

Report on the activities
of the Bank Pekao S.A. Group
for the year 2005



Warsaw, 21st March 2006

1	Introduction	3
2	Consolidated pro forma report	4
3	Factors and events of significance to the Group's performance.....	6
3.1	Macroeconomic situation	6
3.2	Condition of the banking sector.....	6
3.3	Important factors influencing Group's activities and results	7
3.4	Description of factors which will have an effect on the results of the Bank and the Group.....	8
3.5	Major sources of risk and threats.....	8
3.5.1	Liquidity risk and market risk	8
3.5.2	Credit risk	10
3.5.3	Operating risk	10
3.6	Directions of the development of the Bank and the Group	11
4	Merger between UniCredit and HVB	11
5	Organisation of the Group.....	12
5.1	The Group	12
5.2	Transactions with related entities.....	13
5.3	Investment plans, including equity	14
6	Major areas of the Group's companies activities	14
6.1	Brokerage services	14
6.2	Banking activity.....	15
6.3	Asset management	15
6.4	Leasing activity.....	17
6.5	Other financial services.....	17
6.6	Other entities included in the consolidated financial statements.....	18
7	Management and Supervisory Boards of the Bank	19
8	The Bank's shareholding structure.....	23
9	Assessment of the financial credibility of Bank Pekao S.A.....	25
10	Financial results of the Group	26
10.1	Structure of net profit.....	26
10.2	Consolidated profit and loss account	28
10.3	Structure of the balance sheet	31
10.3.1	Assets	31
10.3.2	Liabilities	36
10.3.3	Off-balance sheet items	38
11	Agreements with a company entitled to auditing of financial reports.....	39
12	The position of the Management Board regarding the possibility of achieving forecasts	39
13	Number and value of titles of execution and value of collaterals.....	39
14	Significant events after balance sheet date	40
15	Selected financial ratios.....	41
16	Representations of the Bank's Management Board	42

1 Introduction

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and in respect to matters that are not regulated by the above standards, in accordance with the accounting principles as set out in the Accounting Act dated 29 September 1994 and respective bylaws and regulations the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market.

In the preparation of the financial statements according to IFRS, the Group has applied the admissible exemptions.

The pro forma data for 2004 was prepared to ensure year to year comparability of the results.

In 2005, net profit increased by 22.9% and amounted to PLN 1,534.9 million. The 2005 net profit was the best result achieved to date confirming the Group's capability for value creation.

The increase in the net profit by PLN 286.0 million in 2005 compared with the previous year was possible thanks to increased business activity that translated into higher income, particularly interest income, stable operating costs and lower cost of risk.

- In 2005, the Group's income amounted to PLN 4,413.3 million and was by 8.7% higher than in the previous year, with interest income being higher by 10.0% and other income higher by 7.3%.
- In 2005, the Group experienced continued positive trend in the results of its business activity, with successful sales of key products: mutual funds, new consumer loans "Express Loan", PLN mortgage loans and credit cards. Sales of consumer loans were more than four times higher than in the previous year. Sales of PLN mortgage loans amounted to PLN 1,668.2 million contributing to a growth in the stock of 21.6%. The value of mutual funds increased by 48.0% and the number of credit cards more than doubled compared with the end of 2004.
- In 2005, total overhead costs including depreciation were kept under control and amounted to PLN 2,346.4 million i.e. were only by 0.6% higher than in the previous year. In 2005, the Group's cost / income ratio amounted to 53.2% and was 4.3 p.p. lower than in the previous year.
- In 2005, impairment losses on loans and advances amounted to PLN 237.5 million, 24.7% lower than in the previous year. This resulted primarily from the effective credit risk management and the improved macroeconomic situation. The ratio of non-performing loans to total loans decreased from 19.9% at the end of 2004 to 16.2% at the end of 2005 as a result of an increase in the volume of performing loans and a simultaneous decrease in the volume of non-performing loans.
- Savings of the Group's clients increased by PLN 8,783.9 million i.e. by 15.6% in 2005 resulting from both an increase in the savings of individual clients (up PLN 3,992.2 million) and in corporate deposits (up PLN 4,791.7 million). High demand allowed for a further increase in mutual funds assets by PLN 6,235.2 million in 2005 bringing the total retail savings above the PLN 45 billion level and confirming the Group's significant market share.
- In 2005, the loan portfolio increased by PLN 3,581.3 million primarily due to acceleration in corporate lending, very successful sale of "Express Loan" and continued sales of PLN mortgage loans.

2 Consolidated pro forma report

The financial data presented in the report were prepared as comparative data except for two areas related to IAS 39: calculation of specific provisions related to impairment accounting and valuation at amortised cost using the effective interest rate of receivables and loans. For the above mentioned financial assets, the Group has used the prospective approach. The Group has valued and recognised the related adjustments in the opening balance of 2005.

Taking into consideration the usefulness of the financial report, the Group has prepared pro-forma statements, which include balance sheet as at 31 December 2004 and profit and loss statement for 2004. Pro-forma statements approximate the effect of adjustments related to the above mentioned IAS 39 issues, i.e. impairment and valuation at amortised cost using effective interest rate.

Consolidated profit and loss statement	(PLN ths.)	
	2005	2004 pro forma
Interest income	3,871,774	3,721,052
Interest expense	(1,521,350)	(1,550,999)
Net interest income	2,350,424	2,170,053
Fee and commission income	1,770,087	1,644,565
Fee and commission expense	(183,103)	(163,115)
Net fee and commission income	1,586,984	1,481,450
Dividend income	348	9
Result on financial instruments at fair value	64,961	55,662
Result on investment securities	74,153	14,076
Foreign exchange result	265,398	289,018
Other operating income	284,976	307,495
Other operating expenses	(213,941)	(258,814)
Net other operating income	71,035	48,681
Impairment losses on loans and advances	(237,477)	(315,648)
Overhead costs	(2,346,404)	(2,333,437)
Operating profit	1,829,422	1,409,864
Share of profit of associates	44,177	36,157
Profit before income tax	1,873,599	1,446,021
Income tax expense	(338,747)	(197,094)
Net profit	1,534,852	1,248,927
Attributable to equity holders of the Company	1,537,712	1,252,460
Attributable to minority interest	(2,860)	(3,533)

Consolidated balance sheet	(PLN ths.)	
	31.12.2005	31.12.2004 pro forma
Assets		
Cash and balances with Central Bank	3,574,791	3,939,275
Debt securities eligible for rediscounting at the Central Bank	6,106	8,768
Loans and advances to banks	6,966,026	5,961,477
Financial assets held for trading	2,502,366	3,195,771
Derivative financial instruments	499,290	503,482
Other financial instruments at fair value through profit or loss	1,781,317	1,336,721
Loans and advances to customers	28,223,730	25,749,048
Net investment in the finance lease	745,891	547,324
Investment securities	14,490,772	15,036,457
Available for sale	11,902,898	10,106,484
Held to maturity	2,587,874	4,929,973
Non-current assets held for sale	167,366	-
Investments in associated undertakings	167,814	124,662
Intangible assets	645,457	631,925
Tangible fixed assets	1,441,141	1,541,645
Investment property	61,259	102,869
Income tax assets	182,180	127,339
Other assets	516,450	729,487
Total assets	61,971,956	59,536,433
Liabilities		
Amounts due to the Central Bank	1,950,710	2,151,743
Amounts due to other banks	1,997,043	1,332,557
Financial liabilities held for trading	558,973	590,119
Derivative financial instruments	607,689	623,683
Amounts due to customers	46,847,877	45,821,645
Debt securities in issue	4	23,205
Liabilities related to assets held for sale	39,663	-
Current income tax liabilities	5,621	256
Provisions for deferred income tax	1	1,221
Provisions	108,727	100,613
Other liabilities	1,432,922	1,060,369
Total liabilities	53,549,230	51,705,414
Capital and reserves attributable to the Company's equity holders		
Share capital	166,482	166,482
Current year profit and retained earnings from previous years	1,521,895	1,242,306
Other capital and reserves	6,718,913	6,403,457
Minority interest	15,436	18,776
Total equity	8,422,726	7,831,021
Total equity and liabilities	61,971,956	59,536,433

3 Factors and events of significance to the Group's performance

3.1 Macroeconomic situation

The year 2005 was marked with moderate, 3.2% growth in GDP against 5.3% in 2004.

The GDP growth rate was mainly attributed to the lower than assumed growth rate in the first half of 2005. In the following quarters, the growth tendency prevailed, with increasing GDP growth rates noted (in current prices). Companies continue to exhibit good economic condition.

In regards to inflation, the growth rate of consumer prices slowed. As of year end, the year to year inflation stood at 0.7%. The prices of industrial production continued to fall until November, growing slightly in December.

Production output increased by 4.0% in 2005. Construction output was 7.4% higher than 2004. Despite fast sales growth, the investment boom became more visible in the second part of 2005. Year on year, investments grew by 6.2%.

The public finance sector deficit (calculated according to Polish methodology) has decreased by over 1 p.p. to 3.5% of GDP. The public debt to GDP ratio stayed under the 55% threshold.

The elimination of barriers to foreign trade, mainly within the European Union resulted in growing revenues (in euro), and the export growth rate higher than import growth rate; the negative foreign trade balance was nearly half the previous year's figure.

Based upon its assessment of economic development, the Monetary Policy Council cut the reference interest rate from 6.5% to 4.5%.

The condition of the labour market also improved, with the number of unemployed falling (partly due to temporary emigration of 200 thousand employees to the EU), with the simultaneous increase in the number of employed within Poland.

3.2 Condition of the banking sector

The developments in the macroeconomic situation had also impact on the growth rate and structure of banking sector credits and deposits. Total deposits and total credits grew 9.4% and 11.8%, respectively. The deposit growth was mainly attributed to the high growth (by 16.8%) of corporate deposits, driven by the growing income of the enterprise sector, growing investments and weak pressure for salary increases. Simultaneously, the continuing economic prosperity caused further demand for corporate credit, which grew by 2.8%.

In 2005, the year to year growth rate of household credit reached 22.8% against 13.8% in 2004, with mortgage loans being main growth driver (+40.8%).

The growth rate in household deposits reached the level of 3.6% by year end. This growth rate was substantially impacted by the continued change in the structure of households' savings. In 2005, total volume of mutual funds increased by 62.4%, and their share in total household savings increased to 23.1%.

Changes in the dynamics of deposits and loans are presented below:

	Change (%)	
	2005	2004
Deposits	9.4	8.4
Corporate	19.0	24.2
of which: companies	16.8	24.7
Households	3.6	0.6
Loans	11.8	3.3
Corporate	3.4	(3.5)
of which: companies	2.8	(3.9)
Households	22.8	13.8

3.3 Important factors influencing Group's activities and results

The main factors influencing Group's activities and results in 2005 include:

- Growth of business activity.
- Successful capture of continued changes in investment preferences of households.
- Effective cost management.
- Reduction in cost of risk,
- Strong results of Group's companies.

Growth of business activity

In 2005, positive trends continued in business development. Considerable success was achieved in the sales of key products: mutual funds, new consumer loans, PLN mortgage loans and credit cards. The value of mutual funds grew by 48.0 per cent, and the number of credit cards doubled from the level at year end 2004. In 2005, the sales volume of "Express Loan" (Pozyczka Ekspresowa) was over four times higher than in the preceding year. Business operations in the corporate sector also exhibited a dynamic growth rate, with deposits and credits growing by 31.3% and 9.5%, respectively, compared with 2004.

The growth in business operations translated to growing income, mainly interest income as well as fees and commission income.

Successful capture of continued changes in investment preferences of households

Change in the structure of savings continued in 2005, mainly being a transfer from individuals' deposits to mutual funds. Pioneer Pekao TFI S.A. mutual funds were distributed through the network of Bank Pekao S.A., CDM Pekao S.A. and Xelion. Doradcy Finansowi Sp. z o.o. branches. The share of mutual funds in households' savings of the Group increased during the year from 31.6% to 42.6%. Total assets of Pioneer Pekao TFI S.A. mutual funds increased in 2005 by PLN 6,235.2 million (48.0%).

Effective management of overhead costs

In 2005, total overhead costs including depreciation amounted to PLN 2,346.4 million, 0.6% higher than in the previous year. This low increase in costs was achieved by a reduction of 4.2% in non-personnel costs almost offset an increase in personnel costs and depreciation by 4.1% and 0.4% respectively. This combined with a 8.7% in total income caused the Group's cost / income ratio to decrease to 53.2% in 2005, 4.3 p.p. lower than in 2004.

Reduction in cost of risk

The improved quality of the portfolio and effective credit risk management resulted in impairment losses on loans and advances being 24.7% lower than in 2004. The ratio of non-performing loans to total loans decreased from 19.9% at the end of 2004 to 16.2% at the end of 2005 thanks to an increase in the volume of performing loans and the drop in the volume of non-performing loans.

Strong results of Group's companies

Strong results of both Bank Pekao S.A. as well as the Group's companies contributed to the good results of the whole Group. In 2005, almost all the companies improved their results. The net profit of the entities consolidated under full method was by 38.1% higher than in the previous year, and the share of the net profit of the entities valued under equity method was higher by 16.4%.

3.4 Description of factors which will have an effect on the results of the Bank and the Group

There is a general expectation of improvement in GDP growth, driven by stronger investment and consumption. Such an environment should support demand for corporate lending, while decreasing the growth rate of corporate deposits in the sector.

The Bank expects an improving labour market and real growth of salaries, which may positively influence the related entities operations, mainly through growth in retail savings and higher loan demand, especially for mortgages and consumer loans.

The Group results will also be influenced by decisions of Monetary Policy Council, which shape zloty market interest rates and by decisions of Federal Reserve Board of the USA, which impact USD market interest rates.

3.5 Major sources of risk and threats**Economic factors**

Bank Pekao S.A. is operating predominantly on the territory of Poland. Therefore, the results of the Bank will be influenced by the economic events occurring in this country and the worldwide events that influence the domestic economy.

3.5.1 Liquidity risk and market risk

The asset and liability management policy of the Bank Pekao S.A. Group is aimed at the optimisation of the balance sheet and off-balance sheet structure of the Bank in respect to the assumed risk/income ratio and a comprehensive view of the influence of different types of risk (mainly credit risk, interest rate risk, liquidity risk, currency risk and operational risk), which the Bank undertakes in its business activities. The risks are monitored and controlled with reference to profitability and with reference to the capital required to take on such risks.

Financial risk management, constituting an important part of the assets and liabilities management system in the Bank has a comprehensive and consolidated character. It covers all Bank's units and subsidiaries to evaluate their potential influence on the financial situation of the whole Group. Comprehensive character of risk management means, on the one hand, consideration of all material types of financial risk for the Bank and, on the other hand, financial risk management in close relation to other types of risk.

The Management Board of the Bank is responsible for achieving the strategic goals of risk management policy.

The Asset and Liability Committee monitors and controls the capital adequacy of the Bank, as well as the level of liquidity risk and market risk (interest rate and currency risks) borne by the Bank within the external banking supervision limits and within the internal limits of the Bank.

Liquidity risk

The objective of managing the liquidity risk is:

- to ensure and maintain the Group's solvency with respect to current and future planned obligations, taking into account liquidity acquisition costs and profitability of Group's equity,
- to prevent any crisis situation,
- to outline solutions that would allow the Group to endure in case a crisis situation occurred.

The Group's investments both in PLN and foreign currencies are carried out in accordance with the requirements of the Banking Law and the recommendations of the National Bank of Poland (NBP). The Group invests primarily in treasury securities of Polish government, securities issued by countries and financial institutions with the highest ratings and those with high levels of liquidity and desired profitability. These financial instruments constitute the Group's liquidity stock enabling to get through potential crisis situations.

According to the Banking Supervisory Authorities recommendations, the Group applies and monitors internal liquidity indices that reflect the ratios of total adjusted maturing assets to total adjusted maturing liabilities

The Group has set procedures in place to protect against the liquidity risk increase and in the event of a substantial deterioration of the Group's financial liquidity.

The emergency plan in case of deterioration of financial liquidity of the Group takes into consideration four levels of liquidity risk, depending on the amount and duration of cash outflow from the non-banking clients' accounts. The plan also determines the sources from which the expected cash outflows will be covered and states to what extent the Group's Management is responsible for making necessary decisions in order to restore the required financial liquidity level. Both the emergency plan and the possibility of obtaining cash from sources specified in this plan are subject to the periodic verification.

Market risk

In its trading, retail, corporate and investment activities, the Group is exposed to market risk, i.e. interest rate risk, currency risk and the price risk of securities owned by the Group and to other types of risk the sources of which are changes in market conditions.

In managing the interest rate risk of the banking book, the Group follows the objectives of maximising the economic value of capital and realizing the budgeted net interest income within the adopted limits. The exposure of the Group to changing interest rates is monitored through the interest rate gap (revaluation gap) analysis, duration analysis, simulation analyses and stress testing, and back testing.

The sensitivity of net interest income and the sensitivity of the economic value of the Group's capital to changes in interest rates was maintained within the established internal limits.

The objective of the currency risk management is to create a currency profile of the balance and off-balance sheet positions so that it remains within external and internal limits. In 2005 the currency risk was low. The Group's exposure to currency risk is measured on a daily basis, for the internal needs, by means of Value at Risk (VaR) model, as well as by extreme conditions analysis testing that is supplementary to the VaR method.

The VaR method is an integral component of the market risk management of all investment portfolios in the Group. The actual usage of VAR limits which is monitored on a daily basis. However, these limits do not protect the Group against rare and very significant changes on the

market. Therefore, the market risk management system is supplemented by the analysis of shock scenarios (stress test) in order to estimate the effects of the changes of market parameters on the result of the Group should such events occur.

Instruments in the trading portfolio and in the available for sale portfolio, as well as derivative instruments are valued regularly using current market prices or, if the quotations are not available, using models of valuation that from the Group's point of view reflect fair value of these instruments in the best way.

3.5.2 Credit risk

The principles of the lending policy of the Group comply with those of the Bank. The Bank follows a prudent policy with respect to the assumption of credit risk, by applying established safety rules to lending activity in the individual market segments as well as necessary instruments limiting asset exposure to the credit risk.

Credit risk is assessed in two dimensions: the borrower's risk and the risk generated by the transactions, in accordance with Manual on Loan Procedures of Bank Pekao S.A. In order to evaluate environmental risk, the standards set by the EBRD are applied.

In accordance with the Bank's lending policy, the main directions of mitigating credit risk are followed:

- diversification of the objective and subjective structure of the portfolio along with the current analysis of the portfolio structure to ensure early identification of threats arising from excessive commitments and introduction of appropriate limitations,
- limitation of lending in certain areas of activities,
- acting with special care in lending to higher risk areas,
- transfer of competencies to decide on loan transactions with higher risk to the Bank's Head Office,
- preferences to grant loans to areas characterised by the relatively lowest risk.

Under the guidelines of UniCredito Italiano, the Bank undertakes continuing rationalisation of the lending process aimed at improving its efficiency and security. In particular, the Bank is working on the improvement of procedures and tools for credit risk measurement and monitoring. In the second half of 2005, in order to reduce the risk level, a new client monitoring process was implemented.

3.5.3 Operating risk

The operating risk management in the Group is based on "The Operating Risk Management Strategy" approved by the Supervisory Board of a parent entity. This document is consistent with the "M Recommendation" published by the General Inspectorate of Banking Supervision and with the "Unification of Capital Measurement and Capital Standards on the International Scale" published by the Basel Committee. The Strategy defines operating risk, provides the rules for its management and defines the control system at the parent entity.

Bank Pekao S.A. defines operating risk as the risk of loss arising from errors, violation of regulations, operation breakdown or damage caused by the internal processes, people, systems or external events.

The operating risk management control system covers both Bank Pekao S.A. and its subsidiaries. The Bank's Management Board receives risk reports containing, among others, an analysis of operating events by categories and regions, an analysis of risk ratios and an analysis of capital necessary to cover the operating risk.

For the purpose of mitigating the operating risk, the Group has security procedures in place, including, for example, anti-money laundering procedures and rules for safeguarding the Group's units, management of the continuity of operations, compliance with the banking

secrecy, personal data protection, as well as rules regulating the relationships between the Bank and third parties. The operating risk mitigation instruments also include emergency plans, internal audit controls, insurance contracts and ongoing improvement of the process quality. Moreover, in the event of identifying any irregularities, guidance is immediately provided concerning the scope, method and frequency of functional inspections in the specific areas of the Group's operations.

3.6 Directions of the development of the Bank and the Group

Bank Pekao S.A. is one of the leading providers of banking services in Poland and includes financial institutions operating in the area of asset management, pension funds, brokerage services, leasing and factoring activities.

The Group's main objective in the area of retail customer services is to maintain its leading position through improving its product offer tailored to the specific needs of various groups of customers as well as applying the finest distribution and sales management models. Realization of this objective is being supported by continuing actions, including profound customer segmentation, packages of products and development of innovative distribution channels.

The activities of the Group will concentrate on the following three areas: lending to households, SME and Mid Corporate clients as well as improving quality of customer service.

Key products for retail customers will be consumer and mortgage loans, cards and mutual funds. Full utilisation of the market position of Brokerage House (CDM Pekao S.A.), Pioneer Pekao Investment Management S.A and Xelion is being made through the promotion of investment savings products.

In the area of corporate banking, the strategy assumes strengthening of Group's market position in all main segments of the market. The Group's activities are based on further segmentation of customers. They are focused on using the potential of a distribution structure based on Corporate Customer Centres and Relationship Managers. The product offer will be enriched, particularly in the area of transaction banking, leveraging also on hedging products and recently introduced cash management.

In addition to further development of ATM and branch network, the Bank intends to dynamically develop new distribution channels, such as: internet banking, telebanking and direct sales.

Further activities will be continued in order to improve effectiveness of both personnel and non-personnel costs. The Group follows a rational human resources policy, encompassing flexibility in adjusting of the headcount to the type and level of business activity, and also promoting the training and development of employees and their appropriate motivation in order to hire and retain the best employees.

4 Merger between UniCredit and HVB

In 2005, Bank Pekao S.A. has become a member of a new banking group, established by the merger between UniCredit and Hypovereinsbank (HVB). On 12 June 2005, UniCredit and HVB announced they are joining forces to establish the first truly European bank. The merger marks the emergence of a new force in European banking, "originating from the heart of the Continent" with enormous growth potential; a bank with assets of over EUR 730 billion, operating in 19 countries, with a customer base of 28 million and 7 thousand branches.

The basic strategic goals of the merger, perceived by both parties as a friendly process, include the enhancement of competitive position on domestic markets (Italy, Germany Austria) and achieving of leading position in Central and Eastern Europe, utilisation of complementary strengths and effects of scale in such business areas, as asset management and investment

banking, the consolidation of operations in Central and Eastern Europe and the maximisation of revenues- and cost-related synergies.

The information on the merger between UniCredit and HVB was published by the Bank in current report No. 19/2005, dated 13 June 2005.

5 Organisation of the Group

The Pekao S.A. Group is composed of financial and non-financial institutions gathered around a universal bank. The Group provides a full range of financial services available in Poland to its retail and corporate customers.

5.1 The Group

Bank Pekao S.A. Capital Group at day 31.12.2005 consists of Bank Pekao S.A. as the parent entity and 15 subsidiaries. As at 31.12.2005, there were no substantial changes in the structure of the Group in comparison to the end of 2004.

A number of associated companies reported in consolidated financial statements under equity method has changed as a result of sale of shares in associated company "Grupa Inwestycyjna NYWIG S.A." in 2005.

The following entities are included in the consolidated financial report at 31.12.2005:

No	Name of company	Core activity	% of shareholder's share capital	Status	Consolidation method
1.	Bank Pekao S.A.	banking	-	parent	-
2.	Bank Pekao (Ukraina) Ltd.	banking	100.00	subsidiary	full
3.	Centralny Dom Maklerski Pekao S.A.	brokerage	100.00	subsidiary	full
4.	Pekao Fundusz Kapitalowy Sp. z o.o.	financial	100.00	subsidiary	full
5.	Pekao Leasing Sp. z o.o.	leasing	100.00	subsidiary	full
6.	Pekao Faktoring Sp. z o.o.	financial	100.00	subsidiary	full
7.	Pekao Pioneer Powszechnie Towarzystwo Emerytalne S.A.	financial	65.00	subsidiary	full
8.	Drukbank Sp. z o.o.	no activities performed	100.00	subsidiary	full
9.	Centrum Kart S.A.	financial	100.00	subsidiary	full
10.	Pekao Financial Services Sp. z o.o.	financial	100.00	subsidiary	full
11.	Pekao Development Sp. z o.o.	real estate management	100.00	subsidiary	full
12.	Pekao Access Sp. z o.o.	consulting	55.26	subsidiary	full
13.	BDK Consulting Sp. z o.o.	consulting, hotels, transportation	99.99	subsidiary	full

The companies listed below were not consolidated, due to the insignificant size of their operations in comparison to the size of the operations of the whole Group. Companies that were not consolidated, in the consolidated financial statements are recognized at the cost of purchase established on 01.01.2004

14.	Fabryka Maszyn w Janowie Lubelskim Sp. z o.o.	manufacturing of spare parts to building machinery	86.68	subsidiary	non-consolidated
15.	Pekao Immobilier s.a.r.l.	real estate management	100.00	subsidiary	non-consolidated
16.	Nowe Ogrody Sp. z o. o.	real estate management and sale	9800	subsidiary	non-consolidated

Other listed below exposures of the Group constitute investments in the associated entities and are recognized in the consolidated report of the Group using the equity method. Companies that were not revalued, were recognized in the consolidated financial report at cost established on 01.01.2004. Companies were not revalued due to the immateriality of the financial results of these companies.

1.	Anica System S.A.	IT	33.84 / 13.49	co-subsiary	equity
2.	Central Poland Fund LLC	financial intermediary	53.19	subsidiary	equity
3.	Xelion. Doradcy Finansowi Sp. z o.o.	auxiliary, financial and insurance	50.00	subsidiary	equity
4.	Pioneer Pekao Investment Management S.A.	financial intermediary	49.00	subsidiary	equity
5.	Krajowa Izba Rozliczeniowa S.A.	chamber of settlement	22.96	subsidiary	equity
6.	Hotel Jan III Sobieski Sp. z o.o.	hotel	37.50	subsidiary	equity
7.	Fabryka Sprzetu Okretowego "Meblomor" S.A.	manufacturing of ship equipment	23.81	subsidiary	equity
8.	CPF Management	mutual funds management-dose not operate	40.00	subsidiary	not valuated under equity method
9.	Pracownicze Towarzystwo Emerytalne „Nowy Swiat” S.A.	management of employee pension fund	39.56	subsidiary	not valuated under equity method

5.2 Transactions with related entities

Transactions with related entities were described in the financial report of the Group for 2005. The transactions described below include non-routine transactions exceeding the amount of EUR 500,000.

Opening a credit line for Bank Pekao (Ukraine) Ltd.

On 15 April 2005, Bank Pekao S.A. signed with Bank Pekao (Ukraine) Ltd. (the Bank's subsidiary) a framework agreement on the opening of a revolving credit line up to the equivalent of USD 18.0 million for a period of three years from the date of signing the agreement. As at the date of signing the agreement, the amount of the facility in Polish zlotys was PLN 57,578,400 at the average exchange rate announced by the National Bank of Poland on 14.04.2005.

Bank Pekao (Ukraine) Ltd will pay to Bank Pekao S.A. commission for using the facility and interest is determined each time the credit line is utilised (at each tranche drawdown) at the current money market rate for a given currency (USD, EUR, PLN). The agreement was signed on an arm's length basis.

Registration of the share capital increase of Bank Pekao (Ukraine) Ltd.

Upon registration by the National Bank of Ukraine of the relevant amendments to Bank Pekao (Ukraine) Ltd.'s Articles of Association regarding the increase in the share capital of Bank Pekao (Ukraine) Ltd., the share capital was increased from UAH 33.0 million to UAH 41.2 million.

Currently, Bank Polska Kasa Opieki S.A. holds directly shares in Bank Pekao (Ukraine) Ltd. of a total value of UAH 34.2 million, which constitutes 82.84% of the share capital of Bank Pekao (Ukraine) Ltd. and gives the right to 82.84% of the votes at the General Shareholders' Meeting of Bank Pekao (Ukraine) Ltd.

The remaining 17.6% of the shares in the share capital of Bank Pekao (Ukraine) Ltd. totalling UAH 7.1 million are held by Drukbank Sp. z o.o. (a wholly-owned subsidiary of Bank Polska Kasa Opieki S.A.) and give the right to 17.16% of the votes at the General Shareholders' Meeting of Bank Pekao (Ukraine) Ltd.

Conclusion of agreement between Bank Pekao S.A. and Grupa Inwestycyjna NYWIG SA

On 30 December 2005, an agreement was concluded for the sale of GI NYWIG S.A. shares to Grupa Inwestycyjna NYWIG SA, by virtue of which the Bank sold to GI NYWIG SA 1,230 registered shares privileged as to the share in dividend and to the distribution of property upon the winding-up of the Company, with the par value of PLN 300 each, comprising 24.6% of the

share capital of GI NYWIG S.A. and carrying 24.6% of votes at the General Meeting of Shareholders of GI NYWIG S.A. The sale price was PLN 3.4 million.

The Bank now holds no shares of GI NYWIG S.A.

5.3 Investment plans, including equity

Group's development strategy aims at strengthening its leading position in the financial sector. The development of the Bank and the Group does not exclude investments of the Bank in other financial entities.

Before any decision on a potential investment is made, the Bank conducts detailed economic analysis.

The agreement establishing Pirelli Pekao Real Estate

On 15 February 2006, agreement was signed for the setting up of Pirelli Pekao Real Estate, a joint venture company with the participation of 75% by Pirelli RE and 25% by Bank Pekao S.A. has been signed.

Pirelli RE will acquire from Bank Pekao S.A. 75% of the shares of Pekao Development Sp. z o.o. The Company business name will be changed to Pirelli Pekao Real Estate.

Closing of the transaction is scheduled for the end of March, subject to approval by the Polish Antitrust Authority.

Planned development of activity in Ukraine

Considering the attractiveness of the Ukrainian economy and banking industry in Ukraine, the Bank is currently reviewing a part of the strategy for Bank Pekao (Ukraine) toward higher presence in the retail market. The presence in the retail market will require investment in set up and enlargement of the current network.

6 Major areas of the Group's companies activities

The key products, services and business areas of Bank Pekao S.A. are described in the Report on the activities of Bank Pekao S.A.

6.1 Brokerage services

Centralny Dom Maklerski Pekao S.A. (CDM)

The Bank's share in the share capital and in total votes at the General Shareholders Meeting of this company is 100%. The value of the company's equity as at 31 December 2005 was PLN 305.5 million.

CDM provides the full scope of services (permitted to brokerage houses), excluding asset management. At the end of 2005, CDM maintained 141.1 thousand investment accounts and its market share was 16.3%. CDM also offered on-line access to investment accounts, allowing its customers to buy and sell all instruments listed on the Warsaw Stock Exchange and on the OTC market (CeTO) through the Internet. As at the end of 2005, CDM maintained 19.5 thousand on-line accounts.

Services of CDM on the primary market

Thanks to the favourable situation on the secondary market of shares, also the primary market maintained increased activity. In 2005, CDM (Central Brokerage House) carried out 7 public offers, including 2 initial public offers (IPOs). The Company also carried out the first redemption of the company's treasury stock held on the Polish market within a public call option. The redemption value stood at PLN 120 million. Additionally, CDM was a member of a consortium in

4 public offers. The total value of share issues carried out by CDM on the primary market was PLN 874 million.

In 2005, the Company continued activities relating to sale and servicing wholesale bonds, bridge bonds and investment bonds. Fixed and variable interest rate bonds as well as zero coupon bonds were issued as part of the wholesale bonds offer. In 2005, the total value of treasury bonds sold outside the regulated market amounted to PLN 329 million.

In 2005, CDM cooperated with ten companies managing Mutual Funds and three Transfer Agents in respect of the distribution of 75 Open-End Mutual Funds.

Activities on the secondary market

In 2005, the favourable situation on the stock exchange was maintained. The high level of trading was accompanied by an increase in the WIG stock exchange index, which has increased by 35% since the beginning of the year. Trading on the cash market increased by 60.0% and the trading volume on forward contracts increased by almost 3,539 thousand contracts. The share trading volume exceeded PLN 175 billion, and the total trade volume on the forward contracts market reached 10.8 million contracts.

In 2005, the Company achieved:

- a 31.4% share in the bond trading volume at the Warsaw Stock Exchange (35.6% in 2004);
- a 12.7% share in the stock trading volume at the Warsaw Stock Exchange (13.9% in 2004);
- a 9.1% share in the futures trading volume at the Warsaw Stock Exchange (8.7% in 2004).

6.2 Banking activity

Bank Pekao (Ukraine) Ltd. in Luck (Bank Pekao (Ukraine))

As at 31 December 2005, the value of the company's equity amounted to PLN 33.5 million.

As at 31 December 2005, Bank Pekao S.A. held directly 82.84% of shares in the share capital and in total votes at the General Shareholders Meeting. The other shareholder of the Ukrainian bank is Drukbank Sp. z o.o. (17.16% of shares in the shareholding structure) with the Bank as its sole owner.

Bank Pekao (Ukraine) is a universal commercial bank specialising in settlements of foreign trade transactions and supporting the Polish-Ukrainian and Italian-Ukrainian trade. It offers a broad range of banking services and guarantees high quality of customer services and customisation of its offer to the needs of customers.

Bank Pekao (Ukraine) provides services through two branches located in Kiev and in Luck.

6.3 Asset management

Pioneer Pekao Investment Management S.A. (PPIM)

The Bank's share in the company's share capital and in total votes at the General Shareholders Meeting is 49.0%. The value of PPIM's equity as at 31 December 2005 was PLN 218.7 million.

PPIM manages, under a contract of management, the assets of mutual funds belonging to Pioneer Pekao TFI. The company offers also investment portfolio management services to retail customers.

In 2005, the value of net assets of Pioneer Pekao TFI S.A., the company managed by Pioneer Pekao Investment Management S.A. (the Bank holds 49.0% of shares) totalled to PLN 19,237.5 million and was higher by PLN 6,235.2 million as compared with the end of 2004. As at 31 December 2005, the Company had 805.5 thousand investment accounts, an increase by 41.3% in 2005.

The value of net assets of the mutual funds of Pioneer Pekao TFI S.A. is shown in the table below:

	(PLN million)		
	31.12.2005	31.12.2004	Change
Net assets value of Pioneer Pekao TFI	19,237.5	13,002.3	48.0%
Pioneer Balanced Investment Fund	3,760.2	2,629.7	43.0%
Pioneer Stable Growth Investment Fund	2,776.2	1,989.4	39.5%
Pioneer Dollar Bond Plus Investment Fund	2,279.2	2,234.3	2.0%
Pioneer Treasury Bond Investment Fund	1,742.5	697.7	149.7%
Pioneer Money Market Investment Fund	1,261.5	603.5	109.0%
Pioneer Bond Investment Fund	1,235.6	1,293.4	(4.5%)
Pioneer Polish Equity Investment Fund*	997.7	788.0	26.6%
Pioneer Dollar Bond Investment Fund	963.0	905.4	6.4%
Pioneer Capital Protection Investment Fund	860.9	581.5	48.0%
Pioneer European Bond Plus Investment Fund	699.2	490.0	42.7%
Pioneer Growth & Income MIX 40 Investment Fund	528.2	-	x
Pioneer US Market Balanced Investment Fund	291.6	-	x
Pioneer American Equity Investment Fund	287.1	153.8	86.7%
Pioneer European Equity Investment Fund	276.5	63.4	336.1%
Pioneer Bond Plus Investment Fund	260.6	173.0	50.6%
Pioneer Growth MIX 60 Investment Fund	222.9	-	x
Pioneer Income MIX 20 Investment Fund	197.3	-	x
Pioneer Dynamic Capital Protection Investment Fund	105.6	-	x
Pioneer Small & Medium Polish Market Companies Investment Fund	25.2	-	x
Pioneer Deposit Investment Fund	5.6	-	x
Pioneer Arbitrage Investment Fund	-	69.7	(100.0%)
SFIO TP S.A.	460.9	329.5	39.9%
Net assets value of TFI (market)	61,283.5	37,726.4	62.4%
<i>Market share of Pioneer Pekao TFI</i>	<i>31.4%</i>	<i>34.5%</i>	<i>(3.1)p.p.</i>

*Pioneer Aggressive Investment Fund previously

In the 2005, the Company included in its offer a new specialist open investment fund – Pioneer Dynamic Capital Protection Investment Fund.

Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A. (Pekao Pioneer PTE)

The Bank's share in the company's share capital and in total votes at the General Shareholders Meeting is 65.0%. The value of Pekao Pioneer PTE's equity amounted to PLN 36.3 million as at 31 December 2005.

The activity of Pekao Pioneer PTE - Pension Fund (OFE) management company - involves gathering and investing funds that will be paid out to the customers after reaching retirement age.

As at the end of 2005, the number of clients – members of open-end pension fund was 241.6 thousand that represented 2.1% of market share. The number of persons with at least one contribution recorded on the account increased by 10.7 thousand as compared to the end of 2004 and amounted to 223.0 thousand. At the end of 2005, the value of assets managed by the company was PLN 1,351.0 million, which is an increase of PLN 337.2 million compared with the end of 2004.

6.4 Leasing activity

Pekao Leasing Sp. z o.o. (Pekao Leasing)

The Bank's share in the share capital of Pekao Leasing and in total votes at the Shareholders Meeting is 100%. As at 31 December 2005, the value of equity was PLN 70.7 million.

Pekao Leasing provides financial services supporting selling and buying fixed assets i.e. motor vehicles, machines and equipment and also office real estate – mostly by operational and financial leasing.

In 2005, the Company concluded 4,133 new contracts. The value of leased assets was PLN 610.5 million. The majority of leased assets accounted for motor vehicles - 56.7% (compared with 70.7% in 2004) and machines and equipment - 35.8% (16.1% accordingly).

6.5 Other financial services

Pekao Fundusz Kapitalowy Sp. z o.o. (PFK)

The Bank's share in the share capital of PFK and in total votes at the Shareholders Meeting is 100%. As at 31 December 2005 the company's equity was PLN 49.1 million.

In accordance with the business strategy, PFK is searching for investors interested in the purchase of the shares of companies held in its portfolio.

Pekao Faktoring Sp. z o.o. (Pekao Faktoring)

The Bank's share in the share capital of Pekao Factoring and in total votes at the Shareholders Meeting is 100%. The value of the company's equity as at 31 December 2005 was PLN 60.6 million.

Apart from factoring services (recourse and non-recourse factoring) the company offers services related to factoring, i.e. collecting information regarding debtors' standing and monitoring of payments on ongoing basis. Additionally, the company offers financial advisory and consulting services regarding the choice of business financing methods, as well as extends loans relating to factoring agreements. The company cooperates with Bank Pekao S.A. in the area of development of new and activating existing sales distribution channels.

Pekao Financial Services Sp. z o.o. (PFS)

The Bank's share in the share capital of PFS and in total votes at the Shareholders Meeting of this company is 100%. As at 31 December 2005, the company's equity was PLN 20.5 million (including a PLN 7 million refundable contribution made by Bank Pekao S.A.).

The Company acts as a transfer agent for members of the assets management market i.e. mutual funds, pension funds, employees' pension programs and insurers.

In 2005, PFS continued its strategy of strengthening its market position on the Polish market of transfer agents. The number of serviced accounts of mutual and pension funds amounted to 2.21 million and increased by 9% as compared to the end of 2004.

Xelion. Doradcy Finansowi Sp. z o.o. (Xelion)

The company is owned by the following two shareholders: Bank Pekao S.A. and UniCredito Italiano S.p.A. with its registered office in Genua, with 50% shares in the share capital and in total number of votes at the General Shareholders Meeting each. As at 31 December 2005, the company's equity was PLN 40.5 million

The company was created in response to increasing demand for customized services and financial products offer. It is focused on servicing affluent customers that demand highly individualised approach at convenient locations.

Centrum Kart S.A. (CK S.A.)

The Bank's share in the share capital of CK S.A. and in total votes at the General Shareholders Meeting is 100%. As at 31 December 2005, the value of equity was PLN 30.3 million

The company provides a comprehensive servicing of card system management, transaction authorization and card embossment.

6.6 Other entities included in the consolidated financial statements

Other subordinated and associated entities included in the consolidated financial statement for 2005 include:

Pekao Development Sp. z o.o. (Pekao Development)

The Bank's share in the share capital of Pekao Development and in total votes at the General Shareholders Meeting is 100%. As at 31 December 2005, the value of the company's equity was PLN 76.3 million.

In 2005, business activities of Pekao Development mainly included the realisation of housing projects.

On 15 February 2006, the agreement for the setting up of Pirelli Pekao Real Estate, a joint venture company with the participation of 75% stake held by Pirelli RE and 25% by Bank Pekao S.A. has been signed. Pirelli RE will acquire from Bank Pekao S.A. 75% shares of Pekao Development. The Company business name will be changed to Pirelli Pekao Real Estate.

Pekao Access Sp. z o.o. (Access)

The Bank's share in the share capital of Access and in total number of votes at the Shareholders Meeting is 55.3%. As at the end of 2005, the value of the company's equity was PLN 2.7 million.

The company's main business activities include:

- advisory on acquisitions accompanied by advisory on obtaining transactions' finance,
- advisory projects on new markets,
- advisory on restructuring accompanied by obtaining finance.

Central Poland Fund LLC (CPF)

The Bank's share in the share capital of CPF and in total votes at the Shareholders Meeting is 53.2%. As at 31 December 2005, the value of CPF's equity was PLN 6.4 million.

CPF is focused on managing of asset portfolios that include companies' shares. In 2005, one of the company's included in the portfolio was sold.

Krajowa Izba Rozliczeniowa S.A. (KIR)

The Bank's share in the share capital of KIR and in total votes at the General Shareholders Meeting is 23.0%. As at the end of 2005, the value of KIR's equity was PLN 94.0 million.

The main business activities of KIR include management of inter-bank settlement system, which covers exchange of payment orders, registration of such orders, determining parties' liabilities and reporting the results of inter-bank settlements made on the territory of Poland to the National Bank of Poland.

Hotel Jan III Sobieski Sp. z o.o.

The company's business activities include the management of Hotel Jan III Sobieski in Warsaw.

Drukbank Sp. z o.o.

Drukbank Sp. z o.o. did not conduct any business activities in 2005. The company's profit includes valuation of the company's shares in Bank Pekao (Ukraine) Ltd.

7 Management and Supervisory Boards of the Bank**Management Board of Bank Pekao S.A.**

31.12.2005		31.12.2004	
1.	Jan Krzysztof Bielecki President, CEO	1.	Jan Krzysztof Bielecki President, CEO
2.	Luigi Lovaglio Deputy President, COO	2.	Luigi Lovaglio Deputy President, COO
3.	Sabina Olton Deputy President, Chief Accountant	3.	Sabina Olton Deputy President, Chief Accountant
4.	Przemyslaw Figarski Member of the Management Board	4.	Przemyslaw Figarski Member of the Management Board
5.	Irene Grzybowski Member of the Management Board	5.	Irene Grzybowski Member of the Management Board
6.	Paolo Iannone Member of the Management Board	6.	Paolo Iannone Member of the Management Board
7.	Christopher Kosmider Member of the Management Board	7.	Christopher Kosmider Member of the Management Board
8.	Marian Wazynski Member of the Management Board	8.	Marian Wazynski Member of the Management Board

In 2005 there were no changes in the Management Board.

The members of the Management Board shall be appointed for the common term, which shall last three years.

The Supervisory Board appoints and recalls the members of the Management Board of the Bank. The Deputy Presidents and members of the Management Board of the Bank are appointed and recalled at the request of the President of the Management Board of the Bank. Appointment of two members of the Management Board of the Bank, including the President of the Management Board follows the approval of the Banking Supervision Commission. The Supervisory Board has to advise the Commission to express its approval.

The scope of operations and scope of actions of Members of the Management Board of the Bank have been set forth under Statutes of the Bank and the law - the Code of Commercial Companies ksh, as well as the By-Laws of the Management Board of the Bank. The scope of operations of the Management Board of the Bank includes matters not reserved by virtue of the binding provisions of the law or of the Statutes of the Bank to the competence of the Bank's other statutory bodies.

Supervisory Board of Bank Pekao S.A.

31.12.2005		31.12.2004	
1.	Jerzy Woznicki Chairman	1.	Alessandro Profumo Chairman
2.	Paolo Fiorentino Deputy Chairman, Secretary	2.	Paolo Fiorentino Deputy Chairman, Secretary
3.	Andrea Moneta Deputy Chairman	3.	Jerzy Woznicki Deputy Chairman
4.	Pawel Dangel Member of the Supervisory Board	4.	Pawel Dangel Member of the Supervisory Board
5.	Fausto Galmarini Member of the Supervisory Board	5.	Fausto Galmarini Member of the Supervisory Board
6.	Oliver Greene Member of the Supervisory Board	6.	Oliver Greene Member of the Supervisory Board
7.	Enrico Pavoni Member of the Supervisory Board	7.	Enrico Pavoni Member of the Supervisory Board
8.	Leszek Pawlowicz Member of the Supervisory Board	8.	Leszek Pawlowicz Member of the Supervisory Board
9.	Jerzy Starak Member of the Supervisory Board	9.	Jerzy Starak Member of the Supervisory Board

Mr. Alessandro Profumo resigned on 19 January 2005 from his function as Chairman and Member of the Bank Supervisory Board.

The Extraordinary General Meeting of the Bank held on 20 January 2005 appointed Mr. Andrea Moneta to sit on the Bank Supervisory Board for the joint term in office.

On 20 January 2005, the Bank Supervisory Board appointed Mr. Jerzy Woznicki, the hitherto Deputy Chairman of the Supervisory Board as the Chairman of the Supervisory Board, and Mr. Andrea Moneta as the Deputy Chairman of the Supervisory Board.

Management Board and Supervisory Board Remuneration

	(PLN ths.) 2005
Management Board of the Bank	
Short-term employee benefits*	13,313
Post-employment term benefits	-
Other long-term benefits	-
Termination benefits	-
Share-based payments**	5,595
Total	18,908
Supervisory Board of the Bank	
Short-term employee benefits*	462
Post-employment term benefits	-
Other long-term benefits	-
Termination benefits	-
Share-based payments**	-
Total	462
Grand total	19,370

* Short term employee benefits comprise of: base salaries, bonuses and other benefits, in particular cost of life insurance policies, health insurance and healthcare, children education costs.
Decision about the bonuses for 2005 was not yet taken by the Supervisory Board, however the Bank has established a reserve for that bonus amounting to PLN 3,820 thousand, included above.

** The value of Share-based payments was established as part of Payroll/Employee Expenses recognized by the Group, according to IFRS 2 during the reporting period, representing the amortization of initial fair value of

options (pre-emptive rights to take up the Bank's shares) pertaining to options granted to members of the Management Board of the Bank.

Total value of salaries, rewards and benefits (in cash, nature and in kind) paid or due to Management Board Members and Supervisory Board Members in 2005 (PLN thousand)

No.	Name	2005 base salary and bonus expense (paid or payable)	2005 other benefits (paid)	Total 2005 remuneration expense	2004 bonuses paid in 2005
1	Bielecki Jan Krzysztof	1,265	52	1,317	1,450
2	Figarski Przemyslaw Lech	734	24	758	527
3	Grzybowski Irene *	1,596	72	1,668	173
4	Iannone Paolo**	932	237	1,169	258
5	Kosmider Christopher	627	31	658	524
6	Lovaglio Luigi***	2,648	11	2,659	1,001
7	Olton Sabina	505	0	505	508
8	Wazynski Marian	739	20	759	409
	2005 Bonus provision ****	3,820	0	3,820	0
	Total	12,866	447	13,313	4,850

* The amount stated for Mrs Irene Grzybowski includes the amount of PLN 700 ths. presented as receivable in 2004.

** In the amount reported for Mr Paolo Iannone it is included the amount of PLN 1,331 ths. which is paid by UniCredito Italiano and is refunded by the Bank.

*** In the amount reported for Mr Luigi Lovaglio it is included the amount of PLN 3,418 ths. which is paid by UniCredito Italiano and is refunded by the Bank.

**** A decision on 2005 bonuses for management Board Members has not been taken yet by the Supervisory Board, however a provision in amount of PLN 3,820 ths. has been created for that purpose.

In 2005, Management Board Members have not received any compensation - in any form, and they do not have any receivables by that title from subsidiaries, jointly controlled companies, and associated companies.

The Bank's total accumulated expense for stock options granted to management under the 2003 and 2004 programs, that may be exercised by Management Board Members in the period between 2006 and 2012 (subject to fulfilment of given conditions) amounts to PLN 5,595 ths. No options were granted to or exercised by Management Board Members in 2005.

In 2005, Management Board Members did not received any compensation, in any form, nor are they entitled to any such amounts receivable from subsidiaries, jointly controlled companies, and associated companies of the Bank.

Total value of remuneration paid to Supervisory Board Members in 2005

(PLN ths.)

No.	Name	Amount
1	Woznicki Jerzy	107
2	Dangel Pawel	71
3	Greene Oliver	71
4	Pavoni Enrico	71
5	Pawlowicz Leszek	71
6	Starak Jerzy	71
	Total	462

In 2005, Supervisory Board Members have not received any compensation - in any form, and they do not have any receivables by that title from subsidiaries, jointly controlled companies, and associated companies

Remuneration of members of the Management Boards and Supervisory Boards of the subsidiary companies

(PLN ths.)
2005

Management Board of the Bank	
Short-term employee benefits	11,087
After employment term benefits	-
Other long- term benefits	-
Benefits regarding termination of job agreement	608
Share-based payments	-
Total	11,695
Supervisory Board of the Bank	
Short-term employee benefits	143
After employment term benefits	-
Other long- term benefits	-
Benefits regarding termination of job agreement	-
Share-based payments	-
Total	143

8 The Bank's shareholding structure

Table below shows the Bank's shareholders who have (directly or indirectly through subsidiaries) at least 5% of total votes at the Bank's General Shareholders Meeting:

Shareholder	Number of votes and shares at GSM	The share in the statutory capital and in the total number of votes at GSM	Number of votes and shares at GSM	The share in the statutory capital and in the total number of votes at GSM
	31 December 2005		31 December 2004	
UniCredito Italiano S.p.A.	88,121,725	52.93%	88,121,725	52.93%
Other shareholders	78,359,962	47.07%	78,359,962	47.07%
Total	166,481,687	100.00%	166,481,687	100.00%

On 16 January 2006 share capital of the Bank was increased by the total amount of PLN 186,755 and on 6 February 2006 by PLN 5,169 as a result of issue series F ordinary bearer shares. The share capital of the Bank amounts currently to PLN 166,673,611. The share of UniCredito Italiano S.p.A. in the share capital and the total number of votes at the General Meeting amounts to 52.87% while the share of other shareholders stands for 47.13%

According to the information known by the Bank, as at the date of submitting this report no significant changes were made in the shareholding structure.

All stocks of Bank Pekao S.A. are common stock. The owners of the Bank's shares have no special control powers resulting from owning the shares.

The Bank's shares contain no restrictions on voting or transfer of ownership.

Shares owned by the members of the Bank's Management and Supervisory Boards

According to the Bank's information, as at the date of submitting this report, Mrs. Sabina Olton owned 10,000 shares of Bank Pekao S.A. with a total nominal value of PLN 10,000.

The number of the Bank's shares held by the members of the Bank's management has not changed as compared with the end of 2004.

Management Options Programme

An incentive programme in the form of management options is in force in the Bank Pekao S.A. Group. The programme covers the Management Board and other key managers essential for implementing the Bank's strategy and selected employees of the subsidiaries.

As at 31 December 2005, 41 people participate in the incentive programme for the year 2003. The total number of shares offered under this programme was 653,126, of which 253,271 shares will be offered to the management. The incentive programme for the year 2004 has 46 participants and the total number of shares offered is 717,662, of which 391,348 shares will be offered to the management.

As at the date of submitting this report, 41 people participate in the incentive programme for the year 2003. The total number of shares offered under this programme was 461,202, of which 253,271 shares will be offered to the management. The incentive programme for the year 2004 has 46 participants and the total number of shares offered is 717,662, of which 391,348 shares will be offered to the management.

The change in the number of shares in the incentive programme for 2003 results from execution of pre-emptive right to acquire the Bank's shares that results from the bonds. As a result of this execution 34 persons acquired 191,924 shares in total. The Bank was also informed that 23 persons participating in the programme sold 99,602 shares.

Issuance, redemption and repayment of debt securities**Issuance of registered bonds with pre-emptive rights to take up the Bank's F and G shares**

The Bank issued 415 thousand registered A series bonds and 415 thousand registered B series bonds with pre-emptive rights to take up the Bank's F series shares, and 415 thousand registered C series bonds and 415 thousand registered D series bonds with pre-emptive rights to take up the Bank's G series shares.

1,660 of the Bank's registered bonds were allocated to Pekao Faktoring (the Bank's subsidiary) acting as the Trustee, and registered in the Bonds Register of Centralny Dom Maklerski Pekao S.A.

The Bonds were issued on the basis of Resolution No. 6 of the Bank's Extraordinary General Meeting dated 25 July 2003 on the issue of registered bonds under an incentive programme.

Each Bond entitles to take up 1 ordinary bearer share of the Bank:

- 1 A series bond entitles taking up 1 F series share;
- 1 B series bond entitles taking up 1 F series share;
- 1 C series bond entitles taking up 1 G series share;
- 1 D series bond entitles taking up 1 G series share.

The nominal value of one bond is PLN 0.01. The total value of the issued A, B, C and D series bonds amounts to PLN 16,600. The issue price of one bond is equal to its nominal value.

The bonds do not bear interest. The bonds are not secured.

The issue price of F series shares amounts to PLN 108.37, and of G series shares PLN 123.06.

In current reports No. 3/2006 and 18/2006, the Management Board of the Bank informed of the acquisition by the Bank of 88,430 registered series A bonds from Pekao Faktoring Sp. z o.o., with the purpose of redemption, and the total of 191,924 series A bonds from eligible persons, upon the request thereof for early redemption, pursuant to the implementation of the priority right to take-up the Bank's shares ensuing from the bonds, for the purpose of redemption thereof.

The period of acquisition of series A bonds from the Trustee by eligible persons lasted from 6 May until 30 December 2005.

Bonds of the other series will be available for purchase from the Trustee by the eligible persons in the following periods:

- B series bonds in the period from the 31st day after the date of the General Shareholders' Meeting, approving financial statements for the financial year 2005 until 30 December 2006.
- C series bonds in the period from the 31st day after the date of the General Shareholders' Meeting, approving financial statements for the financial year 2006 until 30 December 2007.
- D series bonds in the period from the 31st day after the date of the General Shareholders' Meeting, approving financial statements for the financial year 2007 until 30 December 2008.

All Bonds which are not sold off by the Trustee by 30 December 2006, 2007 and 2008 respectively shall be acquired by the Bank on 31 December 2006, 2007 and 2008 respectively to be redeemed at their nominal value.

The execution of the pre-emptive rights to take up F and G series shares can be exercised in the following periods:

- in respect of A series bonds - from 1 January 2006 to 31 December 2010;
- in respect of B series bonds - from 1 January 2007 to 31 December 2010;
- in respect of C series bonds - from 1 January 2008 to 31 December 2012;
- in respect of D series bonds - from 1 January 2009 to 31 December 2012.

9 Assessment of the financial credibility of Bank Pekao S.A.

As at 31 December 2005, Bank Pekao S.A. had the following financial credibility ratings:

Fitch Ratings

Long-term rating	A
Short-term rating	F1
Individual rating	C
Support rating	1
Outlook	Stable

Standard and Poor's

Long-term rating local currency	A-
Long-term rating foreign currency	A-
Short-term rating	A-2
Outlook	Stable

Moody's Investors Service Ltd.

(unsolicited rating)

Long-term deposit rating	A2
Short-term deposit rating	Prime-1
Financial strength	C
Outlook	Stable

Investor relations

The Bank continued the policy of active communication with minority shareholders. Certain communications standards have been worked out and implemented, such as the quarterly presentations of results achieved published both on Warsaw Stock Exchange and on London Stock Exchange, participation in the most important conferences enabling direct communication with investors.

The Bank's quoted price

In 2005, the price of the Bank's share increased from PLN 138.00 (as at 31 December 2004) to PLN 174.50 as at the end of December 2005, i.e. by 26.4%.

During the year, the quoted price of the Bank's share fluctuated from PLN 124.00 as at 11 May 2005 to PLN 187.00 on 19 September 2005.

Awards and Prizes

The previous year was marked with foreign and domestic prizes and awards bestowed upon the Bank. The most important of them are discussed below.

Bank Pekao S.A. was announced by **Euromoney** monthly to be the best bank in Poland in 2005; the Bank was also honoured with the prestigious **Award for Excellence 2005**. It is the fourth Euromoney award for Bank Pekao S.A. – the Bank already received three such awards in the years 2000, 2001 and 2002. The authors of the ranking list gave Bank Pekao S.A. very high credits for maintaining for years its leading position on the retail credit and mutual funds sales market, as well as for consequence in promoting customer-friendly PLN mortgage credits.

The most important national distinction is the **"Trustworthy Company of 2005"**, bestowed upon the Bank by the Corporate Investors' Chapter of the Polish Institute of Directors upon evaluation of corporate governance at companies listed on the Warsaw Stock Exchange GPW. The Chapter evaluated the following four elements of company operations: ownership structure, General Meeting and investor relations, financial transparency and availability of information, and the structure and functioning of the Supervisory Board. Out of 54 evaluated companies, 11 received the title of "Trustworthy Company".

10 Financial results of the Group

10.1 Structure of net profit

The structure of the profit and loss account for the Group:

	PLN mil.	
	2005	2004 pro forma
Net profit of Bank Pekao S.A.	1,439.4	1,171.4
Net profit (loss) of entities consolidated under full method	157.7	114.2
Centralny Dom Maklerski Pekao S.A.	92.5	77.7
Pekao Development Sp. z o.o.	30.2	7.6
Pekao Financial Services Sp. z o.o.	13.1	8.8
Pekao Faktoring Sp. z o.o.	9.6	6.6
Pekao Pioneer PTE S.A.	8.1	5.6
Pekao Leasing Sp. z o.o.	0.8	1.2
Centrum Kart S.A.	2.6	0.9
Drukbank Sp. z o.o.	0.5	(1.7)
Pekao Fundusz Kapitalowy Sp. z o.o.*	(0.4)	(0.2)
Pekao Access Sp. z o.o.	0.5	0.9
Bank Pekao (Ukraina) Ltd. in Luck	0.2	(1.5)
Pekao Usługi Korporacyjne S.A.	-	8.3
Net profit (loss) of entities valued under equity method	43.2	37.1
Pioneer Pekao Investment Management S.A.	51.9	36.5
Krajowa Izba Rozliczeniowa S.A.	6.7	7.2
Grupa Inwestycyjna Nywig S.A.	0.0	0.1
Central Poland Fund LLC	(4.0)	0.9
Xelion. Doradcy Finansowi Sp. z o.o.	(11.4)	(11.1)
Trinity Management Sp. z o.o.	-	6.3
NFI Jupiter S.A.	-	(2.8)
Consolidation eliminations and adjustments **	(105.4)	(73.8)
Net profit of the Group	1,534.9	1,248.9

* the result of the company includes valuation of related entities using equity method

** include transactions within the Group, including dividends paid by subordinated entities

An explanation of the results achieved by **Bank Pekao S.A.** was included in the report on the activities of Bank Pekao S.A., which is an integral part of the SAB-R financial statements for the year 2005.

Results of the Bank's related entities in 2005

Centralny Dom Maklerski Pekao S.A. (CDM)

In 2005, CDM made a net profit of **PLN 92.5 million**, compared with the net profit of PLN 77.7 million in 2004. This good performance occurred as a result of the activities undertaken by CDM in 2005 as well as favourable economic conditions: the increase in macroeconomic ratios and the resulting increase in stock exchange turnover and indices resulted in a high amount of commission earned by CDM.

Pioneer Pekao Investment Management S.A. (PPIM)

The consolidated net profit of the PPIM for 2005 was by 42.0% higher when compared with 2004 and amounted to PLN 106.0 million. The Bank's share in the net profit amounted to **PLN 51.9 million**. The increase in PPIM's profitability is of permanent nature and is connected with an increase in the value of assets held by investment funds. The main factor contributing to this increase is the effective distribution network of Bank Pekao S.A. and the companies of the Group.

Pekao Development Sp. z o.o. (Pekao Development)

In 2005, Pekao Development made a net profit of **PLN 30.2 million**, compared with PLN 7.6 million in 2004. The increase in profits in 2005 is due to greater number of the company's projects.

Pekao Financial Services Sp. z o.o. (PFS)

In 2005, the company made a net profit of **PLN 13.1 million**, compared with PLN 8.8 million in 2004. The significant improvement of the result was mainly due to an increase in the number of accounts kept for participants of investment funds and pension funds.

Krajowa Izba Rozliczeniowa S.A. (KIR)

In 2005, net profit of KIR amounted to PLN 29.2 million (Bank's share: **PLN 6.7 million**) and was by PLN 2.2 million lower when compared with 2004.

Pekao Faktoring Sp. z o.o. (Pekao Faktoring)

In 2005, the company made a net profit of **PLN 9.6 million**, which was by PLN 3.0 million higher than in 2004. This increase was due to the successful floating of new products and increase in the number of customers.

Pekao Pioneer PTE S.A. (PTE)

In 2005, the company reported a net profit of PLN 8.1 million (Bank's share: **PLN 5.3 million**), compared with PLN 5.6 million in 2004. Increase in financial result was achieved thanks to higher inflow of current contribution and maintained cost control.

Central Poland Fund LLC (CPF)

In 2005, the company made a loss of PLN -7.4 million (Bank's share: **PLN -4.0 million**), in comparison with the net profit of PLN 0.9 million earned in 2004. The loss incurred in 2005 was mainly due to the loss arising on the valuation of shares in portfolio companies.

Xelion. Doradcy Finansowi Sp. z o.o.

In 2005, the company incurred a net loss of PLN -22.9 million (Bank's share: **PLN -11.4 million**). In 2005, the company concentrated on further development of the network of financial advisors, development of activities in other regions of Poland and further development of the product offer while ensuring the highest quality of services.

Consolidation adjustments

Consolidation adjustments amounted to **PLN -105.4 million** and resulted mainly from:

- dividends paid: PLN -96.6 million,
- amortisation of the costs associated with the purchase of the Epoka, Pioneer and Rodzina open-end pension funds by Pekao Pioneer PTE in 2001, as well as the costs associated with the purchase of PTE shares by the Bank in 2000: **PLN -12.8 million**,
- other adjustments: **PLN +4.0 million**.

10.2 Consolidated profit and loss account

In order to ensure that the data for 2005 and 2004 is comparable, previous year profit and loss account data was adjusted and is presented as pro forma data in this paragraph.

In 2005, the net profit increased by 22.9% and amounted to PLN 1,534.9 million. 2005 net profit was the best result achieved to date confirming continued growth in Group's profitability.

The increase in the net profit by PLN 286.0 million in 2005 compared with the previous year was possible thanks to increased business activity which translated into higher income, particularly interest income, stable operating costs and lower cost of risk.

Apart from the good results of the Bank Pekao S.A., the results of the Group's companies, which were better than in the previous year, contributed to the improvement in the overall Group result.

Consolidated Profit and Loss Statement for 2005 and 2004 is shown below:

	(PLN mil.)		
	2005	2004 pro forma	Change
Net interest income *	2,343.5	2,129.7	10.0%
Net commission income	1,587.0	1,481.4	7.1%
Dividend income	0.3	0.0	x
Result on financial instruments at fair value	71.9	96.0	(25.1%)
Result on investment securities	74.2	14.1	426.2%
Foreign exchange income	265.4	289.0	(8.2%)
Other operating income / cost net	71.0	48.7	45.8%
Total income	4,413.3	4,058.9	8.7%
Overhead costs (including depreciation)	(2,346.4)	(2,333.4)	0.6%
Personnel **	(1,203.0)	(1,155.6)	4.1%
Non-personnel	(820.5)	(856.1)	(4.2%)
Depreciation	(322.9)	(321.7)	0.4%
Operating profit	2,066.9	1,725.5	19.8%
Impairment losses on loans and advances	(237.5)	(315.6)	(24.7%)
Share in the profit (loss) of associates	44.2	36.1	22.4%
Pre-tax profit	1,873.6	1,446.0	29.6%
Tax charge	(338.7)	(197.1)	71.8%
Net profit	1,534.9	1,248.9	22.9%
Attributable to equity holders of the Company	1,537.7	1,252.5	22.8%
Attributable to minority interest	(2.9)	(3.5)	(17.1%)

* including income on SWAP transaction

** including social security charges, without cost of training

Group's income

In 2005, the Group's income amounted to PLN 4,413.3 million and was by PLN 354.4 million (8.7%) higher than in the previous year.

The growth in income was due to the development of business activity, supported by sales oriented activities relating to the key products of both the Bank and the other Group companies. The main growth factors included interest income and fee and commission income.

Interest income grew by 10.0% mainly due to an increase in volumes and better spreads including an increase in the loan portfolio that had a positive effect on the Group's asset structure.

(PLN mil.)			
Net interest income	2005	2004 pro forma	Change
Interest income	4,963.5	4,328.3	14.7%
Interest expense	(2,620.0)	(2,198.5)	19.2%
Net interest income	2,343.4	2,129.7	10.0%
Net interest margin %	4.3	3.8	0.5 p.p

The main growth factor of non-interest income was fee and commission income that increased by 7.1% mainly thanks to fees on mutual funds.

(PLN mil.)			
Non-interest income	2005	2004 pro forma	Change
Net commission income	1,587.0	1,481.4	7.1%
Dividend income	0.3	0.0	x
Result on financial instruments at fair value	71.9	96.0	(25.1%)
Result on investment securities	74.2	14.1	426.2%
FX income	265.4	289.0	(8.2%)
Other operating income / cost net	71.0	48.7	45.8%
Total non-interest income	2,069.8	1,929.2	7.3%

Total overhead costs (including depreciation)

In 2005, total overhead costs including depreciation were kept under control and amounted to PLN 2,346.4 million i.e. were only by 0.6% higher than in the previous year.

In 2005, the Group's cost / income ratio amounted to 53.2% and was by 4.3 p.p. lower than in the previous year.

As at the end of 2005, the Group had 15,937 employees (a reduction of 471 employees compared with the end of 2004).

(PLN mil.)			
Overhead costs (including depreciation)	2005	2004 pro forma	Change
Personnel costs	(1,203.0)	(1,155.6)	4.1%
Non-personnel costs	(820.5)	(856.1)	(4.2%)
Depreciation	(322.9)	(321.7)	0.4%
Total	(2,346.4)	(2,333.4)	0.6%

Impairment losses on loans and advances

In 2005, impairment losses on loans and advances amounted to PLN 237.5 million and were by 24.7% lower than in the previous year. This resulted primarily from effective management of credit risk and the improved macroeconomic situation. The ratio of non-performing loans to total loans decreased from 19.9% at the end of 2004 to 16.2% at the end of 2005 as a result of an

increase in the volume of performing loans and a simultaneous decrease in the volume of non-performing loans.

Write-offs for revaluation of assets:

	(PLN mil.)	
	2005	2004 pro forma
Total	(237.5)	(315.6)
for loan receivables (including financial leasing)	(237.3)	(295.7)
for off-balance sheet liabilities	0.2	(3.2)
for financial assets	(0.4)	(16.7)

Adjustments for provisions, deferred tax provisions and assets

	(PLN mil.)	
	2005	2004 pro forma
Total provisions	108.7	100.6
of which:		
provisions for off-balance sheet liabilities	20.3	16.3
provisions for liabilities to employees	66.0	67.7
other provisions	22.4	16.6
Provision for deferred tax	0.0	1.2
Deferred tax assets	182.2	114.2

Average interest rates in Bank Pekao S.A. in 2005

The average nominal interest rates for the basic types of the PLN and foreign currency deposits:

- PLN retail deposits	2.88% p.a.
- PLN corporate clients deposits	1.13% p.a.
- foreign currency retail deposits	1.02% p.a.
- foreign currency corporate clients deposits	0.66% p.a.

The average nominal interest rates for the PLN loans:

- base floating rate	19.25% p.a.
- base fixed interest rate	19.25% p.a.
- base interest rate for construction and mortgage loans	8.74% p.a.

10.3 Structure of the balance sheet

In the financial statements for 2005, the presentation of balance sheet figures as at 31 December 2004 has been restated to ensure comparability.

The balance sheet of Bank Pekao S.A. dominates the balance sheet of the Group. Not only does it determine the amount of total assets in balance sheet, but also the structure of the assets and liabilities. As at the end of 2005, the share of the total assets of Bank Pekao S.A. in the total assets of the whole Group was 99.2%.

The total assets of the Group at the end of 2005 amounted to PLN 61,972.0 million and were by 4.1% higher compared to the end of 2004.

The table below presents Group's balance sheet:

Assets	31.12.05	31.12.04 pro forma	Change
	PLN mil.		
Cash and balances with the Central Bank	3,574.8	3,939.3	(9.3%)
Loans and advances to banks	6,966.0	5,961.5	16.8%
Loans and advances to customers*	28,975.7	26,305.1	10.2%
Securities**	18,774.5	19,568.9	(4.1%)
Investments in subordinated undertakings	167.9	124.7	34.6%
Tangible and intangible assets	2,086.6	2,173.6	(4.0%)
Other assets	1,426.5	1,463.3	(2.5%)
Total assets	61,972.0	59,536.4	4.1%

Liabilities and equity	31.12.05	31.12.04 pro forma	Change
	PLN mil.		
Amounts due to the Central Bank	1,950.7	2,151.7	(9.3%)
Amounts due to banks	1,997.0	1,332.6	49.9%
Amounts due to customers***	46,847.9	45,844.9	2.2%
Other liabilities	2,753.6	2,376.2	15.9%
Shareholders' equity	8,422.7	7,831.0	7.6%
including minority interest	15.4	18.8	(18.1%)
Total liabilities and equity	61,972.0	59,536.4	4.1%

* including debt securities eligible for rediscounting at the Central Bank and leasing receivables

** including financial assets held for trading and other financial instruments at fair value through profit or loss

*** including own securities in issue

10.3.1 Assets

Changes in assets structure

Loans and advances to customers and securities are the dominant items in the structure of assets.

As at the end of 2005, loans and advances to customers amounted to PLN 28,975.7 million and constituted 46.8% of the Group assets (at the end of 2004, this ratio was equal to 44.2%). The increase in this item in 2005 resulted mainly from increased lending activities in the area of consumer loans and PLN mortgage loans as well as increase in lending to corporate clients'.

In 2005, the volume of securities decreased by PLN 794.4 million (i.e. by 4.1%), and their share in total assets dropped by 2.6 p.p. reaching the level of 30.3%.

Cash and balances with the Central Bank

Assets	31.12.05	31.12.04 pro forma	Change
	PLN mil.		
Cash and balances with the Central Bank, including:	3,574.8	3,939.3	(9.3%)
cash	1,110.0	1,081.3	2.7%
current account	1,078.1	1,474.7	(26.9%)
reserve bonds	1,313.1	1,313.1	0.0%
other	73.6	70.2	4.9%

Loans and advances

Customer structure of loans and advances*

	31.12.05	31.12.04 pro forma	Change
	PLN million		
Loans and advances in nominal value	33,331.9	30,608.6	8.9%
loans	33,235.2	29,653.9	12.1%
retail**	8,177.0	6,776.9	20.7%
corporate	25,058.2	22,877.0	9.5%
non quoted securities	96.7	565.8	(82.9%)
repo transactions	0.0	388.9	x
Nominal value adjustment	(4,356.2)	(4,303.5)	1.2%
Net loans and advances	28,975.7	26,305.1	10.2%

* including debt securities eligible for rediscounting at the Central Bank and leasing receivables

Gross loans and advances in nominal value increased by PLN 2,723.3 million in 2005. This resulted from PLN 3,581.3 million increase in loans, PLN 469.1 million decrease in non quoted securities and PLN 388.9 million decrease in receivables from repo transactions.

Increase in the gross loan portfolio in 2005 results primarily from an increase in loans granted to corporate customers (by PLN 2,181.2 million), increase in the volume of "Express Loan" (by PLN 1,292.7 million) and PLN mortgage loans (by PLN 937.9 million).

Loan portfolio quality

Loans* (gross principal) in category:	31.12.05		31.12.04	
	PLN mil.	%	PLN mil.	%
Normal	25,979.4	78.2	21,833.0	73.6
Watch category	1,882.7	5.7	1,905.7	6.4
Non-performing	5,373.2	16.2	5,915.2	19.9
Sub standard	290.6	0.9	768.4	2.6
Doubtful	515.5	1.6	481.4	1.6
Lost	4,567.0	13.7	4,665.4	15.7
Total loans	33,235.2	100.0	29,653.9	100.0

* according to the comparable classification

In 2005, the loan volume increased by PLN 3,581.3 assisted by simultaneous decrease in non-performing loans by PLN 542.0 million. This resulted from effective credit risk management and improved macroeconomic conditions. As a result, the ratio of non-performing loans to total loans amounted to 16.2% as at 31 December 2005 and was 3.7 p.p. lower compared to the end of 2004.

In the financial statement drawn in keeping with the International Financial Reporting Standards, receivables from customers are broken down by receivables from credits and loans and receivables from financial leasing.

Structure of receivables from customers	31.12.05	31.12.04 pro forma	Change
	PLN mil.		
Receivables from credit and loans*	28,229.8	25,757.8	9.6%
Receivables from financial leasing	745.9	547.3	36.3%
Total receivables from customers	28,975.7	26,305.1	10.2%

* Including debt securities eligible for rediscounting at the Central Bank.

Impairment of financial assets

For each balance sheet date, the Group assesses, whether there is objective evidence of impairment of credit and leasing receivables. The Group classifies credit and leasing receivables by size of engagement, into the individual and group portfolios.

In the individual portfolio, each particular credit and leasing exposure is subjected to an impairment test. If there is objective evidence of impairment, the carrying amount of the receivable is reduced. If for a given exposure no objective evidence of impairment exists, the exposure is included in the credit portfolio subject to group assessment.

In a group portfolio, groups of similar credit risk profile are identified, which are then assessed collectively for the impairment.

	(PLN mil.)
	31.12.05
Gross credit and loans	33,243.0
without impairment	27,750.0
with impairment	5,493.0
Impairment losses, including:	(4,393.9)
for loans assessed individually	(1,940.1)
for loans assessed in groups	(2,453.8)
Interest	126.6
Amounts due in transit	0.1
Total net value	28,975.7

As of year end 2005, the gross volume of credits and loans without impairment amounted to PLN 27,750. million, whereas credits and loans with impairment amounted to PLN 5,493.0 million. The balance sheet value of impairment losses stood at PLN 4,393.9 million, including PLN 227.2 million attributed to the impairment losses resulting from incurred but not recognised losses (IBNR).

The currency structure of the receivables from customers

Receivables from customers* denominated in:	31.12.05	
	PLN mil.	%
- PLN	26,958.3	80.8%
- foreign currencies**	6,411.4	19.2%
Total	33,369.7	100.0%
Impairment losses	(4,393.9)	X
Total net	28,975.7	X

* including amounts due in transit

** including indexed loans

PLN prevails in the currency structure of the receivables from customers, whose share as at the end of 2005 was 80.8%. The highest share among foreign currency receivables had those denominated in EUR – 72.7%, USD – 18.7% and CHF – 7.8%.

Receivable structure by maturity

Gross receivables	31.12.05	
	PLN mil.	%
Current and up to 1 month	6,048.5	18.1%
1-3 months	931.1	2.8%
3 months – 1 year	3,351.4	10.0%
1-5 years	9,902.0	29.7%
Over 5 years	13,009.9	39.0%
Interest	126.6	0.4%
Amounts due in transit	0.1	0.0%
Total	33,369.7	100.0%
Impairment losses	(4,393.9)	X
Total net	28,975.7	X

Broken down by maturities, receivables with maturity over 5 years have the highest share (39.0%), mainly attributed to a large loan for a central state investment, mortgage loans and receivables for which the maturity date already passed).

Loan portfolio concentration

Except for one borrower who was granted a loan for financing a central state investment, the loan activities of the Group are not dependent on any single client.

As at 31 December 2005 Client A's debt calculated using the effective interest rate stood at PLN 2,137.8 million (nominal value of PLN 2,958.7 million). The debt is a result of a loan contracted for a central state investment, which starting from the beginning of 1999 is being repaid quarterly. The final repayment date of the loan is 30 December 2012. The loan agreement for financing the central state investment was concluded on 30 April 1984. The loan is refinanced by the National Bank of Poland and guaranteed by the State Treasury.

The Group's loan portfolio concentration is shaped according to the policy of reducing the Group's loan portfolio dependence on a narrow group of clients.

The concentration of the Group's loan portfolio is as follows:

	31.12.05 31.12.2004	
	PLN mil.	
10 largest loans	5,007.2	5,051.5
20 largest loans	6,626.9	6,561.7
50 largest loans	9,347.8	9,012.8

The values of the concentration ratios shown in the table are significantly influenced by the central state investment loan described above.

The table below presents 10 largest borrowers* of the Group as of 31 December 2005.

	PLN mil.		
	Total exposure	Balance sheet exposure	Off-balance sheet exposure
Client 1	2,149.8	2,137.8	12.0
Client 2	749.1	749.1	0.0
Client 3	704.0	606.5	97.5
Client 4	624.4	386.4	238.0
Client 5	622.5	118.5	504.0
Client 6	602.1	526.1	76.0
Client 7	530.0	139.4	390.4
Client 8	514.5	314.5	200.0
Client 9	340.4	340.4	0.0
Client 10	338.8	338.8	0.0

* This data does not include exposure related to the shares and other securities, derivatives or loan exposure to banks. This list entails exposure to one entity, i.e. without exposure to related entities.

Securities

Securities	31.12.05		31.12.04 pro forma	Change
	PLN mil.			
Financial assets as held for trading	2,502.4		3,195.7	(21.7%)
debt securities	2,499.2		3,192.0	(21.7%)
other securities and financial assets	3.2		3.7	(13.5%)
Other financial instruments at fair value through profit or loss	1,781.3		1,336.7	33.3%
Investment securities	14,490.8		15,036.5	(3.6%)
available for sale	11,903.5		10,114.2	17.7%
held to maturity	2,588.0		4,931.8	(47.5%)
impairment	(0.7)		(9.5)	(92.6%)
Total securities	18,774.5		19,568.9	(4.1%)

The largest component of the securities structure are investment securities, which at the end of 2005 accounted for 77.4% of the total securities. The largest value among investment securities constitute securities available for sale.

10.3.2 Liabilities

Changes in the liabilities structure

Funds deposited by customers represent the most significant part of the total liabilities of the Group. As at the end of 2005 amounts due to customers and liabilities arising from securities issued amounted to PLN 46,847.9 million and increased by PLN 1,003.0 million, i.e. 2.2% during 2005. The share of those items in the liabilities stood at 75.6% as at the end of 2005.

In 2005, amounts due to Central Bank fell by PLN 201.0 million as a result of partial repayment of the refinancing loan for the central state investment. The share of this item in the liabilities was 3.1%.

The Group's equity (including net profit) increased in 2005 by PLN 591.7 million. Change in the equity was mainly due to: repayment PLN 1,065.5 million in form of dividend of the net profit for 2004 and the profit of the current year (PLN +1,534.9 million). The share of the equity in the total balance sheet amount stood at 13.3% as of 31 December 2005.

Sources of financing

As at the end of 2005 amounts due to customers represented 92.2% of the total external sources of financing, and their share decreased by 0.7 p.p. in comparison to the end of 2004.

Financing on the interbank market accounts for 3.9% of external sources of the financing of the Bank's activities.

The Bank also takes advantage of the refinancing loan from NBP in order to finance the central state investment. The amount due to NBP decreased in 2005 by PLN 201.0 million to the level of PLN 1,950.7 million.

External sources of financing

	31.12.05	31.12.04 pro forma	Change
	PLN mil.		
Amounts due to the Central Bank	1,950.7	2,151.7	(9.3%)
Amounts due to banks	1,997.0	1,332.6	49.9%
Amounts due to customers	46,847.9	45,821.6	2.2%
Total external sources of financing	50,795.6	49,305.9	3.0%

Bank Pekao S.A. acquires deposits mainly in Poland.

The geographical structure of the deposits acquired by domestic branches of Bank Pekao S.A. as at the end of 2005 in comparison to the end of 2004 was as follows:

Region	% of total deposits	
	31.12.05	31.12.04
Warsaw	31.9	28.9
South-Eastern	12.6	13.4
Malopolski	12.4	12.9
Wielkopolski	9.4	9.3
Gdanski	9.2	9.2
Mazovian	9.0	9.7
Western	8.3	8.8
Central	7.2	7.8
Total	100.0	100.0

There were no significant changes in the regional structure of the deposits acquired by domestic branches during 2005.

Savings

	31.12.05	31.12.04 pro forma	Change
	PLN mil.		
Customer deposits	46,013.7	43,465.0	5.9%
retail	25,894.1	28,137.1	(8.0%)
corporate	20,119.6	15,327.9	31.3%
reverse repo transactions	729.7	2,142.4	(65.9%)
other	104.5	237.5	(56.0%)
Liabilities to customers	46,847.9	45,844.9	2.2%
Bank Pekao S.A. bonds (principal)	0.0	22.5	x
Mutual funds	19,237.5	13,002.3	48.0%
including sold in the Group's network	15,539.0	11,857.2	31.1%
Total savings	65,251.2	56,467.3	15.6%
including retail	45,131.6	41,139.4	9.7%

Savings of the Group's clients increased by PLN 8,783.9 million (15.6%) in 2005 resulting both from an increase in the savings of individual clients (of PLN 3,992.2 million, i.e. 9.7%) and in corporate deposits (of PLN 4,791.7 million, i.e. 31.3%) assisted by the decrease in liabilities arising from reverse repo transactions (of PLN 1,412.7 million, i.e. 65.9%). High demand for mutual funds allowed for further increase in mutual funds assets by PLN 6,235.2 million in 2005 bringing the total retail savings above the PLN 45 billion level confirming Group's significant market share.

Currency structure of liabilities

Liabilities to customers* denominated in:	31.12.05	
	PLN mil.	%
- PLN	33,939.0	72.4%
- Foreign currency	12,908.9	27.6%
Total	46,847.9	100.0%

* including interest and amounts due in transit

PLN prevails in the currency structure of the Group's liabilities to customers, whose share as at the end of 2005 was 72.5%. The highest share among foreign currency liabilities were USD – 58.6% and EUR – 34.5%.

Maturity structure of liabilities

	31.12.05	
	PLN mil.	%
A vista	20,952.2	44.8%
Term:	25,791.2	55.2%
up to one month	14,404.1	30.8%
1-3 months	5,626.6	12.0%
3 months – 1 year	4,696.2	10.0%

1-5 years	489.9	1.0%
over 5 years	574.3	1.2%
Total deposits	46,743.4	100.0%
Accrued interest	75.1	x
Amounts due in transit	29.3	x
Total amounts due to customers	46,847.9	x

According to maturities, a 44.8% share is attributed to A vista deposits. Term deposits are dominated by 1 month deposits (55.2% of all term deposits).

The deposit base of the Group is well diversified. The main sources of deposits are retail and corporate customers. The Group does not depend on any single client or group of clients.

10.3.3 Off-balance sheet items

As at 31 December 2005 the Group had the following open off-balance sheet liabilities for an amount equal to or greater than PLN 150 million:

Client	Industry by PKD (Polish Classification of Business Activity)	Endorsement, guarantee, sureties	Open lines of credit	PLN mil.	
				Letters of credit	Total
Client 1	Producing and processing of refinery products	0.0	500.7	3.4	504.1
Client 2	Publishing activities	0.0	390.5	0.0	390.5
Client 3	Telecommunications	84.8	156.5	48.7	290.0
Client 4	Manufacturing and distributing of gas fuel	0.0	238.1	0.0	238.1
Client 5	Self-government administration	0.0	200.0	0.0	200.0
Client 6	Post activities	0.0	150.0	0.0	150.0

Important guarantees and sureties

Granted by the Group

The Group pursues a conservative policy in relation to the guarantees and sureties and maintains the following significant single guarantees:

	PLN mil.
Guarantee 1	84.8
Guarantee 2	81.6
Guarantee 3	74.2
Guarantee 4	63.7
Guarantee 5	40.0
Guarantee 6	38.4
Guarantee 7	26.0

Granted to the Group exceeding the amount of PLN 200 million:

	PLN mil.
Surety 1	2,958.7
Surety 2	530.2
Surety 3	300.0
Surety 4	277.7
Surety 5	230.0
Surety 6	200.0

The largest surety (in terms of amount) is the surety received from the State Treasury and relating to the repayment of the loan for central state investment.

In 2005 the Group did not grant sureties of loans or guarantees to any single entity or subsidiary of that entity, the total value of which would have exceeded 10% of the Group's own funds.

11 Agreements with a company entitled to auditing of financial reports

	(PLN ths.)	
	2005	2004
Audit fees in relation to the Parent Company (1)	3,582	3,292
Audit fees in relation to Subsidiaries (2)	1,288	1,432
Audit related fees	-	30

The amounts above do not include value added tax (VAT)

- (1) Audit fees consist of amounts paid to KPMG Audyt Sp. z o.o. for professional services rendered for the audit of the Bank Pekao S.A annual separate and consolidated financial statements.

In relation to year 2005 the entity authorized to audit financial statements of the Bank is KPMG Audyt Sp. z o. o. in accordance with the contract dated 16 May 2005, with appendixes, covering the years 2005 and 2006.

In relation to the year 2004 the entity authorized to audit financial statements of the Bank was Ernst & Young Sp. z. o. o. in accordance with the contract dated 28 October 2002, with appendixes, covering the years from 2002 to 2004

- (2) Audit fees consist of amounts paid to KPMG Audyt Sp. z o.o. for professional services rendered for the audit of the Group subsidiaries' financial statements in the year 2005. (in the year 2004 paid to Ernst & Young Sp. z o.o.)

12 The position of the Management Board regarding the possibility of achieving forecasts

The Bank has not published the forecast of financial results for 2005.

13 Number and value of titles of execution and value of collaterals

The collateral used by the Bank within its activities includes: transfers of ownership and pledges, mortgages, transfer of rights to insurance policies, sureties under the Civil Code, transfer of debt, appropriation of assets in bank accounts, guarantees, deposits and others.

For corporate clients, the total value of the collateral for transactions classified into III and IV risk category as at 31 December 2005 amounted to PLN 2,615.6 million. During 2005, 858 titles of execution were issued on behalf of the Bank in the total amount of PLN 366.2 million; 1,116

executive actions were taken for the total amount of PLN 353.2 million; 443 civil law agreements totalling PLN 462.4 million were signed.

14 Significant events after balance sheet date

Share capital increase of the Bank

On 16 January 2006 share capital of the Bank was increased by the total amount of PLN 186,755 and on 6 February 2006 by PLN 5,169 as a result of issue of total 191,924 series F ordinary bearer shares. The share capital of the Bank amounts currently to PLN 166,673,611 and is divided into:

- 137,650,000 series A ordinary bearer shares with nominal value of PLN 1.00 (one) each,
- 7,690,000 series B ordinary bearer shares with nominal value of PLN 1.00 (one) each,
- 10,630,632 series C ordinary bearer shares with nominal value of PLN 1.00 (one) each,
- 9,777,571 series D ordinary bearer shares with nominal value of PLN 1.00 (one) each,
- 373,644 series E ordinary bearer shares with nominal value of PLN 1.00 (one) each,
- 191,924 series F ordinary bearer shares with nominal value of PLN 1.00 (one) each,
- 359,840 series H ordinary bearer shares with nominal value of PLN 1.00 (one) each.

The total number of votes at the Bank's General Shareholders Meeting under all issued shares is 166,673,611. The increase was conducted as a result of registration on buyers accounts of 191,924 series F ordinary bearer shares issued within the conditional share capital increase on the base of Resolution No. 7 of the Extraordinary General Shareholders Meeting of the Bank conducted on 25 July 2003 on contingent increase of the statutory capital, exclusion of the pre-emptive rights on the series F and G shares of the Bank and amendment to the Statute of the Bank.

15 Selected financial ratios

	2005	2004 pro forma
Profitability ratios		
Return on average equity (ROE)	19.2%	17.4%
Net interest margin including income on SWAP transactions	4.3%	3.8%
Non-interest income / total income	46.9%	47.5%
Operating costs (including depreciation) / total income	53.2%	57.5%
	31 December 2005	31 December 2004 pro forma
Balance sheet structure ratios		
Net loans / balance sheet total	46.8%	44.2%
Debt securities / balance sheet total	30.3%	32.9%
Deposits / balance sheet total	75.6%	77.0%
Equity / balance sheet total	13.6%	13.2%
Asset quality ratios (according to the NBP methodology)		
Non-performing loans / gross total loans	16.2%	19.9%
Non-performing loans / equity	63.8%	75.5%
Capital adequacy ratio	19.5%	21.7%

16 Representations of the Bank's Management Board

The Management Board of Bank Pekao S.A. declares to its best knowledge that:

- the consolidated annual financial statements and comparative figures have been prepared in accordance with the binding accounting policies and that they reflect in a true, fair and clear manner the Bank Pekao S.A. Group financial position and its results,
- the consolidated annual Report on the activities for 2005 provides the true picture of the Bank Pekao S.A. Group development, achievements and situation, including the main risks and threats.

The Management Board of Bank Pekao S.A. declares that the registered audit company performing the auditing of the consolidated annual financial statements of the Bank Pekao S.A. Group has been selected in line with the binding legal regulations. The company and the registered auditors performing auditing meet the requirements indispensable for issuing an objective and independent audit opinion, in line with the relevant provisions of the Polish law.

Signatures of all Members of the Bank's Management Board

<u>21.03.2006</u> Date	<u>Jan Krzysztof Bielecki</u> First Name / Family Name	<u>President, CEO</u> Position / Function	<u>Signature</u>
<u>21.03.2006</u> Date	<u>Luigi Lovaglio</u> First Name / Family Name	<u>Deputy President, COO</u> Position / Function	<u>Signature</u>
<u>21.03.2006</u> Date	<u>Sabina Olton</u> First Name / Family Name	<u>Deputy President Chief Accountant</u> Position / Function	<u>Signature</u>
<u>21.03.2006</u> Date	<u>Przemyslaw Figarski</u> First Name / Family Name	<u>Member of Management Board</u> Position / Function	<u>Signature</u>
<u>21.03.2006</u> Date	<u>Irene Grzybowski</u> First Name / Family Name	<u>Member of Management Board</u> Position / Function	<u>Signature</u>
<u>21.03.2006</u> Date	<u>Paolo Iannone</u> First Name / Family Name	<u>Member of Management Board</u> Position / Function	<u>Signature</u>
<u>21.03.2006</u> Date	<u>Christopher Kosmider</u> First Name / Family Name	<u>Member of Management Board</u> Position / Function	<u>Signature</u>
<u>21.03.2006</u> Date	<u>Marian Wazynski</u> First Name / Family Name	<u>Member of Management Board</u> Position / Function	<u>Signature</u>