 June 2006 and 31 December 2005 amounted to nil.

The PKO BP SA Group in PLN thousand

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

	30.06.2006 unaudited	31.12.2005
Loans granted to employees	96 075	90 692
Amounts on the Social Fund's account	29 127	9 643

	1.01-30.06.2006 unaudited	1.01-30.06.2005 unaudited
Contributions to Social Fund	29 031	14 376
Non-returnable expenditure by the Fund	4 190	4 211

45. Contingent liabilities

As at 30 June 2006 the binding underwriting agreements covered the following securities' programs (unaudited):

The PKO BP SA Group in PLN thousand

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	**80 000**	2008-06-19	Bonds Issue Agreement*
Company B	Corporate bonds	**350 000**	2009-12-31	Commercial Bill Issue Agreement
Company C	Corporate bonds	**4 000**	2010-12-30	Commercial Bill Issue Agreement
Company D	Commercial bills	**40 000**	2006-12-30	Bonds 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	**2 500**	2014-12-31	Bonds Issue Agreement
Entity E	Municipal bonds	**3 900**	2015-12-31	Bonds Issue Agreement
Entity F	Municipal bonds	**3 000**	2014-12-31	Bonds Issue Agreement
Entity G	Municipal bonds	**2 770**	2016-12-31	Bonds Issue Agreement
Entity H	Municipal bonds	**2 500**	2011-12-31	Bonds Issue Agreement
Entity I	Municipal bonds	**5 000**	2018-12-31	Bonds Issue Agreement
Entity J	Municipal bonds	**6 000**	2013-12-31	Bonds Issue Agreement
Entity K	Municipal bonds	**2 400**	2009-12-31	Bonds Issue Agreement
Entity L	Municipal bonds	**4 400**	2011-12-31	Bonds Issue Agreement
Entity M	Municipal bonds	**3 000**	2012-12-31	Bonds Issue Agreement
Entity N	Municipal bonds	**2 130**	2012-12-31	Bonds Issue Agreement
Entity O	Municipal bonds	**18 300**	2016-12-31	Bonds Issue Agreement
Entity P	Municipal bonds	**8 722**	2011-12-31	Bonds Issue Agreement
Entity Q	Municipal bonds	**10 000**	2014-12-31	Bonds Issue Agreement
Entity R	Municipal bonds	**3 500**	2015-12-31	Bonds Issue Agreement
Entity S	Municipal bonds	**2 000**	2013-12-31	Bonds Issue Agreement
Entity T	Municipal bonds	**3 000**	2012-12-31	Bonds Issue Agreement
Entity U	Municipal bonds	**7 000**	2011-12-31	Bonds Issue Agreement
Entity V	Municipal bonds	**2 000**	2014-12-31	Bonds Issue Agreement
Entity W	Municipal bonds	**2 000**	2014-12-31	Bonds Issue Agreement
Entity X	Municipal bonds	**4 000**	2014-12-31	Bonds Issue Agreement
Entity Y	Municipal bonds	**40 500**	2017-12-31	Bonds Issue Agreement
Entity Z	Municipal bonds	**12 650**	2012-12-31	Bonds Issue Agreement
Entity AA	Municipal bonds	**5 000**	2011-12-31	Bonds Issue Agreement
Entity BB	Municipal bonds	**50 000**	2011-12-31	Bonds Issue Agreement
Entity CC	Municipal bonds	**2 750**	2014-12-31	Bonds Issue Agreement
Entity DD	Municipal bonds	**2 500**	2008-12-31	Bonds Issue Agreement
Entity EE	Municipal bonds	**2 000**	2015-12-31	Bonds Issue Agreement
Entity FF	Municipal bonds	**2 400**	2012-12-31	Bonds Issue Agreement
Entity GG	Municipal bonds	**7 000**	2012-12-31	Bonds Issue Agreement
Entity HH	Municipal bonds	**5 000**	2012-12-31	Bonds Issue Agreement
Entity II	Municipal bonds	**3 500**	2017-12-31	Bonds Issue Agreement
Entity JJ	Municipal bonds	**2 000**	2009-12-31	Bonds Issue Agreement
Entity KK	Municipal bonds	**4 000**	2013-12-31	Bonds Issue Agreement
Entity LL	Municipal bonds	**15 000**	2016-12-31	Bonds Issue Agreement
Entity MM	Municipal bonds	**6 100**	2012-12-31	Bonds Issue Agreement
Entity NN	Municipal bonds	**2 500**	2008-12-31	Bonds Issue Agreement
Entity OO**	Municipal bonds	**24 180**	2009-12-30	Bonds Issue Agreement
Total other which value amounts to less than PLN 2 million	Municipal bonds	**14 960**		Bonds Issue Agreement
Total		**785 232**		

* 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 2005 the binding underwriting agreements covered the 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	**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 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.

All securities within the underwriting program have an unlimited transferability, are not quoted on stock exchange and are not traded on a regulated OTC market.

The PKO BP SA Group in PLN thousand

Potential liabilities

As at 30 June 2006, the total value of court proceedings in which the Bank is defendant (inbound) was PLN 285,768 thousand (as at 31 December 2005: the total amounted to PLN 453,788 thousand), while the total value of court proceedings in which the Bank filed claims (outbound) amounted to PLN 67,709 thousand (as at 31 December 2005: PLN 63,017 thousand).

The most important proceedings and claims relating to the PKO BP SA Group are listed below:

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 in Poland (which may be in breach of Art. 5.1 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. 5.1 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. 5.1 point 1 and 6 of the Act on competition protection). Based on decision of the President of the Competition and Customer Protection Office dated 15 March 2006, the decision dated 23 April 2001 has been changed in order to regard Visa Europe Limited, with the seat in London, Great Britain, as a party of the proceedings. 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 26 June 2006, the deadline for the completion of proceedings was postponed to 23 October 2006 due to the necessity to obtain appropriate data and information and the necessity to analyze court evidence.

b) Re-privatisation claims relating to properties held by the 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 six properties by former owners. In two cases, the legal proceedings have started. In four 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 above is remote.

The consolidated financial statements for the 6 month period ended 30 June 2006 does not include any adjustments connected with the potential liabilities described above.

Financial liabilities granted

	30.06.2006 unaudited	**31.12.2005**
Total financial liabilities granted:	**19 531 448**	**17 312 241**
to financial sector	990 617	1 299 781
to non-financial sector	16 850 136	13 633 134
to the public sector	1 690 695	2 379 326
of which: irrevocable liabilities granted	9 603 578	8 519 942

The PKO BP SA Group in PLN thousand

Guarantee liabilities granted

	30.06.2006 unaudited	31.12.2005
Amounts due to financial sector:	10 614	7 674
guarantees	10 614	7 674
sureties	-	-
confirmed export letters of credit	-	-
Amounts due to non-financial sector:	1 919 675	1 215 824
guarantees	1 919 675	1 204 420
sureties	-	11 404
confirmed export letters of credit	-	-
Amounts due to the public sector	308 965	252 752
guarantees	308 965	252 752
sureties	-	-
avals	-	-
Total guarantees granted	**2 239 254**	**1 476 250**

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

Contingent liabilities granted as at 30 June 2006 (by maturity dates) (unaudited)

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Financial liabilities granted	5 366 971	741 120	6 367 650	5 362 632	1 693 075	**19 531 448**
Guarantee liabilities granted	388 227	33 789	839 690	925 675	51 873	**2 239 254**
Total	**5 755 198**	**774 909**	**7 207 340**	**6 288 307**	**1 744 948**	**21 770 702**

Contingent liabilities granted as at 31 December 2005 (by maturities)

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	> 5 years	Total
Financial liabilities granted	4 024 441	723 007	6 888 136	4 804 075	872 582	**17 312 241**
Guarantee liabilities granted	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**	**939 585**	**18 788 491**

Off-balance sheet liabilities - received

	30.06.2006 unaudited	31.12.2005
Liabilities received:	**5 768 103**	**5 320 868**
1. financial	928 295	570 767
2. guarantee	4 839 808	4 750 101

Assets pledged as collaterals for contingent liabilities

As at 30 June 2006 and 31 December 2005 the Group had no assets pledged as collaterals.

46. Share capital

In the 6 month periods ended 30 June 2006 and 30 June 2005 there were no changes in the holding company's share capital.

As at 30 June 2006 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 2005: PLN 1,000,000 thousand, 1,000,000 ordinary shares with a nominal value of 1 PLN each) – shares fully paid.

The PKO BP SA Group in PLN thousand

As at 30 June 2006 380,526 shares were subject to public trading (as of 31 December 2005: 377,000 shares)

As at 30 June 2006 and 31 December 2005 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.

47. Other capital items and retained earnings

	30.06.2006 unaudited	31.12.2005
Reserve capital	4 530 138	3 297 614
share premium	-	-
other	4 530 138	3 297 614
Revaluation reserve of financial assets available for sale	(31 032)	(4 054)
General banking risks reserve	1 070 000	1 000 000
Other reserves	1 561 625	1 556 503
Other	-	-
Retained earnings	(222 671)	150 405
Total	**6 908 060**	**6 000 468**

48. Additional information to the cash flow statement

Cash and cash equivalents

	30.06.2006 unaudited	31.12.2005
Cash and amounts in the Central Bank	4 092 191	3 895 331
Current receivables from financial institutions	6 290 857	7 495 277
Total	**10 383 048**	**11 390 608**

Cash flow from operating activities – other adjustments

	01.01-30.06.2006 unaudited	01.01-30.06.2005 unaudited
Valuation, interest accrued, discount, premium on debt securities decreased by deferred tax	(11 041)	77 132
Disposal (liquidation) of tangible and intangible fixed assets	(51 067)	4 504
Valuation, impairment allowances against investments in jointly controlled entities and associates	91 607	7 563
Dividend declared	(800 000)	(1 000 000)
Foreign exchange differences on foreign entities’ translation	(1 151)	9 022
Separation of tax paid and current tax expense	(106 974)	(62 598)
Valuation of AFS securities portfolio at amortized cost with the use of effective interest rate, decreased by deferred tax	-	(336 002)
Impairment allowances of financial assets	-	(476 734)
Capitalized interest on loans from "old" mortgage loans portfolio	-	174 356
Other	(250)	10 378
Total other adjustments	**(878 876)**	**(1 592 379)**

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	**01.01-30.06.2006** unaudited	**01.01-30.06.2005** unaudited
Income from sale and disposal of tangible and intangible fixed assets	(35 139)	(4 608)
Sale and disposal costs of tangible and intangible fixed assets	4 468	13 600
Total (profit) loss from investing activities	**(30 671)**	**8 992**

Interest and dividends	**01.01-30.06.2006** unaudited	**01.01-30.06.2005** unaudited
Interest from AFS and HTM portfolio securities, presented in the investing activities	(51 038)	(786 101)
Dividends presented in the investing activities	(75)	-
Paid finance lease interests, presented in financial activity	-	665
Interests paid from granted loans, presented in financial activity	-	4 326
Interest and dividends - total	**(51 113)**	**(781 110)**

Change in amounts due from banks	**01.01-30.06.2006** unaudited	**01.01-30.06.2005** unaudited
Balance sheet balances change	776 228	(1 109 364)
Change in impairment write-downs for amounts due from banks	1 383	220
Exclusion of the cash and cash equivalents	(1 204 420)	1 068 021
Change in amounts due from banks - Total	**(426 809)**	**(41 123)**

Change in financial assets held for trading and other financial instruments at fair value through profit or loss	**01.01-30.06.2006** unaudited	**01.01-30.06.2005** unaudited
Balance sheet balances change	6 744 607	(20 265 969)
Transfer of the ALPL portfolio to the investment activities	-	19 364 312
Transfer of the securities classified to ALPL portfolio to "Other adjustments"	-	554 894
Change in financial assets held for trading and other financial instruments valued at fair value through profit or loss - Total	**6 744 607**	**(346 763)**

Change in loans and advances to customers	**01.01-30.06.2006** unaudited	**01.01-30.06.2005** unaudited
Balance sheet balances change	(5 946 731)	(1 827 732)
Change in impairment write-downs for loans and advances to customers	26 227	(520 572)
Change in loans and advances to customers - total	**(5 920 504)**	**(2 348 304)**

Change in amounts due to banks	**01.01-30.06.2006** unaudited	**01.01-30.06.2005** unaudited
Balance sheet balances change	178 847	704 548
Transfer of the repayments/received long term advances due from banks to financing activities	(1 264)	71 891
Change in amounts due to banks - total	**177 583**	**776 439**

The PKO BP SA Group in PLN thousand

Change in amounts due to customers	**01.01-30.06.2006** unaudited	**01.01-30.06.2005** unaudited
Balance sheet balances change	3 256 583	1 304 734
Transfer of the repayments/received long term advances due from banks to financing activities	789	(1 965)
Change in amounts due to customers - total	**3 257 372**	**1 302 769**

Change in provisions	**01.01-30.06.2006** unaudited	**01.01-30.06.2005** unaudited
Balance sheet balances change	(9 901)	(439 554)
Change in impairment write-downs for amounts due from banks	(1 383)	(220)
Change in impairment write-downs for loans and advances to customers	(26 227)	520 572
Change of the deferred tax liability on the available for sale portfolio	6 210	25 181
Change in provisions - total	**(31 301)**	**105 979**

Change in other liabilities	**01.01-30.06.2006** unaudited	**01.01-30.06.2005** unaudited
Balance sheet balances change	678 222	1 577 594
Reclassification of interests repayment from loans received from others than banks, financial institutions, presented in financial activity	1 740	1 330
Change in other liabilities - total	**679 962**	**1 578 924**

The PKO BP SA Group in PLN thousand

49. Transactions with related parties

Transactions of the holding company with jointly controlled entities and associates valued using equity method

All transactions described below with entities related personally or by capital were singed at arm's length. Terms of repayment are within the range from 1 month to ten years.

30 June 2006 (unaudited)

Entity	Net receivables	including gross loans	Liabilities	Total revenues	interest and fees commission income	Total costs	interest and fees commission costs	Off-balance sheet liabilities granted
International Trade Center Sp. z o.o. (in liquidation)	-	-	-	-	-	-	-	-
Przedsiębiorstwo Informatyki Bankowej Elbank Sp.z o.o (in liquidation)	-	-	-	-	-	-	-	-
Wawel Hotel Development Sp. z o.o.	110 751	106 275	12 235	2 360	2 360	115	115	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	-	-	-	-	-	-
Agencja Inwestycyjna „CORP" S.A.	-	-	-	321	-	1 041	-	-
Ekogips S.A. (in bankruptcy)	-	-	-	-	-	-	-	-
CENTRUM HAFNERA Sp. z o.o.	-	-	17 913	1	1	149	149	4 043
Centrum Obsługi Biznesu sp z o.o.	14 815	14 814	2 167	11	11	26	26	19 349
Bank Pocztowy S.A.	-	-	8	7	-	-	-	-
Hotel Jan III Sobieski Sp. z o.o.	80 367	79 597	1	305	305	940	-	-
Kolej Gondolowa Jaworzyna Krynicka S.A.	2 000	2 000	33	85	85	16	-	-
Total	**207 933**	**202 686**	**32 357**	**3 090**	**2 762**	**2 287**	**290**	**23 392**

31 December 2005

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 Funduszy Inwestycyjnych S.A.	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	-
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	1 930	85	4	-
Kolej Gondolowa Jaworzyna Krynicka S.A.	3 750	3 750	50	1 729	1 728	27	4	-
Bank Pocztowy S.A.	-	-	-	-	-	-	-	-
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**

The PKO BP SA Group in PLN thousand

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 of 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 6 month period ended 30 June 2006 the Bank recognised income in the amount of PLN 73,864 thousand (in the first half of 2005: PLN 90,864 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 34,075 thousand in cash (in the corresponding period of 2005: PLN 52,130 thousand) in respect of temporary redemption by the State budget of interest on housing loans from the “old” portfolio. The difference of PLN 39,789 thousand (in the first half of 2005: PLN 38,724 thousand) between income recognised for this period and income received in cash is reflected in the balance sheet of the Group under “Loans and advances to customers”.

PKO BP SA receives a commission for settlements relating to the redemption of interest on housing loans. In the 6 month period ended 30 June 2006, PKO BP SA received a commission for the fourth quarter of 2005 amounting to PLN 1,456 thousand (in the 6 month period of 2005, for the fourth quarter of 2004: PLN 1,715 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 6 month period ended 30 June 2006 totalled PLN 32,119 thousand (in the 6 month period 2005: PLN 18,888 thousand) and was recognised in the Bank’s income under “Fees and commission income” in full.

In the 6 month period ended 30 June 2006, the Bank also recognised a commission income of PLN 54 thousand (in the 6 month period 2005: PLN 409 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.

Benefits of the key management of the holding company

a) short-term personnel benefits

Benefits received from PKO BP SA

	01.01-30.06.2006 unaudited	**01.01-30.06.2005** unaudited
Management Board		
Short-term employee benefits	939	819
Supervisory Board		
Short-term employee benefits	112	112
Total benefits	**1 051**	**931**

The PKO BP SA Group in PLN thousand

Remuneration received from subordinated entities of PKO BP SA

	01.01-30.06.2006 unaudited	01.01-30.06.2005 unaudited
Management Board		
Short-term employee benefits	241	136
Supervisory Board		
Short-term employee benefits	-	-
Total benefits	**241**	**136**

In the 6 month periods ended 30 June 2006 and 30 June 2005 the Members of the Supervisory Board did not receive any remuneration from subordinated entities.

b) benefits after employment

In the 6 month periods ended 30 June 2006 and 30 June 2005 no benefits after employment have been paid.

c) other long-term benefits

In the 6 month periods ended 30 June 2006 and 30 June 2005 there were no benefits paid classified as "other long-term benefits".

d) benefits due to the termination of employment

In the 6 month periods ended 30 June 2006 and 30 June 2005 no benefits due to the termination of employment have been paid.

e) Share-based payments

In the 6 month periods ended 30 June 2006 and 30 June 2005 no benefits in the form of own securities have been paid.

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

	01.01-30.06.2006 unaudited	31.12.2005
Employees	614 444	517 665
Members of the Management Board	11	433
Members of the Supervisory Board	24	204
Individuals related personally to members of management and supervisory boards	-	-
Total	**614 479**	**518 302**

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

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

	01.01-30.06.2006 unaudited	01.01-30.06.2005 unaudited
Management Board		
Short-term employee benefits	4 052	2 925
Supervisory Board		
Short-term employee benefits	552	743
Total benefits	**4 604**	**3 668**

The PKO BP SA Group in PLN thousand

50. Business combinations

Acquisitions of business entities

As at 30 June 2006 and 30 June 2005 there were no mergers of the holding company or any subsidiary with any other entity.

In the first half of 2006, PKO BP SA acquired from Credit Suisse Asset Management Holding Europe (Luxemburg) S.A. 45,000 subscribed shares, with preference to votes, representing 25% of votes at the Shareholders' Meeting and 25% share in the share capital of PKO Towarzystwo Funduszy Inwestycyjnych S.A. (former PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.).

On 6 April 2006, once all the contract conditions were fulfilled (including obtaining the approval of the President of the Competition and Consumer Protection Office for concentration resulting from acquiring control over the Company by PKO BP SA), the ownership of shares was transferred to PKO BP SA.

After the transaction, PKO BP SA owns 75% of total shares of the share capital and 75% of votes in the General Shareholders' Meeting.

Information on the acquisition of 25% shares of PKO TFI SA

Entity name	PKO Towarzystwo Funduszy Inwestycyjnych S.A.
Date of acquisition	6.04.2006
Percentage share in the share capital of PKO TFI S.A.	25%
Acquisition price	PLN 55,055 thousand
Fair value of assets, liabilities and contingent liabilities of the Company as at 31.03.2006, of which:	PLN 22, 816 thousand
- Intangible assets	PLN 191 thousand
- Tangible assets	PLN 678 thousand
- Short-term receivables	PLN 16,036 thousand
- Short-term investments	PLN 40,575 thousand
- Other assets	PLN 665 thousand
- Provisions for liabilities	PLN (900) thousand
- Short-term and other liabilities	PLN (34,429) thousand
Fair value of assets, liabilities and contingent liabilities for the number of aquired shares	PLN 5,704 thousand
Goodwill at acquisition date	PLN 49,351 thousand*
Goodwill as at 30.06.2006	PLN 49,351 thousand

* Due to lack of the possibility to separate specific cash generating units, the goodwill was assigned to the whole investment project.

The tables below present goodwill arisen on acquisitions of shares in Bank's subsidiaries in the period 2004 - 2005.

The PKO BP SA Group in PLN thousand

Information on acquisition of shares of KREDOBANK S.A.

Entity name	KREDOBANK S.A.	
Date of acquisition	26.08.2004	24.10.2005
Percentage share in the share capital of Company	66.651%	2.367%
Acquisition price	PLN 109,531 thousand	PLN 2,439 thousand
Fair value of assets, liabilities and contingent liabilities of the Company at the acquisition date:	PLN 93,047 thousand	PLN 84,540 thousand
of which		
- Cash and amounts due from Central Bank	PLN 39,897 thousand	
- Amounts due from financial sector	PLN 132,240 thousand	
- Amounts due from other sectors	PLN 583,973 thousand	
- Debt securities	PLN 52,167 thousand	
- Intangible assets	PLN 2,505 thousand	
- Tangible fixed assets	PLN 66,366 thousand	
- Other assets	PLN 10,538 thousand	
- Prepayments and deferred costs	PLN 7,344 thousand	
- Liabilities	PLN 799,784 thousand	
- Special funds and other liabilities and equity	PLN 1,001 thousand	
- Accruals and deferred income, restricted and provisions	PLN 1,198 thousand	
Share of PKO BP SA in the fair value of net assets of KBU at acquisition date	PLN 62,017 thousand	PLN 2,001 thousand
Goodwill at the acquisition date	PLN 47,514 thousand	PLN 438 thousand**
Goodwill as at 30.06.2006	PLN 47,514 thousand	PLN 438 thousand

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

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

Data regarding acquisition of Wilanów Investment shares

Date of acquisition	03.11.2005
Percentage share in the share capital of Wilanów Investments Sp. z o.o.	49%
Acquisition price	PLN 66,661 thousand
Fair value of assets, liabilities and contingent liabilities of the Company as at 31.10.2005, of which:	PLN 35,201 thousand
- Cash and amounts due from Central Bank	PLN 13,602 thousand
- Available-for-sale financial assets	
- Loans and advances and other receivables	
- Interest from financial assets	
- Tangible fixed assets	PLN 362 thousand
- Intangible assets	PLN 84 thousand
- Other assets	PLN 131,303 thousand
- Financial liabilities at amortized cost	PLN 89,162 thousand
- Interest from the financial liabilities	
- Provisions	PLN 6 thousand
- Other liabilities	PLN 20,982 thousand
Fair value of assets, liabilities and contingent liabilities for the number of aquired shares	PLN 17,249 thousand
Goodwill as at 30.06.2006	PLN 49,412 thousand *

* - Due to lack of the possibility to separate specific cash generating units, the goodwill was assigned to the value of the entire investment project.

Disposal of business entities

In the first half of 2006 and in the first half of 2005 there were no disposals of subordinated entities.

51. Reconciliation of differences between previously published financial statements and these financial statements

The PKO BP SA Group did not make any significant changes in the previously published financial statements.

52. Events after the balance sheet date

On 18 April 2006, Ordinary General Meeting adopted the resolution concerning the amendments to the Articles of Association of PKO BP SA by adopting the consolidated text of the Articles. The change was due to the necessity of adopting the resolutions of the Articles of Association of PKO BPSA to the amendments of the Banking Law dated 29 August 1997 (Journal of Law No. 72, position 665 with further changes). Other changes are of ordering type and result from Good practices in public companies. The resolution was approved by the decision of Commission for Banking Supervision as of 5 July 2006 and then registered by the Court Register on 19 July 2006. The consolidated text of the Articles of Association of PKO BP SA is presented on the web-site of the Bank.

On 1 August 2006, PKO BP SA paid a dividend to its shareholders in the total amount of PLN 0.8 billion, i.e. PLN 0.80 (before tax) per share.

On 8 August 2006, a sale agreement was executed for the sale of Wawel Hotel Development Sp. z o.o. with its registered office in Kraków, a jointly controlled entity of the Bank. The Bank sold all of its 27,730 shares with a nominal value of PLN 500 PLN per share and with a total nominal value of PLN 13,865,000, representing 35.4% of share capital and entitles to 35.4% of votes at the Shareholders' Meeting, to Quinn Property Holdings Limited, with its registered office in Dublin, for a price of EUR 7,297,113.22.

On 14 August 2006, PKO BP SA took up the 16th issue shares of KREDOBANK SA. The acquisition of shares took place on the registration date of the share capital increase of the Company, after the approval of National Bank of Ukraine of the registration of the given issue.

On 5 September 2006, the Bank concluded an agreement on cooperation with PPUH Poczta Polska (the "Agreement"). Agreement was concluded in order to implement the arrangements agreed in the letter of intent entered into between Poczta Polska and PKO BP SA as of 29 July 2005. The Agreement will be implemented within the framework of joint projects. Any specific steps will be each time subject to separate agreements to be entered into by the Parties to the Agreement.

On 19 September 2006, the Act on Supervision over the Financial Market came in force. The Act introduces the Commission for Financial Supervision (KNF), which will replace the Commission for Banking Supervision (KNB), the Polish Securities and Exchange Commission (KPWiG) and the Insurance and Pension Funds Supervisory Commission (KNUiFE). As from 1 January 2008 the Commission for Financial Supervision will also take over the supervision over banks.

The PKO BP SA Group in PLN thousand

Signatures of all Member of the Bank's Managment Board

19 September 2006	Andrzej Podsiadło	President of the Board	.... (signature)
19 September 2006	Kazimierz Małecki	Vice-President, First Deputy President of the Board	.... (signature)
19 September 2006	Danuta Demianiuk	Vice-President	.... (signature)
19 September 2006	Sławomir Skrzypek	Vice-President	.... (signature)
19 September 2006	Rafał Juszczak	Member of the Board	.... (signature)
19 September 2006	Jacek Obłękowski	Member of the Board	.... (signature)
19 September 2006	Zdzisław Sokal	Member of the Board	.... (signature)

Signature of a person responsible for keeping the book of account
19 September 2006

Krystyna Szewczyk
The Bank's Director

(signature)

PKO BP SA in PLN thousand

CONDENSED FINANCIAL STATEMENTS OF SA POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2006

PROFIT AND LOSS ACCOUNT

For the 6 month periods ended 30 June 2006 and 30 June 2005, respectively.

	01.01.-30.06.2006 unaudited	**01.01.-30.06.2005 unaudited**
Interest income	2 613 541	2 812 511
Interest cost	(836 537)	(1 082 294)
Net interest result	**1 777 004**	**1 730 217**
Fees and commission income	995 259	732 633
Fees and commission expense	(182 774)	(153 347)
Net fees and commission income	**812 485**	**579 286**
Dividend income	18 504	14 272
Result from financial instruments valued at fair value	(57 846)	147 208
Result from investment securities	859	53 197
Foreign exchange result	284 014	342 202
Other operating income	88 748	82 190
Other operating expense	(31 229)	(32 264)
Net other operating income	**57 519**	**49 926**
Impairment losses	(23 314)	(69 514)
Overhead costs	(1 721 071)	(1 746 832)
Operating result	**1 148 154**	**1 099 962**
Gross profit (loss)	**1 148 154**	**1 099 962**
Taxation	(213 591)	(218 738)
Net profit (loss)	**934 563**	**881 224**
Profit (loss) per ordinary share:		
– net profit per ordinary share	0.93	0.88
– diluted net profit per ordinary share	0.93	0.88

PKO BP SA in PLN thousand

BALANCE SHEET

as at 30 June 2006 and 31 December 2005

	30.06.2006 unaudited	31.12.2005
ASSETS		
Cash and amounts due from Central Bank	4 043 893	3 832 695
Amounts due from banks	11 869 555	12 631 446
Financial assets held for trading	799 752	841 914
Derivative financial instruments	1 108 058	1 137 227
Other financial instruments valued at fair value through profit or loss	13 300 186	20 034 160
Loans and advances to customers	51 757 939	46 051 847
Investment securities	7 320 715	1 857 578
1. Available for sale	7 320 715	1 857 578
2. Held to maturity	-	-
Investments in subsidiaries, jointly controlled entities and associates	992 006	899 932
Intangible assets	588 432	525 306
Tangible fixed assets	2 105 666	2 201 163
Current tax receivables	-	-
Deferred tax assets	75 054	-
Other assets	510 159	314 248
TOTAL ASSETS	**94 471 415**	**90 327 516**

LIABILITIES AND EQUITY		
Liabilities		
Amounts due to the Central Bank	1 485	766
Amounts due to other banks	2 111 902	1 943 035
Derivative financial instruments	1 324 531	1 257 384
Amounts due to customers	79 143 550	75 886 880
Liabilities arising from debt securities issued	-	-
Other liabilities	2 481 316	1 666 180
Deferred tax liability	186 908	436 494
Deferred tax provision	-	31 351
Provisions	333 494	325 032
TOTAL LIABILITIES	**85 583 186**	**81 547 122**
Equity		
Share capital	1 000 000	1 000 000
Other capital	6 953 666	5 672 620
Retained earnings	-	430 976
Profit for the current year	934 563	1 676 798
Total equity	**8 888 229**	**8 780 394**
TOTAL EQUITY AND LIABILITIES	**94 471 415**	**90 327 516**

Capital adequacy ratio	**13.36**	**14.06**

PKO BP SA in PLN thousand

OFF-BALANCE SHEET ITEMS
as at 30 June 2006 and 31 December 2005

	30.06.2006 unaudited	**31.12.2005**
Off-balance sheet contingent liabilities granted	**12 264 386**	**10 533 845**
1. financial	9 939 259	9 025 801
2. guarantee	2 325 127	1 508 044
Liabilities arising from purchase/sale transactions	**316 537 021**	**279 032 527**
Other, of which:	**12 714 383**	**11 422 181**
- irrevocable liabilities	9 594 191	8 519 942
- collaterals received	3 120 192	2 902 239
Total off-balance sheet items	**341 515 790**	**300 988 553**

PKO BP SA in PLN thousand

STATEMENT OF CHANGES IN EQUITY
for the 6 month period ended 30 June 2006 (unaudited)

	Share capital	Other capital				Retained earnings	Net profit (loss)	Total equity
		Reserve capital	Revaluation reserve	General banking risk fund	Other reserve capital			
As at 1 January 2006	**1 000 000**	**3 297 080**	**(4 460)**	**1 000 000**	**1 380 000**	**430 976**	**1 676 798**	**8 780 394**
Profit brought forward	-	-	-	-	-	1 676 798	(1 676 798)	-
Appropriation of profit to equity	-	1 232 524	-	70 000	5 000	(1 307 774)	-	(250)
Appropriation of profit to dividends	-	-	-	-	-	(800 000)	-	(800 000)
Net profit (loss) for the period	-	-	-	-	-	-	934 563	934 563
Change of value of investments available for sale adjusted by deferred tax	-	-	(26 478)	-	-	-	-	(26 478)
As at 30 June 2006	**1 000 000**	**4 529 604**	**(30 938)**	**1 070 000**	**1 385 000**	**-**	**934 563**	**8 888 229**

for the 6 month period ended 30 June 2005 (unaudited)

	Share capital	Other capital				Retained earnings	Net profit (loss)	Total equity
		Reserve capital	Revaluation reserve	General banking risk fund	Other reserve capital			
As at 1 January 2005	**1 000 000**	**2 789 765**	**160 611**	**1 000 000**	**1 370 000**	**500 441**	**1 447 850**	**8 268 667**
Profit brought forward	-	-	-	-	-	1 447 850	(1 447 850)	-
Appropriation of profit to equity	-	507 315	-	-	10 000	(517 315)	-	-
Dividend pay-out	-	-	-	-	-	(1 000 000)	-	(1 000 000)
Change of value of investments available for sale adjusted by deferred tax	-	-	(26 758)	-	-	-	-	(26 758)
Net profit (loss) for the period	-	-	-		-	-	881 224	881 224
As at 30 June 2005	**1 000 000**	**3 297 080**	**133 853**	**1 000 000**	**1 380 000**	**430 976**	**881 224**	**8 123 133**

***** Opening balance adjustments due to IFRS adoption for the first time are presented in the Note 47 of the financial statements of PKO BP SA for the year ended 31 December 2005.

PKO BP SA in PLN thousand

CASH FLOW STATEMENT
for the 6 month periods ended 30 June 2006 and 30 June 2005, respectively

	01.01 - 30.06.2006	**01.01 - 30.06.2005**
Cash flow from operating activities		
Net profit (loss)	934 563	881 224
Adjustments:	3 744 629	(801 451)
Depreciation	147 879	198 001
Profit (loss) from foreign exchange	-	-
Profit (loss) from investing activities	(30 479)	(795)
Interests and dividends	(51 113)	(786 101)
Change in amounts due from banks	(404 442)	(87 011)
Change in financial assets held for trading and other financial instruments valued at fair value	6 776 136	(348 270)
Change in derivative financial instruments (assets)	29 169	(15 738)
Change in loans and advances to customers	(5 682 200)	(2 398 480)
Change in deferred tax asset	(75 054)	-
Change in other assets	(195 911)	(48 100)
Change in amounts due to banks	169 586	746 928
Change in derivative financial instruments (liability) and other financial liabilities valued at fair value	67 147	689 411
Change in amounts due to customers	3 256 670	1 062 464
Change in provisions	(291 583)	(293 987)
Change in other liabilities	816 381	1 549 585
Income tax paid	(126 654)	(161 983)
Current tax liability	213 591	218 821
Other adjustments	(874 494)	(1 126 196)
Net cash from operating activities	**4 679 192**	**79 773**
Cash flow from investing activities		
Inflows from investing activities	**86 060**	**2 390 905**
Sale of shares in subsidiaries	-	-
Sale of shares in jointly controlled entities	-	-
Sale of shares in associates	-	-
Redemption of investment securities	51 038	1 600 269
Proceeds from sale of intangible assets and tangible fixed assets	34 947	4 535
Other investing inflows	75	786 101
Outflows from investing activities	**(5 720 568)**	**(235 892)**
Purchase of subsidiaries, net of cash acquired	(55 056)	(19 500)
Purchase of shares in jointly controlled entities	(44 370)	-
Purchase of shares in associates	-	(17 498)
Purchase of investment securities	(5 495 240)	-
Purchase of intangible assets and tangible fixed assets	(125 902)	(198 894)
Other investing outflows	-	-
Net cash used in investing activities	**(5 634 508)**	**2 155 013**

PKO BP SA in PLN thousand

	01.01 - 30.06.2006 unaudited	01.01 - 30.06.2005 unaudited
Cash flows from financing activities		
Issue of shares	-	-
Issue of debt securities	-	-
Redemption of debt securities issued	-	-
Dividends paid to shareholders of the holding company	-	-
Dividends paid to minority shareholders	-	-
Long-term debts incurred	-	-
Repayments of long-term loans	-	(1 330)
Other financial inflows/outflows	(1 245)	-
Net cash from (used in) financing activities	**(1 245)**	**(1 330)**
Net increase (decrease) in cash and cash equivalents	**(956 561)**	**2 233 456**
Cash and cash equivalents at the beginning of the period	11 204 636	13 696 809
Cash and cash equivalents at the end of the period	**10 248 075**	**15 930 265**
included those with limited disposal	1 978	2 374

ADDITIONAL NOTES TO THE CONDENSED FINANCIAL STATEMENTS
As at 30 June 2006

1. Approval of financial statements

The condensed standalone financial statements were approved for publication by the Bank's Management Board on 19 September 2006.

The standalone financial statements are published together with the consolidated financial statements of PKO BP SA Group for the 6 month period ended 30 June 2006.

2. Uniformity of accounting principles and calculation methods used during preparation of semi-annual and last yearly financial statements

Interim condensed financial statements for the 6 month period ended 30 June 2006 was prepared according to IAS 34 *Interim Financial Reporting.*

Interim condensed financial statements do not contain all information and disclosures required in the annual financial statements and it should be read together with the consolidated financial statements for the 6 month period ended 30 June 2006.

Detailed description of the accounting principles of the Bank was presented in the Note of the consolidated financial statement of PKO BP SA Group for the 6 month period ended 30 June 2006, except for the principles of the Bank's investments in shares valuation.

The accounting principles (policy) used during preparation of the condensed financial statements are coherent with the principles used during the preparation of the annual financial statements for the year ended 31 December 2005.

In the standalone financial statements, the shares in subsidiaries, associates and jointly controlled companies are stated at acquisition cost less impairment.

3. Seasonality and periodicity of activity in the interim period

In Bank's activity there are no significant events being subject to seasonal fluctuations or of periodic characteristics.

4. Type and amounts of changes of values of assumed amounts, stated in previous interim periods of current financial year or changes of the assumed values stated in the previous financial years if they effect significantly the current interim period

In the first half of 2006 the Bank changed useful lives of intangible assets. As a result of changes introduced in the amortization rates, in the first half of 2006 there was an adjustment made to the amortization charge relating to intangible assets amounting to PLN 42,327 thousand. Changes that were introduced extended estimated useful lives of particular groups of intangibles from 4 up to 10 years.

5. Issues, repurchase and repayment of debt and equity securities

In the first half of 2006 and in the first half of 2005 neither issues, redemptions nor repayments of own debt securities were made by Bank.

6. Dividends paid (collectively or calculated for one share), divided into ordinary and other shares

On 18 April 2006 General Shareholders Meeting adopted the resolution concerning payment of the dividend for 2005 amounting to PLN 800,000 thousand. PKO BP paid the dividend for 2005 amounting to 0.80 PLN gross per share. The list of shareholders entitled to dividend for 2005 was determined on 10 July 2006 and the payment was made on 1 August 2006.

7. Significant events after the end of interim period, not stated in the financial statement for the given interim period

On 18 April 2006, Ordinary General Meeting assumed the resolution concerning the amendments to the Articles of Association of PKO BP SA by adopting the consolidated text of the Articles. The change was due to the necessity of adopting the resolutions of the Articles of Association of PKO BPSA to the amendments of the Banking Law dated 29 August 1997 (Journal of Law No. 72, position 665 with further changes). Other changes are of ordering type and result from Good practices in public companies. The resolution was approved by the decision of Commission for Banking Supervision as of 5 July 2006 and then registered by the Court Register on 19 July 2006. The consolidated text of the Articles of Association of PKO BP SA is presented on the web-site of the Bank.

On 6 July 2006, the Bank signed with the subsidiary KREDOBANK SA the annex to loan agreement dated 25 February 2005, which has increased the amount of the revolving credit in the current account by USD 4.5 million, i.e. up to USD 22.5 million.

On 6 July 2006, the Bank concluded with the subsidiary KREDOBANK S.A. a loan agreement, which granted to the Company the revolving credit in the current account of USD 15 million. The loan was granted for the period of 72 months from the date of concluding the agreement, i.e. till 5 July 2012.

On 1 August 2006, PKO BP SA paid a dividend to its shareholders in the total amount of PLN 0.8 billion, i.e. PLN 0.80 (before tax) per share.

On 8 August 2006, a sale agreement was executed for the sale of Wawel Hotel Development Sp. z o.o. with its registered office in Kraków, a jointly controlled entity of the Bank. The Bank sold all of its 27,730 shares with a nominal value of PLN 500 PLN per share and with a total nominal value of PLN 13,865,000, representing 35.4% of share capital and entitling to 35.4% of votes at the Shareholders' Meeting, to Quinn Property Holdings Limited, with its registered office in Dublin, for a price of EUR 7,297,113.22.

On 14 August 2006, PKO BP SA took up the 16th issue shares in KREDOBANK SA. The acquisition of shares took place on the registration date of the share capital increase of the Company, after the approval of National Bank of Ukraine of the registration of the given issue.

On 16 August 2006, the Bank signed a loan agreement with the subsidiary KREDOBANK S.A., which granted to the Company a non-revolving working capital loan of USD 5 million. The loan was granted for a period of 120 months from the date of signing the loan agreement, i.e. till 15 August 2016.

On 16 August 2006, the Bank signed a loan agreement with the subsidiary KREDOBANK S.A., which granted to the Company a non-revolving working capital loan of USD 10 million. The loan was granted for the period of 84 months from the date of signing the loan agreement, i.e. till 15 August 2013.

On 5 September 2006, the Bank concluded an agreement on cooperation with PPUH Poczta Polska (the "Agreement"). Agreement was concluded in order to implement the arrangements agreed in the letter of intent entered into between Poczta Polska and PKO BP SA on 29 July 2005. Agreement will be implemented within the framework of joint projects. Any specific steps will be each time subject to separate agreements to be entered into by the Parties to the Agreement.

On 19 September 2006, the Act on Supervision over the Financial Market came in force. The Act introduces the Commission for Financial Supervision (KNF), which will replace the Commission for Banking Supervision (KNB), the Polish Securities and Exchange Commission (KPWiG) and the Insurance and Pension Funds Supervisory Commission (KNUiFE). As from 1 January 2008 the Commission for Financial Supervision will also take over the supervision over banks.

8. Effect of changes in entity structure in the first half of year, including entities' merger, takeover or sales of subsidiaries and long term investments, restructuring and abandonment of the activity

On 24 January 2006, PKO BP SA concluded a conditional agreement with Credit Suisse Asset Management Holding Europe (Luxembourg) S.A. concerning acquisition by the Bank of 45,000 subscribed shares, with preference to votes, representing 25% of votes at the Shareholders' Meeting and 25% share in the share capital of PKO Towarzystwo Funduszy Inwestycyjnych S.A. (before operating as: PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A. [7]) On 6 April 2006, once all the contract conditions were fulfilled (including obtaining the approval of the President of the Competition and Consumer Protection Office for concentration resulting from acquiring control over the Company by PKO BP SA), the ownership of shares was transferred to PKO BP SA. The acquisition price, including additional costs, amounted to PLN 55,055 thousands. After the transaction, PKO BP SA owns 75% of total shares of the share capital and 75% of votes in the General Shareholders' Meeting. PKO Towarzystwo Funduszy Inwestycyjnych S.A. became a part of PKO BP SA Group.

On 27 January 2006 PKO BP SA signed Shareholders' Agreement with Sopot Municipality and NDI S.A. with the participation of Centrum Haffnera Sp. z o.o. relating to the realization of an investment project consisting in tidying up and revitalising the very tourist centre of Sopot. The financing will consist of the Bank's capital and credit involvement in the project. On 2 June 2006, PKO BP SA took up 88,741 shares in the increased share capital of CENTRUM HAFFNERA Sp. z o.o. with a total nominal value of PLN 44,370.5 thousand for the price equal to the nominal value of shares. As a result of the above transaction, the Bank owns 49.43% of shares in the share capital of this Company, which entitle to 49.43% votes at the Shareholders' Meeting.

In May 2006, PKO BP SA subscribed for 5,428,764,911 shares in the increased share capital of KREDOBANK S.A. with a total nominal value of UAH 54,287,649.11. The above increase in the share capital requires permission of the National Bank of Ukraine. After registration of the above issue, the share of PKO BP SA in the share capital of the KREDOBANK SA and share in the votes at the General Shareholders' Meeting shall increase from 69.018% to 69.933%.

On 29 June 2006 an Agreement Obliging to Acquire Shares („Agreement") in Bank Ochrony Środowiska S.A. in Warsaw ("BOŚ") was entered into between PKO BP SA and the National Fund for Environmental Protection and Water Management. Pursuant to the Agreement, PKO BP SA intends to act as the purchaser of shares under a public offering announced by the National Fund for Environmental Protection and Water Management. As the purchaser PKO BP SA undertook to acquire 659,999 (six hundred fifty nine thousand nine hundred ninety nine) ordinary bearer shares in BOŚ having the nominal value of PLN 10 (ten) each (the "Shares") for PLN 92 (ninety two) per Share, i.e., for a total of PLN 60,719,908 (sixty million seven hundred nineteen thousand nine hundred eight). The Shares acquired by PKO BP under the public offering will confer up to 659,999 voting right representing 4.999992% of votes at the BOŚ General Meeting and 4.999992% of BOŚ share capital.

In June 2006 the Bank due to the status of works concerning the sale of shares in Wawel Hotel Development reclassified the shares of the company to the tangible assets held for sale (according to IFRS 5). Until now the Company was presented as jointly controlled entity of the Bank.

[7] On 20 March 2006 in National Court Register the change of the name of PKO Towarzystwo Funduszy Inwestycyjnych S.A. was registered – former PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych SA.

PKO BP SA in PLN thousand

9. Others:
- impairment write-downs for tangible fixed assets, intangible assets or other assets and the reversal of provisions for that

Impairment losses (unaudited)

		Increases			Decreases					
6-month period ended 30 June 2006	**Impairment write-downs at the beginning of the period**	**Impairment write-downs made during the period, not impacting the profit and loss account**	**Foreign exchange differences**	**Other**	**Decrease in impairment write-downs due to de-recognition of assets**	**Reversal of the impairment write-downs in the period**	**Foreign exchange differences**	**Other**	**Impairment write-downs at the end of the period**	**Net impact of created impairment write-downs on the profit and loss account**
Impairment of the financial assets not at fair value through profit or loss	2 910 167	424 410	-	-	67 138	383 964	-	9 737	2 873 738	(40 446)
Financial instruments valued at cost (unquoted equity instruments and underlying derivative instruments)	15 965	-	-	-	-	851	-	-	15 114	851
Financial assets available for sale valued at fair value through equity	24 900	-	-	-	-	163	-	9 737	15 000	163
Loans and credits to customers and receivables from banks valued at amortised cost	2 869 302	424 410	-	-	67 138	382 950	-	-	2 843 624	(41 460)
Finance lease receivables	-	-	-	-	-	-	-	-	-	-
Investments held to maturity valued at amortised cost	-	-	-	-	-	-	-	-	-	-
Impairment write-downs in subsidiaries	72 567	-	-	-	-	6 515	-	-	66 052	6 515
Other**	173 033	12 766	-	-	101	23 383	-	24 100	138 215	10 617
Total	**3 155 767**	**437 176**	**-**	**-**	**67 239**	**413 862**	**-**	**33 837**	**3 078 005**	**(23 314)**

** “Other” includes impairment write-downs against other assets and off-balance sheet liabilities.

Created and released impairment allowances result from Bank’s normal course of business.

PKO BP SA in PLN thousand

Impairment write-downs 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".

		Increases			Decreases					
6-month period ended 30 June 2005	**Impairment write-downs at the beginning of the period**	**Impairment write-downs made during the period, not impacting the profit and loss account**	**Foreign exchange differences**	**Other**	**Decrease in impairment write-downs due to de-recognition of assets**	**Reversal of the impairment write-downs in the period**	**Foreign exchange differences**	**Other**	**Impairment write-downs at the end of the period**	**Net impact of created impairment write-downs on the profit and loss account**
Impairment of the financial assets not at fair value through profit or loss	3 122 956	377 747	-	669	57 083	300 765	-	27 136	3 116 388	(76 982)
Financial instruments valued at cost (unquoted equity instruments and underlying derivative instruments)	27 136	-	-	-	-	-	-	27 136	-	-
Financial assets available for sale valued at fair value through equity	10 351	-	-	619	-	732	-	-	10 238	732
Loans and credits to customers and receivables from banks valued at amortised cost	3 085 469	377 747	-	50	57 083	300 033	-	-	3 106 150	(77 714)
Finance lease receivables	-	-	-	-	-	-	-	-	-	-
Investments held to maturity valued at amortised cost	-	-	-	-	-	-	-	-	-	-
Impairment write-downs in subsidiaries	112 867	-	-	-	-	9 170	-	3 500	100 197	9 170
Other**	160 771	30 299		9 824	-	28 597	-	18 485	153 812	(1 702)
Total	**3 396 594**	**408 046**	**-**	**10 493**	**57 083**	**338 532**	**-**	**49 121**	**3 370 397**	**(69 514)**

** "Other" includes impairment write-downs against other assets and off-balance sheet liabilities.

- ***Investment expenditure incurred***

In the period from 1 January 2006 to 30 June 2006 PKO BP SA incurred investment expenditures amounting to PLN 121,434 thousand relating to the acquisition of tangible fixed assets and intangible assets.
In the period from 1 January 2005 to 30 June 2005 PKO BP SA incurred the investment expenditures amounting to PLN 191,414 thousand relating to the acquisition of tangible fixed assets and intangible assets.

- ***Settlements due to court cases***

As at 30 June 2006, the total value of court proceedings in which the Bank is defendant (inbound) was PLN 285,768 thousand (as at 31 December 2005: the total amounted to PLN 453,788 thousand), while the total value of court proceedings in which the Bank filed claims (outbound) was PLN 67,709 thousand (as at 31 December 2005: PLN 63,017 thousand).

The most important proceeds and claims of the Bank are listed below

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 in Poland (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). Based on decision of the President of the Competition and Customer Protection Office dated 15 March 2006, the decision dated 23 April 2001 has been changed in order to regard Visa Europe Limited, with the seat in London, Great Britain, as a party of the proceedings. 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 26 June 2006, the deadline for the completion of proceedings was postponed to 23 October 2006 due to the necessity to obtain appropriate data and information and the necessity to analyze court evidence.

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

As at the date of these financial statements, seven administrative proceedings are pending to invalidate decisions issued by public administration authorities with respect to properties held by the Bank or, in one case, by the Bank’s subsidiary. These proceedings, in the case of an unfavourable outcome for the Bank, may result in re-privatisation claims being raised against the Bank. Only one of these proceedings relates to property which was classified by the Bank as material for its operations, i.e. property located in Warsaw at 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 six properties by former owners. In two cases, the legal proceedings have started. In four 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 point a) and b) above is remote.

The financial statements for the 6 month period ended 30 June 2006 do not include any adjustments connected with the potential liabilities described above.

PKO BP SA in PLN thousand

Transactions with related parties for the 6 months period ended 30 June 2006 were as follows (unaudited):

Entity	Type of relation	Net receivables	including gross loans	Payables	Overall income	including interest fees and commissions	Overall costs	including interest charges and commissions	Off-balance sheet liabilities granted
Centrum Finansowe Puławska Sp. z o.o.	Subsidiary	109 333	108 458	10 948	2 556	2 556	20 363	126	-
Bankowe Towarzystwo Kapitałowe SA	Subsidiary	-	-	6 591	-	-	169	169	-
Powszechne Towarzystwo Emerytalne BANKOWY S.A.	Subsidiary	-	-	804	385	378	617	617	-
Centrum Elektronicznych Uslug Płatniczych "eService" S.A.	Subsidiary	16 113	16 017	5 598	780	637	10 446	152	100
Bankowy Fundusz Leasingowy S.A.	Subsidiary	635 568	606 986	721	12 429	11 712	1 003	4	83 539
Inteligo Financial Services S.A.	Subsidiary	-	-	58 174	8	7	33 340	801	-
KREDOBANK S.A.	Subsidiary	202 199	101 070	1 410	3 743	3 743	-	-	10 025
PKO Inwestycje Sp.z o.o.	Subsidiary	7 898	-	11 920	25	23	353	80	3 285
PKO Towarzystwo Funduszy Inwestycyjnych S.A.	Subsidiary	-	-	11 055	22 485	22 484	52	52	268
Wawel Hotel Developmet Sp. z o.o.	Joint-venture	110 751	106 275	12 235	2 360	2 360	115	115	-
Agencja Inwestycyjna CORP S.A.	Associate	-	-	-	321	-	-	-	-
Ekogips S.A. (in bankruptcy)	Associate	-	-	-	-	-	-	-	-
Hotel Jan III Sobieski Sp. z o.o.	Associate	80 367	79 596	1	305	305	940	-	-
Kolej Gondolowa Jaworzyna Krynicka S.A.	Associate	2 000	2 000	33	85	85	16	-	-
Bank Pocztowy S.A.	Associate	-	-	8	-	-	-	-	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Associate	-	-	-	-	-	-	-	-
Centrum Obsługi Biznesu Sp. z o.o.	Joint-venture	14 815	14 814	2 167	11	11	26	26	19 349
Pomeranka Sp. Z o.o.	Indirectly subsidiary	25 900	25 150	9 316	684	684	47	47	23 175
Wilanów Investments Sp. z o.o.	Indirectly subsidiary	23 006	18 667	35 164	2 488	2 488	382	382	23 000
Fort Mokotów Sp. z o.o.	Indirectly subsidiary	-	-	25 337	248	248	357	357	-
UKRPOLINWESTYCJE Sp. z o.o.	Indirectly subsidiary	-	-	-	-	-	-	-	-
FINDER Sp. z o.o.	Indirectly associate	-	-	-	-	-	-	-	-
Finanse Agent Transferowy Sp. z o.o.	Indirectly subsidiary	-	-	2 127	2	2	38	38	-
CENTRUM HAFFNERA Sp. z o.o.	Joint-venture	-	-	17 913	1	1	149	149	4 043
Centrum Majkowskiego Sp. z o.o.	Indirectly joint-venture	-	-	1 143	-	-	1	1	41 647
Kamienica Morska Sp. z o.o.	Indirectly joint-venture	-	-	41	-	-	-	-	3 639
Sopot Zdrój Sp. z o.o.	Indirectly joint-venture	-	-	380	-	-	1	1	203 787
Promenada Sopocka Sp. z o.o.	Indirectly joint-venture	-	-	1 513	-	-	1	1	48 116
INTER FINANCE Polska Sp. z o.o.	Indirectly joint-venture	-	-	-	-	-	-	-	-
TOTAL		**1 227 950**	**1 079 033**	**214 599**	**48 916**	**47 724**	**68 416**	**3 118**	**463 973**
In liquidation									
International Trade Center Sp. z o.o.(in liquidation)	Subsidiary	-	-	-	-	-	-	-	-
Przedsiębiorstwo Informatyki Bankowej Elbank Sp.z o.o (in liquidation)	Subsidiary	-	-	-	-	-	-	-	-
TOTAL		-	-	-	-	-	-	-	-

PKO BP SA in PLN thousand

Below transactions with related parties in terms of capital with PKO BP SA as at 31 December 2005:

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

PKO BP SA in PLN thousand

The Bank did not make any significant changes in the previously published financial statements.

- ***Income tax***

	01.01 – 30.06.2006 (unaudited)	01.01 – 30.06.2005 (unaudited)
Income statement		
Corporate income tax for the period	313 786	584 240
Tax expense	313 786	584 240
Deferred tax		
Relating to timing differences arisen and reversed	(100 195)	(365 502)
Tax expense disclosed in the income statement	**(100 195)**	**(365 502)**
Deferred tax charged to revaluation reserve	-	-
Relating to timing differences arisen and reversed	(7 258)	(1 046)
Tax expense disclosed in the equity	**(7 258)**	**(1 046)**
Total	**213 591**	**218 738**

	01.01 – 30.06.2006 (unaudited)	01.01 – 30.06.2005 (unaudited)
Gross profit before taxation from continued activities	1 148 154	1 099 962
Loss before taxation from discontinued operations	-	-
Gross profit before taxation	-	-
Gross financial result before taxation	**1 148 154**	**1 099 962**
Corporate income tax calculated using the enacted tax rate 19% (2004: 19%)	313 786	584 240
Permanent differences between accounting gross profit and taxable profit, of which:	**(27 629)**	**26 598**
Other non-tax-deductible expenses	323 151	279 432
Reversed provisions and upward revaluation not constituting taxable revenue	(307 441)	(227 218)
Settlement of capitalised interest	(5 433)	(4 134)
Other non-taxable revenue	(19 402)	(7 209)
Dividend income	(18 504)	(14 273)
Other	-	-
Temporary differences between gross financial result and taxable income, of which:	**533 222**	**1 949 743**
Interest income and unrealised income from operations on securities	70 640	560 660
Cost of accrued income and unrealised cost of operations on securities	327 640	331 404
Creation of provisions and impairment losses not constituting tax deductible cost	114 060	83 760
Unrealised cost from derivative instruments	2 791 929	3 213 565
Income due, including from advance commissions taken to revenues for the period, to which they relate	15 885	150 212
Unrealised revenue from derivative instruments	(2 734 315)	(2 389 858)
Other	(52 617)	-
Other differences between gross financial result and taxable income, including donations	**(2 245)**	**(1 354)**
Effective tax rate	**18.6%**	**19.9%**
Corporate income tax in the profit and loss account	**213 591**	**218 738**
Tax charge attributable to discontinued operations	-	-
Total	**213 591**	**218 738**

PKO BP SA in PLN thousand

	Balance sheet		Profit and loss account	
	30.06.2006 (unaudited)	31.12.2005	01.01 - 30.06.2006 (unaudited)	01.01 - 30.06.2005 (unaudited)
Deferred tax liability				
Interest accrued on receivables (loans)	87 523	80 992	6 531	(296)
Interest on securities	23 183	48 977	(25 794)	(38 144)
Settlement of discount from securities (less premium)	18 417	9 176	9 241	(23 199)
Capitalised interest from restructuring bonds	-	-	-	(112 769)
Interest on operations with the state budget	3 704	4 781	(1 077)	(2 677)
Capitalised interest on regular mortgage loans	304 752	314 184	(9 432)	(7 764)
Valuation of derivatives	-	-	-	(71 676)
Valuation of embedded derivatives	88	234	(146)	(56)
Other increases	61 835	52 157	9 676	-
Valuation of securities, of which:	2 042	20 840	-	-
- taken to income statements	1 557	17 778	(16 221)	42 018
- taken to equity	485	3 062	-	-
Gross deferred tax liability	**501 544**	**531 341**	**(27 222)**	**(214 563)**
Net deferred tax liability		**31 351**	**-**	**-**
Deferred tax asset				
Interest accrued on liabilities	158 569	144 801	13 768	33 128
Provision for future liabilities to employees	29 048	18 153	10 895	11 850
Provision for jubilee bonuses and retirement benefits	39 311	40 045	(734)	-
Cost of accruals	52 432	52 216	216	(383)
Interest on operations with the state budget	-	-	-	-
Valuation of derivatives	98 806	88 595	10 211	85 693
Valuation of embedded derivatives	-	-	-	-
Other	26 852	16 528	10 324	1 695
EIR valuation adjustment	133 989	126 793	7 196	21 417
Valuation of securities, of which:	37 591	12 859	-	-
- taken to income statements	29 848	8 751	21 097	(2 461)
- taken to equity	7 743	4 108	-	-
Gross deferred tax asset	**576 598**	**499 990**	**72 973**	**150 939**
Net deferred tax asset	**75 054**	**-**	**-**	**-**
Deferred tax - Total	**75 054**	**31 351**	**-**	**-**
Total deferred tax in the profit and loss account	**(67 797)**	**32 398**	**(100 195)**	**(365 502)**

	30.06.2006 (unaudited)	31.12.2005
Receivables due to income tax		-
Liabilities due to income tax	186 908	436 494

- ***Additional information to the cash flow statement***

Cash and cash equivalents

	30.06.2006 (unaudited)	31.12.2005
Cash and amounts in the Central Bank	4 043 893	3 832 695
Current receivables from financial institutions	6 204 182	7 371 941
Total	**10 248 075**	**11 204 636**

PKO BP SA in PLN thousand

Cash flow from operating activities – other adjustments

	01.01-30.06.2006 (unaudited)	01.01-30.06.2005 (unaudited)
Valuation, interest accrued, discount, premium on debt securities decreased by deferred tax	(585)	548 462
Non-cash changes due to the liquidation of tangible and intangible fixed assets	5 926	7 890
Valuation, impairment allowances against investments in jointly controlled entities and associates	7 352	12 670
Dividend declared	(800 000)	(1 000 000)
Separation of tax paid and current tax expense	(86 937)	(56 838)
Valuation of AFS securities portfolio at amortized cost with the use of effective interest rate, decreased by deferred tax	-	(336 002)
Impairment allowances of financial assets	-	(476 734)
Capitalized interest on loans from "old" mortgage loans portfolio	-	174 356
Other	(250)	-
Total other adjustments	**(874 494)**	**(1 126 196)**

Reconciliation of differences between the balance sheet and the cash flow statement changes in those items disclosed under operating activity

(Profit) loss from investing activities	**01.01-30.06.2006 (unaudited)**	**01.01-30.06.2005 (unaudited)**
Income from sale and disposal of tangible and intangible fixed assets	(34 947)	(4 535)
Sale and disposal costs of tangible and intangible fixed assets	4 468	3 740
Total profit (loss) from investing activities	**(30 479)**	**(795)**

Interest and dividends	**01.01-30.06.2006 (unaudited)**	**01.01-30.06.2005 (unaudited)**
Interest from AFS and HTM portfolio securities, presented in the investing activity	(51 038)	(786 101)
Dividends presented in the investing activity	(75)	-
Interest and dividends - total	**(51 113)**	**(786 101)**

Change in amounts due from banks	**01.01-30.06.2006 (unaudited)**	**01.01-30.06.2005 (unaudited)**
Balance sheet balances change	761 891	(1 083 641)
Change in impairment write-downs for amounts due from banks	1 426	-
Exclusion of the cash and cash equivalents	(1 167 759)	996 630
Change in amounts due from banks - total	**(404 442)**	**(87 011)**

Change in financial assets held for trading and other financial instruments valued at fair value through profit or loss	**01.01-30.06.2006 (unaudited)**	**01.01-30.06.2005 (unaudited)**
Balance sheet balances change	6 776 136	(348 270)
Transfer of the ALPL portfolio to the investment activity	-	-
Transfer of the securities classified to ALPL portfolio to "Other adjustments"	-	-
Change in financial assets held for trading and other financial instruments valued at fair value through profit or loss - total	**6 776 136**	**(348 270)**

PKO BP SA in PLN thousand

Change in loans and advances to customers	**01.01-30.06.2006 (unaudited)**	**01.01-30.06.2005 (unaudited)**
Balance sheet balances change	(5 706 092)	(1 738 477)
Adjustment due to IAS addoption concerning the valuation at amortized cost using effective interest rate less deferred tax	-	-
Change in impairment write-downs for loans and advances to customers	23 892	(660 003)
Change in loans and advances to customers - total	**(5 682 200)**	**(2 398 480)**

Change in amounts due to banks	**01.01-30.06.2006 (unaudited)**	**01.01-30.06.2005 (unaudited)**
Balance sheet balances change	169 586	746 928
Transfer of the repayments/received long term advances due from banks to financing activities	-	-
Change in amounts due to banks - total	**169 586**	**746 928**

Change in amounts due to customers	**01.01-30.06.2006 (unaudited)**	**01.01-30.06.2005 (unaudited)**
Balance sheet balances change	3 256 670	1 062 464
Adjustment due to IAS addoption concerning the valuation at amortized cost using effective interest rate less deferred tax	-	-
Transfer of the repayments/received long term advances due from banks to financing activities	-	-
Change in amounts due to customers - total	**3 256 670**	**1 062 464**

Change in provisions	**01.01-30.06.2006 (unaudited)**	**01.01-30.06.2005 (unaudited)**
Balance sheet balances change	(272 475)	340 835
Adjustment due to IAS addoption concerning the impairment of receivables	-	-
Change in impairment write-downs for amounts due from banks	(1 426)	-
Change in impairment write-downs for loans and advances to customers	(23 892)	(660 003)
Change of the deferred tax liability on the available for sale portfolio	6 210	25 181
Change in provisions - total	**(291 583)**	**(293 987)**

Change in other liabilities	**01.01-30.06.2006 (unaudited)**	**01.01-30.06.2005 (unaudited)**
Balance sheet balances change	815 136	1 550 915
Adjustment due to IAS addoption concerning interest capitalized from "old" portfolio housing loans	-	(169)
Reclassification of interest repayment from loans received from others than banks, financial institutions, presented under the financial activity	1 245	(1 161)
Change in other liabilities - total	**816 381**	**1 549 585**

PKO BP SA in PLN thousand

Signatures of all Member of the Bank's Managment Board

19 September 2006	Andrzej Podsiadło	President of the Board	………………………… (signature)
19 September 2006	Kazimierz Małecki	Vice-President, First Deputy President of the Board	………………………… (signature)
19 September 2006	Danuta Demianiuk	Vice-President	………………………… (signature)
19 September 2006	Sławomir Skrzypek	Vice-President	………………………… (signature)
19 September 2006	Rafał Juszczak	Member of the Board	………………………… (signature)
19 September 2006	Jacek Obłękowski	Member of the Board	………………………… (signature)
19 September 2006	Zdzisław Sokal	Member of the Board	………………………… (signature)

Signature of a person responsible for keeping the book of account
19 September 2006

Krystyna Szewczyk
The Bank's Director

(signature)

PKO BANK POLSKI
SPÓŁKA AKCYJNA

DIRECTORS' REPORT ON THE ACTIVITIES OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA GROUP FOR THE 1ST HALF OF 2006

WARSAW, SEPTEMBER 2006

Table of contents

1. INTRODUCTION

In the 1st half of 2006, the PKO BP SA Group earned a net profit of PLN 953 million, i.e. 7.4% higher compared to the first half of 2005.

As at 30 June 2006:

- total assets of the PKO BP SA Group amounted to PLN 95,958 million and compared to the balance as at the end of 2005 increased by PLN 4,345 million,
- total shareholders' equity of the Group was PLN 8,919 million and compared to the balance as at the end of 2005 – increased by PLN 144 million.

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

2. EXTERNAL FACTORS AND EVENTS THAT AFFECTED THE ACTIVITIES AND PERFORMANCE OF THE PKO BP SA GROUP

2.1 Macroeconomic factors

In the 1st half of 2006:

- **the dynamics of the economic growth** significantly improved, mainly due to higher domestic demand with a simultaneous decrease in the share of foreign trade in the increase of GDP; in the 1st quarter of 2006, the increase in GDP was 5.2% compared to the corresponding period of the prior year, mainly due to the high dynamics in private consumption; in the 2nd quarter of 2006, the GDP was 5.5%, which – apart from the continued high dynamics in private consumption – was supported by increased dynamics in investments;
- **labor market** recorded positive effects of an overall market boom, seasonal factors as well as increase in the flow of the EU funds – as a result, a slightly higher than observed in the prior years, decrease in the unemployment rate was recorded, which at the end of June 2006, was 16.0%;
- **inflation rate** remained below the lower range of the inflation rate target assumed by the Monetary Policy Council (i.e. 1.5%) and was between 0.4% do 0.9%, achieving in June 2006 the level of 0.8% compared to 0.7% recorded in December 2005, mainly due to low pressure in the area of demand, which was the result of the improving, although still difficult situation on the labor market; in the period under review, the inflation rate reflected mainly changes in the prices of food, fuel and energy;
- the increasing trend in household deposits accelerated, and at the end of June 2006 **the balance of household deposits** was 5.6% higher, compared to the 3.6% increase in the period from December 2004 to December 2005; this was mainly due to the improved situation on the labor market on one hand, and on the other – lower outflow of funds to investment funds, particularly evident in June, due to a temporary price adjustment on the Warsaw Stock Exchange;
- the increasing trend of **corporate deposits** improved, mainly due to the increase in demand, which resulted in better results of the companies – at the end of June 2006, the annualised balance of corporate deposits was 21.7% higher compared to the 16.8% increase at the end of December of the prior year;
- a further increase in the growing trend of **household loans** was recorded, stimulated mainly by high demand for housing loans, which resulted, among others, from the restrictions on granting currency mortgage loans effective as of 1 July 2006, overall higher disposable income of households and a further decrease in interest rates of loans and credits;
- an increase was recorded in **corporate loans** due to increase in investment outlays.

At the same time, the activities and the result of the PKO BP SA Group were affected by the macroeconomic factors in Ukraine, where the Group's subsidiary, KREDOBANK S.A., operates. The most important of such factors are as follows:

- improved rate of economic growth in Ukraine (the dynamics of the GDP growth was 5% y/y, compared to 2.6% in the entire 2005),

- slight decrease in the unemployment rate (2.7% in June 2006 compared to 3.2% in December 2005) – according to estimates of the International Monetary Fund („IMF"), the real unemployment rate was above 8%,
- decrease in the inflation rate to the level of 6.8% y/y in June 2006, from 10.3% in December 2005,
- decreased rate of total deposits' growth to approximately 42% y/y compared to 60% in December 2005,
- increase in the value of loans granted to 65% y/y (compared to 62% in December 2005, also on a y/y basis),
- deterioration of fiscal situation – at the end of March 2006, a deficit of UAH 5 billion was recorded, compared to the UAH 1.1 billion surplus in the prior year,
- reduction (on 7 June 2006) by the Ukrainian Central Bank of interest rates by 100 base points to the level of 8.5%,
- concentration by the Ukrainian Central Bank of its monetary policy on the exchange rates objective.

2.2 Monetary policy of the National Bank of Poland

In the period from January 2006 to June 2006, the Monetary Policy Council reduced the NBP interest rates twice (in January and February) by a total of 50 base points. As a result, the NBP reference rate at the end of June 2006 was 4.0%.

2.3 Financial market

- In the first half of 2006, an increase in the profitability of Polish Treasury Securities was recorded on the entire length of the yield curve, which was 10 base points (in the case of 1-year treasury bills) and nearly 60 base points (in the case of 5- and 10-year treasury bonds).

  In the first two months of the year, a decrease was noted in the profitability of Polish Treasury Securities (by approximately 50 base points on the entire yield curve), which was the effect of political stabilisation after parliamentary and presidential elections, the receded risk of earlier parliamentary election, favorable financial data on the State Treasury budget performance and limited increase in the public debt, and finally – due to the reduction of interest rates by the Monetary Policy Council.

  However, in the period from March to June, an increase in the profitability was recorded, mainly due to the termination of cyclical reductions in interest rates in Poland, concerns of investors of imminent increases in interest rates, increase in the FED and EBC interest rates, as well as the perspective of further tightening of monetary policy in the USA and in the Euro zone. Additionally, the increase in the profitability of Polish Treasury Securities was due to the outflow of capital from emerging markets, among others, resulting from increased investor aversion to risk, events on the Polish political scene (dismissal of the Deputy Prime Minister, the Finance Minister, Mrs. Zyta Gilowska) as well as due to the reduction, from „positive" to „stable", of the *rating* of Poland by Standard&Poor's.

- In the first half of 2006, Polish zloty depreciated against Euro by approximately 4.75% (to the level of 4.04 PLN/EUR), however appreciated against US Dollar by nearly 2.5% (to the level of 3.18 PLN/USD). In January and February 2006, a strong appreciation of Polish zloty was recorded followed by a rapid depreciation in March due to the increased political uncertainty in Poland and reduced demand for Eastern European currencies. In April, a strong appreciation of Polish zloty was recorded again (with a simultaneous depreciation of the US Dollar and relative stabilization of the political situation in Poland). The above trend reversed in May and June and Polish zloty depreciated due to the following factors: temporary increased political uncertainty, temporary strengthening of the US Dollar exchange rate on global markets and withdrawal of capital from emerging markets. In the whole period analyzed, positive trends and macroeconomic perspectives of the Polish economy had a beneficial effect on the Polish zloty exchange rate.

2.4 Regulatory environment

The following changes in the regulatory environment had the effect on the activities of the PKO BP SA Group in the 1st half of 2006:

- changes in the method of transferring interest on obligatory reserve, which caused an increase in the income from interest on obligatory reserve kept by the banks in the National Bank of Poland. Starting from 1 January 2006, half of the interest income from the obligatory reserve of banks represents banks' income (in 2005, only 40% of such interest contributed to banks' income),
- increase as of 1 January 2006 of the rate of interest defining the balance of the fund comprising bank guarantee funds, which is obligatorily created by banks,
- implementation as of 20 February 2006 of the so-called anti-usury law (the Act dated 7 July 2005 on amendments to the Act – the Civil Law Code and certain other acts – Journal of Laws No. 157, item 1316), which limited the interest rate of consumer loans and credits to four times the amount of the NBP lombard rate, and limited fees, commissions and other banking costs to 5% of the amount of the consumer loan granted, as well as imposed on banks certain information requirements towards clients,
- decrease as of 1 March 2006 of the fees for entering property in the Mortgage Register (by introducing a one-off lump-sum fees in the amount of PLN 200, instead of the earlier applied property value-related fees), which resulted in the increased inter-bank competition to acquire new clients interested in re-financing their current housing loans,
- issuance on 23 March 2006 of the Recommendation „S" of the Commission for Banking Supervision, which related to good practices as regards mortgage – secured loan exposures, the Recommendation requires that the banks, no later than by 1 July 2006, tightened their criteria for extending currency loans; the Recommendation guidelines relate, among others, to performing by banks the assessment of client creditworthiness using the same assessment criteria/ policies as those applied to client taking out loans in Polish Zloty with a nominal value equal 120% of the foreign currency loan and interest applicable to Polish zloty loan, an on-going monitoring of changes on the real estate market, development of procedures concerning decrease in the value of real estate, which is used as collateral for loan exposure. The perspective of implementation by the banks of the requirements of the „S" Recommendation caused demand for housing loans in foreign currencies, as well as the increase in the competition between the banks. In preparing to implement the new policies to extend foreign currency loans, the banks had to create additional databases, make changes in their internal procedures and IT-systems,
- the perspective of the implementation of the new policies of capital adequacy based on the New Capital Accord. In the next periods, one should expect the intensification of adaptation works due to the comments accepted on 14 June 2006 by the European Parliament and the European Council: Directive No 2006/48/WE concerning taking up and conducting activities by lending institutions and Directive No 2006/49/WE concerning capital adequacy of investment firms and lending institutions, which will be the basis for national standards.

The majority of the above regulatory changes caused that the PKO BP SA Group had to incur additional financial and organisational expenditure, which was reflected in the Bank's assets and liabilities, the level of its financial result and its structure and affected the adequacy ratio as well as enabled to carry out new business initiatives.

The situation of the PKO BP SA Group was also affected by legislative changes in the Ukrainian banking system, including amended as of 1 February 2006 accounting principles concerning tangible and intangible fixed assets, as well as implementation in the 2nd quarter of 2006 of the effective interest rate method.

2.5 Competitive environment

Banking sector

The 1st half of 2006 saw the continuation of positive trends in the activities of the banking industry. The improvement in the financial situation of households caused an increase in demand for banking services. The quality of bank loan portfolios improved and bank profits – increased. The most important factors contributing to the development of banking sector were as follows:

- Increase in the competition on the market of banking services, which resulted in the improvement of bank offers to individual and corporate clients;

  This related in particular to housing loans, credit cards, loans and credits granted with a view to improving the absorption of the EU funds, structured products as well as engagement in the area of *bancassurance*. The banks continued to develop the *cross-selling* product packages and Internet banking for individual and institutional clients, at the same time introducing new types of commission fees.

- Extended distribution channel for bank products;

  The banks kept developing a network of own outlets (i.e. Bank Millennium, BRE, Lukas Bank) and increased the number of partnership outlets (among others BPH, ING BSK, Kredyt Bank), developed cooperation with finance and insurance agencies and shopping networks (i.e. Raiffeisen Bank). The banks developed sales through Internet portals and continued to increase the number and access to ATMs. All those business development activities were accompanied by increase in the number of persons employed.

- Higher spending for infrastructure and modernization and change of visual identification of banking outlets, as well as for promotion and advertising;

- Sale of old receivables, which – under the currently available legal mean – were difficult to recover;

  In signing the agreements with securitization funds, the banks sorted out their loan portfolios and included costs incurred as tax deductible costs. This related to, among others, PKO BP SA, Kredyt Bank, BZ WBK, ING BS and BGŻ.

- New banks on the Polish market;

  In the 1st half of 2006, a new bank, Dexia, entered the Polish market; this entity belongs to the Belgian financial group which specializes in granting loans to the public sector entities, and Noble Bank, which was created on the basis of the license of Wschodni Bank Cukrownictwa. Approximately 120 foreign credit institutions, mainly from the EU countries, notified their business activities with the Commission for Banking Supervision, thus expressing their intent to offer their products and services in the cross-border form, mainly in the area of real estate financing and servicing the most affluent clients.

Non-banking sector

Changes in the non-banking sector, competitive to the PKO BP SA Group had also impact on the activities of the Bank and its subsidiaries in the first half of 2006.

- The most dynamically developing segment of the financial market was the investment funds sector, which affected the activities of both PKO BP SA and its subsidiary, PKO TFI S.A., the competitive environment of which comprised over 200 Polish investment funds and 270 foreign investment funds notified in Poland by foreign entities. The value of net assets managed by TFI in the 1st half of 2006 increased by 26.2%, i.e. to the level of PLN 77.3 billion. The development of investment funds was stimulated by the boom on the Warsaw Stock Exchange as well as relatively low interest rates, and high spending of TFI for advertising. The development of finance agencies in the field of fund distribution increased. As a result, investment funds improved their position in the absorption of households' savings (at the end of 2006, their market share increased to 15%).
- The second most dynamically developing segment of the financial market in the first half of 2006 was the leasing segment, which created competitive environment both to the Bank and to its subsidiary, Bankowy Fundusz Leasingowy S.A. In the 1st half of 2006, leasing firms financed investments with a value exceeding the prior year investments by more than PLN 1 billion. The most dynamic area of the development in this segment was the area of rail, air and water transport

(increase by 73%) and car lease (increase by 48%). On the other hand, the number of transactions on the real estate market decreased by 60%.

- The market of the open pension funds showed a dynamic growth; in the 1st half of 2006, the value of assets managed by those funds increased by 13.6%, reaching the level of PLN 97.8 billion. This was the result, among others, of the transfer by ZUS *(Social Security Office)* in June 2006, of the outstanding contributions for the years 1999-2002 in form of bonds. The number of open pension funds members increased to almost 12 million. The open pension funds increased the value of settlement units by 5.1%. The announced mergers of OFE PZU and Skarbiec and of OFE Winterthur and DOM were not completed, and hence 15 open pension funds continued to operate on the market.
- In the 1st half of 2006, the competitive position of SKOKs *(Spółdzielcza Kasa Oszczędnościowo-Kredytowa)* on the financial market increased. The assets of SKOKs increased by 7.7% to almost PLN 5.7 billion, and 1.5 million SKOK members were serviced at almost 1600 outlets. SKOKs gathered over PLN 5.3 billion deposits. Regulatory conditions were developed to broaden possibilities of their activities.

3. THE PKO BP SA GROUP DEVELOPMENT STRATEGY

The development strategy of the PKO BP SA Group is closely related to the „Strategy of PKO BP SA for the years 2006-2008", which was approved by the Supervisory Board of PKO BP SA on 8 December 2005. This is the strategy for innovation. It defines the development of the effective Group. It is directed to the strengthening of the position of the PKO BP SA as a new and dynamically developing Bank, which actively searches and efficiently implements innovative solutions in order to obtain and service clients from all market segments, to build lasting relations with clients in order to satisfy their ever-developing financial needs, with simultaneous increase in service quality.

The Group companies support the Bank in the realization of strategic goals, including:

- maintaining market position,
- increase in the effectiveness of functioning.

The potential of each of the Group companies is used to build synergy effects for the entire Group. The subsidiaries of PKO BP SA complement the offer of business areas, by supporting the Bank in performing sale tasks, and at the same time realizing their own business objectives.

4. ORGANIZATIONAL STRUCTURE OF THE PKO BP SA GROUP

As at 30 June 2006, the PKO BP SA Group is composed of the Bank as the holding company and 17 direct or indirect subsidiaries.

4.1 Entities included in the consolidated financial statements

Included in the consolidated financial statements is the Bank as the holding company of the PKO BP SA Group and its subsidiaries within the meaning of the provisions of IAS 27 „Consolidated and separate financial statements".

Table 1. Entities of the PKO BP SA Group

	Entity name	Value of shares at acquisition cost	Share in the 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.	111 970	69.018	Full
6	PKO Towarzystwo Funduszy Inwestycyjnych S.A. (formerly PKO/Credit Suisse TFI S.A.)	69 055	75.00	Full
7	Inteligo Financial Services S.A.	59 602	100.00	Full
8	Centrum Elektronicznych Usług Płatniczych eService S.A.	55 500	100.00	Full
9	Bankowy Fundusz Leasingowy S.A.	30 000	100.00	Full
10	Bankowe Towarzystwo Kapitałowe S.A.	18 566	100.00	Full
	Indirect subsidiaries			
	Subsidiaries of PKO Inwestycje Sp. z o.o.			
11	Wilanów Investments Sp. z o.o.	82 981	100.00	Full
12	Fort Mokotów Sp. z o.o.	32 130	51.00	Full
13	POMERANKA Sp. z o.o.	19 000	100.00	Full
14	UKRPOLINWESTYCJE Sp. z o.o.	272	55.00	Full
	Subsidiary of PTE BANKOWY S.A.			
15	Finanse Agent Transferowy Sp. z o.o.	2 861**	100.00	Full

* the amount includes the special purpose additional payment of PLN 5.5 million
** the amount includes the special purpose additional payment of PLN 1.0 million

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

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

* the amount includes the special purpose additional payment of EUR 2 million (i.e. PLN 8,086.8 thousand).

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

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

4.2 Changes in the organisation of subsidiaries, associates and jointly controlled entities

In the 1st half of 2006, the following events took place that had an effect on the structure of the PKO BP SA Group:

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

  On 9 January 2006, Bankowe Towarzystwo Kapitałowe S.A., the Bank's subsidiary, took up 351 shares in FINDER Sp. z o.o. with a total nominal value of PLN 175.5 thousand. Currently, the share of Bankowe Towarzystwo Kapitałowe S.A. in the share capital and at the shareholders' meeting of FINDER Sp. z o.o. amounts to 46.43%.

The increase in the share capital was registered in the National Court Register on 20 February 2006.

- Acquisition of 25% shares in PKO Towarzystwo Funduszy Inwestycyjnych S.A. (formerly PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.)

  On 24 January 2006, PKO BP SA concluded with Credit Suisse Asset Management Holding Europe (Luxembourg) S.A. a conditional agreement relating to acquisition by the Bank of 45,000 of registered, preference (as to the voting right) shares representing 25% votes at the general shareholders' meeting of PKO Towarzystwo Funduszy Inwestycyjnych S.A. (formerly PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.).

  On 6 April 2006, after all the conditions of the above conditional agreement (including obtaining the permission of the President of the Office of Competition and Consumer Protection to make concentration which consists in taking over control by PKO BP SA over the Company) have been met, a transfer of ownership rights to shares was made.

  Share acquisition price was PLN 55 million. The total acquisition price together with additional cost amounting to PLN 55,055 thousand.

  After the purchase transaction, PKO BP SA became the owner of 75% shares in the share capital of this Company and votes at the general shareholders' meeting.

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

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

  On 27 January 2006, PKO BP SA concluded a Partner Agreement with Sopot City Council and NDI S.A., with the participation of Centrum Haffnera Sp. z o.o., concerning realization of the investment project consisting in revitalization of the very tourist centre of Sopot. The Bank's share in this project consists in capital participation and providing finance.

  On 2 June 2006, in realizing the provisions of the above Agreement, the Bank took up 88,741 shares in the increased share capital of CENTRUM HAFFNERA Sp. z o.o. with a total nominal value of PLN 44,370.5 thousand for a price corresponding to the nominal value of shares.

  As a result of the above transaction, PKO BP SA has 49.43% shares in the share capital of the Company, which give right to 49.43% shares at the shareholders' meeting.

  CENTRUM HAFFNERA Sp. z o. o. holds 100% shares (giving 100% voting rights at the shareholders' meeting) in the following entities: Centrum Majkowskiego Sp. z o.o., Kamienica Morska Sp. z o.o., Promenada Sopocka Sp. z o.o. and Sopot Zdrój Sp. z o.o.

- Change of the Company name of PKO Towarzystwo Funduszy Inwestycyjnych S.A.

  On 20 March 2006, a change was registered in the National Court Register of the Company name into PKO Towarzystwo Funduszy Inwestycyjnych S.A. – former PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.

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

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

  As a result of the above transaction, Bankowe Towarzystwo Kapitałowe S.A. holds 45.0% shares in the share capital of this Company and 45.0% votes at its general shareholders' meeting.

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

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

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

  After registration of the above issue, the share of PKO BP SA in the share capital of this Company and in the votes at the general shareholders' meeting shall increase from 69.018% to 69.933%.

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

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

PKO Inwestycje Sp. z o.o., the Bank's subsidiary, after registering the above changes, holds in UKRPOLINWESTYCJE Sp. z o.o. 55 shares with a total value of UAH 561 thousand (USD 110 thousand), which give right to exercise 55 votes at the shareholders' meeting of this Company.

- Classification of shares of Wawel Hotel Development Sp. z o. o. non-current assets held for sale.

In June 2006, the Bank, taking into account the status of work relating to disposal of shares in Wawel Hotel Development Sp. z o.o., reclassified shares in this Company to the group of non-current assets held for sale (in accordance with IFRS 5). To date, the Company was classified as jointly controlled entity of the Bank and consolidated using the equity method.

5. PRINCIPLES OF THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements for the 1st half of 2006, the Bank adopted policies resulting from the International Financial Reporting Standards (IFRS), applied as of the beginning of 2005, issued by the International Accounting Standards Board and Interpretations issued and the International Financial Reporting Interpretations Committee ("IFRIC"), principles of International Accounting Standards, especially in accordance with International Accounting Standard 34 „Interim financial reporting".

The accounting policies adopted in the preparation of the consolidated financial statements for the 1st half of 2006 have been presented in detail in point 2 of the explanatory notes which are an integral part of the financial statements.

6. FINANCIAL PERFORMANCE OF THE PKO BP SA GROUP

6.1 Balance sheet structure

The balance sheet of the holding company has the most significant influence on the balance sheet of the Group. It determines both the value and the structure of the Group's assets and liabilities. As at 30 June 2006, total assets of PKO BP SA accounted for 98.5% of total assets of the Group.

As at 30 June 2006, total assets of the Group amounted to PLN 95,958 million and increased by PLN 4,345 million, i.e. by 4.7% compared to the end of 2005.

Assets

Table 3. Major asset categories of the PKO BP SA Group (in PLN thousand)

Assets	As at		Change	
	30.06.2006	31.12.2005	PLN thousand	%
1	*2*	*3*	*4*	*5*
1. Cash and balances with the Central Bank	4 092 191	3 895 331	196 860	5.1%
2. Amounts due from banks	11 887 067	12 663 295	(776 228)	(6.1)%
3. Financial assets held for trading	799 756	851 003	(51 247)	(6.0)%
4. Derivative financial instruments	1 108 058	1 137 227	(29 169)	(2.6)%
5. Other financial instruments at fair value through profit or loss	13 366 323	20 059 683	(6 693 360)	(33.4)%
6. Loans and advances to customers	52 821 360	46 874 629	5 946 731	12.7%
7. Investment securities	7 385 316	1 881 378	5 503 938	292.5%
8. Tangible fixed assets	2 560 728	2 643 551	(82 823)	(3.1)%
9. Other assets	1 937 042	1 607 084	329 958	20.5%
Total assets	**95 957 841**	**91 613 181**	**4 344 660**	**4.7%**

In comparison to the end of 2005, the most significant change in the asset structure of the PKO BP SA Group was the decrease in the balance of „Financial instruments at fair value through profit or loss" (including the portfolio of securities classified as the ALPL[1] portfolio) with a simultaneous increase in „Investment securities", including the portfolio of securities classified as available for sale. The change resulted from the activities of the Bank taken up with a view to building an optimal relation between asset profitability and the volatility of the result realized on the portfolio of debt securities.

As at 30 June 2006, the most significant item of the Group assets are loans and advances to customers (55.0% of total assets) with a net carrying amount of PLN 52,821 million. Compared to the balance at the end of December 2005, this balance increased by 12.7%.

Table 4. Loans and advances to customers of the PKO BP SA Group (in PLN thousand)

Item	As at		Change	
	30.06.2006	31.12.2005	PLN thousand	%
1	*2*	*3*	*4*	*5*
I. Loans and advances to customers	52 073 839	46 283 983	5 789 856	12.5%
1. Loans and advances, gross, of which:	54 990 720	49 226 992	5 763 728	11.7%
- to public sector entities	6 286 922	6 749 221	(462 299)	(6.8)%
- to financial institutions other than banks	308 967	332 727	(23 760)	(7.1)%
- to non-financial entities	48 394 831	42 145 044	6 249 787	14.8%
2. Allowance for exposures with impairment loss indicators	(2 916 881)	(2 943 009)	26 128	(0.9)%
II. Net finance lease receivables	747 521	590 646	156 875	26.6%
Loans and advances to customers (I+II)	**52 821 360**	**46 874 629**	**5 946 731**	**12.7%**

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

As at 30 June 2006 and 31 December 2005, the main item of loans and advances to customers, gross, were loan receivables with a maturity date above 1 year. Their total share in the Group loan portfolio increased from 64.2% at the end of 2005 to 67.1% at the end of June 2006. The ageing analysis of loans and advances to customers indicated that the largest increase (i.e. by 4.3 pp.) was recorded in the category of 1-5 years, mainly as a result of high dynamics of corporate and consumer loans, such as "Quick Credit Service" *(„Szybki serwis kredytowy").*

Liabilities and Equity

Table 5. Major liability and equity items of the PKO BP SA Group (in PLN thousand)

Item	As at		Change	
	30.06.2006	31.12.2005	PLN thousand	%
1	*2*	*3*	*4*	*5*
1. Liabilities, of which:	87 039 152	82 838 191	4 200 961	5.1%
- Amounts due to the Central Bank	1 485	766	719	93.9%
- Amounts due to other banks	2 261 474	2 083 346	178 128	8.6%
- Derivative financial instruments	1 324 531	1 257 384	67 147	5.3%
- Amounts due to customers	80 004 146	76 747 563	3 256 583	4.2%
- Other	3 447 516	2 749 132	698 384	25.4%
2. Total equity	8 918 689	8 774 990	143 699	1.6%
Total liabilities and equity	**95 957 841**	**91 613 181**	**4 344 660**	**4.7%**

As at 30 June 2006, the main item of the Group's liabilities and equity (83.4%) were amounts due to customers, the balance of which – compared to the end of 2005 - increased by 4.2%. They were the main source of financing the activities of the Group.

At the end of the first half of 2006, the main item of amounts due to customers (82.2%) were amounts due to individual clients with a value of PLN 65,753 million. The most significant item of this balance were term deposits, which at the end of June 2006 amounted PLN 43,747 million and increased by 2.2% compared to the end of December 2005.

Compared to the end of 2005, the balance of amounts due to customers showed the following movements:

- amounts due to corporate clients increased by PLN 434 million, i.e. by 4.3%, of which: term deposits increased by PLN 833 million (i.e. by 15.1%), while a'vista and overnight deposits decreased by PLN 459 million (i.e. by 10.2%),
- amounts due to individual clients increased by PLN 2,213 million, i.e. by 3.5% (of which current deposits increased by PLN 1,279 million, i.e. by 6.2%),
- amounts due to public sector entities also showed an increase; their balance as at 30 June 2006 amounted to PLN 3,796 million and increased by PLN 610 million (i.e. by 19.1%) compared to the end of 2005.

Compared to the end of 2005, the ageing analysis of amounts due to customers indicated an increase in the category of amounts payable in 1 month (together with a'vista and overnight deposits); their total value as at 30 June 2006 increased by 8.2% compared to the end of 31 December 2005. The above increase was mainly due to the increase in term deposits with maturity of up to 1 month, which increased by 13.7% compared to the balance as at the end of December 2005. Additionally, term deposits with maturity dates 3 months – 1 year increased by 5.7%, which translated into their increased share in the overall deposit structure by 0.3 pp.

Compared to the end of 2005, the balance of deposits with maturity dates 1-3 months decreased by 8.5%, while the balance of deposits with maturity dates above 1 year – decreased by a total of 21.5%.

Term deposits with maturity dates of up to 3 months, inclusive, accounted for a total of 77.7% of all amounts due to customers.

Term deposits with maturity dates over 1 year accounted for a total of less than 2% of all amounts due to customers.

6.2 Off-balance sheet items

As at 30 June 2006, the total of off-balance sheet liabilities of the PKO BP SA Group amounted to PLN 345,073 million and increased from the beginning of the year by 13.6%.

The main item of the off-balance sheet items (91.7%) represented liabilities relating to the realisation of purchase/ sale transactions of PLN 316,534 million. Compared to the balance as at the end of 2005, the share of this item in the total balance of off-balance sheet liabilities remained at a similar level (decrease by 0.1 pp.). This item was mainly composed of transactions with derivative financial instruments and forward contracts concluded by PKO BP SA to regulate currency liquidity of the Bank, as well as for the purpose of speculation and arbitration between financial markets.

6.3 Profit and loss account

Table 6. Main items of the profit and loss account of the PKO BP SA Group (in PLN thousand)

Item	1st half of 2006	1st half of 2005	Dynamics
1	*2*	*3*	*4*
1. Net interest income	1 828 109	1 759 733	103.9%
2. Net fees and commission income	828 721	600 846	137.9%
3. Dividend income	3 502	1 570	223.1%
4. Result from financial instruments at fair value through profit or loss	(57 892)	147 792	x
5. Result from investment securities	1 127	53 217	2.1%
6. Foreign exchange result	292 698	331 839	88.2%
7. Net other operating income	335 853	235 542	142.6%
8. Total income items (1-7)	**3 232 118**	**3 130 539**	**103.2%**
9. Result on impairment	(40 548)	(87 571)	46.3%
10. General administrative expenses	(1 969 381)	(1 949 270)	101.0%
11. Share in the profit of associates	(1 248)	10 424	x
12. Gross profit	**1 220 941**	**1 104 122**	**110.6%**
13. Income tax expense	(238 391)	(219 818)	108.4%
14. Profits/ (losses) of minority shareholders	29 858	(3 052)	x
15. Net profit	**952 692**	**887 356**	**107.4%**
Costs/income ratio (C/I)	**60.9%**	**62.3%**	**x**

6.3.1 Income items

In the Group's profit and loss account for the 1st half of 2006, the total of income items amounted to PLN 3,232 million and was PLN 102 million, i.e. 3.2% higher compared to the 1st half of 2005. Net interest income and net fees and commission income accounted for the majority of this balance.

Net interest income

In the 1st half of 2006, net interest income was PLN 1,828 million and was PLN 68 million, i.e. 3.9% higher than in the corresponding period of prior year; the balance was composed of interest income amounting to PLN 2,707 million and interest expense amounting to PLN 879 million, which were 6.0% and 21.5%, respectively lower than in the period January-June 2005.

The increase in the net interest income was realised under significantly lower Polish zloty interest rates (i.e. in the first half of 2006, the average 1M WIBOR was 185 base points lower than in the corresponding period of 2005) and was possible due to steps the Bank took in order to shift the balance of the interest result from deposits to loans and credits.

Net fees and commission income

In the 1st half of 2006, net fees and commission income was PLN 829 million and was 37.9% higher than in the corresponding period of the prior year; of the above balance, fees and commission income was PLN 1,013 million (i.e. 35.2% higher than in the corresponding period of the prior year), while income expense amounted to PLN 184 million (i.e. 24.2% higher).

The increase in the balance of net fees and commission income was, among others, due to:
- launching new investment products, giving additional commission income,
- increase in the number of banking cards and the number of transactions made with their use,
- changes in the amounts of commission and fees and introducing new items the PKO BP SA Tariff of commission and fees as of 1 January 2006.

Other income items

- Income from dividends amounted to PLN 3.5 million and increased compared to June 2005 by 123.1%.
- Result from financial instruments at fair value through profit or loss for the 1st half of 2006 amounted to PLN (-)58 million and was PLN 206 million lower than in the corresponding period of the prior year. The decrease was due to a relatively high base of the result on valuation of debt securities kept in the ALPL portfolio in the 1st half of 2005 and continued uncertainty on the domestic financial market, which caused an increase in the premium for risk on Polish treasury securities and decrease in their values.
- The result from investment securities in the 6 month period ended 30 June 2006 amounted to PLN 1 million and was PLN 52 million lower than in the 1st half of 2005, when the Bank realised gains on the sale of certain shares listed on the Warsaw Stock Exchange.
- The foreign exchange result for the 6 month period ended 30 June 2006 amounted to PLN 293 million and was 11.8% lower than in the corresponding period of the prior year.

  The major item of the above balance was the result from FX SWAP and CIRS transactions (the result on these transactions is of an interest type) as well as the foreign exchange result. Lower foreign exchange result was due to lower interest-type result, which – in turn- was caused by narrowing *spreads* between Polish and foreign interest rate, after successive reductions in the PLN interest rates with increasing interest rates abroad.
- In the 1st half of 2006, net other operating income was PLN 336 million (with the dynamics of 142.6%) and was composed of operating income amounting to PLN 431 million and operating expenses amounting to PLN 95 million.

  The increase in the balance of this item was mainly caused by increase in the value of the consolidated income of the PKO Inwestycje Group entities, which resulted from development of their business activities.

6.3.2 Result on impairment

In the 1st half of 2006, the result on impairment was PLN (-)41 million and was PLN 47 million more favorable than in the corresponding period of the prior year. This was due to improved impairment write-downs against loans and credits and amounts due to banks, as well as other write-downs (mainly against tangible fixed assets, other assets and off-balance sheet liabilities).

6.3.3 General administrative expenses

Table 7. General administrative expenses of the PKO BP SA Group (in PLN thousand)

Items	1st half of 2006	1st half of 2005	Change
1	*2*	*3*	*4*
1. Employee benefits	1 033 671	990 602	104.3%
2. Non-personnel costs	722 589	699 233	103.3%
3. Depreciation/amortization	172 821	220 368	78.4%
4. Other, of which:	40 300	39 067	103.2%
– taxes and charges	35 071	35 056	100.0%
– fees and contribution to the Banking Guarantee Fund	5 229	4 011	130.4%
Total	**1 969 381**	**1 949 270**	**101.0%**

In the 1st half of 2006, the balance of general administrative expenses of the PKO BP SA Group amounted to PLN 1,969 million and was 1.0% higher than in the corresponding period of the prior year. In the same period, the general administrative expenses of PKO BP SA, as the holding company, decreased by 1.5%. Higher general administrative expenses of the PKO BP SA Group were due to the increase in the costs of investment projects carried out by the companies of the PKO

Inwestycje Group as part of their real estate development activities. The increase in the Group's general administrative expenses was compensated by higher income of the PKO Inwestycje Group presented under „Other operating income".

6.3.4 Key financial ratios

The key financial results of the PKO BP SA Group translated into the following key financial ratios:

Item	1st half of 2006	1st half of 2005
1	*2*	*3*
1. Profit before taxation/average assets (ROA[2] $_{gross}$)	2.5%	2.2%
2. Net profit/average assets (ROA $_{net}$)	1.9%	1.8%
3. Profit before taxation/average equity (ROE[3] $_{gross}$)	26.8%	23.6%
4. Net profit/average equity (ROE $_{net}$)	21.2%	19.1%

6.4 Equity and capital adequacy ratio

Table 8. Equity of the PKO BP SA Group (in PLN thousand)

Item	As at		Change
	30.06.2006	31.12.2005	
1	*2*	*3*	*4*
1. Share capital	1 000 000	1 000 000	0.0%
2. Other capital items	7 130 731	5 850 063	21.9%
3. Cumulative translation adjustment (from translation of foreign entities)	(5 233)	(4 082)	28.2%
4. Retained earnings	(222 671)	150 405	X
5. Net profit for the period	952 692	1 734 820	(45.1)%
6. Equity attributable to the shareholders of the holding Company	8 855 519	8 731 206	1.4%
7. Minority interest	63 170	43 784	44.3%
Total equity	**8 918 689**	**8 774 990**	**1.6%**
Capital adequacy ratio	**13.33**	**13.90**	**(0.57)pp.**

As at 30 June 2006, the share capital of PKO BP SA was composed of 1,000,000,000 ordinary registered shares with a nominal value of PLN 1 each, of which 510,000,000 were shares Series A, 105,000,000 were shares Series B and 385,000,000 were shares Series C.

As at 30 June 2006, equity of the PKO BP SA Group amounted to PLN 8,919 million and was PLN 144 million, i.e. 1.6% higher compared to the end of 2005.

The capital adequacy ratio as at 30 June 2006 was 13.33% and compared to the end of December 2005 decreased by 0.57 pp., which was mainly due to the overall capital requirement's increase caused by dynamic development of credit activities.

[2] *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.*

[3] *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.*

7. BUSINESS OF PKO BP SA, THE HOLDING COMPANY OF THE PKO BP SA GROUP

7.1 Financial results of PKO BP SA

7.1.1 Balance sheet structure

Assets

Table 9. Main asset items of PKO BP SA (in PLN thousand)

Item	As at		Change	
	30.06.2006	31.12.2005	PLN thousand	%
1	*2*	*3*	*4*	*5*
1. Cash and balances with the Central Bank	4 043 893	3 832 695	211 198	5.5%
2. Amounts due from banks	11 869 555	12 631 446	(761 891)	(6.0)%
3. Financial assets held for trading	799 752	841 914	(42 162)	(5.0)%
4. Derivative financial instruments	1 108 058	1 137 227	(29 169)	(2.6)%
5. Other financial instruments valued at fair value through profit or loss	13 300 186	20 034 160	(6 733 974)	(33.6)%
6. Loans and advances to customers	51 757 939	46 051 847	5 706 092	12.4%
7. Investment securities	7 320 715	1 857 578	5 463 137	294.1%
8. Tangible fixed assets	2 105 666	2 201 163	(95 497)	(4.3)%
9. Other assets	2 165 651	1 739 486	426 165	24.5%
Total assets	**94 471 415**	**90 327 516**	**4 143 899**	**4.6%**

In comparison to the end of 2005, the most significant change in the asset structure of PKO BP SA was the decrease in the balance of „Financial instruments at fair value through profit or loss" (including the portfolio of securities classified as the ALPL portfolio) with a simultaneous increase in „Investment securities", including the portfolio of securities classified as available for sale. The change resulted from the activities of the Bank taken up with a view to building an optimal relation between asset profitability and the volatility of the result realized on the portfolio of debt securities.

As at 30 June 2006, the most significant item of the Bank's assets (54.8%) are loans and advances to customers with a net carrying amount of PLN 51,758 million. Compared to the balance at the end of December 2005, this balance increased by 12.4%.

Liabilities and equity

Table 10. Main liabilities and equity items of PKO BP SA (in PLN thousand)

Item	As at		Change	
	30.06.2006	31.12.2005	PLN thousand	%
1	*2*	*3*	*4*	*5*
1. Liabilities, of which:	85 583 186	81 547 122	4 036 064	4.9%
- Amounts due to the Central Bank	1 485	766	719	93.9%
- Amounts due to other banks	2 111 902	1 943 035	168 867	8.7%
- Derivative financial instruments	1 324 531	1 257 384	67 147	5.3%
- Amounts due to customers	79 143 550	75 886 880	3 256 670	4.3%
- Other	3 001 718	2 459 057	542 661	22.1%
2. Total equity	8 888 229	8 780 394	107 835	1.2%
Total liabilities and equity	**94 471 415**	**90 327 516**	**4 143 899**	**4.6%**

The main item of the Bank's liabilities and equity (83.8%) are amounts due to customers with a value as at 30 June 2006 amounting to PLN 79,144 million, which was 4.3% higher compared to the end of December 2005.

7.1.2 Off-balance sheet items

As at 30 June 2006, the total of off-balance sheet liabilities of PKO BP SA amounted to PLN 341,516 million and increased from the beginning of the year by 13.5%.

The main item of the off-balance sheet items (92.7%) represented liabilities relating to the realisation of purchase/ sale transactions of PLN 316,537 million. Compared to the balance as at the end of 2005, the share of this item in the total balance of off-balance sheet liabilities remained at a similar level. This item was mainly composed of transactions with derivative financial instruments, FX swaps and forward contracts concluded by PKO BP SA to regulate currency liquidity of the Bank, speculations and arbitration between financial markets.

7.1.3 Profit and loss account

Table 11. Main categories of profit and loss account of PKO BP SA (in PLN thousand)

Item	1 st half of 2006	1 st half of 2005	Change
1	*2*	*3*	*4*
1. Net interest income	1 777 004	1 730 217	102.7%
2. Net fees and commission income	812 485	579 286	140.3%
3. Dividend income	18 504	14 272	129.7%
4. Result from financial instruments at fair value through profit or loss	(57 846)	147 208	x
5. Result from investment securities	859	53 197	1.6%
6. Foreign exchange result	284 014	342 202	83.0%
7. Net other operating income	57 519	49 926	115.2%
8. Total income items (1-7)	**2 892 539**	**2 916 308**	**99.2%**
9. Result on impairment	(23 314)	(69 514)	33.5%
10. General administrative expenses	(1 721 071)	(1 746 832)	98.5%
11. Gross profit	**1 148 154**	**1 099 962**	**104.4%**
12. Income tax expense	(213 591)	(218 738)	97.6%
13. Net profit	**934 563**	**881 224**	**106.1%**
Costs/Income ratio (C/I ratio)	**59.5%**	**59.9%**	**x**

In the Bank's profit and loss account for the 1st half of 2006, the total of income items amounted to PLN 2,893 million and was PLN 24 million, i.e. 0.8% lower compared to the 1st half of 2005.

The individual items of the profit and loss account of the Bank for the 1st half of 2006 were as follows:

- Net interest income amounted to PLN 1,777 million and was PLN 47 million, i.e. 2.7% higher compared to the corresponding period of 2005; the balance was made up of the following items: interest income amounting to PLN 2,614 million and income expense amounting to PLN 837 million, which were 7.1% and 22.7%, respectively, lower than in the 1st half of 2005.
- Net fees and commission income amounted to PLN 812 million and was 40.3% higher than the one recorded in the 1st half of the prior year; of this balance fees and commission income was PLN 995 million (i.e. 35.8% higher than in the 1st half of 2005), while fees and commission expenses were PLN 183 million (i.e. 19.2% higher than in the corresponding period of the prior year).
- Income from dividends amounted to PLN 18.5 million and increased compared to June 2005 by 29.7%
- Result from financial instruments at fair value through profit or loss and result from investment securities totaled to PLN (-)57 million and was PLN 257 million lower than in the prior year.
- Foreign exchange result was PLN 284 million, i.e. 17.0% lower than in the 1st half of 2005.
- Net other operating income was PLN 58 million (15.2% increase), and was composed of other operating income of PLN 89 million and other operating expenses of PLN 31 million.

The comments to individual profit and loss account items of the PKO BP SA Group presented in point 6.3.1 of this Report also relate to the results of PKO BP SA.

Result on impairment in the 1st half of 2006 amounted to PLN (-)23 million and was PLN 46 million more favorable than in the corresponding period of the prior year. This was due to improved impairment write-downs against loans and credits and amounts due to banks, as well as other write-downs (mainly against tangible fixed assets, other assets and off-balance sheet liabilities).

In the 1st half of 2006, general administrative expenses of the Bank amounted to PLN 1,721 million and were 1.5% lower than in the 1st half of 2005.

7.1.4 Key financial ratios[4]

The financial results of PKO BP SA translated into the following key financial ratios:

Item	1st half of 2006	1st half of 2005
1	*2*	*3*
1. Profit before taxation/average assets (ROA_{gross})	2.3%	2.2%
2. Net profit/average assets (ROA_{net})	1.9%	1.7%
3. Profit before taxation/average equity (ROE_{gross})	24.9%	22.7%
4. Net profit/average equity (ROE_{net})	20.3%	18.3%

7.1.5 Equity and capital adequacy ratio

Table 12. Equity of PKO BP SA (in PLN thousand)

Item	As at		Change
	30.06.2006	31.12.2005	
1	*2*	*3*	*4*
1. Share capital	1 000 000	1 000 000	0.0%
2. Other capital items	6 953 666	5 672 620	22.6%
3. Retained earnings	0	430 976	(100.0)%
4. Net profit for the year	934 563	1 676 798	(44.3)%
Total equity	**8 888 229**	**8 780 394**	**1.2%**
Capital adequacy ratio	**13.36**	**14.06**	**(0.7) pp.**

As at 30 June 2006, the balance of equity of PKO BP SA amounted to PLN 8,888 million and was PLN 108 million, i.e. 1.2% higher than at the end of 2005, mainly due to compensating the amount of PLN 800 million appropriated from the 2005 net profit to dividend with the current year profit.

The capital adequacy ratio as at 30 June 2006 was 13.36% and – compared to the end of December 2005 – decreased by 0.7 pp.

7.2 Key areas of the Bank's business activities

Table 13. Deposits of PKO BP SA (in PLN milion)

Item	30.06.2006	31.12.2005	30.06.2005	Change since	
				31.12.2005	30.06.2005
1	*2*	*3*	*4*	*5*	*6*
Deposits:					
– retail banking	55 589.3	53 506.1	53 850.5	2 083.1	1 738.7
– Small and Medium Enterprises (SMEs)	4 607.5	4 722.0	3 883.0	-114.5	724.5
– Housing	9 102.9	8 834.5	7 890.3	268.4	1 212.6
– Corporate	9 545.5	8 936.9	7 519.3	608.7	2 026.3
– other (treasury operations, capital investments, BDM)	2 468.0	2 050.2	1 794.2	417.8	673.8
Total deposits	**81 313.2**	**78 049.7**	**74 937.3**	**3 263.5**	**6 375.9**

Source: Management Information System of the Bank.

As at 30 June 2006, the balance of the Bank's deposits was PLN 81.3 billion and since the beginning of the year increased by PLN 3.3 billion, while from June 2005 – increased by PLN 6.4 billion.

[4] *The ratios calculated in the manner described in point 6.3.4 (Footnotes nos. 2 and 3).*

An increase in the balance of retail, corporate and housing deposits was recorded compared to December 2005.

Table 14. Interest-bearing assets of PKO BP SA, gross (in PLN million)

Item	30.06.2006	31.12.2005	30.06.2005	Change since	
				31.12.2005	30.06.2005
1	*2*	*3*	*4*	*5*	*6*
1. Gross loans*), of which:	**54 463.8**	**48 723.1**	**44 138.1**	**5 740.7**	**10 325.7**
- retail banking	12 588.7	11 357.9	10 208.8	1 230.8	2 379.9
- SMEs	3 943.3	3 212.6	2 921.5	730.7	1 021.8
- housing loans (new portfolio)	19 700.1	16 820.1	14 809.2	2 880.0	4 890.9
- housing receivables	2 850.3	2 959.5	3 065.3	(109.2)	(215.0)
- corporate	15 381.4	14 373.0	13 133.3	1 008.4	2 248.1
2. Securities and inter-bank placements	**33 637.9**	**35 813.8**	**35 945.7**	**(2 175.9)**	**(2 307.8)**
Interest-bearing assets, gross	**88 101.7**	**84 536.9**	**80 083.8**	**3 564.8**	**8 017.9**

Source: Management Information System of the Bank.

*) Without outstanding (due) interest and non-due interest.

At the end of the 1st half of 2006, the value of the Bank's interest-bearing assets amounted to PLN 88.1 billion and was PLN 3.6 billion, i.e. 4.2% higher than as at 31 December 2005 and by PLN 8.0 billion, i.e. 10.0% higher than as at 30 June 2005. Out of the total balance of interest-bearing assets, 61.8% represented loans and credits, and – compared to the balance at the end of 2005 – this share increased by 4.2 pp. due to the overall loans and advances dynamics amounting to 111.8%. In the prior year, loans and advances accounted for 55.1% of total interest-bearing assets.

As at 30 June 2006, the gross value of loans and advances granted by PKO BP SA was PLN 54.5 billion and during the 1st half of 2006 their balance increased by PLN 5.7 billion, mainly due to the dynamics of housing, consumer and corporate loans. Compared to 30 June 2005, the balance of loans and advances increased by PLN 10.3 billion.

Table 15. Accounts and payment cards of PKO BP SA (in thousand)

Item	30.06.2006	31.12.2005	30.06.2005	Change since	
				31.12.2005	30.06.2005
1	*2*	*3*	*4*	*5*	*6*
Number of accounts, of which:	5 941	5 903	5 774	38	167
- settlement-savings A/Cs (ROR)	*5 338*	*5 349*	*5 271*	*-11*	*67*
- Inteligo A/Cs	*603*	*554*	*503*	*49*	*100*
Number of payment card, of which:	6 596	6 076	5 784	520	812
Credit cards	*681*	*525*	*467*	*155*	*214*

In the 1st half of 2006, the number of settlement-savings accounts (ROR) and Inteligo accounts increased by a total of 38 thousand items. Compared to the number of accounts as at the end of the 1st half of 2005, this was an increase by 167 thousand items.

As at 30 June 2006, the number of agreements for the use of the PKO Inteligo electronic banking amounted to 1,178 thousand, while the total number of Inteligo accounts was PLN 603 thousand.

In the 1st half of 2006, the number of payment cards increased by 520 thousand, of which 155 thousand related to credit cards.

7.2.1 Retail banking

Individual clients

The Bank's activities in the area of retail banking concentrated on:

– increasing the Bank's share in the market of deposits and loans to individual clients,

– increasing the attractiveness of products offered to individual clients, improving service quality and sales effectiveness.

During the 1st half of 2006, the most significant activities relating to individual client segment were as follows:

- in the scope of deposits offer – an increase was made in the interest rate of currency deposit following the decision of the Bank of England and FED concerning basic interest rates,
- in the scope of deposit – investment offer – two subscriptions were carried out (in the period from 14 March to 13 April 2006 and from 24 April to 25 May 2006) for investment-insurance deposit with the split of client's funds into deposit and investment parts, which are to be allocated for the purchase of capital fund insurance units and, in the second case, for the purchase of participation units in PKO/Credit Suisse,
- in the scope of loan product offer:
  – the price of „Quick Credit Service" was adjusted to the requirements of the Act dated 7 July 2005 on changes to the Civil Code Act and certain other acts (Journal of Laws, no. 157, item 1316) by implementing the maximum rate of interest and commission for extending loans,
  – a promotional campaign of the „Quick Credit Service" was carried out, which facilitated sale of this product with reduced commission for extending the loan,
  – promotional campaign was carried out with respect to the issuance of credit cards VISA Turyn and MasterCard2006 FIFA World Cup,
- in the scope of the bank-insurance cooperation (the so-called *bancassurance*), the product offer was extended to include insurance to cover death of the insured, his work inability, serious disease or loss of work; the product was directed to the owners of the revolving credit,
- in the scope of fees and commissions – as of 1 January 2006, a new Tariff of fees and commissions was introduced which changed fees for keeping savings-settlement accounts, debit and credit cards (i.e. free of charge transfers to the PKO BP SA accounts, free of charge issuance or renewal of credit cards depending on the value of transactions).

As part of the policy to keep and attract new clients, the works continued to improve the Bank's product offer. An important tool used to keep the existing clients and attract new ones is the increased functionality of the savings-settlement accounts (RORs) with an on-line access enabling, among others, filing through the PKO Inteligo service of applications for the „Quick Credit Service", loading electronic units in telephone cards and using the "I am paying with Inteligo" (*„Płacę z Inteligo"*) service as part of the overall PKO Inteligo facility.

Furthermore, as part of the personal and private banking:

- PKO BP SA as the first bank on the Polish market, started to issue payment cards in the mini format. The mini-card PKO Ekspres is a debit card issued together with a standard debit card PKO Ekspres,
- a number o business partners providing affluent clients with non-financial services on preferential terms as part of the Privilege Program,
- 30% increase, compared to the last year-end balance, was registered in the sale of consumer loans and loans for securities was noted,
- an increase was registered in the share of ROR accounts with revolving credit facility in the total number of ROR accounts, in the personal and private banking.

Small and Medium Enterprises (SMEs)

During the 1st half of 2006, the most significant activities of the Bank in the area of cooperation with SMEs' clients covered:

- implementation of a new product, SUPER PAKIET, which introduced a new quality for the clients interested in having one bank servicing their personal and business needs. Implementation of this new product was accompanied by temporary promotional offers: offers for services of electronic banking, debit cards and Partner-type cards, as well as servicing personal accounts,
- modification of the „Quick Credit Service" product which consisted in extending the user group to include capital companies i.e. limited liability companies and joint stock companies,
- simplification of credit procedures as regards determining maximum amount of overdraft for the Partner account and using investment loans and working capital loans thanks to linking those loans with the service of temporary insurance of credit repayment by PZU S.A.,
- supporting entrepreneurs - beneficiaries of the EU aid funds, i.e. structural funds. In the 1st half of 2006, the Bank committed to grant loans and extended loans to SMEs clients with a total amount of PLN 140.9 million,
- extended cooperation with Bank Gospodarstwa Krajowego SA and other local and regional guarantee funds in order to cross the barriers of the lack of security for loans taken out by small and micro companies.

Other services

- Payment of funds from the Foundation „Polsko-Niemieckie POJEDNANIE"

During the 1st half of 2006, 53.6 thousand individuals benefited from the payments made through the Bank. The value of the disbursed funds amounted to PLN 30.3 million.

- Payment of compensations from the funds of the Ministry of the State Treasury

Compensations have been paid to the employees of the public sector, who in the 2nd half of 1991 and in the 1st half of 1992 did not have their remuneration re-valued as well as to those retired persons and pensioners who in 1991 lost pension bonus which was due to them in connection with their work in special conditions or in special capacity.

In the 1st half of 2006, the Bank paid out 3.4 thousand of such compensations to the persons entitled. The value of compensations paid out was PLN 8.4 million.

7.2.2 Corporate banking

In the 1st half of 2006, the Bank focused its activities on further strengthening of its market position and shaping the image of PKO BP SA as financial institution active on the corporate market.
The Bank continued to develop and modify its product offer and to tailor its solutions to the client needs. In doing so, the Bank, among others:

- implemented a package of services called Cash Management directed to corporate clients interested in rationalization of cash management methods. Included in the Package are services, which meet client requirements in the following areas:
  - day-to-day service,
  - liquidity management,
  - mass payment service,
  - cash-flow service, including secure cash transport out of client premises,
  - transaction-information electronic channels,
- intensified sales of the Electronic Money Instrument *(Instrument Pieniądza Elektronicznego - IPE)* which is used to pay out benefits to the person entitled using the IPE card. The IPE was awarded a number of prestigious prizes, among others, Rock Awards 2005 as „The greatest achievement in the category of card products", which is awarded to banks and financial institutions by MasterCard,
- focused on meeting sales budget for multi-purpose loan package of products used to finance current client activities as part of one agreement. During the 1st half of 2006, 209 such agreements were signed.

Additionally, as part of the structural funding, in the 1st half of 2006, the Bank:

- concluded 19 agreements for the issuance of municipal bonds with a total value of PLN 104.1 million, among others for Września council (PLN 15 million),
- concluded two agreements for the issuance of corporate bonds with a total value of PLN 130 million; one of the agreements was concluded with an entity related to the Bank, Bankowy Fundusz Leasingowy S.A., the transaction was concluded at arms' length,
- the Bank concluded the following syndicated loan agreements as the participant of the banking consortiums:
  - a working capital loan agreement with an entity operating in the telecom industry, the Bank's engagement was PLN 200 million,
  - an investment loan credit with an entity operating in the telecom industry, the Bank's share in this transaction was PLN 110 million,
  - a working capital loan together with bank guarantee with an entity operating in the water supply-sewage industry; the Bank's share in those transactions amounted to PLN 43.2 million and PLN 180.2 million, respectively,
  - a working capital loan and an investment loan with an entity operating in the steelworks industry; the Bank's share in those transaction was USD 66.7 million and PLN 80 million, respectively,
  - an investment loan with an entity operating in the real estate development industry: the Bank's share in this transaction was EUR 20 million,
  - a working capital loan with an entity operating in the metallurgy industry; the Bank's share in this transaction was PLN 150 million,
  - an investment loan and a working capital loan with an entity operating in the energy industry, the Bank's share in this transaction was PLN 153 million.

7.2.3 Real estate financing

Mortgage loans to individual clients and investor loans

In the 1st half of 2006, sale of mortgage loans hit the record amount of PLN 4.9 billion, which effectively means that it was 40% higher compared to the corresponding period of the prior year. The largest sales recorded in May and June were PLN 0.9 billion and PLN 1.1 billion, respectively.

In the sales structure for the 1st half of 2006, sales of the WŁASNY KĄT mortgage loan accounted for 83% of total sales.

In order to increase product attractiveness and to have it better tailored to client needs, in the 1st half of 2006, the Bank:

- extended its banking product offer to include loan with the functionality of account balancing,
- extended its offer to include a new type of loan i.e a loan with fixed interest rate in 2-year periods,
- extended its insurance product offer to include a loss of work insurance and insurance for low own contribution in the TU CIGNA STU insurance company. Additionally, insurance premiums were re-negotiated for other types of insurance in PZU and TU EUROPA.

Furthermore, in order to attract new clients and increase the value of loans granted, the Bank:

- intensified its activities to attract new clients on the investor loan market. These resulted in an increase in the sales of this type of loans. The dynamics of sale of investor loans in the 1st half of 2006 as compared to the corresponding period of the prior year was 174%,
- continued with its Active Sales System in respect of mortgage loans through Agencies,
- carried out a promotional campaign for the WŁASNY KĄT mortgage loan and consolidated loan.

Housing loans with repayment supported by the state budget

The main purpose of the Bank's activities resulting from having in its loan portfolio loans with repayment supported by the state budget was to:

- keep the high ratio of loan repayment,
- minimize the share in the loan portfolio of loans repaid using the quotient formula,
- re-structure the non-performing loans,

– effect the improvement the quality of loan portfolio, also in the light of the new methodology implemented in accordance with IAS 39.

Servicing deposits in housing savings book

As at 30 June 2006, PKO BP SA serviced 2.1 million of housing savings book accounts with deposits of a total value of PLN 6,445 million.

In the 1st half of 2006, an increase was recorded in the number of:

– new housing savings accounts with no right to the guarantee premium - by 11 thousand pieces, which translated into an increase in the value of deposits by PLN 225 million,
– housing savings accounts with right to premium becoming active - by 0.6 thousand pieces, which translated into an increase in the value of deposits by PLN 27 million.

Servicing institutional clients of the housing market

In the 1st half of 2006, the Bank's activities concentrated on strengthening its position in the field of servicing its current institutional clients (housing cooperative and housing communities, developers and real estate agents) as well as attracting new ones. As of January 2006, a new segment of clients of the housing market was created, i.e. the segment of real estate managers acting on behalf of housing communities.

In order to increase the attractiveness of the offer and to better tailor it to client needs, the following activities were carried out:

– the price offer was adapted to client needs, taking into account local market conditions,
– enhancement was carried out of the bank product used to finance repairs with a simultaneous change in the name of the product from „the NOWY DOM repair investor loan" to „the NASZ REMONT investor loan" and „the NOWY DOM investor loan with thermo-modernization premium from BGK" to „the NASZ REMONT investor loan with thermo-modernization premium from BGK",
– a "low-amount version" of the "NASZ REMONT investor loan" was implemented, which was addressed mostly to housing communities and small housing cooperatives, with simplified loan granting procedures and swift processing of loan application.
– the PKO Inteligo service was made available to all clients of the housing market.

All those activities resulted in the increase in the balance of deposits and loans as well as in the increase in the number of serviced clients.

In the 1st half of 2006, the Bank signed 915 loan agreements with a total value of PLN 196 million. For comparison purposes, during the whole year 2005, 806 loan agreements were signed for a total amount of PLN 123 million.

7.2.4 Money market activities

The Bank's activity on the money market is focused primarily on the following four areas: investment securities portfolio management, financial risk management, trade activities carried out on the inter-bank market and cooperation with the Bank's retail and corporate clients.

- In the 1st half of 2006, the situation on the market of treasury securities was unfavourable. A detailed description of the situation on the financial market in the 1st half of 2006 is presented in section 2.3 of this Report.
- In this situation, the Bank applied conservative investment policy and did not open any significant positions. Hedging transactions, which enabled the Bank to limit the level of losses on cash instruments, played an important role in protecting the Bank's income generated by that portfolio.
- Financial risk management activities involved active management of currency risk, interest rate risk and liquidity throughout the whole Bank. Medium-term and long-term financing in CHF continued to increase as a result of these activities. Increased financing requirements were due to the dynamic development of the sale of long-term housing loans.
- Trading activities with retail and corporate clients also showed a dynamic development. In particular, there was an increase in the sales of currency products in corporate and SME segments. In retail banking, an increase was noted in the value of acquired deposits.

7.2.5 Brokerage activities

In the 1st half of 2006, Bankowy Dom Maklerski PKO BP SA strengthened its position on the capital market. This was accompanied by a revival on this market – the main indices increased on average by 40%. Total market capitalization of the Warsaw Stock Exchange increased by nearly 6%, and the number of listed companies increased by 24.

In the period under review, BDM PKO BP SA was operating on the secondary market for all types of instruments:

- the share in the sales on the stock market amounted to 7.4%, which accounts for a growth of 0.2 pp. compared to the corresponding period of 2005 (sixth place on the market),
- the share in the sales on the bond market amounted to 41.6%, which accounts for a growth of 3.2 pp. compared to the 1st half of 2005 (first place on the market),
- the share in the sales on the forward market amounted to 4.6%, which accounts for a decrease of 1.4 pp. compared to the 1st half of 2005,
- the share in the sales on the market of options for indices amounted to 8.8%, which accounts for a growth of 0.2 pp. compared to the corresponding period of 2005 (fourth place on the market).

At the end of June 2006, the value of assets held by customers on investment and registration accounts was PLN 18.4 billion, which translates into a decrease of PLN 3.2 billion (14.8%) compared to the 1st half of 2005. The decrease is due to inclusion in the balance of the sponsor of shares in non-public entities - BDM, in the corresponding period of the previous year, among these customers of PGNiG (PLN 5 billion) due to issue of shares of PGNiG.

As at 30 June 2006, the number of accounts (both investment and registration accounts) kept by BDM PKO BP SA exceeded 398 thousand. When compared to the end of June 2005, the number of accounts decreased by 38 thousand due to a decrease in the number of registration accounts as a result of redemption of treasury bonds since August 2005 and the operation of closing inactive investment accounts at the end of 2005.

On the primary market, in the 1st half of 2006 BDM carried out initial public offerings of the following companies: PAMAPOL S.A. and eCARD S.A. as well as a public offering of bonds issued by Wrocław municipality. In addition, BDM coordinated the issue of subscription rights to the shares of the following listed companies: Alchemia, Getin and Hygenika.

At the end of June 2006, Bankowy Dom Maklerski acted as market-maker and issuer's animator for 55 companies and as issue sponsor for 29 companies. In the capacity of an issue sponsor, in the 1st half of 2006 BDM carried out the process of a free-of-charge transfer of shares in ZC Police and Fortum to eligible persons.

7.2.6 Human Resources

The number of PKO BP SA employees as at 30 June 2006 was 32,700 (full-time equivalent) and decreased by 779 i.e. 2.3% compared to 31 December 2005 and 1,981 i.e. 5.7% compared to 30 June 2005.

<u>Remuneration system</u>

The remuneration system of the Bank is based on the provisions of the Collective Bargaining Agreement dated 28 March 1994 (with subsequent amendments) and regulations agreed with the trade unions on the basis of that Agreement.

In the 1st half of 2006, the Bank continued its activities aimed at increasing the competitiveness of remuneration levels offered by the Bank in relation to other banks. It tried to link the level of remuneration to the individual performance of each employee, by adjusting the incentive system to the new organisational and functional structure of the Bank. The solutions adopted in this respect are to strengthen the impact of higher remuneration on business activities, and translate it into the desired levels of economic performance and improved work effectiveness.

<u>Training</u>

During the 1st half of 2006, nearly 39 thousand employees participated in group and individual training, of which more than 27 thousand participated in in-house training conducted by internal lecturers. Nearly 3.5 thousand employees participated in training courses organised for top and senior management of the Bank.

The Bank's training policy focused on:
- improving employees' selling skills and pro-client attitudes,
- developing employees' specialist skills,
- developing management knowledge and skills.

In the 1st half of 2006, the Bank launched a project called "The PKO BP SA Integrated HR Management System", which will help it improve the existing solutions and introduce new solutions in the area of, among others, organisation and functioning of the personnel and payroll system, social and training activities.

7.2.7 Distribution network

Table 16. Distribution network of PKO BP SA as at 30 June 2006

Specification	30.06.2006	31.12.2005	30.06.2005	Change since:	
				31.12.2005	30.06.2005
Total number of branches	**1 248**	**1 251**	**1 261**	**-3**	**-13**
- Retail market:	*1 165*	*1 168*	*1 178*	*-3*	*-13*
Regional retail branches	12	12	12	0	0
Independent branches	574	537	537	37	37
Subordinated branches	579	619	629	-40	-50
- Corporate market:	*83*	*83*	*83*	*0*	*0*
Regional corporate branches	13	13	13	0	0
Corporate client teams	13	13	13	0	0
Corporate centres	57	57	57	0	0
Number of agencies	**2 285**	**2 510**	**2 620**	**-225**	**-335**
Number of ATMs	**1 863**	**1 862**	**1 863**	**1**	**0**

At the end of June 2006 the Bank:
- had 1,248 branches – their number decreased by 3 in the 6 months of 2006;
- cooperated with 2,285 agencies – their number decreased by 225 since 31 December 2005. In the 1st half of 2006, the Bank granted more than 27 thousand loans via its agencies, for a total amount of PLN 228 million. In addition, agencies acquired approximately 21 thousand savings-giro accounts (ROR), which accounts for 7% of the total number of accounts acquired by the Bank;
- had 1,863 ATMs (including 840 ATMs with deposit function). In the 1st half of 2006, PKO BP SA ATMs carried out approximately 103 million transactions for a total amount exceeding PLN 25.3 billion. The percentage of transactions carried out at PKO BP SA ATMs using cards issued by other banks amounted to 5.3%. The Bank accepted almost 75 thousand deposit envelopes and sold 140 thousand Simplus mobile phone cards via its ATM network;
- had 222 self-service terminals available to customers within the PKO BP SA network.

8. OPERATIONS OF OTHER GROUP COMPANIES[5]

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 the 1st half of 2006 amounted to PLN 25,056 thousand.
- The Company closed the 1st half of 2006 with a net profit of PLN 4,359 thousand.
- In the 1st half of 2006, the Company carried out lease agreements for a total amount of PLN 354.5 million. As regards the net value of the leased assets, the Company ranked 9th at the end of the 1st half of 2006 (according to data published by *Rzeczpospolita* on 18 July 2006). The total value of the net assets leased by the Company amounted to PLN 739 million.

[5] The financial data of companies from the PKO BP SA Group has been presented based on IAS/IFRS financial statements.

- The Company signed an agreement with PKO BP SA for an amount of PLN 100 million, for Organization, Conducting and Servicing of a Bonds Issuance Program.

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 payment cards, the management of POS terminals' network, processing of data relating to payment 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 30 June 2006 amounted to PLN 11,441 thousand.
- At the end of June 2006, the Company reported a net profit of PLN 6,148 thousand.
- The Company's share in the payment card acceptance market as regards the number of eService terminals remained at the level of 30% at the end of June 2006 and amounted to 32,138 (an increase of 3.8%) compared to the end of 2005.
- In the 1st half of 2006, 34,411 thousand transactions for a total amount of PLN 5,246 million were made using the eService terminals. As regards the value of generated payment card transactions, the Company's share in the market at the end of June 2006 was estimated at 26%.

Centrum Finansowe Puławska Sp. z o.o.

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 June 2006 amounted to PLN 202,655 thousand.
- At the end of June 2006, the Company reported a net profit of PLN 4,275 thousand. This result was due to the recognition of foreign exchange gains on a currency loan prior to conversion which took place in April 2006.
- The percentage of office and business space in the CFP building let out to clients was subject to small fluctuations and amounted to 99% at the end of June 2006.

Inteligo Financial Services S.A.

The main area of the business activities of Inteligo Financial Services S.A. is the provision of Internet banking services. The Company provides a platform for the development of electronic services of PKO BP SA in the field of keeping accounts and sale of other banking products using interactive distribution channels.

- The value of the Company's equity at the end of the 1st half of 2006 amounted to PLN 49,667 thousand.
- The Company closed the 1st half of 2006 with a net profit of PLN 6,253 thousand.
- The value of deposits held by PKO BP SA customers using the Inteligo accounts increased in 2006 by PLN 103 million in relation to the end of 2005, and amounted to PLN 1,626 million at the end of the 1st half of 2006.
- At the end of the 1st half of 2006, the number of the Internet users of the Inteligo account amounted to 497 thousand and increased in that period by 37 thousand.
- In April 2006, the Company implemented Internet access to individual accounts in the OFE Bankowy pension fund for PKO BP SA customers holding SUPERKONTO and PARTNER accounts and for the holders of the Inteligo account.

Powszechne Towarzystwo Emerytalne BANKOWY S.A.

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 81,897 thousand as at 30 June 2006.
- At the end of June 2006, the PTE BANKOWY S.A. Group reported a net profit of PLN 9,940 thousand.
- At the end of June 2006, the value of assets held by BOFE (Bankowy Otwarty Fundusz Emerytalny) amounted to PLN 3,095 million, and increased by 13% compared to the end of 2005.
- As at 30 June 2006, the number of accounts kept for BOFE members amounted to 460,907.
- At the end of the 1st half of 2006, 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 2006, BOFE was ranked 12th on the listing of rates of return with the result of 50.770%, while the weighted average was 53.447%.

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 projects.

Development projects are carried out by the Company itself or by its subsidiaries, which are set up jointly 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 180,982 thousand at the end of June 2006.
- The PKO Inwestycje Sp. z o.o. Group closed the 1st half of 2006 with a net loss of PLN 520 thousand.

In the 1st half of 2006, 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 established in March 2004, Wilanów Investments Sp. z o.o., 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.

The project is in a small delay as regards Phase I (technical acceptance of buildings). Phase II is progressing according to the plan.

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. Four commercial premises still remain to be sold.

Project "Neptun Park"

The project is carried out by POMERANKA Sp. z o.o., which was set up in March 2005, and in which PKO Inwestycje Sp. z o.o. holds 100% of shares. The project involves construction and sale of private lodgings in Gdańsk-Jelitkowo. The Company is in the progress of completion of Task I - construction of 5 buildings containing 119 lodgings.

In addition, UKRPOLINWESTYCJE Sp. z o.o., in which PKO Inwestycje Sp. z o.o. holds 55% of shares in the share capital, is currently researching the Ukrainian development market.

Bankowe Towarzystwo Kapitałowe S.A.

In 2006, 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 June 2006 amounted to PLN 17,252 thousand.
- The Company closed the 1st half of 2006 with a net loss of PLN 1,081 thousand.
- At the end of June 2006, BTK's investment portfolio amounted to PLN 9.8 million, and included FINDER Sp. z o.o. and INTER FINANCE Polska Sp. z o.o.
- In January 2006, the Company, as part of realization of its previous investment commitments, took up additional shares in the share capital of FINDER Sp. z o.o., for a price of PLN 1 million, and thus increased its share in that Company to 46.43%.
- On 11 May 2006 (date of registration of share capital increase) Bankowe Towarzystwo Kapitałowe S.A. took up shares in INTER FINANCE Polska Sp. z o.o. with a value of PLN 3,248 thousand, which accounts for 45% of the share capital of that Company.
- INTER FINANCE Polska Sp. z o.o. operates in the financial intermediary sector and cooperates with banks, insurance companies and other financial operators providing lending and insurance

services to private individuals. The Company plans to commence such operations on the Ukrainian market.

KREDOBANK S.A.

KREDOBANK S.A. in Lviv conducts banking activities in Ukraine.

- The value of equity of KREDOBANK S.A. as at 30 June 2006 amounted to UAH 147,024 thousand.
- At the end of June 2006, KREDOBANK S.A. reported a net profit of UAH 12,639 thousand.
- Since the beginning of 2006, the loan portfolio (gross) of KREDOBANK S.A. has increased by UAH 264.1 million i.e. 16.37% and amounted to UAH 1,877.7 million at the end of June 2006.
- "A vista" deposits have decreased since the beginning of the year 2006 by UAH 30.7 million i.e. 6.73%, and amounted to UAH 425.4 million at the end of June 2006.
- Clients' term deposits have increased since the beginning of the year by UAH 50.5 million i.e. 4.8% and amounted to UAH 1,100.6 million at the end of June 2006.
- KREDOBANK S.A. filed an application with the National Bank of Ukraine to approve the issue of new shares with a value of UAH 75,750 thousand, which were taken up in May 2006 by the existing shareholders.

PKO Towarzystwo Funduszy Inwestycyjnych S.A.

The business activities of PKO Towarzystwo Funduszy Inwestycyjnych S.A. include setting up and management of investment funds.

- On 6 April 2006, PKO BP SA acquired 25% shares in the Company, as a result of which it holds 75% of the share capital of PKO Towarzystwo Funduszy Inwestycyjnych S.A.
- As at 30 June 2006, the value of the Company's equity amounted to PLN 55,071 thousand.
- At the end of June 2006, the Company reported a net profit of PLN 30,254 thousand, which is a better result than that reported by PKO TFI S.A. at the end of 2005 (PLN 30,154 thousand).
- At the end of June 2006, the value of assets of the funds managed by the Company amounted to PLN 6,318 million, which gave the Company an 8.19% share in the investment fund market and ranked it 4th among such companies. The value of assets increased by 21.37% compared to the end of 2005.
- On 30 August 2006, the Company paid out to its shareholders a dividend from the profit for the year 2005 amounting in total to PLN 29.8 million (gross).

9. RISK MANAGEMENT POLICY

Risk management is one of the most important internal processes of both PKO BP SA and the other entities of the Group – particularly KREDOBANK S.A. and Bankowy Fundusz Leasingowy S.A. (BFL S.A.). 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 credit risk, 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 loan transactions is measured on a cyclical basis taking into consideration changing external conditions and changes in the financial standing of the borrowers,
- credit risk assessment is subject to additional verification by credit risk assessment forces independent of the business forces, taking into account the conditions of their initiation,
- credit risk is diversified by geographic regions, industry, products and clients,
- loan decisions can only be taken by authorized persons,
- the Bank and the Group companies hedge against credit risk by recognizing impairment write-downs for the impairment of loan exposures.

In the 1st half of 2006, KREDOBANK SA amended its internal regulations relating to credit policy, borrowers' evaluation (private individuals) and accepting and monitoring of collateral.

BFL S.A. secures credit risk by creating individual impairment write-downs for leasing exposures.

In addition, in the 1st half of 2006, the Company entered into a cooperation agreement with the National Debtors Register of Biuro Informacji Gospodarczej S.A., which allows it to efficiently identify unreliable debtors, and thus protect itself against entering into lease contracts with such clients.

9.2 Financial risk

The structure of the balance sheet and off-balance sheet liabilities of the PKO BP SA Group does not expose the Group to the risk of liquidity understood as the ability to meet current and future obligations. The holding company of the Group has a consistent and well-developed liquidity risk management system. The Bank has a stable deposit base and a portfolio of liquid securities which ensure high financial liquidity of the Bank. Due to a high level of liquid assets in the Bank's balance sheet and stable sources of financing, there are no threats to the Bank's liquidity.

Because of the Group's structure, the risk is generated mainly by PKO BP SA - the holding company of the Group.
In the 1st half of 2006, the Bank continued to adjust its IT system supporting financial risk management to its current requirements and changes in the macroeconomic environment.

In the 1st half of 2006, the Bank finalized the project related to including the risk generated by the Group companies in its liquidity and currency risk management policies, and continued similar work with regard to interest rate risk and derivatives.

Financial risk profile of the Bank in the 1st half of 2006

In the 1st half of 2006, as in previous periods, the Bank sustained high PLN liquidity, which considerably exceeded the thresholds in all time horizons throughout the whole period. In the current period, the Bank converted PLN liquidity to foreign currency liquidity in order to finance foreign currency loans.

Interest rate risk indicators were on a level not presenting any threat to the Bank.

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

In the 1st half of 2006, the Bank performed regular reviews of the standing of financial institutions and the level of granted credit and settlement limits. In addition, it was setting new limits for new clients, in response to the requirements reported by its business departments.

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 the Bank's and 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 2006, KREDOBANK S.A. implemented internal regulations for operational risk management, including a procedure for operational risk identification. In addition, it prepared and approved a regulation which enables registration and assessment of operational events. The operational risk management objectives and instruments in the Company are consistent with the objectives and instruments used in PKO BP SA.

BFL S.A. 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.

Other companies from the PKO BP Group have internal business continuity regulations in place, which are customised to the scope of their operations.

10. MAJOR EQUITY INVESTMENTS

Major equity investments of PKO BP SA and its subsidiaries concerning acquisition of shares in other subordinated entities were presented in point 4.2 above.

Moreover in the 1st half of 2006 the Bank:

- entered into an Agreement with the National Fund for Environmental Protection and Water Management (Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej) under which it is obliged to purchase shares in Bank Ochrony Środowiska S.A. w Warszawie (BOŚ). In accordance with that agreement, PKO BP SA intends to purchase these shares under the tender offer announced by the National Fund for Environmental Protection and Water Management. PKO BP SA committed to purchase up to 659,999 ordinary bearer shares in BOŚ with a nominal value of PLN 10 per share, for a price of PLN 92 per share, i.e. for a total amount up to PLN 60,719,908. Those shares will give right to a maximum of 659,999 votes, representing 4.999992% of the total vote at the Annual General Meeting of BOŚ and 4.999992% of the share capital of BOŚ,
- conducted equity transactions on the regulated market by making transactions within the portfolios controlled by the Equity Investment Department and BDM. As at 30 June 2006, the total value of the portfolios at acquisition cost was PLN 15.2 million and decreased by PLN 0.4 million in comparison to 31 December 2005.

PKO BP SA believes that the equity investments and other investment plans are achievable and will be adequate to the level of funds held.

11. RELATED PARTY TRANSACTIONS

In the 1st half of 2006, PKO BP SA provided the following services to related (affiliated) entities:

- keeping bank accounts,
- accepting deposits,
- granting loans and advances,
- issuing debt securities,
- granting bank guarantees and conducting foreign exchange operations.

In addition, to fulfil agreement conditions:

a) under the cooperation agreement with Inteligo Financial Services S.A., in the 1st half of 2006 the Bank made payments to the Company for a total amount of PLN 44.2 million. Under that agreement, the Company carries out banking activities on behalf of the Bank and provides data transmission services to PKO BP SA (keeping and maintaining electronic access to bank accounts held by PKO BP SA customers – the Inteligo and PKO Inteligo accounts),

b) under the lease agreement with Centrum Finansowe Puławska Sp. z o.o., in the 1st half of 2006 the Bank made payments to the Company for a total amount of PLN 22.2 million; these payments were mainly related to rent and operating fees.

The significant transactions between PKO BP SA and its subordinated entities, including the loan exposure of these entities to the Bank as at 30 June 2006, were presented in the notes to the Consolidated Financial Statements of the PKO BP Group.

Underwriting agreements and guarantees granted to subsidiaries

On 2 March 2006, PKO BP SA issued a guarantee in respect of its subsidiary – PKO Towarzystwo Funduszy Inwestycyjnych S.A. – for an amount up to PLN 55 thousand. The guarantee provides a security for the granting of rewards in the lottery "*Pomnóż kwotę i wygraj Toyotę*" and has been issued for the Ministry of Finance. The guarantee was valid until 30 August 2006.

On 20 June 2006, PKO BP SA signed a new Agreement with Bankowy Fundusz Leasingowy S.A. for the Organization, Conducting and Servicing of a Bonds Issuance Program, for a total amount of PLN 100 million.

On 30 June 2006, the total value of the Bank's guarantees arising from the agreements signed with Bankowy Fundusz Leasingowy S.A. with respect to the issue of bonds amounted to PLN 79.9 million. Those guarantees relate to the closing of an issue of bonds.

12. INTERNATIONAL COOPERATION

European Bank for Reconstruction and Development

- PKO BP SA participates in the *Loan Window* program being part of the *EU/EBRD SME Finance Facility* project (on the basis of the Loan Agreement of 21 February 2003 concluded by PKO BP SA and the European Bank for Reconstruction and Development for the financing of small and medium-sized enterprises).

  Until 30 June 2006, 2,169 loans were granted for a total amount of EUR 40.2 million. PKO BP SA's participation in this program includes, apart from granting loans to SMEs, improving the lending process by better identifying the needs of small and medium-sized enterprises.
- As part of the above project, Bankowy Fundusz Leasingowy S.A. utilised the first tranche of the loan from EBRD which was granted in September 2005 in the amount of PLN 60 million.

Co-operation with other foreign institutions

- In the 1st half of 2006, the Bank signed two agreements with the European Investment Bank: *Agreement for Financial Pledge over Polish Treasury Bonds* and an agreement concerning *The principles and procedure for freezing Treasury bonds on the deposit or securities account kept by Krajowy Depozyt Papierów Wartościowych SA* (trilateral agreement between: EIB, KDPW and PKO BP SA).
- As at 30 June 2006, the Bank had 21 ISDA agreements with foreign banks; in the 1st half of 2006 PKO BP SA signed two such agreements and made amendments to one of the ISDA agreements that were signed in the past.
- As at 30 June 2006, PKO BP SA cooperated with foreign banks; it held 36 *nostro* accounts at correspondent banks, denominated in 12 currencies, and kept 33 *loro* accounts, in three currencies, for foreign banks.
- KREDOBANK S.A., thanks to co-operation with its shareholders, among others PKO BP SA and EBRD, as well as the main correspondent banks, provides its clients with a wide range of services in the area of international transactions. It cooperates within the international payments system with 18 financial institutions from 14 countries. It holds 31 *nostro* accounts and 20 *loro* accounts.

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 annual reports, and on the basis of information provided by the Bank directly to the representatives of the above agencies.

  In the 1st half of 2006, the financial strength rating assigned to PKO BP SA by Capital Intelligence increased from BB+ to BBB- (assigned on 9 February 2006). Other ratings of PKO BP SA did not change.

Table 17. PKO BP SA ratings as at 30 June 2006

FITCH LTD.	
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	BBB-
Support rating	2
Outlook	Stable

- In June 2006, KREDOBANK S.A. received the following ratings from Standard & Poor's:
  - Long-term international credit rating – "B",
  - Outlook – "stable",
  - Short-term international credit rating – "B",
  - Local Ukrainian rating – "uaBBB".

13. INVESTOR RELATIONS

Shareholders

According to the Bank's knowledge, the shareholders who hold, directly or indirectly through subsidiaries, at least 5% of total votes at the Bank's Annual General Meeting, are as follows:

- State Treasury,
- Julius Baer Investment Management LLC.

In the period from the date on which the State Treasury started to transfer the Bank's shares to eligible persons, i.e. 6 April 2005, to 30 June 2006, the State Treasury disposed of 104,457,415 shares to the eligible employees and their successors, representing 10.45% of the total number of shares in PKO BP SA and giving right to 104,457,415 votes i.e. 10.45% of the total vote at the Bank's Annual General Meeting.

As at 30 June 2006, the State Treasury held 515,087,146 shares of the Bank.

In accordance with a notice provided by Julius Baer Investment Management LLC, as a result of providing third party securities management services, as at 30 June 2006 the shareholder held 53,150,746 shares in the Bank, in consequence of purchases of the PKO BP SA shares made by the clients of Julius Baer in open market transactions.

Changes in Articles of Association

On 18 April 2006, the Ordinary Shareholders' Meeting resolved to change the Articles of Association of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna by accepting a consolidated text of these Articles. The change had to be made due to the need to adjust the provisions of the Articles of PKO BP SA to the amended provisions of the Banking Law of 29 August 1997 (Journal of Laws No. 72, item 665 with subsequent amendments). The other changes are of technical nature and were made in order to comply with Good practices applied in public companies.

The consolidated text of the Articles of Association of PKO BP SA is presented on the web-site of the Bank.

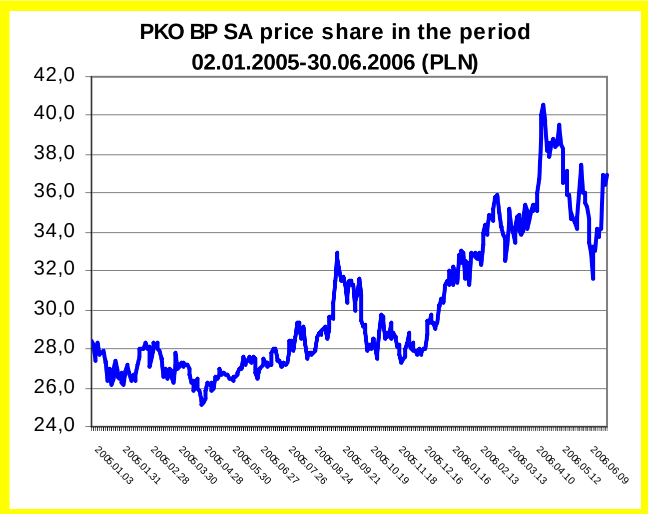
Corporate governance

In the current report dated 29 June 2006, the Bank submitted to the Warsaw Stock Exchange a declaration of the Management Board of PKO BP SA regarding compliance with corporate governance rules and the Bank's comments to the document concerning "Good practices in public companies 2005", which was adopted by the Bank's Supervisory Board. According to the above documents, PKO BP SA complies with all corporate governance rules applicable to 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 ones: Rule 5, 24, 28, 38, 43, which the Bank complies with only partially, and Rule 20, which the Bank does not comply with at all.

<u>Listed price of PKO BP SA shares</u>

The price of the Bank's shares as at 30 June 2006 amounted to PLN 37.00 and increased by PLN 8.00 i.e. 28% compared to the beginning of the year.

In the 1st half of 2006, the average price of the PKO BP shares was PLN 34.60, and the average daily sales of the Bank's shares amounted to 1,092 thousand shares and were subject to considerable fluctuations, from 225 thousand to 3,628 thousand shares. The following factors had an impact on the level of the prices of the Bank's shares: trends prevailing on the Stock Exchange and the Bank's financial results.



14. SERVICE PROMOTION AND IMAGE BUILDING OF THE GROUP

Promotional activities of PKO BP SA in the 1st half of 2006 were mainly concentrated on the following:

- Maintaining the leading position of the Bank on the retail market by undertaking advertising activities, mainly in the form of promotional campaigns for the Bank's products and services, including: the cash loan facility called "Quick Credit Service", mortgage loan WŁASNY KĄT, subscribed deposits, credit cards VISA Turyn and MasterCard2006 FIFA World Cup, and "Quick Credit Limit for Businesses" *(„Szybki limit kredytowy dla firm")*. In Spring 2006, the Bank carried out two image and product-related campaigns. In the sub-area of private and personal banking, the main promotional activities aimed at building a strong market position in the private banking customer service. These activities focused on the promotion of the private banking program PLATINIUM and the new mini-card PKO Ekspres. In addition to advertising activities, the Bank conducted PR activities in relation to the DOM PLATINIUM project;
- Strengthening the Bank's position in the corporate banking – the Bank conducted intense promotional activities in this area by making an effective use of selected business events (seminars, conferences, business competitions). In doing this, the Bank referred to successful sale of its products, such as the European Program, the Electronic Money Instrument and municipal bonds. These activities were carried out using both the media and promotional publications dedicated to specific client segments.

Sponsorship and charity activities of the Bank included the following programs:

- Program *"PKO Bank Polski Kulturze Narodowej"* (PKO BP for National Culture), under which the Bank continued to cooperate with the National Museum. The Bank sponsored, among others: the issue of a classical music collection "Great Composers" ("*Wielcy Kompozytorzy*"), St. John's Opera Music Nights (*Świętojańskie Noce Muzyki Operowej*) organized by *Państwowa Opera Bałtycka* (the National Baltic Opera) in Gdańsk, two first-night opera performances: the "Greek Zorba" opera at *Dom Muzyki i Tańca* in Zabrze and "The Twilight of the Gods" at *Hala Ludowa* in Wrocław. The Bank continued to cooperate with "*Piwnica pod Baranami*" (a popular Cracow cabaret) and became the patron of the 50th anniversary of its artistic activities,

- Program "*PKO Bank Polski Blisko Ciebie*" (PKO BP Close to You) - the Bank sponsored transmissions of concerts from the Stage-play Song Competition (*Przegląd Piosenki Aktorskiej*) in Wrocław, a concert given at the Bydgoszcz Philharmonic by Rafał Blechacz – the winner of the Fryderyk Chopin International Piano Competition, and a promotional and leisure project "Warsaw is trendy";
- Program "*PKO Bank Polski Reprezentacji Olimpijskiej*" (PKO BP for the Olympic Representation) – the Bank continued to cooperate with the Polish Olympic Foundation (*Polska Fundacja Olimpijska*) and the Polish Fencing Association (*Polski Związek Szermierczy*). The Bank sponsored the Vote for the Best Sportsman/Sportswoman of 2005, an international cross-country skiing event "*Bieg Piastów*", and the 51st "For Wołodyjowski's Sabre" Competition (*Turniej "O szablę Wołodyjowskiego"*).

As part of its charity activities, the Bank made donations to a number of institutions, including the following:

- Poland's Episcopate Conference – to support the Pilgrimage of Pope Benedict XVI to Poland,
- Hospitals and health care foundations (including *Fundacja Rozwoju Kardiochirurgii* (Foundation for Cardio Surgery Development), The Ovarius Association),
- Social educational programs "*Zostańcie z nami*" (Stay with Us) (organised by the Foundation of the Weekly Polityka) and "*Rzuć palenie razem z nami*" (Join us in giving up smoking) (organized by the Foundation for Health Promotion),
- Lesław A. Paga's Foundation – to support a scholarship program for graduates from universities of economics,
- The Foundation for Warsaw University Students and Graduates (Fundacja *na Rzecz Studentów i Absolwentów Uniwersytetu Warszawskiego*) – to participate in the financing of holidays for disabled students,
- The National Philharmonic – to support the activities of The Warsaw National Philharmonic in 2006 as part of the Bank's patronage activities,
- The National Museum in Warsaw – as part of the Bank's patronage activities for that museum.

Awards and distinctions granted to PKO BP SA:

- ROCK AWARDS 2005 in the category of "The greatest achievement in developing new payment card products" – an award granted to banks and financial institutions by MasterCard,
- Award ALICJA 2005 for the Electronic Money Instrument in a competition organised by the magazine TWÓJ STYL; this award was granted to PKO BP SA for the most innovative and user-friendly financial service,
- "Employer of the Year 2005" – title awarded by a students' organisation, AIESEC; the Bank was ranked first among financial institutions,
- "European Medal" – an award granted to the Bank for the Electronic Money Instrument in the 12th edition of the competition organised by the Business Centre Club and the European Integration Committee for products and services meeting the European standards;
- First place in Rzeczpospolita's ranking of the best financial institutions;
- Premium Brand in the category of financial institutions – a title awarded for the first time on the Polish market in a ranking of most reputable brands organised under the patronage of the monthly "Forbes" in cooperation with Midwest ITSE and Maison Reasearch Consulting. In addition, the Bank received a special award from "Forbes",
- The fourth Diamond to the Golden Statue of the Polish Business Leader – a distinction awarded by the Business Centre Club to companies that were previously awarded the Polish Business Leader statue and each year confirm their high market position.

Promotional activities of other PKO BP Group companies were concentrated on the following:

- KREDOBANK S.A. - ensuring advertising support for the sale of products, especially new products and services, and creating a positive image of the Company.

  In addition to its activities on the financial market, KREDOBANK S.A. supports projects from the area of arts and culture, and assists in solving current social problems. The main directions of its activity in this area include providing assistance to children-orphans and supporting the Ukrainian arts, culture and sports.

- PKO Inwestycje Sp. z o.o. and its subsidiaries – promotion of housing estates in the course of construction: "Neptun Park" in Gdańsk, "Trzy Gracje" in Sopot and "Marina Mokotów" and "Nowy Wilanów" in Warsaw,
- Centrum Finansowe Puławska Sp. z o.o. - sponsorship of socially significant cultural events (including events held in Centrum Finansowe Puławska), sports events, educational events and healthcare and charity projects, especially for children in need,
- Bankowy Fundusz Leasingowy S.A. - activities supporting the Company's image, including sponsorship of the sale of its product "Leasing for Gazele", and carrying out advertising campaigns in selected business newspapers,
- Inteligo Financial Services S.A. and Centrum Elektronicznych Usług Płatniczych eService S.A. - promotional campaigns and competitions addressed to customers,
- PTE BANKOWY S.A. - promotion of services provided to members of the fund managed by PTE BANKOWY S.A., among others through an advertising campaign in specialized Internet portals and organisation of an event for university graduates ("Laurealia"),
- PKO Towarzystwo Funduszy Inwestycyjnych S.A. - activities supporting the Company's image, e.g. a sponsorship of a horse-riding competition for the Cup of PKO TFI S.A. and a "Horse-riding Children's Day at Kozielska 7", as well as conducting promotional campaigns and competitions addressed to the fund's clients.

Awards and Distinctions granted to other Group companies:

Centrum Elektronicznych Usług Płatniczych eService S.A.:
- Rock Awards 2005 – silver award granted by MasterCard Europe for the greatest achievements in the development of payment card acceptance network,
- European Medal for the "telePOMPKA" service, granted by the European Integration Committee and the Business Centre Club.

KREDOBANK S.A.:
- Inclusion of the bank on the list of "TOP 100. The best Ukrainian companies", prepared by the nation-wide business weekly "Inwest-gazeta",
- Diploma of the Lviv Chamber of Industry and Commerce for active participation in the international tourist forum "Tourism and recreation 2006",
- Diploma of the Odessa District Administration for participation in the 3rd "International Forum of Investments and Innovations".

Bankowy Fundusz Leasingowy S.A. – the title of Patron for "Gazele Biznesu" (the most dynamically developing enterprises).

15. GOVERNING BODIES OF PKO BP SA IN THE REPORTING PERIOD

Members of Management Board in the reporting period:

Table 18. Members of Management Board in the 1st half of 2006

No.	Name and surname	Function
1.	Andrzej Podsiadło	President
2.	Kazimierz Małecki	Vice-president, First Deputy President
3.	Danuta Demianiuk	Vice-president
4.	Sławomir Skrzypek	Vice-president
5.	Rafał Juszczak*	Member
6.	Piotr Kamiński**	Member
7.	Jacek Obłękowski	Member
8.	Zdzisław Sokal*	Member
9.	Krystyna Szewczyk***	Member

*) Members of Management Board appointed by resolution of the Supervisory Board of 26 June 2006 to perform the function of Board members as of 1 July 2006,
**) Mr Piotr Kamiński was member of the Board until 8 March 2006,
***) Mrs Krystyna Szewczyk was member of the Board until 26 June 2006.

On 8 March 2006, the Supervisory Board of the Bank adopted a resolution in which it accepted the resignation of Mr Piotr Kamiński from the position of member of the Management Board of PKO BP SA as of the date of his entering the Management Board of Bank Pocztowy S.A., which took place on 9 March 2006.

Mr Rafał Juszczak and Mr Zdzisław Sokal, who were appointed Board members by the Supervisory Board of the Bank on 26 June 2006, will perform their functions during the joint term of office of the Management Board, which has started on 19 May 2005.

During the above meeting of the Supervisory Board, Mr Andrzej Podsiadło resigned from the position of President of Management Board. At the request of the Supervisory Board, Mr Andrzej Podsiadło will continue in the position of Board President until 31 October 2006.

In addition, Mrs Krystyna Szewczyk resigned from the function of Board member as of 26 June 2006.

Members of Supervisory Board of PKO BP SA in the reporting period:

The Ordinary General Meeting of PKO BP SA held on 18 April 2006 changed the composition of the Supervisory Board of PKO BP SA by dismissing seven of the nine members of the Supervisory Board and appointing five new members. As a result, the total number of members of the Supervisory Board was reduced to seven persons: (i) the following persons were dismissed from the Supervisory Board: Mr Bazyl Samojlik, Mr Krzysztof Zdanowski, Mr Andrzej Giryn, Mr Ryszard Kokoszczyński, Mr Władysław Szymański, Mr Stanisław Kasiewicz and Mrs Czesława Siwek, (ii) the following persons were appointed to the Supervisory Board: Mr Marek Głuchowski, Mr Jerzy Michałowski, Mr Tomasz Siemiątkowski, Mr Adam Skowroński and Mrs Agnieszka Winnik-Kalemba; Mrs Urszula Pałaszek and Mr Jerzy Osiatyński retained their positions in the Supervisory Board.

Mr Marek Głuchowski was elected Chairman of the Supervisory Board of PKO BP SA.

Table 19. Members of Supervisory Board as at 30 June 2006

No.	Name and surname	Function
1.	Marek Głuchowski	Chairman
2.	Urszula Pałaszek	Vice-chairman
3.	Tomasz Siemiątkowski	Secretary
4.	Jerzy Michałowski	Member
5.	Jerzy Osiatyński	Member
6.	Adam Skowroński	Member
7.	Agnieszka Winnik-Kalemba	Member

Bank's shares held by members of Management and Supervisory Boards

As at 30 June 2006, members of the Bank's Management Board held in total 3,589 shares of PKO BP SA, of which: Kazimierz Małecki – 2,627 shares, Jacek Obłękowski – 512 shares, and Andrzej Podsiadło – 450 shares. The number of PKO BP SA's shares held by members of the Bank's Management Board has not changed since 31 December 2005.

Members of the Supervisory Board held no shares in PKO BP SA as at 30 June 2006.

Emoluments and other benefits provided to members of Management and Supervisory Boards

Full information on emoluments and other benefits provided to members of the Bank's Management and Supervisory Boards in the reporting period has been presented in Note 49 to the consolidated financial statements of PKO BP SA for the 1st half of 2006.

16. SIGNIFICANT POST-BALANCE SHEET EVENTS

- On 6 July 2006, the Bank signed an annex to the loan agreement with its subsidiary, KREDOBANK S.A., dated 25 February 2005, under which the amount of the revolving working capital loan was increased by USD 4.5 million, i.e. up to USD 22.5 million.
- On 6 July 2006, the Bank signed a loan agreement with its subsidiary, KREDOBANK S.A., under which the Company was granted a revolving working capital loan in the amount of USD 15 million. The loan was granted for a period of 72 months from the date of signing the loan agreement, i.e. until 5 July 2012.

- On 1 August 2006, PKO BP SA paid a dividend to its shareholders in the total amount of PLN 0.8 billion, i.e. PLN 0.80 (gross) per share.
- On 8 August 2006, PKO BP SA signed an agreement for the sale of shares in a jointly controlled entity, Wawel Hotel Development Sp. z o.o. with its registered office in Kraków. The Bank sold all of its 27,730 shares with a nominal value of PLN 500 per share and a total nominal value of PLN 13,865,000, representing 35.4% of the Company's share capital and giving right to 35.4% of the total vote at its Shareholders' Meeting. The shares were sold to Quinn Property Holdings Limited, with its registered office in Dublin, for a price of EUR 7,297,113.22.
- On 14 August 2006, PKO BP SA took up the 16th issue shares in KREDOBANK S.A. The shares were taken up on the date of registration of share capital increase, after an approval was obtained from the National Bank of Ukraine for the registration of these shares.
- On 16 August 2006, the Bank signed a loan agreement with KREDOBANK S.A., under which the Company was granted a non-revolving working capital loan in the amount of USD 5 million. The loan was granted for a period of 120 months from the date of signing the loan agreement, i.e. until 15 August 2016.
- On 16 August 2006, the Bank signed a loan agreement with KREDOBANK S.A., under which the Company was granted a non-revolving working capital loan in the amount of USD 10 million. The loan was granted for a period of 84 months of the date of signing the loan agreement, i.e. 15 August 2013.
- On 5 September 2006, the Bank concluded an agreement on cooperation with PPUH Poczta Polska (the "Agreement"). The agreement was concluded in order to implement the arrangements agreed in the letter of intent entered into between Poczta Polska and PKO BP SA on 29 July 2005. The agreement will be implemented within the framework of joint projects. Any specific steps will be each time subject to separate agreements to be entered into by the Parties to the Agreement.

17. REPRESENTATIONS OF THE MANAGEMENT BOARD

The Management Board of PKO BP SA hereby represents that, according to its best knowledge:

- the half-year consolidated financial statements and comparative data were prepared in accordance with the accounting principles in force and give a true and fair view of the financial position and results of the PKO BP SA Group;
- the half-year 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 and threats.

The Management Board of PKO BP SA hereby represents that the entity authorised to audit financial statements which performed a review of the half-year consolidated financial statements was selected in accordance with law, and that both this entity and the certified auditors who performed the review met the conditions required to issue an impartial and independent review report, in accordance with the relevant national laws.

This *Directors' Report on the activities of the PKO BP SA Group in the 1st half of 2006* consists of 39 consecutively numbered pages.

_ _
President of Management Board
Andrzej Podsiadło

_ _
Vice-president, First Deputy President
Kazimierz Małecki

_ _
Vice-president
Danuta Demianiuk

_ _
Vice-president
Sławomir Skrzypek

_ _
Board Member
Rafał Juszczak

_ _
Board Member
Jacek Obłękowski

_ _
Board Member
Zdzisław Sokal

Independent Auditors' Review Report on the Interim Consolidated Financial Statements for the six month period ended 30 June 2006

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

1. We have reviewed the attached consolidated financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Capital Group ('the Group') where Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna is the dominant entity ('the Bank'), and is located in in Warsaw, at Puławska 15 Street, including:
   - the interim consolidated balance sheet as of 30 June 2006 with total assets amounting to 95,957,841 thousand zlotys,
   - the interim consolidated profit and loss account for the period from 1 January 2006 to 30 June 2006 with a net profit amounting to 952,692 thousand zlotys,
   - the interim consolidated statement of changes in equity for the period from 1 January 2006 to 30 June 2006 with a net increase of equity amounting to 143,699 thousand zlotys,
   - the interim consolidated cash flow statement for the period from 1 January 2006 to 30 June 2006 with a net cash outflow amounting to 1,007,560 thousand zlotys, and
   - the interim explanatory notes

   ('the attached interim consolidated financial statements').

2. The truth and fairness of the attached interim consolidated financial statements prepared in accordance with International Financial Reporting Standards applicable to interim financial reporting as adopted by the European Union ('IAS 34') and the proper maintenance of the consolidation documentation are the responsibility of the Bank's Management Board. Our responsibility is to issue a report on these financial statements based on our review.

3. We conducted our review in accordance with the provisions of the law binding in Poland and auditing standards issued by the National Council of Statutory Auditors. These standards require that we plan and perform our review in such a way as to obtain moderate assurance as to whether the financial statements are free of material misstatement. The review was mainly based on applying analytical procedures to the financial data, review of documentation supporting the amounts and disclosures in the consolidated financial statements and discussions with the management of the Bank as well as its employees. The scope of work of a review differs significantly from an audit of financial statements, the objective of which is to express an opinion on the truth and fairness of the financial statements. Review provides less assurance than an audit. We have not performed an audit of the attached interim consolidated financial statements and, accordingly, do not express an audit opinion.

4. Our review did not reveal the need to make material changes for the attached interim consolidated financial statements to present truly and fairly in all material respects the financial position of the Group as at 30 June 2006 and the financial result, for the 6 months ended 30 June 2006 in accordance with IAS 34.

	on behalf of Ernst & Young Audit Sp. z o.o. Rondo ONZ 1, 00-124 Warsaw Registration No. 130
Certified Auditor Registration No. 10018/7417	
(-)	(-)
Arkadiusz Krasowski	Dominik Januszewski Certified Auditor Registration No. 9707/7255

Warsaw, 19 September 2006

Independent Auditors' Review Report on the Interim Condensed Financial Statements for the six month period ended 30 June 2006

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

1. We have reviewed the attached condensed financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('the Bank') located in Warsaw, at Puławska 15 Street, including:
   - the interim condensed balance sheet as of 30 June 2006 with total assets amounting to 94,471,415 thousand zlotys,
   - the interim condensed profit and loss account for the period from 1 January 2006 to 30 June 2006 with a net profit amounting to 934,563 thousand zlotys,
   - the interim condensed statement of changes in equity for the period from 1 January 2006 to 30 June 2006 with a net increase of equity amounting to 107,835 thousand zlotys,
   - the interim condensed cash flow statement for the period from 1 January 2006 to 30 June 2006 with a net cash outflow amounting to 965,561 thousand zlotys, and
   - the interim explanatory notes to the condensed financial statements

('the attached interim condensed financial statements').

2. The truth and fairness of the attached interim condensed financial statements prepared in accordance with International Financial Reporting Standards applicable to interim financial reporting as adopted by the European Union ('IAS 34') and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. Our responsibility is to issue a report on these financial statements based on our review.

3. We conducted our review in accordance with the provisions of the law binding in Poland and auditing standards issued by the National Council of Statutory Auditors. These standards require that we plan and perform our review in such a way as to obtain moderate assurance as to whether the financial statements are free of material misstatement. The review was mainly based on applying analytical procedures to the financial data, review of accounting records and discussions with the management of the Bank as well as its employees. The scope of work of a review differs significantly from an audit of financial statements, the objective of which is to express an opinion on the truth and fairness of the financial statements. Review provides less assurance than audit. We have not performed an audit of the attached interim condensed financial statements and, accordingly, do not express an audit opinion.

4. Our review did not reveal the need to make material changes for the attached interim condensed financial statements to present truly and fairly in all material respects the financial position of the Bank as at 30 June 2006 and the financial result, for the 6 months ended 30 June 2006 in accordance with IAS 34.

Certified Auditor
Registration No. 10018/7417

(-)

Arkadiusz Krasowski

on behalf of
Ernst & Young Audit Sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Registration No. 130

(-)

Dominik Januszewski
Certified Auditor
Registration No. 9707/7255

Warsaw, 19 September 2006