

BANK  
POLSKA KASA OPIEKI  
SPOLKA AKCYJNA

Annual Consolidated Financial Statements  
of Bank Pekao S.A. Group  
for the year ended 31st December 2005



Warsaw, March 2006

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Annual Consolidated Financial Statements of Bank Pekao S.A. Group for the year ended  
31st December 2005  
Translation from the Polish Original  
Consolidated Income Statement

(in PLN thousand)

## Consolidated Income Statement

as year ended as at 31 December 2005 (\*)

	Notes	2005	2004
Interest income	5	3 871 774	3 765 843
Interest expense	5	(1 521 350)	(1 550 999)
<b>Net interest income</b>		<b>2 350 424</b>	<b>2 214 844</b>
Fee and commission income	6	1 770 087	1 719 637
Fee and commission expense	6	(183 103)	(163 115)
<b>Net fee and commission income</b>		<b>1 586 984</b>	<b>1 556 522</b>
Dividend income	7	348	9
Result on financial instruments at fair value	8	64 961	55 662
Result on investment securities	9	74 153	14 076
Foreign exchange result		265 398	289 018
Other operating income	11	284 976	307 495
Other operating expenses	11	(213 941)	(258 814)
<b>Net other operating income</b>		<b>71 035</b>	<b>48 681</b>
Net impairment losses on financial assets and net provisions for guarantees and commitments	13	(237 477)	(354 069)
Overhead costs	12	(2 346 404)	(2 333 437)
<b>Operating profit</b>		<b>1 829 422</b>	<b>1 491 306</b>
Share of profit (loss) of associates and joint venture entities valued at the equity method	16	44 177	36 157
<b>Profit before income tax</b>		<b>1 873 599</b>	<b>1 527 463</b>
Income tax expense	17	(338 747)	(213 005)
<b>Net profit for the period</b>		<b>1 534 852</b>	<b>1 314 458</b>
1. Attributable to equity holders of the Company		1 537 712	1 317 991
2. Attributable to minority interest		(2 860)	(3 533)
Earnings per share (in PLN per share)			
– basic for the period	18	9,24	7,93
– diluted for the period	18	9,23	7,93

(\*)Consolidated Income Statement for 2005 and the comparative data 2004 were prepared applying the accounting policies consistently in both the periods. The two areas of IAS 39 are exemptions from this rule: estimation of impairment of financial assets and valuation of loans and advances at amortized cost using the effective interest method.

Annual Consolidated Financial Statements of Bank Pekao S.A. Group for the year ended  
31<sup>st</sup> December 2005  
Translation from the Polish Original  
Consolidated Balance Sheet

(in PLN thousand)

## Consolidated Balance Sheet

as at 31 December 2005 year (\*)

	Notes	as at 31 Dec 2005	as at 31 Dec 2004
<b>Assets</b>			
Cash and amounts due from Central Bank	20	3 574 791	3 939 275
Debt securities eligible for rediscounting at the Central Bank		6 106	8 768
Amounts due from banks	21	6 966 026	5 961 477
Financial assets held for trading	22	2 502 366	3 195 771
Derivative financial instruments	23	499 290	503 482
Other financial instruments at fair value through profit or loss	24	1 781 317	1 336 721
Loans and advances to customers	25	28 223 730	26 219 531
Net investments in financial leases	26	745 891	547 324
Investment securities	27	14 490 772	15 036 457
1. Available for sale		11 902 898	10 106 484
2. Held to maturity		2 587 874	4 929 973
Assets held for sale	28	167 366	-
Investments in subordinated undertakings	29	167 814	124 662
Intangible assets	30	645 457	631 925
Tangible fixed assets	31	1 441 141	1 541 828
Investment property	32	61 259	102 869
Income taxes	17	182 180	97 769
1. Current tax assets		886	13 131
2. Deferred income tax assets	17	181 294	84 638
Other assets	33	516 450	729 488
<b>Total assets</b>		<b>61 971 956</b>	<b>59 977 347</b>
<b>Liabilities</b>			
Amounts due to the Central Bank	35	1 950 710	2 151 743
Amounts due to other banks	36	1 997 043	1 332 557
Financial liabilities held for trading	37	558 973	590 119
Derivative financial instruments	23	607 689	623 683
Amounts due to customers	38	46 847 877	45 821 645
Debt securities in issue	39	4	23 205
Liabilities associated with assets held for sale	28	39 663	-
Current income tax liabilities	17	5 621	256
Provisions for deferred income tax	17	1	1 222
Provisions	40	108 727	349 066
Other liabilities	41	1 432 922	1 060 370
<b>Total liabilities</b>		<b>53 549 230</b>	<b>51 953 866</b>
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	44	166 482	166 482
Reserves	45	6 718 913	6 325 958
Prior and current year profits	45	1 521 895	1 512 265
<b>Total capital and reserves attributable to the Company's equity holders</b>		<b>8 407 290</b>	<b>8 004 705</b>
Minority interest		15 436	18 776
<b>Total equity</b>		<b>8 422 726</b>	<b>8 023 481</b>
<b>Total equity and liabilities</b>		<b>61 971 956</b>	<b>59 977 347</b>

(\*) Consolidated Balance Sheet as of 31<sup>st</sup> December 2005 and the comparative data were prepared applying the accounting policies consistently in all periods. The two areas of IAS 39 are exemptions from this rule: estimation of impairment of financial assets and valuation of loans and advances at amortized cost using the effective interest method

Annual Consolidated Financial Statements of Bank Pekao S.A. Group for the year ended 31<sup>st</sup> December 2005  
Translation from the Polish Original  
Consolidated Statement of Changes in Shareholders' Equity

(in PLN thousand)

**Consolidated Statement of Changes in Equity as at 31 December 2005 year**

	Equity attributable to equity holders of the Bank					Total equity	Minority interest	Total equity
	Share capital	Reserves	- of which revaluation reserves	- of which foreign exchange differences from translation of foreign entities	Prior and current year profit			
<b>Equity as at 1 January 2004</b>	<b>166 122</b>	<b>6 206 201</b>	<b>(137 850)</b>	<b>5 091</b>	<b>914 221</b>	<b>7 286 544</b>	<b>21 378</b>	<b>7 307 922</b>
Share issues	360	23 137	-	-	-	23 497	-	23 497
Dividend payments	-	-	-	-	(747 548)	(747 548)	-	(747 548)
Profit distribution	-	281 859	-	-	(281 859)	-	-	-
Current year net profit	-	-	-	-	1 317 991	1 317 991	(3 533)	1 314 458
Merger of leasing companies	-	(309 460)	-	-	309 460	-	-	-
Revaluation of available-for-sale investments net of deferred tax	-	126 839	126 839	-	-	126 839	-	126 839
Revaluation of management options	-	4 800	-	-	-	4 800	-	4 800
Foreign exchange differences from translation of foreign entities	-	(6 465)	-	(6 465)	-	(6 465)	-	(6 465)
Other	-	(953)	-	-	-	(953)	931	(22)
<b>Equity as at 31 December 2004</b>	<b>166 482</b>	<b>6 325 958</b>	<b>(11 011)</b>	<b>(1 374)</b>	<b>1 512 265</b>	<b>8 004 705</b>	<b>18 776</b>	<b>8 023 481</b>
Adjustments related to IAS 39 adoption	-	-	-	-	(192 460)	(192 460)	-	(192 460)
<b>Equity as at 1 January 2005</b>	<b>166 482</b>	<b>6 325 958</b>	<b>(11 011)</b>	<b>(1 374)</b>	<b>1 319 805</b>	<b>7 812 245</b>	<b>18 776</b>	<b>7 831 021</b>
Dividend payments	-	-	-	-	(1 065 483)	(1 065 483)	-	(1 065 483)
Profit distribution	-	271 900	-	-	(271 900)	-	-	-
Current year net profit	-	-	-	-	1 537 712	1 537 712	(2 860)	1 534 852
Revaluation of available-for-sale investments net of deferred tax	-	107 867	107 867	-	-	107 867	-	107 867
Revaluation of management options	-	11 893	-	-	-	11 893	-	11 893
Foreign exchange differences from translation of foreign entities	-	(736)	-	(736)	-	(736)	-	(736)
Other	-	2 031	-	-	1 761	3 792	(480)	3 312
<b>Equity as at 31 December 2005</b>	<b>166 482</b>	<b>6 718 913</b>	<b>96 856</b>	<b>(2 110)</b>	<b>1 521 895</b>	<b>8 407 290</b>	<b>15 436</b>	<b>8 422 726</b>

## Consolidated Statement of Cash Flow

as at 31 December 2005 year (\*)

CONSOLIDATED STATEMENT OF CASH FLOW	2005	2004
Cash flow from operating activities - indirect method		
<b>Net profit (loss)</b>	<b>1 537 712</b>	<b>1 317 991</b>
<b>Adjustments:</b>	<b>(1 553 001)</b>	<b>(4 213 877)</b>
Depreciation	322 891	322 761
Share of profit of associates	(44 177)	(36 157)
Foreign exchange differences	(125 405)	570 960
(Profit) loss on investing activities	(81 769)	(34 233)
Impairment	(972)	27 287
Interest and dividend	(867 149)	(951 797)
Change in loans and advances to banks	(249 270)	293 255
Change in financial assets as held for trading and other financial instruments at fair value through profit or loss	248 809	(1 763 530)
Change in derivative financial instruments	4 192	(245 658)
Change in loans and advances to customers	(2 472 020)	(1 200 904)
Change in net investment in the finance lease	(198 567)	33 754
Change in investment securities available for sale	(2 608)	-
Change in tax assets	(78 266)	(77 007)
Change in other assets	107 713	398 070
Change in amounts due to banks	463 453	(685 020)
Change in liabilities as held for trading	(31 146)	590 119
Change in derivative financial instruments and other financial liability at fair value through profit or loss	(15 994)	184 451
Change in amounts due to customers	1 026 232	(1 470 024)
Change in provisions	8 114	(43 919)
Change in other liabilities	415 287	(176 140)
Income tax paid	(408 634)	(224 374)
Current tax	426 285	274 229
<b>Net cash from operating activities</b>	<b>(15 289)</b>	<b>(2 895 886)</b>
<b>Cash flows from investing activities</b>		
<b>Investing activity inflows</b>	<b>51 059 881</b>	<b>23 885 365</b>
Sale of shares in subsidiaries and associates	3 400	61 540
Sale of investment securities	50 464 495	23 208 507
Proceeds from sale of intangible assets and tangible fixed assets	11 723	-
Other investing inflows	580 263	615 318
<b>Investing activity outflows</b>	<b>(49 565 113)</b>	<b>(20 546 601)</b>
Purchase of subsidiaries and associates	(25 002)	(126)
Purchase of investment securities	(49 278 226)	(20 291 524)
Purchase of intangible assets and tangible fixed assets	(261 885)	(253 003)
Other investing outflows	-	(1 948)
<b>Net cash used in investing activities</b>	<b>1 494 768</b>	<b>3 338 764</b>

Annual Consolidated Financial Statements of Bank Pekao S.A. Group for the year ended  
31<sup>st</sup> December 2005 Translation from the Polish Original  
Consolidated Statement of Cash Flow

(in PLN thousand)

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<b>Cash flows from financing activities</b>		
<b>Financing activity inflows</b>	<b>4</b>	<b>165 776</b>
Issue of debt securities	4	142 279
Issue of normal shares	-	23 497
<b>Financing activity outflows</b>	<b>(1 088 688)</b>	<b>(1 380 130)</b>
Redemption of debt securities	(22 479)	(630 312)
Dividends and other payments to shareholders	(1 065 483)	(747 548)
Other financing outflows	(726)	(2 270)
<b>Net cash from financing activities</b>	<b>(1 088 684)</b>	<b>(1 214 354)</b>
<b>Total net cash flow</b>	<b>390 795</b>	<b>(771 476)</b>
<b>Net change in cash and cash equivalents</b>	<b>390 795</b>	<b>(771 476)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>7 276 426</b>	<b>8 047 902</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>7 667 221</b>	<b>7 276 426</b>

## Notes to the consolidated financial statements

### 1. General Information

Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and with respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and respective bylaws and regulations, as well as the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market.

The consolidated financial statements of the Capital Group of Bank Pekao S.A. (“Group”) cover the 12 month period from 1 January 2005 to 31 December 2005 and include the comparatives for the period from 1 January 2004 to 31 December 2004, for the balance sheet and statement of changes in equity the previous year’s results was also presented.

Bank Pekao S.A. (“Parent entity”, “Parent company”, „the Bank”) head quartered in Warsaw, 00-950 Grzybowska Street 53/57 was entered into Commercial Register on 29 October 1929 on the basis of the Regional Court in Warsaw and since then has been continuously operating.

The Parent entity is entered into the entrepreneurs National Court Register managed by the 19<sup>th</sup> Commercial Department of the Regional Court in Warsaw under the reference number KRS 0000014843.

The Parent entity statistic number is REGON 000010205.

The live time of the Parent entity and other group entities are unlimited.

Bank Pekao S.A. is a part of the Bank UniCredito Italiano S.p.A capital group with its seat in Genoa, Italy.

Shares of the Bank are quoted on the Warsaw Stock Exchange.

Bank Pekao S.A. is a universal commercial bank offering a wide range of banking services to both individual and corporate clients. Its operations are denominated in both PLN and foreign currencies, actively participates in both domestic and foreign financial markets. Moreover the Group by the subsidiaries run financial service, leasing, factoring and other investment activity.

#### Group constitutits

The Group consists of The Bank Pekao SA and the following subsidiaries:

Name of company	Location	Core activity	% of Shareholder’s share capital	
			31.12.2005	31.12.2004
Bank Pekao (Ukraina) Ltd.	Łuck, Ukraina	banking	100,00	100,00
Centralny Dom Maklerski Pekao S.A.	Warszawa	brokerage	100,00	100,00
Pekao Fundusz Kapitałowy Sp. z o.o.	Warszawa	financial	100,00	100,00
Pekao Leasing Sp. z o.o.	Warszawa	leasing	100,00	100,00
Pekao Faktoring Sp. z o.o.	Lublin	financial	100,00	100,00
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	Warszawa	financial	65,00	65,00
Drukbank Sp. z o.o.	Zamość	not operating	100,00	100,00
Centrum Kart S.A.	Warszawa	financial support	100,00	100,00
Pekao Financial Services Sp. z o.o.	Warszawa	financial services	100,00	100,00
Pekao Development Sp. z o.o.	Warszawa	real estate management	100,00	100,00
Pekao Access Sp. z o.o.	Warszawa	economic advisory services	55,26	55,26

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31<sup>st</sup> December 2005 Translation from the Polish Original  
Notes to the Consolidated Financial Statements

(in PLN thousand)

BDK Consulting Sp. z o.o.	Łuck, Ukraina	consulting, hotel and transport services	99,99	99,99
Fabryka Maszyn Sp. z o.o.	Janów Lubelski	Machinery and equipment manufacturing	86,68	86,68
Pekao Immobililier s.a.r.l.	Paryż, Francja	real estate	100,00	100,00
Nowe Ogrody Sp. z o.o.	Gdańsk	real estate management and sale	98,00	98,00

The Group of the Bank Pekao SA owns the following affiliated entities and joint-ventures:

Name of company	Location	Core activity	% of votes on Shareholder's equity* 31.12.2005	on the equity* 31.12.2004
<b>Associates</b>				
Central Poland Fund LLC	Wilmington, Dalaware, USA	Financial brokerage	53,19	53,19
Xelion. Doradcy Finansowi Sp. z o.o.	Warszawa	Supporting, financial and insurance	50,00	50,00
Pioneer Pekao Investment Management S.A.	Warszawa	Financial brokerage	49,00	49,00
Krajowa Izba Rozliczeniowa S.A.	Warszawa	Clearing house	22,96	22,96
Hotel Jan III Sobieski Sp. z o.o.	Warszawa	Hotels	37,50	37,50
Fabryka Sprzętu Okrętowego "Meblomor" S.A.	Czarnków	Ship equipment manufacturing	23,81	23,81
CPF Management	Tortola, British Virgin Islands	Financial brokerage	40,00	40,00
Pracownicze Towarzystwo Emerytalne „Nowy Świat” S.A.	Warszawa	PTE management	39,56	39,56
<b>Joint – Ventures</b>				
Anica System S.A.	Lublin	IT	33,84 / 13,49	33,84 / 13,49

\* presented in case when votes on shareholder equity are unequal with votes on share capital

As of 31<sup>st</sup> December 2005

The Group controls over 50% of votes/potential voting rights in the Central Poland Fund LLC. In Group's opinion, it does not control the entity due to the provisions in this company's articles of association.

The Group controls over 50% of votes in Xelion Doradcy Finansowi Sp. z o.o. entity. Due to the provisions in this company's articles of association this entity constitutes Group's investment – an associate entity.

As of 31 December 2004 year Group was in possession of 24. 60% of shares at Grupa Inwestycyjna Nywig S.A. Shares were sold in December 2005 year.

**Members of the 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. Przemysław Figarski Member of the Management Board	4. Przemysław 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 Ważyński Member of the Management Board	8. Marian Ważyński Member of the Management Board

During the period covered by the financial statements there were no changes in the Management Board of the Bank

**Members of the Supervisory Board of Bank Pekao S.A.**

31.12.2005	31.12.2004
1. Jerzy Woźnicki Chairman	1. Alessandro Profumo Chairman
2. Paolo Fiorentino Deputy Chairman, Secretary	2. Paolo Fiorentino Deputy Chairman, Secretary
3. Andrea Moneta Deputy Chairman	3. Jerzy Woźnicki Deputy Chairman
4. Paweł Dangel	4. Paweł Dangel
5. Fausto Galmarini	5. Fausto Galmarini
6. Oliver Greene	6. Oliver Greene
7. Enrico Pavoni	7. Enrico Pavoni
8. Leszek Pawłowicz	8. Leszek Pawłowicz
9. Jerzy Starak	9. Jerzy Starak

During the period from 01.01 2005 till the day of publication there were changes in the Management Board of the Bank:

- on 19.01.2004 Alessandro Profumo submitted his resignation as Chairman of the Supervisory Board effective,

- as of 20.01.2005 r. Jerzy Woźnicki vice Chairman of the Supervisory Board was appointed to the post of Chairman of the Supervisory Board of Bank,
- as of 20.01.2005 r. Andrea Moneta was appointed as a Member and Vice Chairman of the Supervisory Board..

### **Continuity of activities (going concern)**

The financial statements for the year 2005 were prepared on the basis of the assumption that the Group will continue its business operations, in a scope that will not be substantially limited, during a period not shorter than one year from the balance sheet date. As at the date of signing the financial statements, the Management Board of the Bank is not aware of any facts or circumstances that would indicate a threat to the Bank's continued activity in at least the twelve months following the balance sheet date due to an intended or compulsory withdrawal from or limitation in its activities.

### **Approval of the financial report**

This financial report was approved by the Board of the Bank for publishing in 21 march 2006 year.

## **2. Accounting Policies**

### **2.1. Statement of Compliance**

Consolidated financial statements have been 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 requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and respective bylaws and regulations, as well as the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market.

### **2.2. Basis of preparation of consolidated financial statement**

31.12.2005 is the close of the first full accounting period in which the Capital Group of the Bank is obliged to present its annual financial report in compliance with International Financial Reporting Standards as adopted by the European Union.

The date of adoption of IFRS is the date of the opening balance sheet of the earliest of the periods presented, i.e. January 1<sup>st</sup>, 2004. Previously published financial statements of the Bank and Group, along with statements for 2004, were prepared in accordance with the Polish Accounting Standards (PAS). Reconciliations of equity as at 1st January 2004, 31<sup>st</sup> December 2004 and 1<sup>st</sup> January 2005 as well as net profit ended 31<sup>st</sup> December 2004 prepared in accordance with PAS and IFRS, are presented in Note 52.

The Group applied the same accounting policies in preparing the opening balance sheet according to IFRS for January 1<sup>st</sup>, 2004, and throughout all presented periods. Accounting policies applied are compliant with provisions of each IFRS in force as of December 31<sup>st</sup>, 2005, i.e. on the reporting date, apart from the exemptions allowed by IFRS.

- Combining business units (IFRS 1.15, Appendix B).

The Group has taken advantage of the exemption related to combining of business units. Therefore, the Group did not apply IFRS 3 in relation to business units combinations implemented before the date of moving to IFRS, i.e. by January 1<sup>st</sup>, 2004

- Fair value or re-valuation as deemed cost (IFRS 1.16-19).

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

- Cumulated differences due to foreign currency recalculation (IFRS 1.21-22).

Taking advantage of the exemption allowed by IFRS 1, the Group assumed that accumulated differences due to foreign currency translation for units operating abroad have zero value for the day of adopting IFRS.

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

The Group performed the designation of financial instruments as assets or financial liabilities reported at fair value through profit and loss account or as available for sale for the date of adoption of IFRS, i.e. in the case of IAS 39 – for January 1, 2005.

- Share-based payment transactions (IFRS 1.25B).

The Group applied the standard of IFRS 2 with reference to the equity instruments that were granted after 7 November, 2002, if such equity instruments were not vested before 1 January, 2005.

Additionally, the Group used the exemption from the requirement of restating comparatives regarding IAS 32, IAS 39. For these standards, the date of migration to IFRS is January 1<sup>st</sup>, 2005. Comparatives pertaining to those standards are prepared using previously applied accounting policies.

The Group financial statements include all International Accounting Standards, International Financial Reporting Standards and related Interpretations, except for the Standards and Interpretations described below, having influence on Bank's financial statements which will be subject to the approval of the European Union, as well as Standards and Interpretations which have been approved by the European Union, but are not in force.

The Group has not elected to early adopt any new Standards and Interpretations, which have been published and approved by the European Union, and which will be effective after the balance sheet date. Moreover, as of the balance sheet date the Group has not completed the assessment of the possible impact of the Standards and Interpretations, which will be effective after the balance sheet date, on the Group consolidated financial statements for the period of initial application.

<b>Awaiting EU endorsement</b>	<b>Issued / Revised / Amended (effective date)</b>
Amendment to IAS 1 Capital Disclosures	August 2005 (Effective 1 January 2007)
Amendments to IAS 39 and IFRS 4: Financial Guarantee Contracts	August 2005 (Effective 1 January 2006)
IFRS 7 Financial Instruments: Disclosures	August 2005 (Effective 1 January 2007)
IFRIC 6 Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment	September 2005 (Effective 1 December 2005)
<b>Endorsed but not yet effective</b>	
Amendments to IAS 19 <i>Employee Benefits</i> – Actuarial Gains and Losses, Group Plans and Disclosures (including consequential amendments to IAS 1, IAS 24 and IFRS 1)	December 2004 (Mandatory requirements effective 1 January 2006)
<i>Financial Instruments: Recognition and Measurement</i> – Cash Flow Hedge Accounting of Forecast Intragroup Transactions	April 2005 (Effective 1 January 2006)
Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement</i> – The Fair Value Option (including consequential amendments to IAS 32 and IFRS 1)	June 2005 (Effective 1 January 2006)
IFRIC 4 Determining whether an Arrangement Contains a Lease (including consequential amendments to IFRS 1)	December 2004 (Effective 1 January 2006)
IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (including consequential amendments to IAS 39)	December 2004 (Effective 1 January 2006)

The consolidated financial statements are prepared in accordance with the historical cost method, except for derivative financial instruments, financial assets available for sale, and financial assets at fair value through profit or loss, which are measured at fair value.

The consolidated financial statements are presented in Polish Zloty, and all amounts, unless indicated otherwise, are stated in thousands (PLN thousand).

### **2.3. Consolidation policies**

The consolidated financial statements include the financial statements of Bank Pekao S.A. and financial statements of its subsidiaries, prepared for December 31<sup>st</sup>, 2005. Financial statements of subsidiaries are prepared for the same reporting date as the statements of the parent company.

All balances and transactions between entities in the Group, including unrealized profits resulting from transactions within the Group, have been fully eliminated. Unrealized losses are also eliminated, unless they provide proof of permanent impairment, which should be taken into account in the consolidated financial statements

Subsidiaries are consolidated in the period from the date of the Group's taking control, until that control ceases .

#### **Subsidiaries investment**

Subsidiaries are entities in which the Bank directly and indirectly has a such control. The control is ability to manage financial and operating policies in order to gain economic profits. Control basically is involved with larger number of votes in governing bodies. The subsidiaries are consolidated in period from the date of the Group's taking control, until the date that control ceases.

For the date of taking control subsidiaries, assets and liabilities are measured in fair value. Surplus deemed cost over fair value purchased net assets is indicate as goodwill. If deemed cost is lower than fair value net assets of subsidiaries the different recognized in profit and loss account.

#### **Associates**

Associated entities are entities in which the Group has significant influence and are not subsidiaries or joint venture entities. The Group usually determines significant influence by possession of 20 to 50 % of the total number of votes in governing bodies.

Financial statements of an associate entity are the basis for the valuation of shares held by the group using the equity method. Balance sheet dates of the associates and of the Group are identical, and both entities apply coherent accounting policies.

An investment in an associate entity is presented in the balance sheet at cost plus subsequent changes in the Group's share in the net assets of the entity, minus any impairment write-offs. The profit and loss account reflects the share in the results of activities of the associate entity. In the case of a change recognized directly in the equity of the associate entity, the Group recognizes its share in each change and discloses it, if appropriate, in the statement of changes in equity. Any distributions by an associate are deducted from the carrying value of the investment in associate.

When the share of the Group in the losses of the associate becomes equal or larger than the share of the Group in such associate entity, the Group discontinues recognition of further losses, unless it incurred an obligation or made a payment on behalf of the associate.

Unrealized profits and losses on transactions between the Group and its associate entities are eliminated in proportion with the Group's shares in associates.

## Participation in joint ventures

The Group's participation in joint ventures is recognized using the equity method, in accordance with the principles described for investments in associate entities.

### 2.4. Accounting estimates and judgement applying accounting policies

Preparing financial statements in accordance with IFRS requires the Management Board of the Bank to make certain estimates and to adopt certain assumptions, which affect the amounts presented in the financial statements and in explanatory notes.

The estimates which were made as of the date of migration to IFRS, i.e. for January 1<sup>st</sup>, 2004, and for each balance sheet date, reflect the conditions which existed at those dates (e.g. market prices, interest rates, foreign exchange rates). While the estimates are based on the best knowledge regarding current conditions and activities which the Group will undertake, the actual results may differ from such estimates.

Principal assumptions/subjective judgments adopted in making estimates by the Group pertain, primarily, to:

- Impairment of financial assets

The assumptions presented herein, regarding measurement of impairment of credit and loans are described in this note, in the part titled "Impairment of financial assets".

- Impairment of other non-current assets

For each balance sheet date, the Group reviews its assets for indications of impairment. Where such indications exist, the Group makes a formal estimation of the recoverable value. In the event of the carrying value of a given asset being in excess of its recoverable value, its impairment is stated, and a write-off is made to adjust its value to the level of recoverable value.

Recoverable value is the lower of the following two values: fair value of the given asset or cash generating unit less costs of disposal, or the value in use, determined for each asset separately.

If there are indications of impairment of common property, i.e. assets which do not generate cash independently from other assets or groups of assets, and the recoverable value of the individual asset included among common property cannot be determined, the Group determines the recoverable value at the level of the cash generating unit, to which the given asset belongs.

Estimation of value-in-use of a non-current asset (or cash generating unit) requires assumptions to be adopted, regarding, among others, future cash flows, which the Group may obtain from the given non-current asset (or cash generating unit), any changes of amounts or times of occurrence of these cash flows, and other factors such as lack of liquidity. Adoption of different measurement assumption could affect the carrying value of some of the investments.

- Measurement of derivatives and debentures available for sale that do not have a quoted market price

The fair value of non-optional derivatives and debentures available for sale that do not have a quoted market price on an active market are measured using valuation models based on discounted cash flows. Options are valued using option valuation models. Variables used for the valuation include, where possible, data from observable markets. However, the Group also adopts assumptions which affect the valuation of instruments. Adoption of a different measurement assumption could affect the carrying value of financial instruments.

- Measurements of management options

The assumptions adopted, regarding measurement of management options, are described in position of "employment benefits".

- Calculation of retirement and sick pension severance payments provision

The severance payments provision is determined on an individual basis, separately for each employee. The reserve is valued on the basis of the current value of future, long-term liabilities of the Bank for retirement and sick pension severance payments.

The basis for the calculation of a provision for an employee is the expected amount of retirement or pension severance pay which the Bank undertakes to pay under the Group Bargaining Agreement (GBA). The expected severance pay amount is calculated as the product of the following factors:

- expected amount of the basis of calculation of severance pay, in accordance with provisions of the GBA,
- expected increase of the calculation basis until the retirement age,
- percentage factor depending on the amount of years of employment, in accordance with the GBA.

The amount calculated as above is discounted using an actuarial technique. The discounted amount is reduced by amounts of annual reserve write-offs actuarially discounted for the same date, which the Bank effects in order to increase the employee's provision.

Amounts of annual write-offs are calculated using the projected unit credit method.

Actuarial discount is the product of the financial discount and of the probability of the given person's reaching retirement age as an employee of the Bank.

The probability mentioned above has been determined using the competing risks method, with the following risks taken into account:

- possibility of abandoning employment,
- risk of complete disability for work,
- risk of death.

## **2.5. Valuation of the foreign currency items**

- The functional currency and the presentation's currency

The items contained in presentations of particular units of the Group, including the Bank's branch in Paris, are priced in the functional currency, i.e. in the currency of the basic economic environment in which a given entity operates.

The consolidated financial report is presented in Polish Zloty. The Zloty is the functional currency and the presentation currency of the parent business entity.

As the closing exchange rate, the Group adopted the average NBP exchange rate as of the balance sheet date.

- Transactions and balances

Transactions expressed in foreign currency are translated into the functional currency by applying the exchange rate at the date of the transaction. Exchange rate profits and losses due to settlements of these transactions and to the balance sheet valuation of assets and monetary commitments expressed in foreign currency are accounted for in the profit and loss account.

Exchange rate differences due to non-monetary items, such as equity instruments classified to financial assets designated for fair value valuation through the profit and loss account, are accounted for together with changes in the fair value of the profit and loss account.

Exchange rate differences due to non-monetary items, such as equity instruments classified to financial assets available for sale, are included in the revaluation reserve update.

- Companies of the Group

At consolidation, assets and liabilities of foreign business entities are translated into the Polish currency, i.e. to the presentation currency, as per the closing exchange rate for the balance sheet date. Revenues and costs in the profit and loss account are recalculated as per average exchange rates calculated on the basis of the exchange rates from particular days of the reporting period, except for the situations when exchange rates fluctuate significantly and the average exchange rate is not an acceptable approximation of the exchange rate from the transaction date. In such a situation, income and costs are translated on the basis of the exchange rate from the date of transaction.

The data recognized in financial statements of: the Bank's Paris branch, and of the Bank Pekao (Ukraine) subsidiary are converted into PLN from the functional currencies of these entities, using the following exchange rates:

- for conversion of balance sheet items, average exchange rates announced by the National Bank of Poland which were:

	31.12.2005	31.12.2004
PLN for 1 UAH	0,6465	0,5642
PLN for 1 EUR	3,8598	4,0790

- for conversion of profit and loss account items, arithmetic means were used of average exchange rates on the last day of each ended month for 12 months of 2005 and 2004, which were:

	2005	2004
PLN for 1 UAH	0,6386	0,6835
PLN for 1 EUR	4,0233	4,5182

The foreign exchange differences from the valuation of foreign entities are accounted for as a separate component of equity.

During the sale of a business entity conducting operations abroad, such exchange rate differences are recognized in the profit and loss account as part of profit or loss on sales.

The goodwill arising on acquisition of the entity operating abroad, as well as any adjustments of the balance sheet value of assets and liabilities to fair value, arising on acquisition of the entity operating abroad, are treated as assets and liabilities of an overseas entity, i.e. they are expressed in the functional currency of the overseas entity and translated at the closing exchange rate, as described above.

## 2.6. Valuation of the net income

### Interest income and expense

The Group recognizes interest income and expense related to financial instruments measured at amortized cost using the effective interest rate method. Also, interest income on financial assets available for sale is recognized using the effective interest method.

The effective interest rate is the rate which exactly discounts the estimated future cash inflows and payments made in the expected period until expiry of the financial instrument, and in a shorter period where justified, to the net carrying value of the financial asset or liability. The calculation of the effective interest rate includes all commissions paid and received by parties to the agreement, points which are an integral part of the effective interest rate, transaction costs, and all other premiums and discounts.

The interest income contains interest itself, as well as commissions received or due for credits, inter-bank deposits, and securities held-to-maturity and available for sale, recorded in calculation of the effective interest rate.

Upon finding an impairment of a financial asset measured at amortized cost and financial assets available for sale, interest income is still recognized in the profit and loss account, but is calculated from the newly determined fair value of the financial instrument (from the new, lower value of the instrument, (i.e. value decreased by the revaluation write-off). For the calculation of interest income on the newly determined fair value, that interest rate is used, according to which future cash flows were discounted for the purpose of impairment measurement.

Costs of the reporting period applicable to payables due to interest on customer accounts and to commitments for issuing the Group's securities are accounted for in the profit and loss account using the effective interest rate

### **Fee and commissions income**

Commission income and costs received from banking operations on client accounts, from operations on payment cards, as well as from brokerage, factoring and selling operations are recognized as revenue at the time the service is rendered, other fees and commissions are deferred and recognized as revenue over time.

The Group recognizes two basic types of commissions related to credit operations:

- preparing fees and commissions;
- commitment fees.

Commitment fees are recognized on the accrual basis throughout the life of the facility they relate to.

In case of loans and advances without a defined repayment schedule and without an interest rate changes schedule (e.g. overdraft facilities and credit card products commissions) are recorded over time throughout the life of the facility, using the straight line method.

### **Foreign exchange result**

Foreign exchange result is calculated taking into account foreign exchange gains and losses, both realised and unrealised, arising from daily valuation of assets and liabilities denominated in foreign currencies and recorded under foreign exchange income and cost. The exchange rate used for valuation of a given foreign currency used for valuation is the average exchange rate set by the President of NBP on the balance sheet day.

The foreign exchange result also includes the exchange differences resulting from valuation of net investments in foreign entities on the date of sale of the given investment. Until the date of sale, foreign exchange differences arising from valuation of net assets in a foreign entity are recognised as a separate component of equity.

### **Other operating income and expenses**

Other operating income include mainly gains realized on sale/liquidation of items of fixed assets and assets repossessed for debt, amounts of uncollectible debts recovered, amounts of received damages, penalties, fines, income on rental of real estate, write backs of provisions for court litigations and repossessed assets. Other operating costs comprise primarily: the costs of sold or liquidated tangible fixed assets and assets seized for debts; debt collection costs; provisions for receivables under dispute and assets seized for debts and donations.

## **2.7. Valuation of the assets and financial liabilities, derivatives contracts**

### **Financial assets**

Financial assets are classified in the following categories:

- financial assets valued at fair value through the profit and loss

This category comprises two sub-categories: financial assets held for trading and financial assets designated at initial recognition for fair value valuation through the profit and loss.

Financial assets held for trading include in particular: debt and equity securities, loans, and receivables purchased or classified here with the aim of selling in the short term. The Group also classifies derivative instruments here.

- held-to-maturity.

These are financial assets of identified or identifiable payment terms and due dates, that were purchased with the aim of holding them until their due date and the Group intends and has the ability to hold them until that date.

The financial assets of that category are valued at amortized cost using the effective interest rate. Recognition of amortized cost, taking into account the effective interest rate, is recorded in interest income.

- loans and receivables

Loans and receivables are financial assets not quoted on the active market, characterized by payments that are constant or identifiable, other than derivative instruments. This category contains both the debt securities bought from the issuer, for which there is no active market, credits, loans and other receivables received and granted. Loans and receivables are measured at amortized cost, using effective interest rate and considering impairment.

- available for sale

These are the financial assets with a non-defined holding period. The portfolio is composed of debt and equity securities, as well as loans and receivables not accounted for in other categories. Interest on assets available for sale is calculated using the effective interest rate method and accounted for in the profit and loss account.

Financial assets available for sale are measured at fair value, and profits and losses resulting from a change of fair value in relation to amortized cost are charged to the revaluation reserve. The revaluation reserve item is carried to the profit and loss account upon sale of asset or its impairment. In the event of impairment of the asset, previously recognized surpluses from fair value measurement decrease the "Revaluation reserve". If the amount of previously recognized increases is insufficient to cover permanent impairment, the difference is charged to the profit and loss account, under the heading "Reserve write-offs and revaluation".

Dividends due to equity instruments are accounted for in the profit and loss account at the moment of establishing the entity's right to receive payments.

Standardized purchase and sale transactions of financial assets valued at fair value through the profit and loss statement, held for trading (with the exclusion of derivative instruments), held to maturity and available for sale are recognized and excluded from the books by the Group on the day of the transaction settlement, i.e. the day of the receipt or delivery of the asset.

Changes in the fair value of the asset to be received between the date of the transaction and the date of the settlement are recognized in the same way, as for the possessed asset.

Loans are recognized at the time of disbursement to the debtor.

Derivative instruments are recognized or excluded from the books at the date of the transaction.

### **Impairment of financial assets**

For each balance sheet date, the Group assesses, whether there is objective evidence of impairment of a given financial asset or of a group of such assets. Impairment of a financial asset or of a group of financial assets was incurred only if there is objective evidence for the impairment due to events

that followed the initial recording of the specific asset (“the loss event”), and when the events affect the expected cash flows regarding these assets, and the flows may be estimated in a reliable way.

The objective evidence for impairment of financial assets includes – as per the Group’s principles – information on the following loss events:

- substantial financial problems of the issuer or debtor;
- failure to keep to the contract terms, e.g. failing to repay or delay in repayment interest or part of capital;
- the Group’s granting concessions or privileges to the debtor, for economic and legal reasons following financial problems of the debtor, which in other circumstances would not be taken into account;
- high probability of bankruptcy or of another financial reorganization of the debtor;
- disappearance of the active market for the particular financial assets due to financial difficulties.
- observable data indicating a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group or
  - national or local economic conditions that correlate with defaults on the assets in the group.

The Group classifies credit receivables by size of engagement, into the individual and group portfolios.

In the individual portfolio, each particular credit 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 characteristics are identified, which are then assessed collectively for the impairment.

If there is any objective evidence of impairment of financial assets classified as loans and receivables, or as investments held-to-maturity, then the amount of the impairment is the difference between the carrying amount of an asset and the current value of estimated future cash flows (excluding future credit losses that were not incurred), discounted using an original effective interest rate established with the initial recognition of a given financial asset. The carrying amount of the asset is then reduced through use of the allowance account, and the amount of loss is recognized in the profit and loss account.

Calculation of the present value of estimated cash flows related to the impaired collateralized financial asset also takes into consideration the cash flows resulting from the liquidation of the collateral reduced by the costs of repossession and disposal.

Expected future cash flows related to the group of financial assets for impairment on a group basis are estimated on the basis of the historical cash recoveries recorded for assets of similar risk characteristics.

Historical parameters of recoveries are adjusted on the basis of the data coming from current observations, so as to take into consideration the influence of current conditions and to exclude the influencing factors in the historical period, that are not presently valid.

If in the next period the amount of impairment is lower due to an event taking place after the impairment (e.g. an improvement in the debtor’s credit rating), then the reduction of impairment is

reversed through an appropriate adjustment of an amount on the allowance account. The amount of the reversal is recognized in the profit and loss account.

### **Sale and re-purchase agreements**

Repo and reverse-repo transactions, as well as sell-buy back and buy-sell back transactions, are security sale or purchase operations with promise of repurchase or resale at an agreed date and price.

Sales transactions with the repurchase promise granted (repo and sell-buy back) are recorded, at the transaction date, in payables to other banks or in payables to customers due to deposits, depending on the transaction's contractor. The purchased securities with the resale promise granted (reverse-repo and buy-sell back) are recorded as receivables from banks or as credits and loans granted to customers, depending on the transaction's contractor.

The difference between the selling and buying price is treated as interest expense/income, respectively, and accounted for over the duration of the contract, using the effective interest rate.

Borrowed securities by Bank are not included in financial statements and lent securities to other entities are included in financial statements.

### **Derivative instruments**

The Group conducts operations in derivative financial instruments: currency transactions (spot, forward, currency swap, and currency options), exchange rate transactions (FRA, IRS), derivative transactions based on securities prices, exchange rates and stocks indices. Companies of the Group do not apply hedge accounting, therefore, all the above mentioned instruments are classified to the trading portfolio. Derivative financial instruments are initially recorded at fair value as of the transaction date, and subsequently valued to the fair value. The fair value is established on the basis of quotations of the instruments in active markets, including prices of recent transactions, as well as on the basis of valuation techniques, including the models based on discounted cash flows and options valuation models, depending on which of the valuation models is appropriate. Positive valuation of derivative financial instruments is presented in the balance sheet in the item of "Derivative financial instruments" on assets side, and on the liabilities side, if the fair value is negative. Changes in the financial instruments valuation to fair value are reflected in the profit and loss account.

In case of purchasing a financial instrument which has embedded derivative component, the whole or part of cash flows related to such a financial instrument changes in the way similar to what would be the case with the embedded derivative instrument on its own. The embedded derivative instrument is reported separately from the basic contract. This happens when the following conditions are met jointly:

- the financial instrument is not included in assets for trading or in assets designated for fair value valuation through the profit and loss account, whose revaluation results are reflected in financial income or cost of the reporting period,
- the nature of the embedded instrument and the related risks are not closely tied to the nature of the basic contract and to the risks resulting from there,
- a separate instrument, whose characteristics correspond to the features of the embedded derivative instrument, would meet the definition of the derivative instrument,
- it is possible to reliably establish the fair value of the embedded derivative instrument.

In case of contracts that are not financial instruments with a component of an instrument meeting the above conditions, the built-in derivative instrument is classified in accordance with assets or liabilities of derivatives financial instruments with respect to profit and loss account in harmony of derivative financial instruments valuation.

## **Financial Liabilities**

The Groups' financial liabilities are classified to the followings category:

- financial liabilities at fair value through profit and loss carried at fair value
- financial liabilities not at fair value through profit and loss are carried at amortised cost using the effective interest rate.

Financial liabilities not at fair value through profit and loss consist of amounts due to banks and customers, loans from other banks own debts securities issued.

## **Derecognition of financial instruments**

A financial instrument is derecognized when the law agreements of cash flows expires or the Bank transfers all the advantages and risk of particular financial instrument to other entity.

Most often, the Bank derecognizes loans in the event of:

- discontinuation of execution proceeding,
- death of borrower,
- conclusion of bankruptcy procedures,
- unconditional cancellation of a part of the loan.

## **2.8. Valuation of other balance sheet position**

### **Intangible assets**

Intangible assets are deemed to include assets which fulfil the following requirements:

- they can be separated from an economic entity and sold, transferred, licensed or granted for use for a fee to third parties, both separately, and together with their accompanying contracts, assets or liabilities, or
- arise from contractual titles or other legal titles, irrespective of whether those are transferable or separable from the business entity or other rights and obligations.

### *Goodwill*

Goodwill on acquisition of a business entity is initially recognized at cost, which is the surplus of the costs of merger of business entities over the share of the acquiring entity in the net fair value of identifiable assets, liabilities, and contingent liabilities. After the initial recognition, goodwill is presented at cost less all accumulated impairment write-offs. The test for impairment is conducted annually. The carrying value of goodwill in the opening balance sheet according to IFRS, i.e. for January 1<sup>st</sup>, 2004 was established at the value recognized using previously applied principles, taking into account IFRS 1 requirements, which included its subjection to the impairment review.

Goodwill on acquisition of subsidiaries is presented among intangible assets, and goodwill on acquisition of associates is presented under the heading "Investments in associates".

As of the date of acquisition, the acquired goodwill is allocated to each of the cash generating units, which may benefit from the synergies of merger. Impairment is determined by estimating the recoverable value of the cash generating unit to which the given goodwill pertains. In the event of the recoverable value of the cash generating unit being less than the carrying value, an impairment write-off is made. If the goodwill is a part of the cash generating unit, and a part of activity of that unit is sold, then in measuring the profit or loss on selling such activity, goodwill related to the activity sold is included in the carrying value of the sold part of activity. Goodwill sold in such

circumstances is measured on the basis of the relative value of the activity sold, and the value of the remaining part of the cash generating unit.

#### *Other intangible assets*

Intangible assets are assets controlled by the Group, which do not have a physical form, which are identifiable and represent future economic benefits for the Group, directly attributable to such assets.

These are mainly:

- computer software licenses,
- copyrights,
- costs of completed development work.

Intangibles acquired in a separate transaction are recognized at cost. Intangibles acquired in transactions of acquisition of a business entity are recognized at fair value as of the date of acquisition. After initial recognition, this category of intangibles is treated using the historic cost model. The useful life of intangible assets is assessed and considered to be limited or indefinite. In the case of amortization being calculated from assets with limited useful life, such costs are indicated in the profit and loss account under the heading "Overheads". Amortization write-offs are not made for intangible assets with indefinite useful life.

With the exception of development costs, intangible assets generated by the Group on its own resources are not recognized in assets, and outlays incurred for their generation are recognized in the profit and loss account for the year in which they were incurred.

As regards intangible assets with limited useful life, the Group makes a judgment as to whether there are indications of their impairment. Where it is found that such indications exist, the Group estimates the recoverable value of such intangible assets and make impairment. Useful lives are also subject to review annually, and where necessary, adjusted starting from the next financial year.

In the case of intangible assets of an indefinite useful life and investments on tangible assets, the Group performs, on an annual basis, a test for impairment, irrespective of whether there are indications of impairment.

The research costs are charged to the profit and loss account at the time when they are incurred. Outlays for development work performed within the given project are carried forward to the next period, if it can be acknowledged that they will be recovered in the future. After the initial recognition of outlays for development work, the historic cost model is applied, which requires that assets be recognized at cost less accumulated amortization and accumulated impairment write-offs. All outlays carried forward to the next period are amortized throughout the expected period of obtaining profits from selling the given project.

Costs of development work are reviewed for any impairment on an annual basis – if an asset has not yet been commissioned, or more often – when during a reporting period indications of impairment appear, indicating that their carrying value may not be recoverable.

Loss or profit due to derecognition of intangible assets are measured as the difference between the net sales income and carrying value of the given asset, and are recognized in the profit and loss account upon derecognition of the asset.

#### **Tangible fixed assets**

Tangible fixed assets are the controlled fixed assets and outlays made to build such assets. Tangible fixed assets include fixed assets with an expected period of use above one year, maintained to be used to serve the Group's needs or to be transferred to other entities, based on the lease contract or for administrative purposes.

Tangible fixed assets are recorded at historical costs reduced by depreciation/amortization and impairment write-downs. The historical costs are made up of the purchase price/cost of creation, and costs directly related to the purchase of assets.

Each component part of property, plant and equipment items, whose purchasing price or generation cost is material in comparison with the purchasing price or generation cost of the entire item, is depreciated separately. The Group allocates the initial value of the property, plant and equipment items into its significant parts.

Costs of modernization of property, plant and equipment increase their carrying value or are recognized as a separate item of property, plant and equipment only when it is probable that such expenditures will ensue with an inflow of economic benefits to the Group, and the cost of such expenses can be reliably measured.

The cost of external financing for the purchase or construction of fixed assets is recognized as a cost in the period in which it is incurred.

### **Depreciation and amortization charge**

Depreciation charge of tangible fixed assets and amortization charge of intangible fixed assets is applied using the straight line method, using defined depreciation rates throughout the period of their useful lives. Depreciation rates defined for balance sheet purposes are periodically verified, with results of verification effective starting from the year following the year of verification. Fixed assets and intangible assets for tax purposes are depreciated in compliance with tax regulations.

Balance sheet depreciation and amortization rates applied to the basic groups of fixed assets, and to intangible assets, are as follows:

#### **a/ depreciation rates used for fixed assets**

Buildings; cooperative ownership right to an apartment, cooperative right to non-residential property	1,5 % - 10,0%
Technical equipment and machines	2,5% - 30,0 %
Means of transport	12,5% - 20,0%

#### **b/ amortization rates for intangible assets**

Software licenses, copyrights	14,0% - 50,0%
Costs of completed development works	33,3 %
Know-how and other intangible assets	20,0%

#### **c/ depreciation rates for investment properties**

Buildings	1,5% - 10%
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Assets that are not depreciated include land, fixed assets and intangibles under construction and certain intangible assets.

Depreciation and amortization value increases the overhead costs of the Group's operations, while the write-off for impairment is included in other operating costs.

### **Investment properties**

Initially, investment property assets are recognized at cost, including the transaction costs. After the initial entry, investment property assets are measured in accordance with requirements of the purchasing price model.

Investment property assets are derecognized when disposed of, or in the case of permanent decommissioning of a property, when no further benefits from its sale are expected. Any profits or losses due to derecognition of an investment property are charged to the profit and loss account in the period in which such derecognition occurred.

### **Non-current assets held for sale**

Non-current assets held for sale include assets whose carrying value is to be recovered by way of their resale, and not in their continued use. Only those assets are classified as held for sale that are available for immediate sale in their present condition, whose sale is highly probable, i.e. the decision has been made to fulfil the plan of selling the given asset, an active programme has been launched to find a buyer and to complete the selling plan. Also, such an asset is offered for sale at a price which is rational in reference to its present fair value, and it is expected that the sale will be treated as sale completed within one year from the date of the asset's classification in this category.

Non-current assets held for sale are recognized at the lower of carrying value and fair value less the costs of selling such assets. For assets classified in this category, depreciation is not applied.

### **Leases**

The Group is a party to lease contracts, on the basis of which it grants for paid use non-current assets or intangible assets for an agreed period of time.

The Group is also a party to lease contracts, under which it takes for paid use or drawing benefits another party's non-current assets or intangible assets for an agreed period.

#### *Operating lease*

In the case of lease contracts, which result in transferring substantially all the risks and rewards incident to ownership of the asset under lease, the subject of lease is derecognized. A receivable amount is recognized, however, in the amount equal to the present value of minimum lease payments. Lease payments are divided into financial income and reduction of the balance of receivables in such way as to enable reaching a fixed rate of return from the outstanding receivables.

Lease payments for contracts which do not fulfill qualifications of finance lease are recognized as income in the profit and loss account, using the straight-line method, throughout the period of the lease.

#### *Financial lease*

In the case of lease contracts, under which essentially all risks and rewards incident to ownership of the lease are transferred, the subject of lease is recognized in assets as a non-current asset, and a liability is recognized in the amount equal to the present value of minimum lease payments as of the date of commencement of the lease. Lease payments are divided into financial costs and reduction of the balance of the liability in such way as to enable obtaining a fixed rate of interest on the outstanding liability. Financial costs are recognized directly in the profit and loss account.

Fixed assets which are the basis of the finance lease contract are depreciated in the manner defined for the Group's non-current assets. However, if it is uncertain whether the ownership of the subject of the contract has been transferred, then non-current assets used pursuant to finance lease contracts are depreciated over the shorter of: the expected useful life or the period of lease.

Lease payments for contracts which do not fulfill qualifications of a finance lease agreement are recognized as costs in the profit and loss account in a straight-line method throughout the period of the lease.

### **Prepayments**

Prepayments refer to particular expenditure types that will be recognized in the profit and loss proportionally to time elapsed in the future reporting periods. Prepayments are presented in the balance sheet as "Other assets".

## **Provisions**

Provisions are established when the Group has an obligation (legal or constructive) resulting from past events, and where it is probable that the fulfilment of such obligation will cause a necessity of transfer of assets representing economic benefits, and it is possible to reliably estimate the amount of such liability. In the event that the time value of the money-in-time is significant, the amount of provisions is established by discounting forecasted future cash flows to the present value, using a rate of discount reflecting current market evaluations of money-in-time, and any risk related to the given obligation.

Also, this item includes provisions related to actuarial long-term employee benefits. All provisions are charged to the profit and loss account.

### **Employee benefits provisions**

The amount of provision for retirement payment is established on the basis of an actuarial valuation performed by an independent actuary at least every two years.

The provision for restructuring costs is established when general criteria for recognition of provisions are met, as well as detailed criteria for the obligation to establish restructuring provisions as per IAS 37.

The amount of employment restructuring provision is established by the Group on the basis of the best available estimates of direct outlays, which necessarily result from restructuring and are not connected with the Group's current activities.

Provisions established are recognized on the liabilities side under the "Provisions" heading, and accordingly in the profit and loss account, as remuneration costs.

### **Deferred income and Accrued expenses**

This item mainly covers the income of commissions settled using the straight line method, and other income charged in advance; types that will be recognized in the profit and loss in the future reporting periods

Costs accounted for over time include reserves for material costs resulting from the services provided for the Group by contractors, which will be settled in the following periods, as well as reserves for payables to employees (incl. annual bonus and holiday bonus, extra payments, awards, and unused holiday allowance).

Deferred income & accrued expenses are presented in the balance sheet in the item of "other payables".

### **Equity of the Capital Group**

Equity is comprised of the capital and funds created by the companies of the Capital Group in accordance with the binding legal regulations i.e. the appropriate laws, Articles of Association. Equity also includes retained profit (loss). The items comprising the equity of subordinated entities, other than statutory capital, are added to the appropriate positions of the parent entity's equity to the extent in which the Parent entity owns the subsidiaries.

The equity of the Capital Group includes only those parts of the subsidiaries' equity which were created after the date of purchase of shares or stocks by the parent entity.

In particular this applies to the change in equity resulting from the achieved net profit or incurred loss or revaluation.

a) Statutory capital relates only to the capital of the Bank as the Parent entity and is presented at nominal value specified in the Statute and in the entry in the Enterprises Registry,

- b) Reserve capital is created from appropriations of profits and premiums arising on the issue of shares, in accordance with the Statutes of the companies,
- c) Revaluation reserve includes: the effects of revaluation of financial assets available for sale, foreign exchange differences arising from revaluation of foreign branch's result at the average weighted exchange rate established as of the balance sheet date in relation to the average NBP exchange rate; and the value of deferred tax for items that comprise temporary differences. Revaluation reserve is presented net in the balance sheet
- d) Other reserve capital utilized in accordance with the purposes defined in the Statute is created from appropriations of profits,
- e) Exchange rate differences include differences arising from recalculation of the result of a foreign branch at the weighted average exchange rate for the balance sheet date, in relation to the average National Bank of Poland exchange rate, and from valuation of net assets in foreign entities,
- f) B bonds convertible into equity includes the equity fair value of financial instruments issued as part of transactions settled in equity instruments in accordance with IFRS 2,
- g) General banking risk provision represents accumulated appropriations of net profit in accordance with the terms of the Banking Law of 29 August 1997,
- h) Retained earnings comprises the total retained profits and uncovered losses of the companies consolidated under the full method,
- i) Net profit/loss which constitute profit/loss presented in profit and loss statement for period which concerns. Net profit includes income tax.

#### **Minority interest**

Minority interest equity is the share in the equity of the subsidiary entity consolidated under the full method, and belonging to entities other than those comprising the Capital Group.

#### **Share-based Payments**

The Group conducts an employee participation program, under which senior and lower management staff crucial to realization of the Capital Group Banks' strategy are granted pre-emptive rights to buy shares of the Bank (see Note 42).

The Group used transitional provisions of IFRS 2 in respect to share-based payments, and applied IFRS 2 only to share-based payments granted after November 7<sup>th</sup>, 2002, the rights to which were not vested until December 31<sup>st</sup>, 2004, inclusively.

#### **Transactions settled in equity instruments**

The cost of transactions settled with employees in equity instruments is measured by reference to the fair value as of the granting date. The fair value is established on the basis of the Black-Scholes model for appraisal of dividend-yielding stock options, according to expectations of the Management Board concerning the number of rights to be exercised. The amount of the employee share program is adjusted as of every balance sheet date if expectations of the Management Board change concerning the number of rights to be exercised. No efficiency/results data except those related to the price of shares ("market conditions") are taken into account in the assessment of transactions settled in capital instruments.

The cost of share-based payments is recognized together with the accompanying increase of the value of equity in the period in which effectiveness/performance conditions were fulfilled, ending on the date when certain employees acquire full rights to the benefits ("vesting date"). The accumulated cost recognized for transactions settled in equity instruments for each balance sheet date until the vesting date reflects the extent of elapse of the vesting period and the number of rights to shares, the rights to which – in the opinion of the Bank's Management Board for that date, based on best available estimates of the number of equity instruments – will be eventually vested.

In the event of modifications of conditions for granting remuneration settled in equities, as part of fulfilment of the minimum requirement, costs are recognized if such conditions have not changed. Also, costs are recognized resulting from each increase in the value of the transaction, resulting from modifications, measured for the date of change.

In the event a right is cancelled, it is treated in such way as if the rights were acquired on the date of cancellation, and any unrecognized costs resulting from such rights are immediately recognized. In the case, however, where the cancelled share right is replaced by a new share right, the cancelled right and the new right are treated as if they are a modification of the original right.

The diluting effect of options issued is taken into account when establishing the amount of earnings per share, as additional dilution of shares (see Note 18).

## **2.9. Income tax and other taxes**

### *Income Tax*

For purposes of financial reporting, the income tax provision is established using the balance-sheet liabilities method in reference to all temporary differences as at the balance sheet date between the taxable amount of assets and liabilities, and their carrying value as presented in the financial statements.

The deferred tax provision is recognized in reference to all positive temporary differences:

- except for situations where the deferred income tax provision arises from amortization of goodwill or from the initial recognition of an asset or liability in a transaction other than merger of entities, and at the point of the transaction they have no influence on the gross financial result, nor for the taxable income or deductible loss, and
- in the case of positive temporary differences resulting from investments in subsidiaries or associates and participation in joint ventures – except for situations where the dates of reversal of temporary differences are subject to control and where it is probable that in the foreseeable future the temporary differences will not be reversed.

The carrying value of a deferred tax asset is reviewed at each balance sheet date, and is reduced accordingly to the extent that it is no longer probable that the taxable income will be achieved sufficient for partial or full realization of a deferred income tax asset.

- except for situations where deferred tax assets concerning negative temporary differences originate from initial recognition of an asset or liability in a transaction other than merger, and at the point the transaction has no influence on the gross financial result, nor for the taxable income or deductible loss, and
- in the case of positive temporary differences resulting from investments in subsidiaries or associates and participation in joint ventures, the deferred tax asset is recognized in the balance sheet only in such an amount, in which it is probable that the above temporary differences will be reversed and taxable income will be achieved which will allow the negative temporary differences to be deducted.

The carrying value of a deferred tax asset is reviewed at each balance sheet date, and is reduced accordingly to the extent that it is no longer probable that the taxable income will be achieved sufficient for partial or full realization of a deferred income tax asset.

Deferred tax assets and deferred tax provisions are measured at tax rates which are predicted to be in force in the period in which an asset is realized or a provision is dissolved, assuming as the basis the tax rates (and tax regulations) which are legally or actually in place as of the balance sheet date.

The income tax regarding items directly recognized in equity is recognized in equity.

The Group offsets deferred tax assets and deferred tax provisions, where it has legal title to effect such offsetting, and the deferred assets and provisions pertain to the same taxpayer.

Current income tax is assessed at the tax rate in force and is calculated on the basis of the gross profit determined on the basis of relevant accounting regulations, adjusted by non-taxable income and non-deductible expenses.

#### *Other taxes*

Incomes, costs, and assets are recognized and reduced by the amount of VAT, tax on civil law acts, and other taxes on sales, except where:

- the tax on sale, paid upon purchase of goods and services, is not recoverable from the tax authorities; in that case, the sales tax is recognized accordingly as a part of the cost of acquisition of an asset, or as part of a cost item, and
- receivables and payables are presented with the amount of sales tax taken into account.

The net amount of sales tax recoverable from or payable to the tax authorities is recognized on the face of the balance sheet as a part of receivables or liabilities.

## **2.10. Other positions**

### **Contingent liabilities and promises**

The Group enters into transactions which are not recognized in the balance sheet as assets or liabilities upon signing, but they cause contingent liabilities and promises. Contingent liabilities are characterized as being:

- a potential obligation, whose existence will be confirmed upon occurrence or non-occurrence of uncertain future events that are beyond control of the Group (e.g. disputes in progress);
- a current obligation, which arises as a result of past events, but is not recognized in the balance sheet, as it is improbable that it will be necessary to make expenses to fulfil the obligation, or the obligation amount cannot be reliably measured (mostly: unused credit lines and guarantees and letters of credit issued).

### **Cash and cash equivalents**

Cash and cash equivalents in the Cash Flow Statement include “Cash-in-hand, due from the Central Bank” (except for the NBP bonds) and amounts current amounts due from banks with maturity up to three months.

## **3. Purposes and rules of financial risk management.**

The policy risk management of the Group has a goal of optimizing the structure of the balance sheet and off-balance sheet positions under the consideration of all risks in relation to income and complex inflow of all kinds of risks including (interest rate risk, liquidity risk, foreign exchange rate risks), which Group encounters in conducting its daily activity. Risks are monitored and controlled with reference to profitability and equity coverage are regularly reported in accordance with rules briefly presented below.

The Bank’s Management Board is responsible for achieving the strategic goals set within the risk management policy.

The Asset and Liability Management Committee controls the capital adequacy of the Group, as well as the liquidity risk and the market risk (interest rate and foreign exchange rate risks) related to the external banking supervision limits and to the internal limits of the Group.

The accounting policy for derivative instruments were presented at Note 2

## Credit risk

Credit risk is one of the basic risks associated with the activities of the Group. The percentage share of loans in the Group's balance sheet leads to the significance of maintaining this risk at a safe level for the result of the activities carried out by the Group.

The credit risk is minimized due to the Group's procedures, in particular those relating to the rules of transaction risk evaluation, establishing collateral, setting authorization limits for granting loans, and limiting of exposure to some areas of business activity. To increase security the Group's lending activity is limited by the restrictions of the Banking Law as well as internal safety norms set by the Group, including in particular concentration limits for specific sectors of the economy, share of large exposures in the loan portfolio of the Group, and exposure limits for particular foreign countries, banks, and domestic financial institutions.

Protection of the quality of the Group's loan portfolio is also ensured by periodical reviews and on-going monitoring of loan repayments and the financial condition of the borrowers.

The Banking Law establishes maximum exposure limits for banks.

The Group, in cooperation with UniCredito Italiano, has undertaken activities to stable rationalizing credit process to improve effectiveness and security. Improved are especially procedures and measurement tools and risk monitoring.

## Concentration of credit risk

According to article 71.1 of the Law the total balance sheet and off-balance sheet exposure of a bank to the risks associated with a single borrower or a group of related borrowers may not exceed 20% of the bank's equity when at least one of those entities is related to the Bank or 25% when no relation between those entities and the bank exists.

Moreover, article 71.2 of the Law specifies a maximum total exposure limit with entities whose individual exposure exceeds 10% of the bank's equity, at a level of 800% of this equity.

As of 31 December 2005 year no exposures exceeded the limit set forth by article 71.2, whereas one exposure of the Bank exceeded the limits specified in article 71.1 in the case of one group of related entities. This exposure resulted mainly from the financing of central state investment. Loans granted for the central state investment are guaranteed by the surety of State Treasury. According to article 71.3.3. such exposure is excluded from calculations of exposure limits and as a consequence the maximum exposure limits set forth in the Banking Law were not exceeded.

### a) Concentration by entity:

as of 31.12. 2005

Exposure to 10 largest clients of the Group	% of portfolio
Client 1	4,9
Client 2	1,7
Client 3	1,6
Client 4	1,4
Client 5	1,4
Client 6	1,4
Client 7	1,2
Client 8	1,2
Client 9	0,9
Client 10	0,8
<b>Total</b>	<b>16,5</b>

In the table above 47,3% is a credit exposure, with the risk on the level of the State Treasury. Other exposure is due to transactions with local governments 7,1%, banks 5,6% and large corporate customers 40,0%. None of the exposures mentioned above were classified as irregular.

b) Concentration by capital group:

	as of 31.12. 2005
<b>Exposure to 5 largest capital groups which are the Group's clients</b>	<b>% of portfolio</b>
Group 1	5,7
Group 2	2,2
Group 3	1,8
Group 4	1,7
Group 5	1,6
<b>Total</b>	<b>13,0</b>

c) Concentration by industrial sector:

In order to minimize credit risk associated with industrial sector concentration, the Group employs a system monitoring the sector structure of its credit exposure. The system involves setting concentration limits for particular sectors, monitoring the loan portfolio and gathering appropriate information. The system is based on the lending exposure in particular types of business activity according to the classification applied by the Polish Classification of Economic Activities (Polska Klasyfikacja Dzialalnosci—PKD). Concentration limits are determined on the basis of investment risk, quality of the Group's lending exposure, current economic trends in particular sectors, the Group's equity, and the total exposure to particular sectors. A monthly comparison of the Group's exposure to particular sectors with the current limits allows timely identification of the sectors in which the concentration of sector risk may become excessive. If such a situation arises, an analysis of the economic situation of that sector is performed considering the current and predicted trends and the quality of the current exposure to that sector. These measures enable the Group to develop policies that reduce sector risk and allow for a timely reaction to a changing environment.

The table below presents the structure of the exposure by industrial sectors.

Sector description	% of portfolio	
	31.12.2005	31.12.2004
Wholesale and retail trade, repair of motor vehicles and motorbikes, articles for personal use and household goods	15,8%	15,4%
Production and supply of utilities (electricity, gas, water)	14,4%	12,3%
Public administration and national defence, guaranteed social insurance	11,0%	11,8%
Financial services	11,0%	10,0%
Other manufacturing activities and waste management	7,5%	5,6%
Construction and real estate management	5,8%	6,5%
Production of food, beverages and tobacco products	5,4%	6,0%
Transport, storage and communication	5,2%	5,5%
Production of metals and processed metal products	3,9%	3,0%
Production of celluloid pulp, paper and paper products, publishing and printing	3,4%	3,1%
Production of electrical and optical equipment	3,3%	3,7%
Rental and other business, IT services, education	2,4%	2,4%
Production of transport equipment	2,3%	3,3%
Production of chemicals	2,0%	2,2%
Other sectors	6,6%	9,2%
<b>Total</b>	<b>100,0%</b>	<b>100,0%</b>

### Market risk

In its trading, retail, corporate and investment activities the Group is exposed to market risk, i.e. the interest rate, foreign exchange rate, and equity price risks of the securities held by the Group, as well as other risks resulting from changes in market conditions.

### Interest rate risk

The table below presents the classification of assets and liabilities according to their exposure to interest rate risk:

1. Assets and financial liabilities exposed to fair value risk related to interest rate

- debt securities with fixed interest rate
- Loans with fixed interest rate
- Client deposits with fixed interest rate
- Liabilities due to the issue of securities

2. Assets and liabilities exposed to Cash flow risk related to interest rate

- Debt securities with variable interest rate
- Loans with variable interest rate
- Client deposits with variable interest rate

3. Assets and financial liabilities not directly exposed to the interest rate risk

- Equity securities

The Group is also exposed to the interest rate risk due to sheet transactions, which notional amounts are recognized off-balance and which fair values are recognized as assets or liabilities of the balance sheet. These transactions include derivative transactions, Forward Rate Agreements (FRA), Interest Rate Swaps (IRS), currency swaps, and foreign currency forward contracts.

While managing interest rate risk, the Group is aiming at maximizing the economic value of the capital employed and achieving the planned interest result, within the accepted limits. The financial position of the Group in relation to the changing interest rates is monitored through the interest rate gap (revaluation gap), duration analysis simulation analysis, and stress testing.

The sensitivity of the interest result to the interest rate changes and sensitivity of the economic value of the equity of the Group was within the internally accepted limits.

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(in PLN thousand)

The table below presents the assets, liabilities and off-balance sheet exposures of the Group classified as of 31 December 2005 by interest rate risk criterion

	up to 1 month inclusive		from 1 month to 3 months inclusive		from 3 months to 1 year inclusive		from 1 year to 5 years inclusive		above 5 years		Non interest bearings assets/liabilities	Total	
Balance sheet items	Book value	%	Book value	%	Book value	%	Book value	%	Book value	%	Book value	Book value	%
<b>Assets:</b>	25 748 359	6,73	7 767 112	6,17	9 314 871	5,43	7 373 314	7,10	4 178 893	6,78	7 589 407	61 971 956	5,63
Cash and amounts due from Central Bank	-	-	-	-	-	-	-	-	-	-	2 193 661	2 193 661	-
Debt securities eligible for rediscounting in the Central Bank	2 483	8,66	3 623	8,66	-	-	-	-	-	-	-	6 106	8,66
Amounts due from banks	5 585 480	3,98	361 730	4,34	1 018 765	4,25	-	-	-	-	-	6 965 975	4,04
Loans and advances to customers	18 959 636	7,63	4 367 214	6,84	1 323 527	9,78	1 192 858	16,71	580 399	17,2	1 711 574	28 135 208	8,23
Net investments in financial leases	454 192	10,29	90 829	9,80	85 685	10,71	111 651	9,79	3 534	5,63	-	745 891	11,04
Debt securities*	746 568	2,15	2 943 716	5,31	6 886 894	4,70	6 068 805	5,16	3 594 960	5,10	-	20 240 943	4,00
Others	-	-	-	-	-	-	-	-	-	-	3 684 172	3 684 172	-
<b>Liabilities:</b>	39 963 071	1,63	5 128 546	3,07	3 623 268	2,59	1 723 340	11,05	768 336	12,52	10 765 395	61 971 956	1,92
Amounts due to banks	1 798 190	3,64	142 864	9,90	322 717	2,74	1 122 654	15,56	561 328	15,56	-	3 947 753	8,88
Amounts due to customers	38 164 881	1,53	4 985 682	2,87	3 300 547	2,58	376 159	1,33	20 608	-	-	46 847 877	1,75
Liabilities arising from securities issued	-	-	-	-	4	-	-	-	-	-	-	4	-
Other	-	-	-	-	-	-	224 527	4,80	186 400	4,76	10 765 395	11 176 322	0,18
<b>Gap</b>	<b>(14 214 712)</b>		<b>2 638 566</b>		<b>5 691 603</b>		<b>5 649 974</b>		<b>3 410 557</b>		<b>(3 175 988)</b>		
Off-balance sheet exposures													
Assets	8 773 323		11 298 531		21 851 370		5 970 617		929 495		-	48 823 336	
Liabilities	7 008 306		11 726 890		21 191 197		6 825 488		2 073 364		-	48 825 245	
<b>Gap</b>	<b>1 765 017</b>		<b>(428 359)</b>		<b>660 173</b>		<b>(854 871)</b>		<b>(1 143 869)</b>		<b>-</b>	<b>(1 909)</b>	
<b>Total Gap</b>	<b>(12 449 695)</b>		<b>2 210 207</b>		<b>6 351 776</b>		<b>4 795 103</b>		<b>2 266 688</b>		<b>(3 175 988)</b>	<b>(1 909)</b>	

\*/ This item contains unquoted debt instruments presented in the balance sheet under Cash-in-hand, amounts due from the Central Bank, Due from banks, Loans and advances to customers

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The table below presents the assets, liabilities and off-balance sheet exposures of the Group classified as of 31 December 2004 by interest rate risk criterion

	up to 1 month inclusive		from 1 month to 3 months inclusive		from 3 months to 1 year inclusive		from 1 year to 5 years inclusive		above 5 years		Non interest bearings assets/liabilities	Total	
	Book value	%	Book value	%	Book value	%	Book value	%	Book value	%	Book value	Book value	%
<b>Balance sheet items</b>													
<b>Assets:</b>	19 984 687	7,98	6 788 147	6,99	12 574 874	6,42	8 734 816	8,05	3 225 483	8,98	8 669 340	59 977 347	6,45
Cash and amounts due from Central Bank	-	-	-	-	-	-	-	-	-	-	2 561 687	2 561 687	-
Debt securities eligible for rediscounting in the Central Bank	1 933	8,66	6 835	8,66	-	-	-	-	-	-	-	8 768	8,66
Amounts due from banks	4 232 705	4,86	646 116	5,42	1 082 211	3,71	190	-	-	-	-	5 961 222	4,71
Loans and advances to customers	14 619 527	9,15	2 860 983	7,61	3 755 503	8,24	1 256 533	16,28	843 295	17,51	2 321 740	25 657 581	8,64
Net investments in financial leases	196 700	15,12	59 028	13,03	93 759	12,02	188 722	10,80	9 115	5,53	-	547 324	11,04
Debt securities*	933 822	5,40	3 215 185	6,89	7 643 401	5,99	7 289 371	6,82	2 373 073	5,98	-	21 454 852	6,38
Others	-	-	-	-	-	-	-	-	-	-	3 785 913	3 785 913	-
<b>Liabilities:</b>	39 295 317	2,26	5 333 506	4,20	3 529 203	4,16	1 151 920	10,28	702 291	12,22	9 965 110	59 977 347	2,51
Amounts due to banks	1 572 444	5,03	121 566	9,89	567 147	10,51	698 939	15,56	524 204	15,56	-	3 484 300	10,86
Amounts due to customers	37 722 873	2,17	5 211 940	4,08	2 783 851	2,77	102 981	0,68	-	-	-	45 821 645	2,42
Liabilities arising from securities issued	-	-	-	-	23 205	6,40	-	-	-	-	-	23 205	6,40
Other	-	-	-	-	155 000	-	350 000	-	178 087	-	9 965 110	10 648 197	-
<b>Gap</b>	<b>(19 310 630)</b>		<b>1 454 641</b>		<b>9 045 671</b>		<b>7 582 896</b>		<b>2 523 192</b>		<b>(1 295 770)</b>	<b>-</b>	
<b>Off-balance sheet exposures</b>													
Assets	7 060 837		6 312 509		12 836 527		3 488 679		513 289		-	30 211 841	
Liabilities	6 362 169		6 038 867		12 740 609		4 032 487		1 060 592		-	30 234 724	
<b>Gap</b>	<b>698 668</b>		<b>273 642</b>		<b>95 918</b>		<b>-543 808</b>		<b>(547 303)</b>		<b>-</b>	<b>(22 883)</b>	
<b>Total Gap</b>	<b>(18 611 962)</b>		<b>1 728 283</b>		<b>9 141 589</b>		<b>7 039 088</b>		<b>1 975 889</b>		<b>(1 295 770)</b>	<b>(22 883)</b>	

\*/ This item contains unquoted debt instruments presented in the balance sheet under Cash-in-hand, amounts due from the Central Bank, Due from banks, Loans and advances to customers

The below table presents the effective interest rates pertaining to each classes of financial assets and liabilities to which it applies, broken down by major currencies:

	as of 31 <sup>st</sup> December 2005			
	PLN %	EUR %	USD %	Other %
<b>Assets</b>				
Cash, amounts due from Central Bank	4,28	-	-	-
Due from banks	4,51	2,38	4,25	3,50
Loans and advances to customers*	8,78	4,06	5,96	6,05
Net investments in financial leases	10,67	6,74	7,04	7,66
Debt securities	4,78	3,46	4,78	6,87
<b>Liabilities</b>				
Due to Central Bank**	15,56	-	-	-
Due to banks	3,76	2,36	3,91	2,50
Due to customers	3,50	1,24	1,73	1,87
Debt securities in issue	-	-	-	-

\* Position include loans for central state investment, which effective interest is 17,51%. Effective interest excluding loans for central state investment is 8,02%

\*\* Refinance credit interest of central state investment

Following the exemption allowed by IFRS 1 the Group does not present the comparative data relating the effective interest rates.

### Currency risk

The objective of the currency risk management is to create a currency profile of the balance sheet and off-balance items which will remain within the external and internal limits. In 2004, the currency risk was low. The Group's exposure to the currency risk is measured for internal purposes on a daily basis by means of the Value at Risk (VaR) model, as well as the extreme conditions testing analysis that is supplementary to the VaR method.

The table below presents foreign currency exposure by the separate asset, liabilities and off balance-sheet liabilities types related to financial obligations granted and guarantees granted.

	as of 31.12.2005				
	PLN	Currency('000 PLN)		Others	Total
		EUR	USD		
<b>Assets:</b>					
Cash and amounts due from Central Bank	1 788 860	187 455	102 008	115 338	2 193 661
Debt securities eligible for rediscounting in the Central Bank	6 106	-	-	-	6 106
Receivables from banks	2 912 410	826 501	2 940 152	286 912	6 965 975
Loans and advances to customers	22 417 561	4 182 010	1 110 136	425 501	28 135 208
Net investments in financial leases	557 804	110 691	3 640	73 756	745 891
Debt securities*	15 254 222	877 304	3 719 136	390 281	20 240 943
Investments in associated undertakings	166 870	61	932	-	167 863
Others	3 315 481	126 233	44 059	30 536	3 516 309
<b>Total</b>	<b>46 419 314</b>	<b>6 310 255</b>	<b>7 920 063</b>	<b>1 322 324</b>	<b>61 971 956</b>

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<b>Liabilities:</b>					
Amount due to Central Bank	1 950 710	-	-	-	1 950 710
Amounts due to banks	1 465 685	217 965	282 964	30 429	1 997 043
Amounts due to customers	33 938 954	4 447 249	7 569 781	891 893	46 847 877
Liabilities arising from securities issued	4	-	-	-	4
Provisions	100 430	594	7 215	488	108 727
Others	10 637 008	202 442	215 459	12 686	11 067 595
<b>Total</b>	<b>48 092 791</b>	<b>4 868 250</b>	<b>8 075 419</b>	<b>935 496</b>	<b>61 971 956</b>
<b>Net exposure</b>	<b>(1 673 477)</b>	<b>1 442 005</b>	<b>(155 356)</b>	<b>386 828</b>	<b>-</b>
<b>Off-balance sheet liabilities related to financial obligations granted and guarantees granted</b>	<b>9 707 022</b>	<b>2 018 600</b>	<b>421 458</b>	<b>257 288</b>	<b>12 404 368</b>

\*/ This item contains unquoted debt instruments presented in the balance sheet under Cash-in-hand, amounts due from the Central Bank, Due from banks, Loans and advances to customers

as of 31.12.2004

	<i>Currency ('000. PLN)</i>		<i>USD</i>	<i>Others</i>	<i>Total</i>
	<i>PLN</i>	<i>EUR</i>			
<b>Assets</b>					
Cash and amounts due from Central Bank	2 132 845	209 507	110 771	108 564	2 561 687
Debt securities eligible for rediscounting in the Central Bank	8 768	-	-	-	8 768
Receivables from banks	3 049 687	428 692	1 836 158	646 685	5 961 222
Loans and advances to customers	19 684 566	4 004 506	1 207 152	761 357	25 657 581
Net investments in financial leases	383 709	78 035	3 773	81 807	547 324
Debt securities*	17 623 115	709 052	2 959 049	163 636	21 454 852
Investments in associated undertakings	119 739	61	4 862	-	124 662
Others	3 413 644	215 255	9 578	22 774	3 661 251
<b>Total</b>	<b>46 416 073</b>	<b>5 645 108</b>	<b>6 131 343</b>	<b>1 784 823</b>	<b>59 977 347</b>
<b>Liabilities</b>					
Amounts due to the Central Bank	2 151 743	-	-	-	2 151 743
Amounts due to banks	964 895	222 379	111 622	33 661	1 332 557
Amounts due to customers	33 096 320	4 422 886	7 506 433	796 006	45 821 645
Liabilities arising from securities issued	23 205	-	-	-	23 205
Provisions	340 830	2 630	5 605	1	349 066
Other	9 926 629	193 683	164 175	14 644	10 299 131
<b>Total</b>	<b>46 503 622</b>	<b>4 841 578</b>	<b>7 787 835</b>	<b>844 312</b>	<b>59 977 347</b>
<b>Net exposure</b>	<b>(87 549)</b>	<b>803 530</b>	<b>(1 656 492)</b>	<b>940 511</b>	<b>-</b>
<b>Off-balance sheet liabilities related to financial obligations granted and guarantees granted</b>	<b>8 961 878</b>	<b>1 283 280</b>	<b>1 070 444</b>	<b>145 510</b>	<b>11 461 112</b>

\*/ This item contains unquoted debt instruments presented in the balance sheet under Cash-in-hand, amounts due from the Central Bank, Due from banks, Loans and advances to customers

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## Liquidity risk

The objective of managing liquidity risk is:

- to ensure and maintain the Group's solvency with respect to current and future planned payables, taking into account the cost of acquiring liquidity and return on the Group's equity,
- to prevent any crisis situation, and
- to outline solutions that would allow the Group to overcome such a situation in case the latter occurred.

The Group invests primarily in treasury securities of the Polish government, financial instruments of countries and financial institutions with the highest ratings, and those with high levels of liquidity. Due to their liquidity characteristics, regularly monitored the financial instruments would assist the Group to overcome crisis situations.

According to the Banking Supervisory Board recommendations, the Group introduced internal liquidity indices that reflect the ratios of total adjusted maturing assets to total adjusted maturing liabilities.

In addition, the Group employs the appropriate procedures protecting both against the liquidity risk increase and against 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 client 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 liquidity level. Both the emergency plan and the possibility of obtaining cash from sources specified in this plan are subject to periodical verification.

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The table presents assets and liabilities of the Group as of 31.12.2005 by maturity

Balance sheet items	up to 1 month inclusive	from 1 month to 3 months inclusive	from 3 months to 1 year inclusive	from 1 year to 5 years inclusive	above 5 years	Total
<b>Assets</b>	<b>15 991 640</b>	<b>4 063 392</b>	<b>11 550 590</b>	<b>13 357 316</b>	<b>17 009 018</b>	<b>61 971 956</b>
Cash and amounts due from Central Bank	2 193 661	-	-	-	-	2 193 661
Debt securities eligible for rediscounting in the Central Bank	2 483	3 623	-	-	-	6 106
Amounts due from banks	4 969 312	686 154	1 164 322	103 340	42 847	6 965 975
Loans and advances to customers	3 988 245	3 020 919	6 091 867	5 841 779	9 192 398	28 135 208
Net investments in financial leases	18 123	40 053	176 980	488 293	22 442	745 891
Debt securities*	4 477 877	312 643	4 117 421	6 183 093	5 149 909	20 240 943
Others	341 939	-	-	740 811	2 601 422	3 684 172
<b>Liabilities</b>	<b>17 288 489</b>	<b>11 035 704</b>	<b>14 936 302</b>	<b>12 409 457</b>	<b>6 302 004</b>	<b>61 971 956</b>
Amounts due to banks	2 114 632	103 341	400 764	1 064 576	264 440	3 947 753
Amounts due to customers	13 116 755	10 795 255	14 535 534	4 300 385	4 099 948	46 847 877
Liabilities arising from securities issued	-	-	4	-	-	4
Other	2 057 102	137 108	-	7 044 496	1 937 616	11 176 322
<b>Gap</b>	<b>(1 296 849)</b>	<b>(6 972 312)</b>	<b>(3 385 712)</b>	<b>947 859</b>	<b>10 707 014</b>	<b>-</b>
Off-balance sheet items						
Assets	7 760 484	2 348 665	3 191 364	316 562	-	13 617 075
Liabilities	10 975 225	2 357 500	3 232 106	103 337	3 984 157	20 652 325
<b>Gap</b>	<b>(3 214 741)</b>	<b>(8 835)</b>	<b>(40 742)</b>	<b>213 225</b>	<b>(3 984 157)</b>	<b>(7 035 250)</b>
<b>Gap total</b>	<b>(4 511 590)</b>	<b>(6 981 147)</b>	<b>(3 426 454)</b>	<b>1 161 084</b>	<b>6 722 857</b>	<b>(7 035 250)</b>

\*/ This item contains unquoted debt instruments presented in the balance sheet under Cash and amounts due from the Central Bank, Due from banks, Loans and advances to customers

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The table presents assets and liabilities of the Group as of 31.12.2004 by maturity

Balance sheet items	up to 1 month inclusive	from 1 month to 3 months inclusive	from 3 months to 1 year inclusive	from 1 year to 5 years inclusive	above 5 years	Total
<b>Assets:</b>	<b>20 233 225</b>	<b>2 738 236</b>	<b>7 965 936</b>	<b>9 573 947</b>	<b>19 466 003</b>	<b>59 977 347</b>
Cash and amounts due from Central Bank	2 561 687	-	-	-	-	2 561 687
Debt securities eligible for rediscounting in the Central Bank	1 933	6 835	-	-	-	8 768
Amounts due from banks	3 599 984	437 367	729 853	1 107 968	86 050	5 961 222
Loans and advances to customers	1 418 776	1 347 535	4 995 061	5 115 723	12 780 486	25 657 581
Net investments in financial leases	15 361	29 710	125 571	354 782	21 900	547 324
Debt securities*	12 609 061	896 749	2 074 847	2 873 140	3 001 055	21 454 852
Others	26 423	20 040	40 604	122 334	3 576 512	3 785 913
<b>Liabilities:</b>	<b>14 340 201</b>	<b>11 313 852</b>	<b>13 285 387</b>	<b>5 726 499</b>	<b>15 311 408</b>	<b>59 977 347</b>
Amounts due to banks	1 785 568	43 436	46 372	477 460	1 131 464	3 484 300
Amounts due to customers	12 272 241	11 254 682	13 188 520	4 933 765	4 172 437	45 821 645
Liabilities arising from securities issued	-	-	23 205	-	-	23 205
Other	282 392	15 734	27 290	315 274	10 007 507	10 648 197
<b>Gap</b>	<b>5 893 024</b>	<b>(8 575 616)</b>	<b>(5 319 451)</b>	<b>3 847 448</b>	<b>4 154 595</b>	<b>-</b>
Off-balance sheet items						
Assets	10 183 911	547 792	1 662 031	164 111	51 395	12 609 240
Liabilities	15 188 933	678 927	1 783 657	244 319	114 979	18 010 815
<b>Gap</b>	<b>(5 005 022)</b>	<b>(131 135)</b>	<b>(121 626)</b>	<b>(80 208)</b>	<b>(63 584)</b>	<b>(5 401 575)</b>
<b>Gap total</b>	<b>888 002</b>	<b>(8 706 751)</b>	<b>(5 441 077)</b>	<b>3 767 240</b>	<b>4 091 011</b>	<b>(5 401 575)</b>

\*/ This item contains unquoted debt instruments presented in the balance sheet under Cash and amounts due from the Central Bank, Due from banks, Loans and advances to customers

### Exposure to credit risk and market risk

The tables below present the exposure of the Bank to credit risk and particular types of market risk. The amounts have been calculated on the basis of Banking Supervisory Board Resolution No 4/2004 dated 8 September 2004.

The risk weighted value to credit risk of the balance sheet receivables is calculated as the product of the carrying amount and the risk weight appropriate for the client and the type of collateral.

The risk weighted exposure of derivatives to credit risk is calculated on the basis of a balance sheet equivalent of a derivative. The balance sheet equivalent of a derivative instrument is calculated according to original exposure method for transactions in banking portfolio.

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

Capital requirements resulting from credit risk are calculated by adding up the risk weighted assets and off-balance-sheet liabilities in the banking portfolio and multiplying this sum by 8%.

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

### Credit and market risk at 31.12.2005

Instrument	Balance value	Risk weighted assets
Cash	1 113 250	-
Receivables	38 574 660	25 246 271
Debt securities	14 405 830	110 477
Other securities, shares	104 870	104 870
Fixed assets	1 558 283	1 558 283
Other	1 365 280	284 845
<b>Total banking portfolio</b>	<b>57 122 173</b>	<b>27 304 746</b>
Clearing collateral KDPW	1 332	-
Investment securities	4 280 547	16 122
Reverse repo transactions	567 904	-
<b>Total trade portfolio</b>	<b>4 849 783</b>	<b>16 122</b>
<b>Total</b>	<b>61 971 956</b>	<b>27 320 868</b>

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**Off balance sheet instruments**

Instrument	Replacement cost	Balance sheet equivalent amount	Risk weighted amount
Derivates			
<b>Interest rate instruments:</b>			
-IRS	323 995	430 070	94 904
-FRA	3 941	3 941	788
-CIRS	18 988	61 070	24 363
-Futures – on government bonds	-	-	-
-Call options– securities instruments	9 859	10 049	2 010
<b>Currency instruments:</b>			
Forward	49 400	81 848	40 888
Spot	276	276	61
Swap I leg	-	-	-
Swap II leg	40 141	69 628	13 926
Options	47 888	56 869	17 583
<b>Other instruments:</b>			
Warrants	-	9	5
<b>Total:</b>	<b>494 488</b>	<b>713 760</b>	<b>194 528</b>
Including: banking portfolio	-	-	-
trading portfolio	494 488	713 760	194 528

**Other off-balance sheet banking portfolio**

Instrument	Off-balance sheet value	Balance sheet equivalent amount	Risk weighted amount
Credit line	10 428 547	2 214 632	2 110 023
Warranties granted	1 366 543	748 357	685 393
Letters of credit	218 455	108 531	80 123
Other	457 225	457 222	160 845
<b>Total banking portfolio</b>	<b>12 470 770</b>	<b>3 528 742</b>	<b>3 036 384</b>
Issue guarantees	-	-	-
Forwards on securities	184 437	82 872	-
<b>Total trade portfolio</b>	<b>184 437</b>	<b>82 872</b>	<b>-</b>
	<b>69 592 943</b>	<b>30 341 130</b>	<b>2 427 290</b>
<b>Total banking portfolio (credit risk)</b>			

**Capital requirements for trading portfolio (Market risk)**

<b>Market risk</b>	<b>59 417</b>
In this:	
Currency risk	-
Commodity price risk	-
Equity price risk	113
Debt instrument specific risk	2 296
Total interest rate risk	57 008
<b>Settlement risk – delivery and contractor</b>	<b>15 527</b>
<b>Other</b>	<b>-</b>
<b>Total capital requirement</b>	<b>2 502 234</b>

### **Fair value of balance sheet financial instruments**

The market value cannot be established for numerous financial instruments; therefore, the presented fair values have been estimated on the basis of various valuation methods, including estimation of the present value of future cash flows.

There are certain financial instruments, which are not recognized at fair value in the financial statements of the Group. Fair value represents the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

In the case of certain groups of financial assets, held on the basis of the amount of the payment due, it has been assumed that fair value is equal to book value. This applies, in particular, to cash and cash equivalents, current receivables and liabilities as well as other assets and liabilities.

As no quoted market price is readily available for the Bank's customer loans, the presented fair value of loans has been estimated at a high level using internal valuation techniques (DCF). Fair value of non impaired loans is equal to the sum of future expected cash flows discounted to the balance sheet date. The discounting rate is the sum of appropriate market risk free rate and credit spread which relates to default probability and expected recovery rate adequate for each loan agreement. Fair value of impaired loans is equal to the sum of expected recoveries discounted to the balance sheet date using market risk free rate as the credit risk is incorporated into the average expected recoveries.

The fair value of investment securities held to maturity amounts to PLN 2 643 271 ths (as at 31.12.2004, PLN 5 003 823 ths.) and fair value of loans to customers amounts to PLN 28 726 716 ths, as at 31.12.2005.

### **Custodial activities**

Custodial activity is done by an predominant entity of the Group on the basis of the decision of the Securities and Exchange Commission.

The Bank offers custodial services on the basis of the decision of the Securities and Exchange Commission. The Bank's clients include domestic and foreign financial institutions, banks offering depository and investment services, insurance companies, investment and pension funds, as well as non-financial institutions. The Bank offers services involving settlement of transactions on domestic and foreign markets, client's custody assets, maintaining securities and cash accounts, assets valuation, and servicing dividend and interest payments.

In 2005 the Bank achieved an over 33% increase of assets under management. The most significant (c.a. 42%) increase was reached in the domestic clients segment. The growth of assets under custody was due to higher investment activity of clients. Turnover generated by clients in 2005 was 2 times higher than in 2004 and number of transactions increased by 65%.

In 2005 the Bank signed a custody contract with a 7 newly created investment fund and first time with investment fund with separated sub-investment funds (so called umbrella).

Continues agreements with foreign financial institutions for the provision of custodial services by the Bank on the territory of Poland and lending of securities in order to ensure the liquidity of settlements. The Bank maintained the leading position in the area of servicing depository notes programmes, servicing more than 50% of these programmes.

#### 4. Information about segments of activity

Segmentation by industry is the primary segmentation basis in the Group while segmentation by assets location is supplementary.

The Group settles transactions between segments as if they concerned unrelated entities – using current market prices. Funds transfers between Bank's business divisions, providing services to retail and corporate customers, and the treasury unit are based on market prices with reference to the funds currency and maturity.

##### Industrial sectors

Industrial sectors are as follows:

- Retail banking – full-range of banking activity related to retail clients and micro and small companies with annual turnover not exceeding PLN 10 million, and also income of the Group's companies consolidated under the full method, providing services to retail clients,
- Corporate banking – full-range of banking activity related to medium and large companies, and also income of the Group's companies consolidated under the full method, providing services to corporate clients,
- Treasury and investment activities – Bank's involvement in inter-bank market, in debt securities and capital investments in companies, which are not a part of other segments, and also income of the Group's companies consolidated under the full method and assigned to this activity.

The data on income and working assets and liabilities of each industrial sector of the Group.

##### Year 2005

	Retail activity	Corporate activity	Treasury and investment activity	Total Group
External interest income	916 458	1 572 944	1 382 372	3 871 774
External interest expense	422 298	963 791	135 261	1 521 350
<b>Net external interest income</b>	<b>494 160</b>	<b>609 153</b>	<b>1 247 111</b>	<b>2 350 424</b>
Internal interest income	1 352 569	820 823	(2 173 392)	-
Internal interest expense	458 941	1 020 791	(1 479 732)	-
<b>Net internal interest income</b>	<b>893 628</b>	<b>(199 968)</b>	<b>(693 660)</b>	<b>-</b>
<b>Net interest income</b>	<b>1 387 788</b>	<b>409 185</b>	<b>553 451</b>	<b>2 350 424</b>
<b>Non interest income</b>	<b>1 502 642</b>	<b>415 022</b>	<b>145 215</b>	<b>2 062 879</b>
<b>Total income</b>	<b>2 890 430</b>	<b>824 207</b>	<b>698 666</b>	<b>4 413 303</b>
<b>Working assets*</b>	9 463 947	23 766 392	26 738 455	59 968 794
<b>Working liabilities*</b>	29 524 861	18 431 155	2 560 031	50 516 047

\* Bank only

The data for the 2004 is not comparable to data for the 2005 as the Group applied the admissible exemptions of IFRS 1 relating mainly to effective interest rate and impairment charges.

**Year 2004**

	<b>Retail activity</b>	<b>Corporate activity</b>	<b>Treasury and investment activity</b>	<b>Total Group</b>
External interest income	852 776	1 477 715	1 435 352	3 765 843
External interest expense	483 912	909 567	157 520	1 550 999
<b>Net external interest income</b>	<b>368 864</b>	<b>568 148</b>	<b>1 277 832</b>	<b>2 214 844</b>
Internal interest income	1 454 335	796 408	(2 250 743)	-
Internal interest expense	453 757	998 676	(1 452 433)	-
<b>Net internal interest income</b>	<b>1 000 578</b>	<b>(202 268)</b>	<b>(798 310)</b>	<b>-</b>
<b>Net interest income</b>	<b>1 369 442</b>	<b>365 880</b>	<b>479 522</b>	<b>2 214 844</b>
<b>Non interest income</b>	<b>1 491 215</b>	<b>339 863</b>	<b>132 890</b>	<b>1 963 968</b>
<b>Total income</b>	<b>2 860 657</b>	<b>705 743</b>	<b>612 412</b>	<b>4 178 812</b>
<b>Working assets*</b>	7 941 008	22 058 009	24 692 616	54 691 633
<b>Working liabilities*</b>	31 068 056	14 199 095	1 679 834	46 946 985

\* Bank only

Managerial model for budgeting and monitoring the business lines is focused on total income. Costs are managed centrally through dedicated units and allocation to business lines is not performed.

**Segmentation by geographical region**

The operating activity of the Pekao S.A. Group is concentrated in Poland through the network of Bank Pekao S.A. branches and the Group's companies.

In addition to Poland, the Group performs its activities also in the following countries:

- France – through the branch of Bank Pekao S.A. in Paris,
- Ukraine – through the Bank Pekao Ukraine – subsidiary company of Bank Pekao S.A.

Results generated by activities of the Group performed outside Poland are insignificant in comparison to the result of the whole Group.

## 5. Interest income and expense

### Interest income

	2005	2004
Income on placements in other banks	285 402	252 973
Income on other placements on money market	55 304	46 028
Income on loans to customers	2 465 467	2 344 668
Income on investment securities	913 294	1 000 693
Income on financial assets valued at fair value through profit and loss	152 307	121 481
<b>Total</b>	<b>3 871 774</b>	<b>3 765 843</b>

### Interest expense

	2005	2004
Expense on other bank's deposits	65 360	69 223
Expense on other deposits on the money market	107 545	71 700
Expense on customers' deposits	971 670	972 370
Expense on other due to customers	329 789	363 957
Expense due to the amortization of premium on investment securities	46 310	48 963
Expense on debt securities in issued	676	24 786
<b>Total</b>	<b>1 521 350</b>	<b>1 550 999</b>

Interest income for the 2005 includes income from impaired financial assets in the amount of PLN 133 668 ths.

Total amount of interest income for the 2005, measured at amortized cost using the effective interest rate method, with reference to financial assets which are not valued at fair value through profit and loss, amounted to PLN 2 602 283 ths. Interest expense, calculated at amortized cost using the effective interest rate method, with reference to financial liabilities which are not valued at fair value through profit and loss, amounted to PLN 1 320 440 ths.

## 6. Fee and commission income and expense

### Fee and commission income

	2005	2004
Accounts maintenance	599 066	593 776
Payment cards	360 605	333 063
Acquisition services	363 521	287 908
Credits and loans granted	153 583	193 466
Securities operations	147 311	129 546
Servicing of pension and investment funds	56 520	44 086
Guarantees and similar operations	15 185	13 117
Other	74 296	124 675
<b>Total</b>	<b>1 770 087</b>	<b>1 719 637</b>

**Fee and commission expense**

	2005	2004
Payment cards	125 748	120 865
Securities operations	24 513	21 016
Acquisition services	8 989	4 012
Accounts maintenance	3 402	2 765
Management of pension funds	2 443	2 215
Other	18 008	12 242
<b>Total</b>	<b>183 103</b>	<b>163 115</b>

**7. Dividend income**

	2005	2004
<b>Dividend income from the issuers:</b>		
Securities classified as held for trading	127	9
Securities classified as available for sale	221	-
<b>Total</b>	<b>348</b>	<b>9</b>

**8. Result on financial instruments at fair value**

**a/ Result on assets and liabilities held for trading**

	2005	2004
Derivative instruments	(3 136)	(38 148)
Equity instruments	511	58
Debt instruments	94 679	97 673
<b>Total</b>	<b>92 054</b>	<b>59 583</b>

**b/ Result on financial assets and financial liabilities at fair value through profit and loss**

	2005	2004
Debt instruments	(27 093)	(3 921)
<b>Total</b>	<b>(27 093)</b>	<b>(3 921)</b>
<b>Total result on financial instruments valued at fair value (a+b)</b>	<b>64 961</b>	<b>55 662</b>

Total change in the fair value of financial instruments valued at fair value through profit and loss established using valuation techniques (where no established quotations were published on the active market) in 2005 was PLN 2 746 ths. (in 2004: minus PLN 34 630 ths. respectively).

## 9. Result on investment securities

### Realized result on assets and financial liabilities other than valued at fair value through profit and loss

	2005	2004
<b>Realized profits</b>		
Financial assets available for sale	74 113	14 404
Investments held to maturity	98	453
<b>Total</b>	<b>74 211</b>	<b>14 857</b>
<b>Realized losses</b>		
Financial assets available for sale	37	567
Investments held to maturity	21	214
<b>Total</b>	<b>58</b>	<b>781</b>
<b>Net realized profits</b>	<b>74 153</b>	<b>14 076</b>

Change in the fair value of financial assets available for sale recognized in 2005 directly in equity amounted to PLN 140 172 ths (increase of equity) (in 2004 PLN 157 179 ths - increase of equity).

Profits and losses from financial assets moved in 2005 from equity to profit and loss account amounted to PLN 74 076 ths PLN (profit) (in 2004, PLN 13 837 ths profit).

## 10. Changes in fair value - hedge accounting

The Bank Pekao S.A. capital group does not apply hedge accounting.

## 11. Other operating income and expenses

	2005	2004
<b>Other operating income</b>		
Revenue from sale of products and services	164 709	119 632
From the sale or liquidation of fixed assets, intangible assets and assets for disposal	12 946	3 516
From the recovered overdue, lost and written-off receivables	13 900	14 474
Received damages and penalties	2 097	1 474
Rent and other revenue	27 592	29 441
Recovered debt recovery expenses	3 529	6 141
Release of provisions for the disputed and other receivables	3 333	28 164
Awarded damages receivable	-	30 000
Write-backs	4 563	7 051
Other revenue	52 307	67 602
<b>Total</b>	<b>284 976</b>	<b>307 495</b>

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	2005	2004
<b>Other operating expenses</b>		
Cost of goods and materials sold	107 675	102 419
From the sale and liquidation of the fixed assets, intangible assets, and assets for sale	4 690	13 697
From the written off receivables	2 524	5 168
Paid damages and penalties	462	744
Donations made	4 732	4 247
Amortization of start-up costs	2 992	2 995
Debt recovery costs	13 739	14 085
Provision costs for disputed and other receivables	12 748	11 710
Depreciation of purchase cost of pension funds	16 907	17 171
Impairment charges on other assets	9 206	42 880
Other costs	38 266	43 698
<b>Total</b>	<b>213 941</b>	<b>258 814</b>

**12. Overhead costs**

	2005	2004
Payroll/Employee benefits	1 211 539	1 186 540
including:		
Wages and salaries	1 023 497	987 256
Insurance and other charges related with employees	174 611	192 934
Pension programs costs		
due to defined contributions programs	1 538	1 550
Cost of share-based payments	11 893	4 800
Administrative costs	777 880	776 346
Depreciation and amortization	322 891	322 761
Taxes and charges	27 886	37 532
Annual Bank Guarantee Fund fee	6 208	10 258
<b>Total</b>	<b>2 346 404</b>	<b>2 333 437</b>

### 13. Net impairment losses on financial assets and net provisions for guarantees and commitments

	2005	2004
<b>Impairment charges</b>		
Impairment charges on loans	1 357 741	1 280 577
Impairment charges on financial lease receivables	43 200	41 919
Impairment charges on financial assets classified as available for sale	1 160	452
Impairment charges on investments held to maturity	191	316
Impairment charges of the investments in the associate and joint venture entities valued using the equity method	9	8 599
Impairment charges on other financial assets	2 086	7 684
<b>Writedowns on provisions</b>		
Provisions created for off-balance sheet liabilities	54 899	59 830
<b>Total</b>	<b>1 459 286</b>	<b>1 399 377</b>
<b>Writebacks on impairment</b>		
Writebacks on impairment on loans	1 131 807	972 268
Writebacks on impairment on financial lease receivables	31 813	22 181
Writebacks on impairment on financial assets classified as available for sale	501	-
Writebacks on impairment on investments held to maturity	1 783	316
Writebacks on impairment on investments in the associate and joint venture entities valued using the equity method	742	-
<b>Writebacks on provisions</b>		
Release of the provisions for off-balance sheet liabilities	55 163	50 543
<b>Total</b>	<b>1 221 809</b>	<b>1 045 308</b>
<b>Net impairment charge</b>	<b>237 477</b>	<b>354 069</b>

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## 14. Impairment

Year 2005	Impairment at the end of previous period	IAS 39 Adjustments	Impairment at the beginning of period	Increase			Decrease			Impairment charges balance at the end of the period	Influence on the profit and loss statement	
				Impairment charges during period	Foreign exchange differences	Other	Write off of assets from the balance sheet	Release of the provisions	Foreign exchange differences			Other
Impairment of the financial assets not valued at the fair value through the profit and loss:												
Financial instruments valued at cost (non quoted equity instruments and linked derivative instruments)	16 811	-	16 811	-	2 646	-	-	-	(1 438)	(6 503)	11 516	-
Financial assets available for sale valued at fair value through equity.	7 709	-	7 709	1 160	-	-	-	(501)	-	(744)	7 624	659
Loans to clients and receivables from banks valued at amortised cost	3 780 452	287 504	4 067 956	1 357 741	51 981	13 575	(78 839)	(1 131 807)	(52 240)	(263)	4 228 104	225 934
Financial lease receivables	250 753	-	250 753	43 200	-	-	(22 727)	(31 813)	-	-	239 413	11 387
Investments held to maturity valued at amortised cost	1 788	-	1 788	191	-	-	-	(1 783)	(32)	-	164	(1 592)
Impairment of:												
Tangible fixed assets	8 529	-	8 529	-	-	-	-	-	(135)	(26)	8 368	-
Investment real estate property	3 775	-	3 775	-	-	15	-	-	(202)	-	3 588	-
Intangible assets	1	-	1	250	-	-	-	-	-	-	251	250
Goodwill	-	-	-	-	-	-	-	-	-	-	-	-
Other intangible assets	1	-	1	250	-	-	-	-	-	-	251	250
Impairment of the investments in the associate and joint venture entities valued using the equity method												
	-	-	-	9	-	-	-	(742)	-	-	(733)	(733)
Other	148 315	-	148 315	11 042	1 690	4 883	-	(4 563)	-	(18 189)	143 178	6 479
<b>Total</b>	<b>4 218 133</b>	<b>287 504</b>	<b>4 505 637</b>	<b>1 413 593</b>	<b>56 317</b>	<b>18 473</b>	<b>(101 566)</b>	<b>(1 171 209)</b>	<b>(54 047)</b>	<b>(25 725)</b>	<b>4 641 473</b>	<b>242 384</b>

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Year 2004	Impairment at the beginning of previous period	Increase			Decrease				Impairment charges balance at the end of the period	Influence on the profit and loss statement
		Impairment charges during period	Foreign exchange differences	Other	Write off of assets from the balance sheet	Release of the provisions	Foreign exchange differences	Other		
Impairment of the financial assets not valued at the fair value through the profit and loss:										
Financial instruments valued at cost (non quoted equity instruments and linked derivative instruments)	20 974	-	2 060	-	-	(171)	(6 052)	-	16 811	(171)
Financial assets available for sale valued at fair value through equity.	13 088	452	-	-	(567)	-	-	(5 264)	7 709	452
Loans to clients and receivables from banks valued at amortized cost *	3 720 461	1 280 577	10 626	1 653	(109 411)	(972 097)	(105 780)	(45 577)	3 780 452	308 480
Financial lease receivables	260 839	41 919	-	-	(29 824)	(22 181)	-	-	250 753	19 738
Investments held to maturity valued at amortised cost	2 068	316	-	-	-	(316)	(280)	-	1 788	-
Impairment of:										
Tangible fixed assets	9 950	1 681	-	2 561	-	-	(390)	(5 273)	8 529	1 681
Investment real estate property	4 366	-	-	-	-	-	(591)	-	3 775	-
Intangible assets	1	-	-	-	-	-	-	-	1	-
Goodwill	-	-	-	-	-	-	-	-	-	-
Other intangible assets	1	-	-	-	-	-	-	-	1	-
Impairment of the investments in the associate and joint venture entities valued using the equity method	-	8 599	-	-	-	-	-	(8 599)	-	8 599
Other	120 338	48 883	-	5 524	-	(7 051)	(1 672)	(17 707)	148 315	41 832
<b>Total</b>	<b>4 152 085</b>	<b>1 382 427</b>	<b>12 686</b>	<b>9 738</b>	<b>(139 802)</b>	<b>(1 001 816)</b>	<b>(114 765)</b>	<b>(82 420)</b>	<b>4 218 133</b>	<b>380 611</b>

Write-downs and write-backs related to impairment of loans, advances and other financial assets and impairment reverse are presented in the profit and loss account under “Net impairment losses on financial assets and provisions for guarantees and commitments”. Write-downs for depreciation of other assets are presented under other operating expenses, reversals of write-downs for depreciation of other assets are presented under other operating income.

### 15. Discontinued operations

In 2005 and 2004 the Group did not discontinue any of its operations.

### 16. Share of profit (loss) of associates and joint venture entities valued at the equity method

Entity name	2005	2004
Xelion. Doradcy Finansowi Sp. z o. o	(11 461)	(11 111)
Pioneer Pekao Investment Management S.A.	51 811	36 080
Krajowa Izba Rozliczeniowa S.A.	6 460	7 226
Central Poland Fund LLC	(3 741)	872
Other entities	1 108	3 090
<b>Total</b>	<b>44 177</b>	<b>36 157</b>

### 17. Income tax

Reconciliation between tax calculated by applying the current tax rate to accounting gross profit and the actual tax charge presented in the profit and loss account.

	2005	2004
<b>Gross Profit</b>	<b>1 873 599</b>	<b>1 527 463</b>
<b>Tax at applicable tax rate at 19%</b>	<b>355 984</b>	<b>290 218</b>
<b>Tax effect of the permanent differences</b>	<b>(17 237)</b>	<b>(77 213)</b>
Non taxable income	(32 657)	(38 838)
Non tax deductible costs	13 645	16 322
Impact of other tax rates applied under a different tax jurisdiction	(1 189)	(4 722)
Impact of utilised tax losses	(1 491)	(2 575)
Tax allowances not included in the profit and loss account	2 897	(45 671)
Other	1 558	(1 729)
<b>Income tax</b>	<b>338 747</b>	<b>213 005</b>

The applicable tax rate at 19% is the binding in Poland corporate income tax rate.

The basic components of income tax charge presented in the profit and loss account.

	Year 2005	Year 2004
Consolidated profit and loss account		
<u>Current income tax</u>	<b>(426 285)</b>	<b>(274 229)</b>
Current tax charge	(407 559)	(270 770)
Adjustments related to the tax from previous years	683	4 392
Other taxes (for example: withholding tax, income tax relating to foreign branches)	(19 409)	(7 851)
<u>Deferred income tax</u>	<b>87 538</b>	<b>61 224</b>
Due to the occurrence and reversal of timing differences	87 970	15 267
Due to the changes in the tax rates and new tax charges	-	45 000
The amount of benefit resulting from not previously enclosed tax loss, tax relief or timing differences from previous years aiming at reducing the current tax charge	(37)	957
The tax charge resulting from partial or entire write off or reversal of prior write-offs of the deferred tax assets connected with the probability of taxable income realisation	(395)	-
<b>Tax charge disclosed in the consolidated profit and loss account</b>	<b>(338 747)</b>	<b>(213 005)</b>
Deferred income tax	(25 213)	(30 302)
Due to the occurrence and reversal of timing differences	(25 213)	(30 302)
<b>Tax charge disclosed in the consolidated equity</b>	<b>(25 213)</b>	<b>(30 302)</b>
<b>Total</b>	<b>(363 960)</b>	<b>(243 307)</b>

#### Deferred income tax assets/liabilities

	Consolidated balance sheet		Consolidated profit and loss account	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
<u>Deferred tax liability</u>				
Income receivable from the securities	139 540	221 693	(82 153)	17 168
Income receivable from the loans given	266 724	281 970	(15 247)	(4 317)
Upward revaluation of the financial assets	101 243	68 572	9 577	(41 209)
Accelerated depreciation	109 135	78 788	30 758	33 119
Investment relief	9 037	10 267	(1 230)	(5 810)
Other	14 178	7 503	6 797	682
<b>Gross deferred tax liability</b>	<b>639 857</b>	<b>668 793</b>	<b>(51 498)</b>	<b>(367)</b>
<u>Deferred tax asset</u>				
Future costs related to securities	20 972	14 118	6 854	8 682
Future costs related to deposits and loans received	229 669	249 876	(20 206)	(16 991)
Unrealized losses on financial assets	102 683	87 030	17 772	(9 648)
Income received to be accounted for over time from the loans and current accounts	61 390	25 574	6 246	25 328
Costs due to the loan provisions charges	286 513	263 769	22 744	63 589
Personnel costs provisions	57 448	51 782	5 624	4 590
Accruals	7 862	1 971	6 321	(7 712)
Uncovered losses from previous years	26 205	19 692	6 513	(2 114)
Other	22 426	38 397	(15 828)	(4 867)
<b>Gross deferred tax assets</b>	<b>815 168</b>	<b>752 209</b>	<b>36 040</b>	<b>60 857</b>
<b>Deferred tax charge</b>	<b>X</b>	<b>X</b>	<b>87 538</b>	<b>61 224</b>
<b>Net deferred tax assets</b>	<b>181 294</b>	<b>84 638</b>	<b>X</b>	<b>X</b>
<b>Net provision for the deferred tax</b>	<b>5 983</b>	<b>1 222</b>	<b>X</b>	<b>X</b>

The amount of the provision for the deferred tax presented as at 31 December 2005 in the above note includes PLN 5.982 thousand that is presented in assets held for sale. That is why the amount of the provision for the deferred tax presented in the balance sheet is adequately lower and amounts to PLN 1 thousand.

As at 31 December 2005 and 31 December 2004 there were no temporary differences related to investments in subsidiaries, branches, affiliates, and joint ventures, for which no deferred tax liability was created due to meeting the condition to control the timing of reversal of the differences and existence of high probability that the differences will not reverse in a foreseeable future.

The amount of negative temporary differences, unsettled tax losses, unused tax relieves, in relation to which no deferred tax asset was recognized in the balance sheet, along with the date those differences will elapse is presented in the below table.

Year when timing differences elapse	Amount of difference 31.12.2005	Amount of difference 31.12..2004
2005	-	71 758
2006	68 893	54 013
2007	20 812	6 293
2008	8 058	5 985
2009	40 757	1 851
2010	36 427	-
Perpetual	-	-
<b>Total</b>	<b>174 947</b>	<b>139 900</b>

## 18. Earnings per share

### Base earnings per share

Base earnings per share is calculated on the basis of profit attributable to ordinary shareholders of the holding company by dividing their respective profits by the average weighted number of ordinary shares listed during a given period.

### Earnings per share

	2005	2004
Net profit attributed to ordinary shareholders (thz PLN)	1 537 712	1 317 991
Weighted average number of ordinary shares in the period	166 481 687	166 261 457
Earnings per each share (PLN per share)	9,24	7,93

### Diluted earnings per share

Diluted earnings per share is calculated based on the respective profit of ordinary shareholders of the holding company by dividing the profit of such shareholders by the average weighted number of ordinary shares listed during a given period, adjusted by all potentially diluting ordinary shares.

There are diluting instruments in the Group in the form of convertible bonds. For calculation purposes, it is assumed that those will be converted into shares.

	2005	2004
Net profit attributed to ordinary shareholders (ths PLN)	1 537 712	1 317 991
Weighted average number of ordinary shares in the period	166 481 687	166 261 457
Adjustments to the number of shares for the purpose of calculating the diluted profit	77 253	-
Weighted average number of ordinary shares for the calculation of diluted profit	166 558 940	166 261 457
Diluted profit per each share (PLN per share)	9,23	7,93

## 19. Dividends paid and proposed for payment

Bank Pekao S.A. prepares a separate financial statement in compliance with IFRS and the net profit recognized in that statement is divided.

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

During the ordinary Shareholders Meeting of Bank Pekao S.A. on 5 April 2005 a resolution was made to pay out dividends for 2004 in the amount of PLN 6,40 per share.

The Management Board of Bank Pekao S.A. will propose a dividend to be paid out of net profit for the year ended 31 December 2005 in amount of PLN 7,40 per share subject to further approval of the Shareholders.

The amount of the dividend tax resulting from the dividends proposed by the Bank's Management Board amounts to PLN 1,41 per share, (on the basis of 19% dividend tax rate), except for dividends due to shareholders taxed by lower tax rates or tax-exempted.

## 20. Cash and amounts due from Central Bank

	31.12.2005	31.12.2004
Cash	1 109 965	1 081 349
Current account in the Central Bank	1 078 090	1 474 673
NBP bonds *	1 313 116	1 313 120
Interests	70 355	64 524
Other funds	3 265	5 609
<b>Total</b>	<b>3 574 791</b>	<b>3 939 275</b>

(\*) The NBP bond is a non-quoted debt security with maturity on 1<sup>st</sup> March 2012, issued in relation to reduction of the obligatory reserve rate. The bond is not included under "cash" in the statement of cash flows.

In the course of the day the Bank may use funds in the mandatory reserve account for ongoing payments pursuant to an instruction submitted to the National Bank of Poland. It must, however, ensure that the average monthly balance in such accounts comply with the requirements described in the mandatory reserve declaration.

Funds in the mandatory reserve account bear interest in the amount of 0.9 of the rediscount rate for bills of exchange amounts as of 31 December 2005 4,75%. As of 31 December 2005 this interest amounted to 4,28%.

## 21. Amounts due from banks

	31.12.2005	31.12.2004
Current account	827 601	1 432 951
Deposits in other banks	4 894 183	3 608 831
Loans given	635 909	407 628
Unlisted securities	1 127	7 203
Repo transactions	588 381	486 093
Funds in transit	71 118	60 440
Interest	32 801	34 745
<b>Total</b>	<b>7 037 604</b>	<b>6 037 891</b>
Provision for the impairment of receivables	(85 094)	(76 414)
<b>Total net</b>	<b>6 966 026</b>	<b>5 961 477</b>

The variable interest rate due from banks amounts to PLN 6 228 859 ths. (as of 31.12.2004: PLN 4 584 298 ths.), fixed interest rate due from banks amounts to PLN 718 342 ths. (as of 31.12.2004: PLN 1 358 408 ths.).

### Receivables from banks according to maturities

#### According to remaining residual maturities at the balance sheet date

	31.12.2005	31.12.2004
Current accounts	827 601	1 432 951
Term deposits by the repayment period:		
up to 1 month	4 019 884	2 641 887
from 1 to 3 months	626 075	639 901
from 3 months to 1 year	1 184 883	841 273
from 1 to 5 years	170 616	300 482
above 5 years	38 598	-
receivables after the due date	79 544	86 212
Funds in transit	71 118	60 440
Interest	32 801	34 745
<b>Total</b>	<b>7 051 120</b>	<b>6 037 891</b>
Provision for the impairment of receivables	(85 094)	(76 414)
<b>Total net</b>	<b>6 966 026</b>	<b>5 961 477</b>

## 22. Financial assets held for trading

	31.12.2005	31.12.2004
Debt securities	2 499 216	3 191 953
- issued by the State Treasury	2 483 094	3 191 953
- issued by non-financial entities	16 122	-
Stock and shares in other entities	3 150	3 738
- listed in the stock exchange	3 150	3 718
- not listed	-	20
Other financial instruments	-	80
<b>Total financial assets held for trading</b>	<b>2 502 366</b>	<b>3 195 771</b>

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	31.12.2005	(%) Average yield	31.12.2004	(%) Average yield
Fixed interest debt securities				
Treasury bills	387 407	4,31	996 553	6,59
Treasury bonds	1 499 968	4,58	2 012 861	6,51
Treasury bonds– RP Eurobonds (EUR denominated)	53 692	3,41	36 012	3,82
Treasury bonds– RP Eurobonds (USD denominated)	18 451	5,00	715	4,70
Polish Brady („London Club”) bonds	13 455	4,82	9 089	5,13
Foreign government bonds (USD denominated)	9 945	4,37	-	-
Other securities issued by the non - financial entities	16 122	4,73	-	-
Total fixed interest debt securities	1 999 040	4,50	3 055 230	6,50
Variable interest debt securities				
Treasury bonds	451 417	4,27	135 012	6,23
Treasury bonds – RP Eurobonds (EUR denominated)	48 759	2,52	957	2,23
Treasury bonds – RP Eurobonds (USD denominated)	-	-	754	2,93
Total variable interest debt securities	500 176	4,10	136 723	6,18
<b>Total debt securities held for trading</b>	2 499 216		3 191 953	
Stock and shares in other entities	3 150		3 738	
Other financial instruments	-		80	
<b>Total securities held for trading</b>	2 502 366	4,42	3 195 771	6,49

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Financial assets held for trading according to residual maturities:

31 December 2005	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- between 1 and 5 years		- above 5 years		Undefined maturity	Total	
	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
<b>Debt securities</b>													
- issued by the State Treasury	62 964	4,30	208 481	4,30	753 343	4,11	980 770	4,60	477 536	4,61	-	2 483 094	4,42
- issued by non-financial entities	10 052	4,72	6 070	4,74	-	-	-	-	-	-	-	16 122	4,73
<b>Shares and stock in other entities</b>													
- listed on the stock exchanges	-	-	-	-	-	-	-	-	-	-	3 150	3 150	-
- not listed	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>73 016</b>	<b>4,36</b>	<b>214 551</b>	<b>4,31</b>	<b>753 343</b>	<b>4,11</b>	<b>980 770</b>	<b>4,60</b>	<b>477 536</b>	<b>4,61</b>	<b>3 150</b>	<b>2 502 366</b>	<b>4,42</b>
Including interest	-		226		10 092		20 048		7 215			37 581	

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Financial assets held for trading according to maturities:

31 December 2004	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- between 1 and 5 years		- above 5 years		Undefined maturity	Total	
	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
<b>Debt securities</b>													
- issued by the State Treasury	207 008	6,60	526 596	6,61	1 565 840	6,65	820 194	6,23	72 315	4,75	-	3 191 953	6,49
<b>Shares and stock in other entities</b>													
- listed on the stock exchanges	-	-	-	-	-	-	-	-	-	-	3 718	3 718	-
- not listed	-	-	-	-	-	-	-	-	-	-	20	20	-
Other financial instruments	-	-	-	-	-	-	-	-	-	-	80	80	-
<b>Total</b>	<b>207 008</b>	<b>6,60</b>	<b>526 596</b>	<b>6,61</b>	<b>1 565 840</b>	<b>6,65</b>	<b>820 194</b>	<b>6,23</b>	<b>72 315</b>	<b>4,75</b>	<b>3 818</b>	<b>3 195 771</b>	<b>6,49</b>
Including interest	-	-	3 433	-	9 788	-	25 654	-	1 940	-	-	40 815	-

## 23. Derivative financial instruments

### Derivatives used by the Group

In its operations the Group uses different financial derivatives for managing the risk involved in the Group's business. The majority of derivatives used by the Group include over-the-counter contracts. Regulated stock exchange contracts (mainly futures) represent a small part of those derivatives.

Derivative foreign exchange transactions include either obligation or right to purchase or sell foreign and domestic currency assets. Forward operations are based on the exchange rate specified during the transaction for a predefined date in the future. The Group concludes forward transactions to manage its foreign exchange position and to satisfy its customers' demand for hedging future foreign currency payments. These transactions are measured using the discounted cash flow models.

Foreign exchange swaps combine the exchange of specific currencies as of the spot date and a reverse transaction as of the forward date, with the exchange rates specified in advance during the conclusion of the contract. While those transactions are being accounted funds are transferred. Foreign exchange swap transactions are mostly concluded in the process of managing the Group's currency liquidity. These transactions are measured using the discounted cash flow models.

Foreign exchange options are contracts where one of the parties, the option buyer, purchases from the other party, the option issuer, at a so-called premium price, the right without the obligation to buy or sell at a specified point in the future, or during a specified time range, a foreign currency amount specified in the contract at the exchange rate set during the conclusion of the option. Foreign exchange options concluded by the Group are over-the-counter contracts, concluded with the Group's customers in order to hedge the risk involved in future foreign currency payments. The Group acts both as option issuer and buyer. These transactions type That type transactions are measured using the Garman-Kohlhagen option measurement models.

Derivatives relating to interest rates enable the Group and its customers to transfer, modify or limit the interest rate risk.

Interest rate swaps are contracts where parties swap between themselves interest cash flows calculated on a specified nominal value of the base instrument. In a typical swap contract, fixed rate interest flow will be swapped for a floating rate interest flow. Both flows will be calculated on the basis of the same nominal value of the base instrument, with no actual funds being transferred during the swap of the base instrument. These transactions type are measured using the discounted cash flow models.

Forward Rate Agreements involve both parties undertaking to pay interest on a predefined nominal amount, for a specified period starting in the future and charged according to the interest rate determined on the day of the agreement. As the basis for settlements, the Parties will use the interest rate difference, which will be in proportion to the nominal amount of the agreement and difference between the FRA rate (term rate as of the date of the transaction) and the reference rate applicable two business days before the settlement date. These transactions type are measured using the discounted cash flow models.

Cross currency IRS involves both parties swapping capital and interest flows in different currencies in a specified period. Such transactions are used for interest rate and foreign exchange risk management. These transactions type are measured using the discounted cash flow models.

Forward transactions on securities are based on prices of securities defined at the conclusion of the transaction for a specified date in the future. The Group uses securities forward transactions to manage its investment portfolio and to satisfy customer demand. These transactions type are measured using the discounted cash flow models.

Stock options, stock market indexes and prices of investment fund units are contracts where one of the Parties, the option buyer, purchases from the other party, the option issuer, at a so-called premium

price, the right without the obligation to buy or sell a specific base instrument (shares, share market indices, investment fund units or their baskets) at a price specified during the conclusion of the option. The Group uses such transactions to manage securities risk and to satisfy customer demand. These transactions type are measure using the extended Black-Scholes model or in based on available price from dealer, quoted on active market, to which Bank has immediate access .

Interest rate futures transactions refer to standardized forward contracts purchased on stock markets in order to ensure protection against the interest rate risk involved in the securities portfolio owned.

Futures for stock market indices and shares are contracts listed on the Warsaw Stock Exchange. Contracts for indices refer to transactions based on MIDWIG indices. These contracts are valued at direct quotations from Stock Exchange.

Warrants are securities issued by the company, entitling the holder to subscribe to a specified number of shares at a predefined price. They are listed on stock exchanges and do not give the holder any entitlements to vote in Shareholders Meetings. These contracts are valued at direct quotations from Stock Exchange

### **Derivatives embedded in other instruments**

The group uses derivatives embedded in complex financial instruments, i.e. such as including both a derivative and base agreement, which results in part of the cash flows of the combined instrument changing similarly to cash flows of an independent derivative. Derivatives embedded in other instruments cause part or all cash flows resulting from the base agreement to be modified as per a specific interest rate, price of a security, foreign exchange rate, price index or interest rate index.

Brady bond options are derivatives embedded in balance sheet financial instruments. In this case, embedded financial instruments are closely related to the base contract and thus the embedded derivative does not need to be isolated or recognized and measured separately.

Derivatives are also embedded in deposit agreements. The Bank has deposits on offer which include embedded derivatives. Such derivatives are not by their nature closely related to their respective deposit agreements. The instrument is isolated and classified in the portfolio to be traded and it is subject to measurement. The measurement of that instrument is recognized in the profit and loss account. Embedded derivatives are also option for shares, markets shares index, unit price of investment funds and currency options.

Options for shares, markets shares index and unit price of investment funds measured in basis on spread Black-Scholes model or basis on available price from dealer, quoted on active market which the Bank has immediate access.

Currency option are measured in based on the Garman-Kohlhagen model.

The Group analyzed the loan agreement portfolio and the ordinary agreement portfolio in order to isolate embedded derivatives and decided that such agreements do not require isolation and separate treatment of embedded instruments.

### **Risk involved in financial derivatives**

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

At the beginning, financial derivatives usually have a small market value or no market value at all. This is due to the fact that derivatives require no initial net investment or require only minor net investments as compared with other agreements which react to changes in market conditions in a similar way.

Derivatives gain positive or negative value as a result of change in specific interest rates, prices of securities, prices of commodities, currency exchange rates, price index, credit standing or credit

index, or another market parameter. This results in derivatives becoming more or less advantageous than instruments with similar residual maturity available on the market at the same time.

Credit risk related to derivative contracts is a potential cost of concluding a new contract on the original terms and conditions if the other party to the original contract fails to meet its obligations. In order to assess the potential cost of replacement, the Group uses the same method as for credit risk assessment. In order to control its credit risk levels, the Group performs assessments of other contract parties using the same methods as for of credit decisions.

Credit risk involved in derivatives is presented in Note 3.

The following tables present nominal amounts of financial derivatives and fair values of such derivatives. Nominal amounts of certain financial instruments are used for comparison with balance sheet instruments, but need not necessarily indicate what future cash flow amounts will be or what the current fair value of such instruments is, and therefore do not reflect the Group's credit or price risk level.

Derivatives become advantageous (assets) or disadvantageous (liabilities) due to fluctuations of market interest rates, indices, or foreign exchange rates as compared with their terms.

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Financial derivatives as of 31 December 2005

**Nominal values of base instruments and fair value of financial derivatives:**

	- up to 1 month	- between 1 and 3 months	- between 3 months and 1 year	- 1 - 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
<b>Currency transactions</b>								
Currency swaps	4 366 983	2 077 942	1 682 893	-	-	8 127 818	(21 089)	40 203
Currency purchase	2 187 785	1 038 718	859 678	-	-	4 086 181		
Currency sale	2 179 198	1 039 224	823 215	-	-	4 041 637		
Currency forward contracts	2 762 259	2 631 206	3 047 737	7 787	-	8 448 989	(73 991)	49 689
Currency purchase	1 378 857	1 317 667	1 508 535	3 927	-	4 208 986		
Currency sale	1 383 402	1 313 539	1 539 202	3 860	-	4 240 003		
Currency options	1 413 292	1 834 338	4 670 850	78 076	-	7 996 556	(47 923)	47 923
Purchase	706 646	917 169	2 335 425	39 038	-	3 998 278		
Sale	706 646	917 169	2 335 425	39 038	-	3 998 278		
Cross Currency IRS	-	-	15 878	259 555	947 016	1 222 449	(18 800)	18 988
Purchase	-	-	7 939	129 780	473 508	611 227		
Sale	-	-	7 939	129 775	473 508	611 222		
<b>Interest rate transactions</b>								
Interest rate swaps (IRS)	980 998	2 074 764	5 181 399	12 323 455	2 963 854	23 524 470	(432 035)	324 019
Purchase	665 499	1 175 000	3 220 670	6 537 757	2 063 321	13 662 247		
Sale	315 499	899 764	1 960 729	5 785 698	900 533	9 862 223		
Forward Rate Agreement (FRA)	-	600 000	14 400 000	-	-	15 000 000	(3 818)	3 941
Purchase	-	300 000	7 250 000	-	-	7 550 000		
Sale	-	300 000	7 150 000	-	-	7 450 000		

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**Nominal values of base instruments and fair value of financial derivatives:**

	- up to 1 month	- between 1 and 3 months	- between 3 months and 1 year	- 1 - 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
<b>Interest rate transactions</b>								
Futures for debt securities	-	5 474	18 629	-	-	24 103	-	-
Purchase	-	-	516	-	-	516		
Sale	-	5 474	18 113	-	-	23 587		
<b>Other transactions</b>								
Securities forward	321 377	-	-	-	-	321 377	(176)	154
Purchase	184 437	-	-	-	-	184 437		
Sale	136 940	-	-	-	-	136 940		
Stock futures	-	3 522	1 043	-	-	4 565	-	-
Purchase	-	561	196	-	-	757		
Sale	-	2 961	847	-	-	3 808		
Options related to equity securities	-	-	-	511 747	-	511 747	(9 857)	14 373
Purchase	-	-	-	256 075	-	256 075		
Sale	-	-	-	255 672	-	255 672		
Warrants	-	-	-	151	-	151	-	-
Purchase	-	-	-	151	-	151		
Sale	-	-	-	-	-	-		
<b>Total derivative instruments</b>	<b>9 844 909</b>	<b>9 227 246</b>	<b>29 018 429</b>	<b>13 180 771</b>	<b>3 910 870</b>	<b>65 182 225</b>	<b>(607 689)</b>	<b>499 290</b>

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Financial derivatives as of 31 December 2004

**Nominal values of base instruments and fair value of financial derivatives:**

	- up to 1 month	- between 1 and 3 months	- between 3 months and 1 year	- 1 - 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
<b>Currency transactions</b>								
Currency swaps	7 104 346	849 215	1 752 055	-	-	9 705 616	(201 235)	197 871
Currency purchase	3 540 875	426 800	882 078	-	-	4 849 753		
Currency sale	3 563 471	422 415	869 977	-	-	4 855 863		
Currency forward contracts	2 267 284	882 644	1 498 734	127 570	-	4 776 232	(63 247)	46 419
Currency purchase	1 126 896	437 763	744 134	68 411	-	2 377 204		
Currency sale	1 140 388	444 881	754 600	59 159	-	2 399 028		
Currency options	278 114	528 620	579 010	-	-	1 385 744	(14 376)	14 376
Purchase	139 057	264 310	289 505	-	-	692 872		
Sale	139 057	264 310	289 505	-	-	692 872		
Cross Currency IRS	171 080	-	-	114 220	662 616	947 916	(82 560)	74 895
Purchase	85 540	-	-	57 112	331 308	473 960		
Sale	85 540	-	-	57 108	331 308	473 956		
Non Delivery Forward	17 870	37 040	-	-	-	54 910	(2 128)	2 128
Purchase	8 935	18 520	-	-	-	27 455		
Sale	8 935	18 520	-	-	-	27 455		
Exchange rate futures	-	72	103	-	-	175	-	-
Purchase	-	72	41	-	-	113		
Sale	-	-	62	-	-	62		
<b>Interest rate transactions</b>								
Interest rate swaps (IRS)	608 158	44 147	2 172 910	7 093 594	1 566 024	11 484 833	(246 383)	155 526
Purchase	404 079	25 068	1 122 772	3 833 327	1 056 024	6 441 270		
Sale	204 079	19 079	1 050 138	3 260 267	510 000	5 043 563		
Forward Rate Agreement (FRA)	1 850 000	4 300 000	4 745 000	-	-	10 895 000	(8 624)	7 162
Purchase	1 050 000	2 600 000	2 300 000	-	-	5 950 000		
Sale	800 000	1 700 000	2 445 000	-	-	4 945 000		

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**Nominal values of base instruments and fair value of financial derivatives:**

	- up to 1 month	- between 1 and 3 months	- between 3 months and 1 year	- 1 - 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
<b>Interest rate transactions</b>								
Futures for debt securities	-	45 653	-	-	-	45 653	-	-
Purchase	-	-	-	-	-	-	-	-
Sale	-	45 653	-	-	-	45 653	-	-
<b>Other transactions</b>								
Securities forward	371 532	-	-	-	-	371 532	(228)	273
Purchase	192 979	-	-	-	-	192 979	-	-
Sale	178 553	-	-	-	-	178 553	-	-
Stock futures	-	3 119	480	-	-	3 599	-	-
Purchase	-	-	-	-	-	-	-	-
Sale	-	3 119	480	-	-	3 599	-	-
Futures for stock Exchange indexes	-	35	-	-	-	35	-	-
Purchase	-	-	-	-	-	-	-	-
Sale	-	35	-	-	-	35	-	-
Options related to equity securities	-	-	-	322 328	-	322 328	(4 902)	4 832
Purchase	-	-	-	160 000	-	160 000	-	-
Sale	-	-	-	162 328	-	162 328	-	-
Warrants	-	-	-	151	-	151	-	-
Purchase	-	-	-	151	-	151	-	-
Sale	-	-	-	-	-	-	-	-
<b>Total derivative instruments</b>	<b>12 668 384</b>	<b>6 690 545</b>	<b>10 748 292</b>	<b>7 657 863</b>	<b>2 228 640</b>	<b>39 993 724</b>	<b>(623 683)</b>	<b>503 482</b>

**24. Other financial instruments at fair value through profit and loss**

	31.12.2005	31.12.2004
Debt securities		
- issued by other financial entities	767 892	741 528
- issued by non-financial entities	-	21 842
- issued by the State Treasury	1 013 425	573 351
<b>Total other financial instruments at fair value through the financial result</b>	<b>1 781 317</b>	<b>1 336 721</b>

	31.12.2005	(%)	31.12.2004	(%)
		Average yield		Average yield
Fixed interest debt securities				
Treasury bonds – RP Eurobonds (EUR denominated)	466 586	3,63	181 755	3,83
Treasury bonds – RP Eurobonds (USD denominated)	546 839	4,95	391 596	4,58
Other securities issued by the financial entities (USD denominated)	732 015	5,01	703 174	4,24
Other securities issued by the financial entities (EUR denominated)	35 877	4,11	38 354	3,37
Other securities issued by the non - financial entities (EUR denominated)	-	-	21 842	3,37
Total fixed interest debt securities	1 781 317	4,61	1 336 721	4,24
<b>Total debt securities at fair value through profit and loss</b>	<b>1 781 317</b>	<b>4,61</b>	<b>1 336 721</b>	<b>4,24</b>

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Other financial instruments at fair value through profit and loss according to residual maturities:

31 December 2005	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- 1 - 5 years		above 5 years		Undefined maturity	Total	
	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
<b>Debt securities</b>													
- issued by other financial entities	-	-	-	-	35 877	4,11	732 015	5,01	-	-	-	767 892	4,97
- issued by the State Treasury	-	-	-	-	-	-	-	-	1 013 425	4,34	-	1 013 425	4,34
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>35 877</b>	<b>4,11</b>	<b>732 015</b>	<b>5,01</b>	<b>1 013 425</b>	<b>4,34</b>	<b>-</b>	<b>1 781 317</b>	<b>4,61</b>
Including interest	-	-	-	-	1 482		8 059		27 484		-	37 025	

Other financial instruments at fair value through profit and loss according to residual maturities:

31 December 2004	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- 1 - 5 years		above 5 years		Undefined maturity	Total	
	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
<b>Debt securities</b>													
- issued by other financial entities	-	-	-	-	-	-	741 528	4,20	-	-	-	741 528	4,20
- issued by other non - financial entities	-	-	-	-	-	-	21 842	3,37	-	-	-	21 842	3,37
- issued by the State Treasury	-	-	-	-	-	-	-	-	573 351	4,34	-	573 351	4,34
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>763 370</b>	<b>4,17</b>	<b>573 351</b>	<b>4,34</b>	<b>-</b>	<b>1 336 721</b>	<b>4,24</b>
Including interest	-	-	-	-	-	-	9 188		17 466		-	26 654	

## 25. Loans and advances to customers

	31.12.2005	31.12.2004
Loans	31 268 403	28 012 284
Payment cards receivables	118 571	84 416
Purchased receivables	723 123	709 513
Realized guarantees and commitments	44 812	40 833
Unlisted securities	96 657	565 779
Repo transactions	-	388 919
Receivables in transit	138	8 627
Interest	126 552	130 009
<b>Total</b>	<b>32 378 256</b>	<b>29 940 380</b>
Impairment provisions	(4 154 526)	(3 720 849)
<b>Total net</b>	<b>28 223 730</b>	<b>26 219 531</b>

As of 31 December 2005	Gross value of not - impaired loans	Gross value of impaired loans	Individual impairment charges	Collective impairment charges*	Total net value	Fair value
<b>Loans given to</b>						
state budget entities	2 571 760	12 458	(10 000)	(18 119)	2 556 099	2 546 850
non-banking financial entities	728 561	65 532	(21 657)	(58 832)	713 604	620 158
non-financial entities	16 661 722	4 139 639	(1 735 420)	(1 494 248)	17 571 693	17 703 255
general public	7 092 816	979 216	(35 160)	(781 090)	7 255 782	7 729 901
Interest	126 552	-	-	-	126 552	126 552
<b>Total</b>	<b>27 181 411</b>	<b>5 196 845</b>	<b>(1 802 237)</b>	<b>(2 352 289)</b>	<b>28 223 730</b>	<b>28 726 716</b>

\* Includes the estimated impairment for losses incurred but not reported (IBNR)

Following the exemption allowed by IFRS 1 the Group does not present the comparative data related to loans and advances to customers.

Fixed interest rate loans and lending facilities extended to customers as of 31 December 2005 represented 10,88 % of the total loans and advances portfolio or PLN 3 508 683 ths.

Changes in impairment balances in the reporting periods ended 31<sup>st</sup> December 2005 and 31<sup>st</sup> December 2004 are presented in the Note 14.

## 26. Net investments in financial leases and other lease transactions

### *Net investments in financial leases*

The Group runs its lease operations through its subsidiary, Pekao Leasing Sp. z o.o. The Group acting as a lessor in the financial leases embracing mainly means of transport, machines and equipment.

The value of gross lease investments and minimum lease payments were, respectively:

31.12.2005	Gross leasing investment	Present value of minimum lease payments
Up to 1 year	705 038	504 290
Between 1 and 5 years	547 876	547 877
Above 5 years	37 669	37 669
<b>Total</b>	<b>1 290 583</b>	<b>1 089 836</b>
Unrealized financial revenue	(305 279)	
<b>Net leasing investment</b>	<b>985 304</b>	
Non-guaranteed end value to the lessor	-	
<b>Present value of minimum lease payments</b>	<b>1 089 836</b>	
<b>Provisions value</b>	<b>(239 413)</b>	
<b>Balance sheet value</b>	<b>745 891</b>	
31.12.2004	Gross leasing investment	Present value of minimum lease payments
Up to 1 year	693 083	480 313
Between 1 and 5 years	355 584	295 314
Above 5 years	24 743	22 450
<b>Total</b>	<b>1 073 410</b>	<b>798 077</b>
Unrealized financial revenue	(275 333)	
<b>Net leasing investment</b>	<b>798 077</b>	
Non-guaranteed end value to the lessor	-	
<b>Present value of minimum lease payments</b>	<b>798 077</b>	
<b>Provisions value</b>	<b>(250 753)</b>	
<b>Balance sheet value</b>	<b>547 324</b>	

### *Other lease transactions*

#### Receivables related to operating leases

The Bank is the lessor of buildings representing the investment properties under the operating lease agreements.

The amount of future minimum lease payments expected to be received under non-cancellable operating leases can be summarized as follows:

	31.12.2005	31.12.2004
Below 1 year	3 940	4 181
From 1 to 5 years	3 179	4 582
Over 5 years	2 300	2 848
<b>Total</b>	<b>9 419</b>	<b>11 611</b>

Lease transactions concluded by the Group expose it primarily to foreign exchange risk, credit risk and cash flow risk related to interest rates. Financial instruments risk management procedures are standardized throughout the Group. They are described in Note 3.

## 27. Investment securities

	31.12.2005	31.12.2004
<b>Securities available for sale</b>	11 903 433	10 114 193
Debt securities	11 899 670	10 060 705
- issued by central banks	87 631	-
- issued by other banks	45 535	120 270
- issued by other financial entities	32 940	28 918
- issued by non financial entities	396 078	395 322
- issued by the State Treasury	10 830 636	8 952 457
- issued by local governments	506 850	563 738
Stock and shares in other entities	3 646	53 312
Other financial instruments	117	176
<b>Securities held to maturity</b>	2 588 038	4 931 761
- issued by central banks	193 155	-
- issued by other financial entities	60 180	60 439
- issued by the State Treasury	2 334 703	4 836 513
- issued by local governments	-	34 809
<b>Total investment securities gross</b>	14 491 471	15 045 954
Impairment of securities available for sale	(535)	(7 709)
Impairment of securities held to maturity	(164)	(1 788)
<b>Total investment securities net</b>	<b>14 490 772</b>	<b>15 036 457</b>

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Changes in investment securities

	31.12.2005	31.12.2004
<b>Securities available for sale</b>		
<b>Balance at the beginning of the period</b>	10 106 484	9 511 577
Increase(purchase)	43 136 946	14 621 217
Decrease (sale and redemption)	(41 651 387)	(13 664 727)
Impairment charges during period	(659)	(452)
Changes in the fair value	132 983	162 990
Exchange rate differences	134 465	(519 549)
Other	44 066	(4 572)
<b>Balance at the end of the period</b>	11 902 898	10 106 484
<b>Securities held to maturity</b>		
<b>Balance at the beginning of the period</b>	4 929 973	8 501 853
Increase(purchase)	6 141 280	5 717 306
Decrease (sale and redemption)	(8 612 798)	(9 449 877)
Impairment charges during period	1 592	-
Changes in the fair value	31	4 272
Exchange rate differences	(9 796)	(58 018)
Other	137 592	214 437
<b>Balance at the end of the period</b>	2 587 874	4 929 973
<b>Total investment securities net</b>	<b>14 490 772</b>	<b>15 036 457</b>

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Securities available for sale	31.12.2005	31.12.2004	
		(%)	(%)
		Average yield	Average yield
Fixed interest debt securities			
NBP bills	87 631	4,50	-
Treasury bills	212 174	4,30	745 037
Treasury Bonds	7 064 487	4,74	5 984 221
Polish Brady („London Club”) bonds	464 037	4,85	401 908
Foreign government bonds (HUF denominated)	390 281	6,87	163 636
Foreign government bonds (USD denominated)	800 911	4,35	340 785
Other securities issued by other banks	45 535	4,24	44 982
Other securities issued by financial entities	-	-	28 918
Other securities issued by non - financial entities	116 942	4,74	115 957
Other securities issued by non - financial entities (USD denominated)	2 806	5,14	-
<b>Total fixed interest debt securities</b>	<b>9 184 804</b>	<b>4,79</b>	<b>7 825 444</b>
Variable interest debt securities			
Treasury Bonds	757 079	4,51	122 448
Treasury Bonds – RP Eurobonds (EUR denominated)	-	-	143 089
Treasury Bonds – RP Eurobonds (USD denominated)	1 107 317	4,83	1 014 116
Foreign government bonds (EUR denominated)	34 349	2,90	37 217
Local authorities bonds	506 850	5,04	563 738
Other securities issued by other banks (USD denominated)	-	-	75 288
Other securities issued by financial entities (EUR denominated)	32 940	2,71	-
Other securities issued by non - financial entities	276 331	4,89	279 365
<b>Total variable interest debt securities</b>	<b>2 714 866</b>	<b>4,74</b>	<b>2 235 261</b>
<b>Total debt securities available for sale</b>	<b>11 899 670</b>		<b>10 060 705</b>
Stock and shares in other entities	3 111		45 603
Other financial instruments	117		176
<b>Total securities available for sale</b>	<b>11 902 898</b>	<b>4,77</b>	<b>10 106 484</b>

Securities held to maturity	31.12.2005	31.12.2004	
		(%)	(%)
		Average yield	Average yield
Fixed interest debt securities			
NBP bills	193 155	4,50	-
Treasury bills	-	-	1 046 463
Treasury Bonds	1 966 553	8,25	3 397 973
Treasury Bonds – RP Eurobonds (EUR denominated)	160 596	5,69	169 486
Other securities issued by financial entities (USD denominated)	23 308	7,94	21 369
Other securities issued by financial entities (EUR denominated)	36 872	6,88	37 282
<b>Total fixed interest debt securities</b>	<b>2 380 484</b>	<b>7,74</b>	<b>4 672 573</b>
Variable interest debt securities			
Treasury Bonds	199 757	4,62	214 342
Foreign governments bonds (EUR denominated)	7 633	2,90	8 249
Local authorities bonds	-	-	34 809
<b>Total variable interest debt securities</b>	<b>207 390</b>	<b>4,55</b>	<b>257 400</b>
<b>Total debt securities held to maturity</b>	<b>2 587 874</b>	<b>7,47</b>	<b>4 929 973</b>

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Securities available for sale according to maturities:													
31 December 2005	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- 1 - 5 years		above 5 years		Undefined maturity	Total	
	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
<b>Debt securities</b>													
- issued by central banks	87 631	4,50	-	-	-	-	-	-	-	-	-	87 631	4,50
- issued by other banks	-	-	-	-	45 535	4,24	-	-	-	-	-	45 535	4,24
- issued by other financial entities	-	-	-	-	-	-	32 940	2,71	-	-	-	32 940	2,71
- issued by non financial entities	-	-	-	-	-	-	119 747	4,75	276 331	4,89	-	396 078	4,85
- issued by the State Treasury	212 174	4,30	215 944	4,07	1 880 270	4,41	6 086 340	4,81	2 435 908	5,04	-	10 830 636	4,77
- issued by local governments	-	-	157	4,93	94 178	4,56	387 106	5,15	25 409	5,17	-	506 850	5,04
<b>Shares in other entities</b>													
- listed	-	-	-	-	-	-	-	-	-	-	-	-	-
- not listed	-	-	-	-	-	-	-	-	-	-	3 111	3 111	-
Other financial instruments	-	-	-	-	-	-	-	-	-	-	117	117	-
<b>Total</b>	<b>299 805</b>	<b>4,36</b>	<b>216 101</b>	<b>4,07</b>	<b>2 019 983</b>	<b>4,42</b>	<b>6 626 133</b>	<b>4,82</b>	<b>2 737 648</b>	<b>5,03</b>	<b>3 228</b>	<b>11 902 898</b>	<b>4,77</b>
Including interest	-		15 051		16 834		122 616		33 642			188 143	

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Securities available for sale according to maturities:													
31 December 2004	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- 1 - 5 years		above 5 years		Undefined maturity	Total	
	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
<b>Debt securities</b>													
- issued by other banks	-	-	4 974	6,74	94 920	2,73	20 376	7,46	-	-	-	120 270	3,70
- issued by other financial entities	28 918	6,84	-	-	-	-	-	-	-	-	-	28 918	6,84
- issued by non financial entities	2 788	6,83	6 158	6,83	-	-	107 011	6,57	279 365	7,19	-	395 322	7,01
- issued by the State Treasury	34 179	6,57	172 689	6,81	2 231 884	6,69	3 879 082	5,94	2 634 623	4,63	-	8 952 457	5,76
- issued by local authorities	-	-	-	-	84 917	6,50	428 592	7,38	50 229	7,65	-	563 738	7,27
<b>Shares in other entities</b>													
- listed	-	-	-	-	-	-	-	-	-	-	-	-	-
- not listed	-	-	-	-	-	-	-	-	-	-	45 603	45 603	-
Other financial	-	-	-	-	-	-	-	-	-	-	176	176	-
<b>Total</b>	<b>65 885</b>	<b>6,71</b>	<b>183 821</b>	<b>6,81</b>	<b>2 411 721</b>	<b>6,53</b>	<b>4 435 061</b>	<b>6,11</b>	<b>2 964 217</b>	<b>4,93</b>	<b>45 779</b>	<b>10 106 484</b>	<b>5,85</b>
Including interest	-		12 071		8 148		78 432		19 742			118 393	

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Securities held to maturity according to maturities:													
31 December 2005	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- 1 - 5 years		above 5 years		Undefined maturity	Total	
	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Book value	Average yield. (%)
<b>Debt securities</b>													
- issued by central banks	193 155	4,50	-	-	-	-	-	-	-	-	-	193 155	4,50
- issued by other financial entities	-	-	-	-	36 872	6,88	23 308	7,94	-	-	-	60 180	7,29
- issued by the State Treasury	-	-	26 936	6,23	2 120 899	7,94	26 108	4,04	160 596	5,68	-	2 334 539	7,72
<b>Total</b>	<b>193 155</b>	<b>4,50</b>	<b>26 936</b>	<b>6,23</b>	<b>2 157 771</b>	<b>7,92</b>	<b>49 416</b>	<b>5,88</b>	<b>160 596</b>	<b>5,68</b>	<b>-</b>	<b>2 587 874</b>	<b>7,47</b>
Including interest	-		1 881		33 345		944		7 468		-	43 638	

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Securities held to maturity according to maturities:													
31 December 2004	- up to 1 month		- between 1 and 3 months		- between 3 months and 1 year		- 1 - 5 years		above 5 years		Undefined maturity	Total	
	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value	Average yield. (%)	Book value
<b>Debt securities</b>													
- issued by other financial entities	-	-	-	-	-	-	58 651	7,27	-	-	-	58 651	7,27
- issued by the State Treasury	29 936	6,67	783 266	9,71	1 786 574	6,16	2 067 251	8,13	169 486	5,69	-	4 929 973	7,56
- issued by local governments	-	-	-	-	-	-	34 809	2,95	-	-	-	34 809	2,95
<b>Total</b>	<b>29 936</b>	<b>6,67</b>	<b>783 266</b>	<b>9,71</b>	<b>1 786 574</b>	<b>6,16</b>	<b>2 160 711</b>	<b>8,02</b>	<b>169 486</b>	<b>5,69</b>	-	<b>4 929 973</b>	<b>7,53</b>
Including interest	-		21 747		43		36 768		7 895			66 453	

## 28. Assets held for sale and liabilities associated with assets held for sale

The assets and the liabilities related to disposal of 75% of shares in Pekao Development Sp. z o.o. as well as certain properties of the Bank, which meet the IFRS 5 criteria concerning classification of non-current assets as held for sale, have been presented by the Bank in the consolidated balance sheet in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* as respectively “Non-current assets held for sale” and “Liabilities related to non-current assets held for sale”.

On 15 February 2006, the agreement on disposal of 75% of shares in Pekao Development Sp. z o.o. has been concluded by the Bank. The transaction is supposed to be finalized by the end of March 2006 after having obtained a permission of the Office of Competition and Consumer Protection.

The impact of the disposal on the Group’s assets and liabilities as of 31 December 2005 is as follows (as line-by-line consolidation of Pekao Development Sp. z o.o. is supposed to be discontinued, the 100% value of the assets and the liabilities has been presented):

	Pekao Development Sp. z o.o.	Banks’ fixed assets
Cash and amounts due from Central Bank	20	-
Investments in subordinated undertakings	49	-
Intangible assets	39	-
Tangible fixed assets	685	378
Investment property	50 768	1 842
Other assets	113 585	-
<b>Total assets</b>	<b>165 146</b>	<b>2 220</b>
Amounts due to other banks	3	-
Current income tax liabilities	553	-
Provisions for deferred income tax	5 982	-
Provisions	557	-
Other liabilities	32 568	-
<b>Total liabilities</b>	<b>39 663</b>	<b>-</b>

As the Bank exercised control over Pekao Development Sp. z o.o. as of 31 December 2005, the respective items of the profit and loss statement of Pekao Development Sp. z o.o. for the financial year then ended have been incorporated in the consolidated profit and loss statement of the Group for the financial year then ended.

	2005
Net interest income	(738)
Net fee and commission income	6
Foreign exchange result	(1 241)
Other operating income	165 091
Other operating expenses	(109 904)
Overhead costs	(14 304)
Operating profit	38 910
Profit before income tax	38 910
Income tax expense	(8 675)
<b>Net profit</b>	<b>30 235</b>

As the expected proceedings from disposal of the assets and liabilities exceed the carrying value of these assets and liabilities, they have been recognized at the carrying value.

## 29. Investments in subordinated undertakings

### Investments in associates and joint ventures entities

Summary information about affiliated entities valued using equity method (in PLN):

Entity's name	Assets	Liabilities	Revenues	Net profit / (loss)	% share	Book value of shares
<b>31st December 2005</b>						
Krajowa Izba Rozliczeniowa S.A.	107 519	13 723	97 828	29 019	22,96	21 587
Pioneer Pekao Investment Management S.A.	315 845	96 971	558 549	106 200	49,00	107 248
Xelion. Doradcy Finansowi Sp. z o.o.	44 321	3 868	3 084	(22 921)	50,00	20 226
Fabryka Sprzętu Okrętowego "Meblomor" S.A.	14 502	5 218	21 103	188	23,81	1 552
Cental Poland Fund LLC	1 961	41	(578)	(1 026)	53,19	931
<b>Total</b>						<b>151 544</b>
<b>31st December 2004</b>						
Krajowa Izba Rozliczeniowa S.A.	114 828	9 955	132 139	30 869	22,96	21 378
Grupa Inwestycyjna NYWIG S.A.	-	62 483	2 850	12	24,60	2 259
Pioneer Pekao Investment Management S.A.	198 674	40 693	434 338	74 481	49,00	71 901
Xelion. Doradcy Finansowi Sp. z o.o.	19 589	3 105	2 150	(22 221)	50,00	6 687
Fabryka Sprzętu Okrętowego "Meblomor" S.A.	14 697	4 242	18 180	899	23,81	1 533
Cental Poland Fund LLC	14 764	98	-	1 639	53,19	4 862
<b>Total</b>						<b>108 620</b>

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Summary information about joint ventures entities valued using equity method (in ths. PLN):

Entity's name	Assets	Liabilities	Revenues	Net profit / (loss)	% share	Book value of shares
<b>31st December 2005</b>						
Anica System S.A.	18 003	5 647	30 947	2 703	33,84	4 182
<b>Total</b>						<b>4 182</b>
<b>31st December 2004</b>						
Anica System S.A.	15 530	4 896	23 271	2 217	33,84	3 943
<b>Total</b>						<b>3 943</b>

Summary information about affiliated entities not recognized using equity method (in ths. PLN):

Entity's name	Assets	Liabilities	Revenues	Net profit / (loss)	% share	Book value of shares
<b>31st December 2005</b>						
Pracownicze Towarzystwo Emerytalne „Nowy Świat” S.A.	386	184	300	0	39,56	99
CPF Management (not operating)	-	-	-	-	40,00	-
<b>Total</b>						<b>99</b>
<b>31st December 2004</b>						
Pracownicze Towarzystwo Emerytalne „Nowy Świat” S.A.	464	214	412	-	39,57	99
CPF Management (not operating)	-	-	-	-	40,00	-
<b>Total</b>						<b>99</b>

According to the adopted accounting principle, the Group ceases to recognize the losses of its affiliated entity if the share in the loss is equal or greater than the amount of investment, provided that the Group is not legally or customarily required to cover such amounts. As at 31 December 2005 and 31 December 2004, this rule was applied to Hotel Jan III Sobieski Spółka z o.o.

Entity's name	Share in the loss for the period	Cumulated share in losses	Book value of shares
<b>31st December 2005</b>			
Hotel Jan III Sobieski Sp. z o. o.		7 201	(67 599)
<b>31st December 2004</b>			
Hotel Jan III Sobieski Sp. z o. o.		18 740	(86 340)

Changes in book value of investments in affiliated and joint-venture entities:

	Year 2005	Year 2004
<b>Book value of subsidiaries at the beginning of the reporting period</b>	<b>12 000</b>	<b>17 333</b>
Share in profit / (loss)	-	(177)
Sale	-	(5 779)
Other	(11)	623
<b>Book value of subsidiaries at the reporting date</b>	<b>11 989</b>	<b>12 000</b>
<b>Book value of affiliated entities at the beginning of the reporting period</b>	<b>108 719</b>	<b>168 715</b>
Share in profit / (loss)	43 257	29 239
Dividends declared	(22 714)	(4 351)
Sale	(2 428)	(89 286)
Capital increase	25 000	-
Other	(191)	4 402
<b>Book value of affiliated entities at the reporting date</b>	<b>151 643</b>	<b>108 719</b>
<b>Book value of joint-venture entities at the beginning of the reporting period</b>	<b>3 943</b>	<b>10 578</b>
Share in profit / (loss)	920	7 095
Sale	-	(14 485)
Other	(681)	755
<b>Book value of joint-venture entities at the at the reporting date</b>	<b>4 182</b>	<b>3 943</b>

### Investments in subsidiaries

In the Group's financial statements, financial information on the following subsidiaries Fabryka Maszyn w Janowie Lubelskim Sp. z o.o., Nowe Ogrody Sp. z o. o. and Pekao Immobilier s.a.r.l. was not included due to its insignificance. The amount of shares was recognized in the Group's statement based on purchase prices. See below for summary information about those companies.

Entity's name	Assets	Liabilities	Revenues	Net profit / (loss)	% share	Book value of shares
<b>31st December 2005</b>						
Fabryka Maszyn w Janowie Lubelskim Sp. z o.o.	38 188	18 801	47 951	(1 289)	86,86	11 939
Pekao Immobilier s.a.r.l. - dane fin. na 31/12/2003	57	-	-	(7)	100,00	50
<b>Total</b>						<b>11 989</b>
<b>31st December 2004</b>						
Fabryka Maszyn w Janowie Lubelskim Sp. z o.o.	40 313	15 220	61 609	1 316	86,68	11 939
Pekao Immobilier s.a.r.l. - dane fin. na 31/12/2003	64	-	-	(8)	100,00	61
<b>Total</b>						<b>12 000</b>

### 30. Intangible assets

	Development cost	Licenses	Other(*)	Total
<b>2005</b>				
<b>Gross book value</b>				
<b>Opening balance</b>	<b>69 777</b>	<b>851 767</b>	<b>82 962</b>	<b>1 004 506</b>
Additions, including:	-	4 679	163 616	168 295
Acquisition	-	2 721	156 584	159 305
Other additions	-	1 958	7 032	8 990
Transfers from intangibles in progress	919	115 664	(116 583)	-
Disposals, including:	-	(26 293)	(8 350)	(34 643)
Liquidation	-	(25 405)	(5)	(25 410)
Other disposals	-	(888)	(8 345)	(9 233)
<b>Closing balance</b>	<b>70 696</b>	<b>945 817</b>	<b>121 645</b>	<b>1 138 158</b>
<b>Accumulated depreciation</b>				
<b>Opening balance</b>	<b>23 811</b>	<b>343 397</b>	<b>5 372</b>	<b>372 580</b>
Amortization	14 114	127 070	4 357	145 541
Liquidation	-	(25 364)	(4)	(25 368)
Other changes in value	-	(225)	(78)	(303)
<b>Closing balance</b>	<b>37 925</b>	<b>444 878</b>	<b>9 647</b>	<b>492 450</b>
<b>Impairment write-offs</b>				
<b>Opening balance</b>	-	<b>1</b>	-	<b>1</b>
Other changes in value	-	250	-	250
<b>Closing balance</b>	-	<b>251</b>	-	<b>251</b>
<b>Net book value</b>				
<b>Opening balance</b>	<b>45 966</b>	<b>508 369</b>	<b>77 790</b>	<b>631 925</b>
<b>Closing balance</b>	<b>32 771</b>	<b>500 688</b>	<b>111 998</b>	<b>645 457</b>

\* Other movements include in particular intangibles in progress

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Group has any amounts of intangible assets whose deed title is restricted.

	Development cost	Licenses	Other(*)	Total
<b>2004</b>				
<b>Gross book value</b>				
<b>Opening balance</b>	<b>59 973</b>	<b>700 590</b>	<b>72 798</b>	<b>833 361</b>
Additions, including:	-	5 579	184 828	190 407
Acquisition	-	4 947	177 020	181 967
Other additions	-	632	7 808	8 440
Transfers from intangibles in progress	9 804	154 674	(164 478)	-
Disposals, including:	-	(9 076)	(10 186)	(19 262)
Liquidation	-	(8 365)	(2 627)	(10 992)
Other disposals	-	(711)	(7 559)	(8 270)
<b>Closing balance</b>	<b>69 777</b>	<b>851 767</b>	<b>82 962</b>	<b>1 004 506</b>
<b>Accumulated depreciation</b>				
<b>Opening balance</b>	<b>11 263</b>	<b>240 066</b>	<b>4 492</b>	<b>255 823</b>
Amortization	12 548	110 287	3 269	126 104
Liquidation	-	(6 461)	(2 389)	(8 850)
Other changes in value	-	(495)	-	(495)
<b>Closing balance</b>	<b>23 811</b>	<b>343 397</b>	<b>5 372</b>	<b>372 582</b>
<b>Impairment write-offs</b>				
Opening balance	-	1	-	1
Other changes in value	-	-	-	-
<b>Closing balance</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>1</b>
<b>Net book value</b>				
<b>Opening balance</b>	<b>48 710</b>	<b>460 523</b>	<b>68 306</b>	<b>577 539</b>
<b>Closing balance</b>	<b>45 966</b>	<b>508 369</b>	<b>77 590</b>	<b>631 925</b>

\* Other movements include in particular intangibles in progress

### 31. Tangible fixed assets

	31.12.2005	31.12.2004
Tangible fixed assets:		
a) ) fixed assets, including:	<b>1 408 547</b>	<b>1 488 394</b>
Land and buildings	1 125 468	1 180 616
Machinery and equipment	245 232	270 389
Means of transport	21 216	14 068
Other tangible fixed assets	16 631	23 321
b) Capital work in progress and prepayments for capital work in progress	<b>32 594</b>	<b>53 434</b>
<b>Tangible fixed assets</b>	<b>1 441 141</b>	<b>1 541 828</b>

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<b>Annual ended December 31, 2005</b>	Land and buildings	Machinery and equipment	Means of transport	Other tangible fixed assets	Total tangible fixed assets
<b>Opening balance as of January 1, 2005</b>	<b>1 636 263</b>	<b>970 719</b>	<b>40 704</b>	<b>307 965</b>	<b>2 955 651</b>
Increases, including:					
Acquisitions	60 421	75 935	13 832	5 193	155 381
Transfer from tangibles under construction	489	4 686	818	903	6 896
Other	32 539	70 873	417	4 063	107 892
Decreases, including:					
Liquidation and sale	27 393	376	12 597	227	40 593
Transfer to non-current assets held for sale	(76 120)	(30 677)	(9 635)	(11 646)	(128 078)
Other	(13 899)	(27 253)	(9 053)	(11 285)	(61 490)
	(1 980)	-	-	-	(1 980)
	(60 241)	(3 424)	(582)	(361)	(64 608)
<b>Closing balance</b>	<b>1 620 564</b>	<b>1 015 977</b>	<b>44 901</b>	<b>301 512</b>	<b>2 982 954</b>
<b>Depreciation</b>					
<b>Opening balance as of January 1, 2005</b>	<b>447 722</b>	<b>699 916</b>	<b>26 636</b>	<b>284 644</b>	<b>1 458 918</b>
Increases, including:					
Depreciation of the period	58 366	98 630	5 631	11 586	174 213
Other	57 582	98 535	5 409	11 452	172 978
Decreases, including:					
Liquidation and sale	784	95	222	134	1 235
Transfer to non-current assets held for sale	(18 757)	(28 215)	(8 582)	(11 349)	(66 903)
including depreciation	(6 706)	(26 212)	(8 095)	(11 132)	(52 145)
Other	(917)	-	-	-	(917)
	(189)	-	-	-	(189)
	(11 134)	(2 003)	(487)	(217)	(13 841)
<b>Closing balance</b>	<b>487 331</b>	<b>770 331</b>	<b>23 685</b>	<b>284 881</b>	<b>1 566 228</b>
<b>Impairment write-downs</b>					
<b>Opening balance</b>	<b>7 925</b>	<b>414</b>	<b>-</b>	<b>-</b>	<b>8 339</b>
Decreases	(160)	-	-	-	(160)
<b>Closing balance</b>	<b>7 765</b>	<b>414</b>	<b>-</b>	<b>-</b>	<b>8 179</b>
<b>Net value</b>					
<b>Opening balance</b>	<b>1 180 616</b>	<b>270 389</b>	<b>14 068</b>	<b>23 321</b>	<b>1 488 394</b>
Closing balance	1 125 468	245 232	21 216	16 631	1 408 547
<b>Annual ended December 31, 2004</b>					
	Land and buildings	Machinery and equipment	Means of transport	Other tangible fixed assets	Total tangible fixed assets
<b>Opening balance as of January 1, 2004</b>	<b>1 635 718</b>	<b>972 849</b>	<b>38 473</b>	<b>326 107</b>	<b>2 973 147</b>
Increases, including:					
Acquisitions	32 955	76 555	7 903	3 673	121 086
Transfer from tangibles under construction	586	6 183	938	583	8 290
Other	21 088	58 224	4 020	3 066	86 398
Decreases, including:					
Liquidation and sale	11 281	12 148	2 945	24	26 398
Other	(32 410)	(78 685)	(5 672)	(21 815)	(138 582)
	(13 516)	(67 706)	(5 601)	(9 084)	(95 907)
	(18 894)	(10 979)	(71)	(12 731)	(42 675)
<b>Closing balance</b>	<b>1 636 263</b>	<b>970 719</b>	<b>40 704</b>	<b>307 965</b>	<b>2 955 651</b>

<b>Depreciation</b>					
<b>Opening balance as of January 1, 2004</b>	<b>393 062</b>	<b>649 479</b>	<b>25 559</b>	<b>287 933</b>	<b>1 356 033</b>
Increases, including:	68 728	117 598	5 873	16 096	208 295
Depreciation for the period	65 256	107 571	4 651	16 080	193 558
Other	3 472	10 027	1 222	16	14 737
Decreases, including :	(14 068)	(67 161)	(4 796)	(19 385)	(105 410)
Liquidation and sale	(8 301)	(65 914)	(4 745)	(8 900)	(87 860)
Other	(5 767)	(1 247)	(51)	(10 485)	(17 550)
<b>Closing balance</b>	<b>447 722</b>	<b>699 916</b>	<b>26 636</b>	<b>284 644</b>	<b>1 458 918</b>
<b>Impairment write-downs</b>					
<b>Beginning value</b>	<b>8 160</b>	<b>405</b>	<b>-</b>	<b>-</b>	<b>8 565</b>
Increases	2 497	957	-	-	3 454
Decreases	(2 732)	(948)	-	-	(3 680)
<b>Closing balance</b>	<b>7 925</b>	<b>414</b>	<b>-</b>	<b>-</b>	<b>8 339</b>
<b>Net book value</b>					
<b>Beginning value</b>	<b>1 234 496</b>	<b>322 965</b>	<b>12 915</b>	<b>38 175</b>	<b>1 608 551</b>
<b>Closing balance</b>	<b>1 180 616</b>	<b>270 389</b>	<b>14 068</b>	<b>23 321</b>	<b>1 488 394</b>

Taking advantage of the exemption allowed by IFRS 1, the Group recognized selected items of tangible assets acquired before the period of hyperinflation at a fair value as of the day of transition to IFRS, that is, as of 1 January 2004, and it used this fair value as the deemed cost determined for that day.

The effect of adjustments made on that account as of 1 January 2004 is presented in the following reconciliation of net assets as of 1 January 2004. The aggregate amount of fair value used was PLN 148 888 ths. (mainly properties and buildings).

As of 31<sup>st</sup> December 2005 assets under construction amounted to PLN 32 594 ths. (as of 31<sup>st</sup> December 2004 PLN 51 486 ths.).

The amount of damages received and recognized in the profit and loss, in relation to fixed assets lost in 2005 was PLN 1 608 ths.

There are any barriers concerning fixed assets in relation to non current assets with security title of liabilities.

The operational lease payments recognized as expense in 2005 amounted to PLN 106 569 ths. (in 2004 amounted to PLN 111 818 ths.).

The operational lease payments recognized as income in the 2005 amounted to PLN 14 782 ths. (in the 2004 amounted to PLN 18 021 ths.).

#### **Agreement Liabilities**

By 31<sup>st</sup> December 2005 the Group entities concluded with its contractors agreements for purchase in the future of intangible assets for amount of PLN 50 630 ths. including PLN 50 630 ths. in 2006, and of tangible fixed assets for amount of PLN 21 067 ths. including PLN 21 067 ths. in 2006 (by 31<sup>st</sup> December 2004, the Group entities concluded with its contractors agreements for purchase in 2005 of intangible assets for amount of PLN 56 090 ths. and of tangible fixed assets for amount of PLN 13 337 ths.).

### 32. Investment property

The Group measures the investment property using the historical cost concept.

There are no restrictions related to the right to sell and to transfer the profit attributable to investment property owned by the Group.

Changes in value of the investment property:

	31.12.2005	31.12.2004
<b><u>Gross value</u></b>		
<b>Opening balance as of 1 January 2005</b>	<b>132 487</b>	<b>141 976</b>
Increase of balance	31 245	11 332
Acquisitions of real estate	-	93
Activation of subsequent outlays	-	110
Transfer from own real estate	30 958	11 129
Other changes	287	-
Decrease of balance	(68 365)	(20 821)
Transfer to assets hold to sale	(62 413)	-
Buy-out	-	(9 230)
Other changes	(5 952)	(11 591)
<b>Value as of the end of the period</b>	<b>95 367</b>	<b>132 487</b>
<b><u>Depreciation write-offs</u></b>		
<b>Opening balance as of 1 January 2005</b>	<b>25 843</b>	<b>26 961</b>
Increase of balance	16 189	3 207
Activation of subsequent outlays	-	2
Transfer from own real estate	11 708	158
Other changes	109	-
Depreciation	4 372	3 047
Decrease of balance	(11 512)	(4 325)
Transfer to non-current assets held for sale including depreciation	(9 802) (2 022)	- -
Buy-out	-	(1 365)
Other changes	(1 710)	(2 960)
<b>Value as of the end of the period</b>	<b>30 520</b>	<b>25 843</b>
<b><u>Depreciation write-offs due to loss of value</u></b>		
<b>Opening balance as of 1 January 2005</b>	<b>3 775</b>	<b>4 366</b>
Increase	15	-
Transfer from own real estate	15	-
Decrease	(202)	(591)
Differences in exchange rates	(202)	(591)
<b>Value as of the end of the period</b>	<b>3 588</b>	<b>3 775</b>
<b><u>Net balance value</u></b>		
<b>Opening balance as of 1 January 2005</b>	<b>102 869</b>	<b>110 649</b>
<b>Value as of the end of the period</b>	<b>61 259</b>	<b>102 869</b>

Future value of investment property as at 31<sup>st</sup> December 2005 amounted to PLN 83 301 ths. (as at 31<sup>st</sup> December 2004 amounted to PLN 132 823 ths.). Fair value was made on the basis of independent valuer who holds a recognised and relevant professional qualification.

The following amounts of income and expenses were recognized in profit and loss in relation with investment property:

	2005	2004
Income on rental of investment property	5 979	7 539
Direct operational expenses (including repair and maintenance) related to investment property bringing rental income	2 652	3 365
Direct operational expenses (including repair and maintenance) related to investment property not bringing rental income	939	597

### 33. Other assets

	31.12.2005	31.12.2004
Prepaid expenses	12 051	70 025
Perpetual usufruct rights	8 648	9 073
Accrued income	22 953	92 094
Other assets	7 360	8 755
Interbank and interbranch settlements	6 243	6 842
Other debtors	459 195	542 699
<b>Total other assets</b>	<b>516 450</b>	<b>729 488</b>

Prepaid expenses concerning single kind of expenditure, which incurred in profit and loss account are reconciled in accordance with time periods in future reporting periods.

### 34. Assets used to pledge liabilities

As of 31 December 2005, the portfolio of securities available for sale includes two-year treasury bonds with a nominal value of PLN 16 500 ths. (as of 31 December 2004 – PLN 17 106 ths.) used as collateral for the loan extended by the Bank Guarantee Fund. The amount of payables which the collateral refers to is PLN 12 816 ths. (as at 31 December 2004 – PLN 14 828 ths.)

As of 31 December 2005, the portfolio of securities available for sale also includes treasury bonds with nominal value of PLN 610 339 ths. (as of 31 December 2004 – PLN 6 923 ths.) used as collateral for securities sold under repo transactions. The amount of liabilities which the collateral refers to is PLN 639 250 ths. (as of 31 December 2004 – PLN 7 153 ths.).

The following table presents the balance sheet value of assets pledged as collateral for the liabilities.

	31.12.2005	31.12.2004
Treasury two-year bonds constituting security of loans received from Bankowy Fundusz Gwarancyjny	16 194	15 818
Treasury bonds security of liabilities due to sold securities with granted repurchase promise	638 884	7 153

### 35. Amounts due to the Central Bank

	31.12.2005	31.12.2004
Received credits		
Up to 1 month	-	-
From 1 month to 3 months	55 197	52 825
From 3 months to 1 year	168 348	145 331
From 1 to 5 years	1 057 280	980 770
Over 5 years	653 406	942 161
Interest charged	16 479	30 656
<b>Total amounts due to Central Bank</b>	<b>1 950 710</b>	<b>2 151 743</b>

### 36. Amounts due to other banks

	31.12.2005	31.12.2004
Current accounts	1 362 956	571 981
Deposits of other banks	449 168	475 011
Received credits and loans	77 303	73 784
Money transfer	20 654	21 418
Repo transactions	81 706	186 281
Interest accrued	5 256	4 082
<b>Total amounts due to other banks</b>	<b>1 997 043</b>	<b>1 332 557</b>

The variable interest rate due to banks amounts to PLN 285 292 ths. (as of 31.12.2004: PLN 170 902 ths.), fixed interest rate due to banks amounts to PLN 1 685 841 ths. (as of 31.12.2004: PLN 1 136 155 ths.).

### Amounts due to banks according to maturities

#### By remaining maturity

	31.12.2005	31.12.2004
Current accounts	1 362 956	571 981
Future liabilities with maturity period of:		
Up to 1 month	300 662	542 527
From 1 month to 3 months	45 792	45 347
From 3 months to 1 year	180 095	60 451
From 1 to 5 years	77 161	81 995
Over 5 years	4 467	4 756
Financial resources under way	20 654	21 418
Interest charged	5 256	4 082
<b>Total</b>	<b>1 997 043</b>	<b>1 332 557</b>

### 37. Financial liabilities held for trading

	31.12.2005	31.12.2004
Liabilities due to short securities	558 973	590 119
<b>Total liabilities held for trading</b>	<b>558 973</b>	<b>590 119</b>

### 38. Amounts due to customers

	31.12.2005	31.12.2004
<b>Amounts due to business entities</b>	<b>16 181 679</b>	<b>13 356 343</b>
Current accounts and overnight deposits	7 937 608	7 836 246
Deposits and time money	8 196 925	5 477 452
Other	25 585	20 058
Interest accrued	21 561	22 587
<b>Amounts due to budget entities</b>	<b>3 986 905</b>	<b>2 841 907</b>
Current accounts and overnight deposits	2 188 534	2 075 458
Deposits and time money	1 794 200	763 834
Interest accrued	4 171	2 615
<b>Amounts due to individuals</b>	<b>25 948 957</b>	<b>27 473 856</b>
Current accounts and overnight deposits	10 826 058	9 538 125
Deposits and time money	15 070 376	17 839 432
Other	3 743	2 991
Interest accrued	48 780	93 308
<b>Repo transactions</b>	<b>730 336</b>	<b>2 149 539</b>
Deposits	729 699	2 141 979
Interest accrued	637	7 560
<b>Total amounts due to customers</b>	<b>46 847 877</b>	<b>45 821 645</b>

### By remaining maturity

	31.12.2005	31.12..2004
Current accounts and overnight deposits	20 952 200	19 449 829
Future liabilities with maturity period of:		
Up to 1 month	14 404 147	13 009 637
From 1 month to 3 months	5 626 596	6 868 700
From 3 months to 1 year	4 696 235	4 763 657
From 1 to 5 years	489 899	969 588
Over 5 years	574 323	611 115
Other	29 328	23 049
Interest accrued	75 149	126 070
<b>Total</b>	<b>46 847 877</b>	<b>45 821 645</b>

Variable interest rate amounts due to customers amounts to PLN 25 506 048 ths (as at 31.12.2004 amounted to PLN 26 141 573 ths), fixed rate amounts due to customers amounts to PLN 21 237 352 ths. (as at 31.12.2004 PLN 19 530 953 ths)

### 39. Debt securities in issue

	31.12.2005	31.12.2004
Liabilities due to issue of bonds	4	22 479
Interest accrued	-	726
<b>Total liabilities due to issue of debt securities</b>	<b>4</b>	<b>23 205</b>

	31.12.2005		31.12.2004	
	Balance value	Average effective rate (%)	Balance value	Average effective rate (%)
Liabilities due to issue of maturity period of:				
Up to 1 month	-	-	-	-
From 1 month to 3 months	-	-	-	-
From 3 months to 1 year	-	-	23 205	6,40
From 1 to 5 years	4	-	-	-
Over 5 years	-	-	-	-
<b>Total</b>	<b>4</b>	<b>-</b>	<b>23 205</b>	<b>6,40</b>

The Group never has defaulted on repayment of principal or interest or redemption its own securities.

### 40. Provisions

2005	Reserve for restructurings	Reserve for matters of dispute	Reserve for old-age pensions	Reserve for granted liabilities and guarantees	Reserves for general risk	Other reserves	Total
Balance as of 31 December 2004	9 000	12 449	58 691	16 325	248 453	4 148	349 066
IAS 39 adjustment	-	-	-	-	(248 453)	-	(248 453)
Balance as of 1 January 20045	9 000	12 449	58 691	16 325	-	4 148	100 613
Creation / revaluation of reserves	3 529	11 013	4 672	54 899	-	1 735	75 848
Use of reserves	(7 939)	(768)	(1 549)	-	-	(169)	(10 425)
Dissolution of reserves	-	(1 930)	(348)	(53 432)	-	(2 787)	(58 497)
Differences in exchange rates	-	4	-	489	-	(24)	469
Other changes	-	(160)	(21)	2 068	-	(1 168)	719
<b>Balance as of 31 December 2005</b>	<b>4 590</b>	<b>20 608</b>	<b>61 445</b>	<b>20 349</b>	<b>-</b>	<b>1 735</b>	<b>108 727</b>

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(in PLN thousand)

2005	Reserve for restructurings	Reserve for matters of dispute	Reserve for old-age pensions	Reserve for granted liabilities and guarantees	Reserves for general risk	Other reserves	Total
Balance as of 31 December 2003	21 765	25 436	50 210	32 102	248 453	15 019	392 985
Creation / revaluation of reserves	9 000	9 624	10 458	39 031	-	20 887	89 000
Use of reserves	(21 760)	(443)	(1 977)	(2 333)	-	(22 362)	(48 875)
Dissolution of reserves	-	(19 123)	-	(50 385)	-	(9 347)	(78 855)
Differences in exchange rates	(5)	(112)	-	(1 968)	-	(282)	(2 367)
Other changes	-	(2 933)	-	(122)	-	(233)	(2 822)
<b>Balance as of 31 December 2004</b>	<b>9 000</b>	<b>12 449</b>	<b>58 691</b>	<b>16 325</b>	<b>248 453</b>	<b>4 148</b>	<b>349 066</b>

#### 41. Other liabilities

	31.12.2005	31.12.2004
Deferred income	103 917	84 119
Holiday pay accrual	34 792	36 492
Other accruals	197 553	168 476
Provision for administrative costs	69 057	11 968
Other costs to be paid	8 564	3 572
Other creditors	583 151	671 097
Inter-bank and inter branch settlements	435 888	84 646
<b>Total other liabilities</b>	<b>1 432 922</b>	<b>1 060 370</b>

#### 42. Employee benefits

##### Employee share programs

Options for the Bank's shares are granted as a part of the incentive program for senior management essential to the success of the Capital Group Bank's strategy, set by resolution of Extraordinary General Meeting of Bank Polska Kasa Opieki S.A from 25 July 2003

The program involve a contingent increase of the Bank's share capital by issuing following shares received in exchange for bonds with pre-emptive rights to take up the Bank's shares.

Type of shares	Number of options	Nominal value of 1 share	The issue price of one share	Establish basis of share issue price
Bearer common shares , F-share	830 000	1 PLN	108,37 PLN	the average of closing prices of the Bank's shares quoted at the Warsaw Stock Exchange in July and August 2003
Bearer common shares , G-share	830 000	1 PLN	123,06 PLN	the average of closing prices of the Bank's shares quoted at the Warsaw Stock Exchange in February and March 2004

After realization the pre-emptive rights to take up the Bank's shares, the shares are recognized in Bank's equity.

The incentive program will be implemented within the confines of sub program (each splitted into II instalment ) at the following parameters :

	Program based on F-share issue		Program based on G-share issue	
Expiry date	31 December 2010		31 December 2012	
Realization price	108,37		123,06	
Number of options	415 000	415 000	415 000	415 000
Criteria to rights purchase	1. Executive of individual purposes in confines of the MBO program during the 2003 year,		1. Executive of individual purposes in confines of the MBO program during the 2003 year,	
	2. Remaining at contract of employment within Bank's capital group employee as at the date of option rights execution		2. Remaining at contract of employment within Bank's capital group employee as at the date of option rights execution	
	3. Realization of assumed ROE for the 2004 year	3. Realization of assumed ROE for the 2005 year	3. Realize assumed ROE for the 2006 year	3. Realize assumed ROE for the 2007 year
Fair Value as at 31 December 2005 ('000. PLN)	6 462	4 696	3 568	2 762
<b>Assumptions of the fair value model adopted on the day of granted rights:</b>				
Dividend rate (%)	4,27		5,12	
Volatility index (%)	31,75		31,75	
Risk-free interest rate (%)	5,33	5,41	6,66	6,70
Foreseen option validity period (in years)	4,76	5,26	6,18	6,68
Weighted average of stock price (in PLN)	112,50		125,00	

Fair value of the pre-emptive rights to take up the Bank's shares granted in period to 31 December 2005 as at day 31 December 2005 amounted to 17 488 ths PLN and it is settled over time during the estimated period in which rights to acquire the Bank's shares are granted to participating individuals.

Costs of payroll in 2005 year was increased by PLN 11 895 ths (in 2004: PLN 4 800 ths).

Fair value of the pre-emptive rights to take up the Bank's shares was recognized as of the day of granting options (pre-emptive rights to take up the Bank's shares) based on the Black-Scholes model for appraisal of dividend-yielding stock options, according to expectations of the Management Board concerning the number of rights to be exercised. The amount of the employee share program is adjusted as of every balance sheet date if expectations of the Management Board change concerning the number of rights to be exercised. No efficiency/results data except those related to the price of shares ("market conditions") are taken into account in the assessment of transactions settled in capital instruments.

The expected effective term of the pre-emptive rights to take up the Bank's shares is determined on the basis of historic data and does not need to specifically define all possible exercise scenarios.

The expected volatility index reflects the assumption according to which the historic volatility index.

No other parameters related to the granting of pre-emptive rights to take up the Bank's shares were taken into account in the assessment of the fair value.

### 43. Contingent liabilities

#### Litigation

As of 31st December 2005 the number of the legal proceedings in courts, appropriate bodies of arbitration or public administration bodies, concerning the liabilities of the Group was 504 the total value of them was PLN 663 327 ths. and EUR 36 008 ths.

According to the issuer's Management Board opinion only one of the largest proceedings, that have been in progress against the Group during the reporting period, give rise to risk of cash outflow as a result of fulfilling the obligation.

Mittal Steel Poland S.A. (till now Ispat Polska Stal S.A.) against Bank Pekao S.A. The subject of litigation: devoid the execution in totality deed executive i.e. the Bank execution deed issued by the Bank and demand adjudge from Bank amount PLN 14 193 ths. with statutory interests since date of prosecution, the date of action in the course of proceedings – 01.03.2005

Arthur Bras/MTA against Bank Pekao S.A. – branch in Paris

The subject of litigation: unwarranted crediting; the quarrel subject value amounted EUR 7 622 ths; the date of action in the course of proceedings – 17.04.2000

As of the reporting day it was not possible to reliably estimate the value of potential cash outflow related to these proceedings.

As regards all other significant proceedings in progress against the Group, the risk of cash outflow is nominal.

#### Financial obligations granted

	31.12.2005	31.12.2004
Granted financial liabilities in total:	10 990 273	10 518 643
- towards financial entities	422 701	1 119 486
- towards non-financial entities	10 082 906	9 009 100
- towards the budget	484 666	390 057
Including: granted irrevocable liabilities	10 715 561	10 383 642

The Group granted fixed-rate financial commitments in the nominal amount of PLN 2 112 883 ths. (for 31 December 2004 amounts to PLN 1 462 738 ths).

The below table presents granted fixed-rate financial commitments according to their maturities

	31.12.2005	31.12.2004
Granted fixed-rate financial liabilities in total:	2 112 883	1 462 738
- with maturity date within a year of the balance day	567 783	542 271
- with maturity date within more than a year of the balance day	1 545 100	920 467
including: granted irrevocable liabilities	2 112 883	1 462 738

### Guarantees granted

	31.12.2005	31.12.2004
1) Liabilities granted towards financial entities:	168 895	127 841
- guarantees	125 231	97 520
- sureties	27 482	18 403
- confirmed export letters of credit	16 182	11 918
2) Liabilities granted towards non-financial entities:	1 197 811	753 405
- guarantees	1 197 219	752 664
- sureties	23	236
- confirmed export letters of credit	569	505
3) Liabilities granted towards the budget:	47 389	61 223
- guarantees	43 639	57 473
- endorsements	3 750	3 750
<b>Granted liabilities in total</b>	<b>1 414 095</b>	<b>942 469</b>

### Sub issue program

As of 31 December 2005 in the Group were no securities programs subjected to sub issue program. As of 31.12.2004 Starostwo Powiatowe Zduńska Wola Community's Bonds were subjected by the Bank sub-issue, nominal value sub-issued securities being in Group's portfolio amounted to PLN 8 400 ths.

### Assets held as collateral for conditional liabilities

As of 31<sup>st</sup> December 2005 there were no assets held as collateral against conditional liabilities. As of 31<sup>st</sup> December 2004 the deposit placed with UniCredito Italiano New York, amounting to USD 9 336 ths. ,represented a collateral of a guarantee granted to UniCredito Italiano New York, in amount of USD 25 019 ths.

#### 44. Share capital

SHARE CAPITAL (STRUCTURE)								
Series/ Issue	Type of shares	Type of privileged shares	Type of limitation shares	Number of shares	Value of series / issue according to nominal value	Manner of capital coverage	Date of registration	Right to dividend (as of)
A	bearer common shares	-	-	137 650 000	137 650	paid in full	21.12.1997	1.01.1998
B	bearer common shares	-	-	7 690 000	7 690	paid in full	6.10.1998	1.01.1998
C	bearer common shares	-	-	10 630 632	10 631	paid in full	12.12.2000	1.01.2000
D	bearer common shares	-	-	9 777 571	9 777	paid in full	12.12.2000	1.01.2000
E	bearer common shares	-	-	373 644	374	paid in full	29.08.2003	1.01.2003
H	bearer common shares	-	-	359 840	360	paid in full	12.08.2004	1.01.2004
<b>Total number of shares</b>				166 481 687				
<b>Total share capital in thousand PLN</b>					166 482			
<b>Nominal value of one share = 1.00 PLN</b>								

2005 in shares	Shares issued and paid in full	Total
Balance as of the beginning of the period	166 481 687	166 481 687
<b>Balance as of the end of the period</b>	<b>166 481 687</b>	<b>166 481 687</b>

The Bank has implemented an Incentive Program involving the issue of convertible bonds. As of 31 December 2005 no shares to replace the convertible bonds were issued. For a detailed description of the program, see Note 42.

#### 45. Reserves, prior and current year profit

	31.12.2005	31.12.2004
<b>Reserves:</b>		
Reserve Capital	1 618 709	1 601 503
share premium	1 361 034	1 361 034
other	257 675	240 469
Revaluation reserve	96 856	(11 011)
valuation of the portfolio of financial assets available for sale	118 929	(15 477)
deferred tax	(23 094)	2 575
other	1 021	1 891
General banking risk fund	1 067 850	1 067 850
Other reserve capital	3 920 120	3 663 395
Differences in the rate of exchange	(2 110)	(1 374)
Bonds convertible into stocks – capital constituent	17 488	5 595
<b>Total reserves</b>	<b>6 718 913</b>	<b>6 325 958</b>
Prior year profit (loss) attributable to equity holders of the Bank	(15 817)	194 274
Profit for the year attributable to equity holders of the Bank	1 537 712	1 317 991
<b>Total prior year profit and profit for the year attributable to equity</b>	<b>1 521 895</b>	<b>1 512 265</b>

#### 46. Additional information for the cash flow statement

##### a) Cash and cash equivalents

Balance items	31.12.2005	31.12.2004
Cash, amounts due from Central Bank*	2 193 681	2 561 687
Receivables from banks up to 3 month	5 473 560	4 714 739
<b>Financial resources and equivalents of financial resources presented in the cash flow statements</b>	<b>7 667 241</b>	<b>7 276 426</b>

\*The item „Cash, amounts due from Central Bank ” does not include the NBP Bond in amount of PLN 1 381 130 ths. (31.12.2004 - PLN - 1 377 588 ths.)

Limited availability cash and cash equivalents as of 31 December 2005 amounted to PLN 1 555 238 ths. (as of 31 December 2004 PLN 1 622 256 ths).

##### b) Explanation of the differences between changes of the balance sheet amounts shown in the consolidated cash flow statement

The differences between changes of the balance sheet amounts and changes shown in the consolidated cash flow statement resulted from IAS 39 adjustments: impairment and valuation of loans and receivables at amortized cost using the effective interest rate. The differences concern the following consolidated cash flow statement captions:

- changes of loans and receivables;
- changes of deferred income tax assets; and
- changes of the provisions.

#### 47. Transactions with related entities

The consolidated financial statements include the financial statements of Bank Pekao S.A. and financial statements of subsidiaries are listed in the following table:

Entity name	Registering body	Percentage participation in the capital	
		31.12.2005	31.12.2004
Bank Pekao (Ukraina) Ltd.	National Bank of Ukraine, National Bank Register. no. 265	100,00	100,00
Centralny Dom Maklerski Pekao S.A.	District Court for the capital city of Warsaw, XX Commercial Department of the National Court Registry	100,00	100,00
Pekao Fundusz Kapitałowy Sp. z o.o.	District Court for the capital city of Warsaw, XIX Commercial Department of the National Court Registry	100,00	100,00
Pekao Leasing Sp. Z o.o.	District Court for the capital city of Warsaw, XX Commercial Department of the National Court Registry	100,00	100,00
Pekao Faktoring Sp. z o.o.	District Court for the city of Lublin, XI Commercial Department of the National Court Registry	100,00	100,00
Pekao Pioneer Powszechne Towarzystwo Emerytalne S.A.	District Court for the capital city of Warsaw, XX Commercial Department of the National Court Registry	65,00	65,00
Drukbank Sp. z o.o.	District Court for the city of Lublin, XI Commercial Department of the National Court Registry	100,00	100,00
Centrum Kart S.A.	District Court for the capital city of Warsaw, XIX Commercial Department of the National Court Registry	100,00	100,00
Pekao Financial Services Sp. z o.o.	District Court for the capital city of Warsaw, XX Commercial Department of the National Court Registry	100,00	100,00
Pekao Development Sp. z o.o.	District Court for the capital city of Warsaw, XIX Commercial Department of the National Court Registry	100,00	100,00
Pekao Access Sp. z o.o.	District Court for the capital city of Warsaw, XIX Commercial Department of the National Court Registry	55,26	55,26
BDK Consulting Sp. z o.o.	Executive Committee of the City Council of Łuck, no. 04051327HO0060469	99,99	99,99

Bank Pekao S.A. is the holding company of the Bank Pekao S.A Capital Group. UniCredito Italiano SpA is the superior holding company.

Information on subsidiaries and related and affiliated entities is provided in Note 29.

#### **The credit procedure applicable to the Bank's Management and entities related to the Bank**

Under the Banking Law, credit transactions with members of the Bank's Management Board and Supervisory Board as well as with the Bank's senior management and entities related thereto are subject to the Bylaws adopted by the Bank's Supervisory Board.

Members of the Bank's Management and entities capially and organize related thereto may use lending facilities offered by the Bank on standard terms and conditions applied by the Bank. In particular, the Bank may not offer such individuals or entities better interest rates for lending facilities.

Credit risk assessment follows methodologies used by the Bank with regard to the customer's segment and type of transaction.

The Bylaws lay down detailed decision-making procedures applicable to transactions with such individuals and entities, including authority levels on which different decisions are allowed and competencies assigned thereto. In particular, concluding a transaction with a member of the Bank's Management Board or Supervisory Board or with an entity capially and organize related thereto, in amounts specified in the Bylaws, requires authorization of the Bank's Management Board and Supervisory Board.

Standard credit procedures are applied to entities affiliated with the Bank, and transaction decisions are made exclusively from the Bank's Head Office level.

Recivables due from affiliated entities

Entity name	Recivables as of 31 December 2005	Income from interest from related entities in 2005	Recivables as of 31 December 2004	Income from interest from related entities in 2004
<b>Group dominant company</b>				
UniCredito Italiano SpA	35 554	2 181	64 728	47 780
<b>Entities of Unicredito Italiano</b>				
<b>Group's excluding entities of Pekao S.A. Group's</b>				
Hypo Vereinsbank AG	195 727	977	-	-
Bank AustriaCreditanstalt	33 761	3 926	-	-
Zagrebacka Banka d.d.	232 766	4 581	122 430	5 028
Unicredit Zagrebacka Banka Bh d.d. Sarajewo	154 420	9 495	163 160	6 797
Unicredit Factoring SpA	239	10	849	28
Unicredit Leasing Romania SA	218 238	6 505	123 139	803
Unibanka A.S. (ex Pol'nobanka A.D.)	1 106	111	-	48
Zivnostenska Banka A.S.	-	103	5 020	29
<b>Subsidiaries</b>				
Fabryka Maszyn w Janowie Lubelskim Sp. z o.o.	2 418	244	2 421	1 161
<b>Associated entities</b>				
Hotel Jan III Sobieski Sp. z o.o.	41 386	1 816	42 980	3 789
Krajowa Izba Rozliczeniowa SA	-	-	-	85
Grupa Inwestycyjna Nywig S.A.	-	-	-	2 726
Fabryka Sprzętu Okrętowego MEBLOMOR S.A.	-	-	-	26
<b>Joint ventures in which the entity is a partner</b>				
<b>Key managing staff of the Bank or it's Parent Company</b>	2	2	-	10
<b>Other related entities</b>	66	8	94	1
<b>Total</b>	<b>915 683</b>	<b>29 959</b>	<b>524 821</b>	<b>68 311</b>

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Deposits received from affiliated entities

Entity name	Deposits as of 31 <sup>st</sup> December 2005	Interest expense from related entities for 2005	Deposits as of 31 <sup>st</sup> December 2004	Interest expense from related entities for 2004
<b>The Parent Entity for the Group</b>				
UniCredito Italiano SpA	197	122	3 140	168
<b>Entities of Unicredito Italiano Group's excluding entities of Pekao S.A. Group's</b>				
Hypo Vereinsbank AG	2 658	-	-	-
Bank AustriaCreditanstalt	1 390	1 098	-	-
Banque Monegasque de Gestion S.A.	-	1	1	-
Unibanka A.S. (ex Pol'nobanka A.D.)	375	12	461	91
UniCredit Romania - Bucharest	19	1	92	2
Unicredit Leasing Romania S.A.	181 448	-	-	-
Pionier Pekao Towarzystwo Funduszy Inwestycyjnych S.A.	116 911	4 141	65 344	3 051
<b>Subordinated entities</b>				
Fabryka Maszyn w Janowie Lubelskim Sp. z o.o.	4	1	132	1
<b>Joint-venture entities</b>				
<b>Affiliated entities</b>				
Xelion Doradcy Inwestyjni Sp. z o.o.	36 723	1 264	12 916	1 163
Hotel Jan III Sobieski Sp. z o.o.	605	13	1 102	14
Pioneer Pekao Investment Management S.A.	90 004	3 041	42 031	1 192
Krajowa Izba Rozliczeniowa SA	6	149	1 483	118
Grupa Inwestycyjna Nywig S.A.	-	-	11	8
Fabryka Sprzętu Okrętowego MEBLOMOR S.A.	87	-	36	1
<b>Key managing staff of the Bank or it's Parent Company</b>	1 545	57	1 287	60
<b>Other related entities</b>	25	-	4	-
<b>Total</b>	<b>431 997</b>	<b>9 900</b>	<b>128 040</b>	<b>5 869</b>

The off-balance sheet exposure related to: financing of related entities as of 31st December 2005 amounted to PLN 1 473 ths. (as of 31.12.2004 PLN 879 ths.); related to guaranting amounted to PLN 103 204 ths. (as of 31.12.2004 PLN 84 560 ths.); credit cards limits towards related entities as of 31st December 2005 amounted to PLN 117 ths. (as of 31.12.2004 PLN 107 ths.).

Fee and commission income from related entities in 2005 amounted to PLN 373 572 ths.(in 2004: PLN 294 587 ths.)

As of 31<sup>st</sup> December 2005 the impairment write down related to non-performing amounts due from related entities amounted to PLN 30 035 ths. and pertained to Hotel Jan III Sobieski Sp. z o.o.

Impairment loss during the in 2005 pertaining to non-performing amounts due from related entities amounted to PLN 791 ths. PLN and related to Hotel Jan III Sobieski Sp. z o.o.

In 2005 income on release of impairment write downs on non-performing amounts due from related entities amounted to PLN 4 426 ths. and pertained to Hotel Jan III Sobieski Sp. z o.o.

In 2005 the share capital of Xelion Doradcy Inwestycyjni Sp. z o.o. was increased by PLN 50 000 ths. The Bank possess 50% share in the company. The number of shares possessed by the Bank increased by 25 000 up to 25 025 ths.

### Management Board and Supervisory Board Remuneration

	2005	2004
<b>Management Board of the Bank</b>		
Short-term employee benefits*	13 313	12 999
Post-employment term benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	2 400
Share-based payments**	5 595	2 089
<b>Total</b>	<b>18 908</b>	<b>17 488</b>
<b>Supervisory Board of the Bank</b>		
Short-term employee benefits*	462	435
Post-employment term benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments**	-	-
<b>Total</b>	<b>462</b>	<b>435</b>
<b>Grand total</b>	<b>19 370</b>	<b>17 923</b>

(\*) Short term employee benefits comprise of: base salaries, bonuses and other benefits, in particular cost of life insurance polices, 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. Detailed information about the employee share program, including the method of the options fair value estimation are presented in the note 42 "Employee benefits".

In 2005 and in 2004, Management Board Members did not receive 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.

In 2005 and in 2004, Supervisory Board Members did not receive 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**

	2005	2004
<b>Management Board of the Bank</b>		
Short-term employee benefits	11 087	10 799
After employment term benefits	-	-
Other long- term benefits	-	-
Benefits regarding termination of job agreement	608	902
Share-based payments	-	-
<b>Total</b>	<b>11 695</b>	<b>11 701</b>
<b>Supervisory Board of the Bank</b>		
Short-term employee benefits	143	156
After employment term benefits	-	-
Other long- term benefits	-	-
Benefits regarding termination of job agreement	-	-
Share-based payments	-	-
<b>Total</b>	<b>143</b>	<b>156</b>

**48. Mergers**

No mergers occurred in 2005 or in 2004.

**49. Repo and reverse repo transactions**

Bank increases it's funds by sales transactions with the repurchase promise granted (repo and sell-buy back) at the same price increased by interests.

	31.12.2005		31.12.2004	
	Assets Fair Value	Balance Value Liabilities	Assets Fair Value	Balance Value Liabilities
Financial assets held for trading				
- up to 1 month	691 455	691 879	2 211 874	2 212 018
- between 1 and 3 months	97 053	97 094	107 239	107 239
- between 3 months and 1 year	8 382	8 410	16 578	16 578
Total financial assets held for trading	796 890	797 383	2 335 691	2 335 835
Financial assets available for sale				
- up to 1 month	15 020	15 037	-	-
Total financial assets available for sale	15 020	15 037	-	-
<b>Total</b>	<b>811 910</b>	<b>812 420</b>	<b>2 335 691</b>	<b>2 335 835</b>

Bank purchase securities with the resale promise granted in the future (reverse-repo and buy-sell back) at the same price increased by interests.

	31.12.2005		31.12.2004	
	Net Value Assets	Hedged Assets Fair Value	Net Value Assets	Hedged Assets Fair Value
Amounts due from banks				
- up to 1 month	588 500	586 887	486 340	486 315
Total Amounts due from banks	588 500	586 887	486 340	486 315
Loans and advances to customers				
- up to 1 month	-	-	388 938	388 919
Total loans and advances to customers	-	-	388 938	388 919
<b>Total</b>	<b>588 500</b>	<b>586 887</b>	<b>875 278</b>	<b>875 234</b>

## 50. Company's Social Benefits Fund („ZFŚS”)

The Social Benefits Fund Act of 4th March 1994, with subsequent amendments introduced the requirement to create a Company's Social Benefits Fund by all employers employing over 20 employees. The Bank and Group companies employing over 20 staff have created the ZFŚS Fund and are making periodic charges to the ZFŚS Funds in amounts prescribed by the Act. Apart that, the Company contributed to the Fund in kind of fixed assets. The aim of the ZFŚS Fund is financing of social activity in benefit of the employees and subsidizing the social premises. The liabilities of the ZFŚS Fund represent the cumulated value of charges made by the Company towards the ZFŚS Fund decreased by the amount of non-returnable expenditures of the ZFŚS Fund.

In the consolidated balance sheet the Group netted the ZFŚS Fund's assets against the ZFŚS Fund's value, due to the fact that the assets of the ZFŚS Fund do not represent the assets of the Group. For this reason the amount pertaining to the ZFŚS Fund in the consolidated balance sheet as of 31st December 2005 and 31st December 2004 was nil.

The below table sets forth the categories and book values of assets, fund value and costs related to Social Benefits Fund:

	31.12.2005	31.12.2004
Advances to employees	47 501	51 920
Cash in the current account	1 907	26 520
<b>Assets of ZFŚS</b>	<b>49 408</b>	<b>78 440</b>
<b>Value of ZFŚS</b>	<b>49 408</b>	<b>78 440</b>
	2005	2004
Charges made towards the ZFŚS in the period	17 625	16 584

## 51. Acquisition of HVB shares by UniCredito Italiano S.p.A.

On 17 November 2005, the parent company of Capital Group of Bank Pekao S.A. – UniCredito Italiano S.p.A. acquired 705,108,946 shares of Bayerische Hypo- und Vereinsbank Aktiengesellschaft („HVB”) representing 93.93% of total voting rights on the HVB Shareholders' Meeting. In consequence, UCI gained control over HVB – the ultimate parent company (i.a. for Bank BPH S.A.) – as well as over Bank Austria Creditanstalt AG („BACA”) – the member of the HVB Group and the immediate majority shareholder of Bank BPH S.A.

As a result of the above described event, UCI holds 20 397 584 shares representing 71.03% of shareholders' capital and entitling to 20 397 585 voting rights representing 71.03% of total voting rights at the Bank BPH S.A. Shareholders' Meeting, however, under the condition that BACA cannot successfully exercise the voting rights from Bank BPH S.A. shares until the date of the receipt of the approval of the Banking Supervision Commission for the exercising of the voting rights and the date of fulfillment of the other requirements.

As at 31.12.2005 the book value of outstanding interbank placements and deposits with Bank BPH S.A. amounted to PLN 178 438,9 thousands (assets) and PLN 100 478,8 thousands (liabilities).

## **52. First time adoption of International Financial Reporting Standards**

This note presents the reconciliation of net assets as of 1 January 2004 and as of 31 December 2004 (as well as net assets as of 1 January 2005) and the reconciliation of net financial result for the year ended on 31 December 2004 between the previously published financial information according to Polish Accounting Standards and the transformed comparative data according to International Financial Reporting Standards disclosed in these financial statements.

A comparison of the balance sheet according to PAS and IFRS was also presented as of 31 December 2004 and 1 January 2005 as well as a comparison of the profit and loss account for the year ended on 31 December 2004 according to PAS and IFRS.

The Group prepared these financial statements based on IFRS 1. Note 2 to these financial statements includes a description of optional exemptions allowed under IFRS 1, which the Group has used.

Accounting principles (policies) according to IFRS differ in many respects from the Polish accounting principles (policies). See below for a discussion of differences between IFRS and PAS, which significantly affected the net financial result and net assets in 2004 and 2005.

### **Recognition of assets and liabilities based on amortized cost**

The International Accounting Standard 39 requires that certain financial assets should be recognized at amortized cost using the effective interest rate method.

Previously the Group used fair value to recognize securities available for sale, for which interest revenues are recognized using the effective interest rate method. Securities held to maturity, financial lease receivables, and central investment-related receivables and payables were recognized at amortized cost using the effective interest rate method. Other financial assets and liabilities were recognized according to the amount payable increased with linearly accrued interest.

The Group took advantage of the exemption from the requirement to transform comparative data pertinent to IAS 32, IAS 39. Comparative data concerning that standards were prepared using previously applied accounting principles (policies). The exception is IFRS 39 to which comparable data were prepared except two areas: provision related with impairment calculation amortized cost valuation with applied effective rate of loans and receivables.

As of 1 January 2005 the Group made adjustments related to the recognition of other financial assets and liabilities at amortized cost using the effective interest rate method, as required under IAS 39. The results of adjustments made as of 1 January 2005 were disclosed in the following reconciliation of net assets as of 1 January 2005 and in the comparison of the balance sheet based on IFRS as of 31 December 2004 (without applying IAS 32, 39) and the balance sheet based on IFRS as of 1 January 2005.

### **Impairment of financial assets**

According to IAS 39, a financial asset is depreciated if its balance sheet value is higher than its estimated economic value. As of the balance sheet date, an economic entity is required to assess if there is objective evidence confirming such impairment of the financial asset. Such evidence may include information about the issuer's significant financial difficulties or actual violation of an agreement by e.g. failure to pay interest or principal or falling behind with payments. If the depreciation occurs, the revaluation write-down will amount to the difference between the asset's balance sheet value and the current value of expected, future discounted cash flows using the initial effective interest rate (economic value) for financial assets recognized at cost and using the current interest rate as well as for financial assets recognized at fair value.

According to the Polish Accounting Standards (PAS), banks at least once a quarter review and classify their credit exposures into different risk groups (standard receivables, monitored

receivables, substandard receivables, bad receivables and lost receivables). Classification is based on how long the receivables have been overdue and what the economic and financial situation of the borrower is. Special purpose provisions for credit exposures are created at least in amounts required of provisions applicable to different risk groups (from 1.5% to 100% of the purpose provision basis).

In addition, under PAS the required specific provisions for credit exposures:

- related to retail lending facilities and loans classified as “standard” – are diminished by a 25% provision for general risk;
- classified as “monitored” – to be diminished by a 25% provision for general risk, created under Article 130 of the Banking Law.

The Group took advantage of the exemption from the requirement to transform comparative data pertinent to IAS 32, IAS 39. For those standards, the IFRS were adopted on 1 January 2005. Comparative data concerning those standards were prepared using previously applied accounting principles (policies).

As of 1 January 2005 the Group made adjustments related to the recognition of other financial assets and liabilities at amortized cost using the effective interest rate method, as required under IAS 39. The results of adjustments made as of 1 January 2005 were disclosed in the following reconciliation of net assets as of 1 January 2005 and in the comparison of the balance sheet based on IFRS as of 31 December 2004 (without applying IAS 32, 39) and the balance sheet based on IFRS as of 1 January 2005.

#### **Financial Assets and liabilities portfolios according to IAS 39**

The IAS 39 lays down definitions of portfolios other than those defined in PAS. The requirement to move some financial instruments between portfolios results from the requirement to classify financial instruments in different portfolios according to IAS 39. In addition, pursuant to the exemption included in IFRS 1, the Group was also entitled to assign its financial instruments to financial asset at fair value through profit and loss or available for sale portfolios.

In view of the above, the Group categorized financial instruments as financial assets or liabilities recognized at fair value through profit and loss or available for sale as of 1 January 2004. The movement of financial instruments between portfolios measured pursuant to different principles did not affect the Group’s financial result.

#### **The effect of hyperinflationary economy**

The International Accounting Standard 29 „Financial Reporting In Hyperinflationary Economies” (IAS 29) requires that assets and liabilities disclosed in a period of hyperinflation should be recognized in current prices as of the end of the hyperinflation reporting period and be the basis for measuring assets and liabilities in financial statements for the periods to come. This standard is applicable for non-monetary balance sheet items. Significant non-monetary items for the Group include fixed assets, shares classified as non-current assets, and equity. From 1982 to 1984 and from 1988 to 1996 the Bank operated in a hyperinflationary economy. The Bank did not apply IAS 29 in previous years when performing fixed assets revaluation as of 1 January 1995, in accordance with applicable Polish regulations in force, in order to reflect the inflation’s impact on their balance sheet value by adopting revaluation indexes determined by the Ministry of Finance for respective groups of fixed assets. This revaluation was performed in compliance with IAS 29, as the Bank did not use the general price indices nor did it perform a fixed assets revaluation as of 31 December 1996.

Taking advantage of the exemption allowed by IFRS 1, the Group recognized selected items of tangible assets acquired before the period of hyperinflation at a fair value as of the day of transition to IFRS, that is, as of 1 January 2004, and it used this fair value as the deemed cost determined for that day.

The effect of adjustments made on that account as of 1 January 2004 is presented in the following reconciliation of net assets as of 1 January 2004. The aggregate amount of non-current assets (mainly properties and buildings) as of 1 January was PLN 148 888 ths.

IAS 29 “Financial Reporting in Hyperinflationary Economies” requires to restate all components of owners’ equity, except retained earnings and any revaluation surplus, by applying the general price index for the period of hyperinflation. Such retrospective application would result in an increase of share capital and other capitals and a corresponding decrease in retained earnings.

#### **The scope of financial statement consolidation**

In accordance with the IFRS, consolidated financial statements should include all subsidiaries and shares in joint ventures that are significant for the financial statement. Companies are exempt from the consolidation requirement if they are acquired only for resale or if there are long-term limitations on the flow of funds to the holding company.

So far, the Bank adopted the full consolidation method to financial statements of all of its major subsidiaries and related entities except for non-financial businesses which are not providers of ancillary banking services. According to IAS 27 the subsidiaries: Pekao Financial Services, Pekao Access and Pekao Development were consolidated using the full consolidation method. Previously those companies were valued using the equity method.

#### **Share based payments**

The Group applied IFRS 2 with reference to capital instruments that were granted after 7 November 2002, if these capital instruments were not acquired until 1 January 2005. Therefore, under the IFRS 2, it was required to include only the capital part of bonds with pre-emptive rights to take up the Bank’s shares, granted to the Bank’s employees as part of the Incentive Program.

#### **General risk provision**

In accordance with IAS 30, general risk provisions are not to be part of liabilities. Instead, they should be disclosed as a separate item of the undistributed result. The value of the general provision which is presented in the undistributed result, as required by IAS, is PLN 248.453 ths. as of 1 January 2005.

The aforementioned adjustments resulting from differences between the requirements of PAS and IFRS affected the value of assets/income tax provision as of 1 January 2004, 31 December 2004, and 1 January 2005.

The below tables present a comparison of financial data published previously with comparative data converted in accordance with IFRS (data according to PAS are presented in the new classification).

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**Consolidated balance sheet as of 31 December 2004**

Position	Note	PAS		IAS (*)		IFRS (**)
		31.12.2004 r.	Adjustment	31.12.2004 r.	Adjustment	01.01.2005
<b>Assets</b>						
Cash and balances with Central Bank	(1)	2 561 676	1 377 599	3 939 275	-	3 939 275
Debt securities eligible for rediscounting at the Central Bank		8 768	-	8 768	-	8 768
Loans and advances to banks	(2)	5 470 793	490 684	5 961 477	-	5 961 477
Financial assets as held for trading	(3)	2 485 330	710 441	3 195 771	-	3 195 771
Derivative financial instruments	(4)	231 177	272 305	503 482	-	503 482
Other financial instruments at fair value through profit or loss	(5)	-	1 336 721	1 336 721	-	1 336 721
Loans and advances to customers	(6)	28 208 809	(1 989 278)	26 219 531	(470 483)	25 749 048
Net investment in the finance lease	(7)	-	547 324	547 324	-	547 324
Investment securities	(8)	16 979 940	(1 943 483)	15 036 457	-	15 036 457
1. Available for sale		10 110 174	(3 690)	10 106 484	-	10 106 484
2. Held to maturity		6 869 766	(1 939 793)	4 929 973	-	4 929 973
Investments in associated undertakings	(9)	198 787	(74 125)	124 662	-	124 662
Intangible assets	(10)	628 382	3 543	631 925	-	631 925
Tangible fixed assets	(11)	1 449 501	92 327	1 541 828	-	1 541 828
Investment property	(12)	-	102 869	102 869	-	102 869
Income taxes	(13)	99 194	(1 425)	97 769	29 570	127 339
1. Current tax assets		-	13 131	13 131	-	13 131
2. Deferred income tax assets		99 194	(14 556)	84 638	29 570	114 208
Other assets	(14)	1 011 407	(281 919)	729 488	-	729 488
<b>Total assets</b>		<b>59 333 764</b>	<b>643 583</b>	<b>59 977 347</b>	<b>(440 913)</b>	<b>59 536 434</b>
<b>Liabilities</b>						
Amounts due to the Central Bank		2 151 743	-	2 151 743	-	2 151 743
Amounts due to other banks	(15)	1 089 830	242 727	1 332 557	-	1 332 557
Financial liabilities as held for trading	(16)	-	590 119	590 119	-	590 119
Derivative financial instruments	(17)	334 023	289 660	623 683	-	623 683
Amounts due to customers	(18)	43 753 576	2 068 069	45 821 645	-	45 821 645
Debt securities in issue		23 205	-	23 205	-	23 205
Current income tax liabilities	(19)	-	256	256	-	256
Provisions for deferred income tax	(20)	-	1 222	1 222	-	1 222
Provisions	(21)	348 271	795	349 066	(248 453)	100 613
Other liabilities	(22)	3 712 163	(2 651 793)	1 060 370	-	1 060 370
<b>Total liabilities</b>		<b>51 412 811</b>	<b>541 055</b>	<b>51 953 866</b>	<b>(248 453)</b>	<b>51 705 413</b>
<b>Equity</b>						
Capital and reserves attributable to the Company's equity holders		7 903 625	101 080	8 004 705	(192 460)	7 812 245
Share capital		166 482	-	166 482	-	166 482
Reserves	(23)	6 486 054	(160 096)	6 325 958	-	6 325 958
Prior and current year profits	(24)	1 251 089	261 176	1 512 265	(192 460)	1 319 805
Minority interest	(25)	17 328	1 448	18 776	-	18 776
<b>Total equity</b>		<b>7 920 953</b>	<b>102 528</b>	<b>8 023 481</b>	<b>(192 460)</b>	<b>7 831 021</b>
<b>Total equity and liabilities</b>		<b>59 333 764</b>	<b>643 583</b>	<b>59 977 347</b>	<b>(440 913)</b>	<b>59 536 434</b>

(\*) Without changes due to amortized cost measurement of loans and advances using EIR and without changes relating to impairment of loans and advances.

(\*\*) Including also changes due to amortized cost measurement of loans and advances using EIR and impairment of loans and advances.

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ASSETS

1	Cash and balances with Central Bank		
(a)	Reclassification of existing investment portfolios	1 377 588	
	Change of consolidation perimeter - extension of line-by-line		11
(b)	method		
	Total impact of the above changes	1 377 599	
2	Loans and advances to banks		
(a)	Recognition of sell-buy back and buy-sell back	486 339	
(b)	Reclassification of other amounts due to banks	9 800	
(c)	Reclassification of existing investment portfolios	255	
(d)	Elimination of restricted interest, which under PAS were presented as liabilities	(5 706)	
(e)	Change of consolidation perimeter - extension of line-by-line method	(4)	
	Total impact of the above changes	490 684	
3	Financial assets as held for trading		
(a)	Recognition of sell-buy back and buy-sell back	2 043 425	
(b)	Reclassification of existing investment portfolios	(1 332 984)	
	Total impact of the above changes	710 441	
4	Derivative financial instruments		
(a)	Reclassification of fair value of derivatives	273 312	
(b)	Recognition of sell-buy back and buy-sell back	(1 007)	
	Total impact of the above changes	272 305	
5	Other financial instruments at fair value through profit or loss		
(a)	Reclassification of existing investment portfolios	1 336 721	
	Total impact of the above changes	1 336 721	
6	Loans and advances to customers		
(a)	Reclassification of existing investment portfolios	561 950	
(b)	Recognition of sell-buy back and buy-sell back	388 938	
(c)	Elimination of restricted interest, which under PAS were presented as liabilities	(2 325 726)	
(d)	Reclassification of finance leases	(547 324)	
(e)	Change of consolidation perimeter - extension of line-by-line method	(67 116)	
	Total impact of the above changes	(1 989 278)	
(f)	Adjustment due to amortized cost and impairment measurement of loans		(470 483)
7	Net investment in the finance lease		
(a)	Reclassification of finance leases from loans	547 324	
	Total impact of the above changes	547 324	
8	Investment securities		
(a)	Change of consolidation perimeter - extension of line-by-line method		47
(b)	Reclassification of existing investment portfolios	(1 943 530)	
	Total impact of the above changes	(1 943 483)	
9	Investments in associated undertakings		
(a)	Change of consolidation perimeter - extension of line-by-line method		(74 125)
	Total impact of the above changes		(74 125)
10	Intangible assets		

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	Change of consolidation perimeter - extension of line-by-line method	4 417	
(a)	Correction of goodwill	(874)	
(b)	Total impact of the above changes	3 543	
11	Tangible fixed assets		
	Correction related to revaluation of part of fixed assets to deemed cost	144 142	
(a)	Change of consolidation perimeter - extension of line-by-line method	7 190	
(b)	Reclassification of investment fixed assets to Investment property	(50 131)	
(c)	Reclassification of perpetual usufruct rights to Other assets	(8 874)	
(d)	Total impact of the above changes	92 327	
12	Investment property		
	Reclassification of investment fixed assets from Other assets	52 738	
(a)	Reclassification of investment fixed assets from Tangible fixed assets	50 131	
(b)	Total impact of the above changes	102 869	
13	Income taxes		
	Reclassification of current tax assets from Other assets	13 131	
(a)	Adjustment of deferred tax	(14 556)	
(b)	Total impact of the above changes	(1 425)	
(c)	Adjustment of deferred tax		29 570
14	Other assets		
	Change of consolidation perimeter - extension of line-by-line method	141 248	
(a)	Reclassification of perpetual usufruct rights from Tangible fixed assets	9 073	
(b)	Reclassification of fair value of derivatives	(281 206)	
(c)	Derecognition of assets attributable to the Company Social Fund	(75 365)	
(d)	Correction valuation of Investment property	(52 738)	
(e)	Reclassification of current tax assets to Income taxes	(13 131)	
(f)	Reclassification of receivables	(9 800)	
(g)	Total impact of the above changes	(281 919)	
	<b>LIABILITIES</b>		
15	Amounts due to other banks		
	Recognition of sell-buy back and buy-sell back	186 298	
(a)	Reclassification of amounts due to subordinated entities	65 500	
(b)	Change of consolidation perimeter - extension of line-by-line method	(9 071)	
(c)	Total impact of the above changes	242 727	
16	Financial liabilities as held for trading		
	Reclassification of financial liabilities held for trading	590 119	
(a)	Total impact of the above changes	590 119	
17	Derivative financial instruments		
	Reclassification of fair value of derivatives from Other liabilities	290 267	
(a)	Recognition of sell-buy back and buy-sell back	(607)	
(b)	Total impact of the above changes	289 660	
18	Amounts due to customers		
	Recognition of sell-buy back and buy-sell back	2 142 385	
(a)	Reclassification of amounts due to subordinated entities	(65 500)	
(b)	Change of consolidation perimeter - extension of line-by-line	(8 816)	
(c)			

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method		
Total impact of the above changes	2 068 069	
19 Current income tax liabilities		
(a) Reclassification of current tax liabilities from Other liabilities	256	
Total impact of the above changes	256	
20 Provisions for deferred income tax		
Change of consolidation perimeter - extension of line-by-line		
(a) method	3 427	
(b) Correction valuation of Investment property	(2 205)	
Total impact of the above changes	1 222	
21 Provisions		
Change of consolidation perimeter - extension of line-by-line		
(a) method	795	
Total impact of the above changes	795	
(b) Reversal of General Risk Reserve		(248 453)
22 Other liabilities		
Change of consolidation perimeter - extension of line-by-line		
(a) method	39 305	
(b) reclassification of deferred income and reserves	15 819	
(c) Elimination of restricted interest	(2 331 432)	
(d) reclassification of fair value of derivatives	(298 160)	
Derecognition of liabilities attributable to the Company Social		
(e) Fund	(75 365)	
(f) Correction of negative goodwill	(1 704)	
(g) Adjustment of current tax liabilities	(256)	
Total impact of the above changes	(2 651 793)	
23 Reserves		
(a) Correction of retained earnings	21 854	
(b) Corrections related to share-based payments per IFRS 2	5 595	
Change of consolidation perimeter - extension of line-by-line		
(c) method	425	
(d) Reversal of revaluation reserve relating to fixed assets	(179 425)	
(e) Correction valuation of Investment property	(7 519)	
(f) Adjustment of deferred tax	(1 026)	
Total impact of the above changes	(160 096)	
24 Prior and current year profits		
(a) Reversal of revaluation reserve relating to fixed assets	179 425	
Correction related to revaluation of part of fixed assets to deemed		
(b) cost	148 888	
(c) Correction of negative goodwill	12 615	
Change of consolidation perimeter - extension of line-by-line		
(d) method	1 169	
(e) Recognition of sell-buy back and buy-sell back	188	
(f) Adjustment of deferred tax	(31 556)	
(g) Current year profit - changes described further	(25 010)	
(h) Correction of retained earnings	(21 854)	
(i) Correction valuation of Investment property	(1 894)	
(j) Corrections related to share-based payments per IFRS 2	(795)	
Total impact of the above changes	261 176	
(k) Adjustment due to amortized cost and impairment measurement		(222 030)
of loans		
(l) Adjustment of deferred tax		29 570
Total impact of the above changes		(192 460)

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25	Minority interest	
	Change of consolidation perimeter - extension of line-by-line method	1 448
(a)	Total impact of the above changes	1 448

**Reconciliation of net assets previously published under PAS with the comparative data, restated under IFRS:**

**As at 1 January 2004**

Net equity according to PAS	7 156 027
changes:	
subsidiary shares valuation	18 330
total recognized sell-buy-back and buy sell-back	188
change in fixed assets	148 888
change in consolidation rules	(3 609)
adjustment of deferred tax	(33 280)
total changes	130 517
<b>Net equity according to IAS as at 1 January 2004</b>	<b>7 286 544</b>

**As at 31 December 2004**

Net equity according to PAS	7 903 625
changes:	
subsidiary shares valuation	(12 518)
total recognized sell-buy-back and buy sell-back	(501)
change in fixed assets	144 341
change in consolidation rules	3 529
accrued fees adjustment	(15 819)
valuation of investment property	(1 338)
adjustment of deferred tax	(16 614)
total changes	101 080
<b>Net equity according to IAS as at 31 December 2004</b>	<b>8 004 705</b>

**As at 1 January 2005**

Net equity according to PAS	7 903 625
changes:	
subsidiary shares valuation	(12 518)
impairment of loans and valuation and amortized cost	(222 030)
total recognized sell-buy-back and buy sell-back	(501)
change in fixed assets	144 341
change in consolidation rules	3 529
accrued fees adjustment	(15 819)
valuation of investment property	(1 338)
adjustment of deferred tax	12 956
total changes	(91 380)
<b>Net equity according to IAS as at 1 January 2005</b>	<b>7 812 245</b>

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Profit and Loss account for the 2004 – a comparison of previously published financial data with comparative data converted in accordance with IFRS (data according to PAS are presented in the new classification)

Item	Profit and loss statement 2004 (PAS)	Effect of transition to IFRS	Profit and loss statement for 2004 (MSSF*)
Interest income	3 737 192	28 651 (605) /1 29 256 /2	3 765 843
Interest expense	(1 480 082)	(70 917) 783 /1 (71 700) /2	(1 550 999)
Fee and commission income	1 708 651	10 986 26 805 /1 (15 819) /3	1 719 637
Fee and commission expense	(165 926)	2 811 /1	(163 115)
Dividend income	9	-	9
Result on financial instruments at fair value	13 907	41 755 /2	55 662
Result on investment securities	14 076	-	14 076
Foreign exchange result	285 172	3 846 /1	289 018
Other operating income	187 118	120 377 128 037 /1 (7 660) /6	307 495
Other operating expenses	(147 131)	(111 683) (108 536) /1 1 931 /4 (5 078) /6	(258 814)
Net impairment losses on financial assets and net provisions for guarantees and commitments	(354 069)	-	(354 069)
Overhead costs	(2 289 936)	(43 501) (32 856) /1 (5 845) /4 (4 800) /5	(2 333 437)
Amortization of goodwill on subordinated entities	(1 250)	1 250 /6	-
Amortization of negative goodwill on subordinated entities	4 700	(4 700) /6	-
Share of profit (loss) of associates and joint venture entities valued at the equity method	54 134	(17 977) /1	36 157
Profit before income tax	1 566 565	(39 102)	1 527 463
Income tax expense	(227 514)	14 509 (3 031) /1 17 540 /2-6	(213 005)
Net profit for the period	1 339 051	(24 593)	1 314 458
1. Attributable to equity holders of the Company	1 343 001	(25 010)	1 317 991
2. Attributable to minority interest	(3 950)	417 /1	(3 533)

(\*) Without changes due to amortized cost measurement of loans and advances using EIR and without changes relating to impairment of loans and advances

Changes: :

1/ change in the scope of consolidation (inclusion of the new subsidiary companies)

- 2/ recognition of adjustments related to financial assets and liabilities due to sell-buy-back and buy- sell-back transactions
- 3/ adjustments due to amortization of fees and commissions over time
- 4/ adjustments to depreciation costs due to the revaluation of some fixed assets and property rights
- 5/ inclusion of share-based payments according to IFRS 2
- 6/ adjustments related to the revaluation of equity investments

### **53. Events after the balance sheet date**

The Bank's share capital increase

As of 16 January 2006 share capital of the Bank was increased at amount PLN 186 755 as of 6 February 2006 at amount PLN 5 169 in result of issue 191 924 F series bearer shares.

Above events required any adjustments in financial statements as of 31 December 2005

### Signatures of all members of the Management Board

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