SECURITIES AND EXCHANGE COMMISSION

00 – 950 WARSAW POWSTAŃCÓW WARSZAWY 1 SQUARE

Annual report SAB-R 2004

(according to § 57 par. 1 point. 3 of the Decree of Council of Minister, dated 16 October 2001, Journal of Law No.139, item. 1569 and 2002 No. 31, item 280)

(for banks)

For the year 2004 covering period from 2004-01-01 to 2004-12-31
And for the previous year 2003 covering period from 2003-01-01 to 2003-12-31

7 April 2005
(date of submission)

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna

(full name of issuer)

PKO BP SA
(abbreviated name of issuer)

02-515 (postal code) — **Warszawa** (city)

Puławska (street) — **15** (number)

521-71-12 (telephone) — **521-83-74** (fax) — (e-mail)

525-000-77-38 (NIP) — **016298263** (REGON) — **www.pkobp.pl** (www)

Ernst & Young Audit Sp. z o.o.
(Chartered accountant)

29 March 2005
(date of opinion issuance)

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Annual report contains:

- ☒ Letter of the President of Management Board
- ☒ Chartered accountant's opinion on the audit of the annual financial statements
- ☒ Financial statements:
  - ☒ Introduction
  - ☒ Balance sheet
  - ☒ Profit and loss account
  - ☒ Statement of changes in shareholders' equity
  - ☒ Cash flow statement
  - ☒ Additional explanatory notes
- ☒ Report of the Management Board (report on the activities of the issuer – "Directors' Report")
- ☒ Chartered accountant's report on the audit of the annual financial statements

	in thousand zloty		in thousand euro	
	December 2004	**December 2003**	**December 2004**	**December 2003**
I. Interest income	5 244 964	5 099 542	1 160 853	1 146 634
II. Fees and commission income	1 865 208	1 606 340	412 821	361 186
III. Result from banking activities	5 424 328	5 403 923	1 200 551	1 215 075
IV. Operating result	1 802 720	1 659 585	398 991	373 158
V. Gross profit (loss)	1 802 949	1 659 986	399 041	373 249
VI. Net profit (loss)	1 511 065	1 192 706	334 440	268 181
VII. Net cash flow from operating activities	(1 197 248)	(6 507 409)	(264 983)	(1 463 194)
VIII. Net cash flow from investing activities	1 633 385	5 836 771	361 512	1 312 401
IX. Net cash flow from financing activities	70 688	(398 984)	15 645	(89 712)
X. Total net cash flow	506 823	(1 069 622)	112 174	(240 505)
XI. Total assets	87 931 792	84 428 339	21 557 193	17 898 736
XII. Amounts due to the Central Bank	144	-	35	-
XIII. Amounts due to the financial sector	911 042	1 098 505	223 349	232 882
XIV. Amounts due to the non-financial and budget sector	72 465 633	71 552 963	17 765 539	15 169 167
XV. Shareholders' equity	8 070 534	6 399 135	1 978 557	1 356 611
XVI. Share capital	1 000 000	1 000 000	245 158	211 999
XVII. Number of shares	1 000 000 000	1 000 000 000	x	x
XVIII. Net book value per ordinary share (in PLN/EUR)	8.07	6.40	1.98	1.36
XIX. Diluted net book value per ordinary share (in PLN/EUR)	8.07	6.40	1.98	1.36
XX. Capital adequacy ratio	16.77	16.51	x	x
XXI. Net profit/loss per ordinary share (in PLN/EUR)	1.51	1.19	0.33	0.27
XXII. Diluted net profit/loss per ordinary share (in PLN/EUR)	1.51	1.19	0.33	0.27
XXIII. Proposed or paid dividend per ordinary share (in PLN/EUR)	-	-	-	-

INDEPENDENT AUDITORS' OPINION

To the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna

1. We have audited the attached financial statements for the year ended 31 December 2004 (format SAB-R) of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the "Bank") located at Warsaw, Puławska 15 Street, including:

   - the introduction to the financial statements,
   - the balance sheet as at 31 December 2004 with total assets amounting to 87,931,792 thousand zlotys,
   - capital adequacy ratio,
   - off-balance sheet items as at 31 December 2004 amounting to 194,748,767 thousand zlotys,
   - the profit and loss account for the period from 1 January 2004 to 31 December 2004 with a net profit amounting to 1,511,065 thousand zlotys,
   - the statement of changes in shareholders' equity for the period from 1 January 2004 to 31 December 2004 with a net increase in shareholders' equity amounting to 1,671,399 thousand zlotys,
   - the cash flow statement for the period from 1 January 2004 to 31 December 2004 with a net cash inflow amounting to 506,823 thousand zlotys, and
   - the additional notes and explanations.

   The format of the attached financial statements for the year ended 31 December 2004 ("the attached financial statements") is prescribed by the Decree of the Council of Ministers dated 16 October 2001 on current and periodic information provided by issuers of securities (Journal of Law No. 139, item 1569 with further amendments) ("Decree on current and periodic information").

2. The truth and fairness of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. Our responsibility was to audit the attached financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair and whether the accounting records that form the basis for their preparation are, in all material respects properly maintained.

3. We conducted our audit of the financial statements in accordance with the following regulations being in force in Poland:

   - chapter 7 of the Accounting Act, dated 29 September 1994 (the "Accounting Act"),
   - the auditing standards issued by the National Chamber of Auditors,

   in order to obtain reasonable assurance whether the financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management, as well as evaluating the overall presentation of financial statements. We believe our audit has provided a reasonable basis to express our opinion on the financial statements treated as a whole.

4. The financial statements for the year ended 31 December 2003 prepared in accordance with the format prescribed by the Accounting Act were subject to our audit and we issued an unqualified opinion dated 14 April 2004 on these financial statements. Financial data derived from the financial statements for the year ended 31 December 2003 presented for comparison purposes in the attached financial statements were converted to the format prescribed by the Decree on current and periodic information.

5. In our opinion, the attached financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Bank's operations for the period from 1 January 2004 to 31 December 2004, as well as its financial position as at 31 December 2004;
   - have been prepared in accordance with the accounting principles specified in the Accounting Act referred to above and regulations issued based on that Act, and based on properly maintained accounting records;
   - are in accordance with the Accounting Act referred to above and regulations issued based on that Act and the Bank's articles of association that affect their content.

6. We have read the Report by the Management Board on the Company's Activities for the period from 1 January 2004 to 31 December 2004 and the Rules for Preparing Annual Financial Statements (the "Directors' Report") and concluded that the information derived from the attached financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with appropriate provisions prescribed by the Decree on current and periodic information.

on behalf of
Ernst & Young Audit Sp. z o.o.
Emilii Plater 53 Street, 00-113 Warsaw
Identification no. 130

(-)	(-)
Dominik Januszewski Certified Auditor No 9707/7255	Tomasz Bieske Certified Auditor No 9291/6975

Warsaw, 29 March 2005

POWSZECHNA KASA OSZCZĘDNOŚCI
BANK POLSKI SPÓŁKA AKCYJNA

LONG-FORM AUDITOR'S REPORT
SUPPLEMENTING THE OPINION
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

I. GENERAL NOTES

1. Background

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

On 12 April 2001 the Bank was entered in the Register of Entrepreneurs of the National Court Register, entry no. KRS 0000026438.

The Bank's NIP number is 525-000-77-38, which was granted on 14 June 1993 and its REGON statistical number is 016298263, which was granted on 18 April 2000.

PKO BP SA is the holding company of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group. The list of the affiliated entities of PKO BP SA was presented in the Note 10 of the Additional notes to the audited financial statements for the year ended 31 December 2004.

According to the Statutes of PKO BP SA and the obtained licence the Bank's business activities include:

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

Additionally, the Bank's scope of activities includes:

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

Besides, the Bank can:

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

As of 31 December 2004 Bank's share capital amounted to PLN 1,000,000 thousand and it comprised of 510,000,000 registered shares of the series A, 105,000,000 registered shares of the series B and 385,000,000 bearer shares of the series C, with the nominal amount 1 zloty each. Equity at this date amounted to 8,070,534 thousand zlotys.

(in thousand zlotys)

According to the letter of the Investor Relations Bureau dated 21 March 2005 as of 31 December 2004 the Bank's shareholders structure comprised of:

	Number of shares	Number of votes	Nominal value of the shares (PLN)	Share in the share capital
State Treasury	623,000,000	62.3%	623,000,000	62.3%
Other shareholders	377,000,000	37.7%	377,000,000	37.7%
Total	1,000,000,000	100.0%	1,000,000,000	100.0%

On 30 July 2004, the Extraordinary Shareholders' Meeting resolved to introduce new Statutes of Powszechna Kasa Oszczędności. As a result of the resolution the number of shares was changed from 100,000,000 to 1,000,000,000 and the share nominal value from 10 zloty to 1 zloty. The share capital value remained unchanged after above mentioned fact.

Members of the Bank's Management Board as at 29 March 2005 were as follows:

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

During the year 2004 there were following changes in the Management Board:

- effective 13 May 2004, the Bank's Supervisory Board released Mr Jerzy Gapiński from duties of a Board Member.
- effective 14 May 2004, the Bank's Supervisory Board appointed Mrs Krystyna Szewczyk as a Board Member.

2. Financial Statements

2.1. Auditor's opinion and audit of financial statements

Ernst & Young Audit Sp. z o.o. with its registered office in Warsaw, at Emilii Plater 53 Street, is a certified entity entered on the list of certified auditors under no. 130.

Ernst & Young Audit Sp. z o.o. was elected by the Bank's Supervisory Board on 14 September 2003 to audit the Bank's financial statements for 2004.

Ernst & Young Audit Sp. z o.o. and the auditor managing the audit meet the conditions, as defined by art. 66 clause 2 and 3 of the Accounting Act dated September 29, 1994 (uniform text: Journal of Laws of 2002, No 76, item 694 with subsequent amendments) ("the Accounting Act"), enabling them to express an impartial and independent opinion on the financial statements.

Pursuant to the agreement executed on 15 December 2003 with the Bank's Management Board, we have audited the financial statements for the year ended 31 December 2004.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued an unqualified auditor's opinion dated 29 March 2005, stating the following:

"To the Supervisory Board of Powszechna Kasa Oszczędności
Bank Polski Spółka Akcyjna

1. We have audited the attached financial statements for the year ended 31 December 2004 (format SAB-R) of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the "Bank") located at Warsaw, Puławska 15 Street, including:

   - the introduction to the financial statements,
   - the balance sheet as at 31 December 2004 with total assets amounting to 87,931,792 thousand zlotys,
   - capital adequacy ratio,
   - off-balance sheet items as at 31 December 2004 amounting to 194,748,767 thousand zlotys,
   - the profit and loss account for the period from 1 January 2004 to 31 December 2004 with a net profit amounting to 1,511,065 thousand zlotys,

- the statement of changes in shareholders' equity for the period from 1 January 2004 to 31 December 2004 with a net increase in shareholders' equity amounting to 1,671,399 thousand zlotys,
- the cash flow statement for the period from 1 January 2004 to 31 December 2004 with a net cash inflow amounting to 506,823 thousand zlotys, and
- the additional notes and explanations.

The format of the attached financial statements for the year ended 31 December 2004 ("the attached financial statements") is prescribed by the Decree of the Council of Ministers dated 16 October 2001 on current and periodic information provided by issuers of securities (Journal of Law No. 139, item 1569 with further amendments) ("Decree on current and periodic information").

2. The truth and fairness of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. Our responsibility was to audit the attached financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair and whether the accounting records that form the basis for their preparation are, in all material respects properly maintained.

3. We conducted our audit of the financial statements in accordance with the following regulations being in force in Poland:

   - chapter 7 of the Accounting Act, dated 29 September 1994 (the "Accounting Act"),
   - the auditing standards issued by the National Chamber of Auditors,

   in order to obtain reasonable assurance whether the financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management, as well as evaluating the overall presentation of financial statements. We believe our audit has provided a reasonable basis to express our opinion on the financial statements treated as a whole.

4. The financial statements for the year ended 31 December 2003 prepared in accordance with the format prescribed by the Accounting Act were subject to our audit and we issued an unqualified opinion dated 14 April 2004 on these financial statements. Financial data derived from the financial statements for the year ended 31 December 2003 presented for comparison purposes in the attached financial statements were converted to the format prescribed by the Decree on current and periodic information.

5. In our opinion, the attached financial statements, in all material respects:

   - present truly and fairly all information material for the assessment of the results of the Bank's operations for the period from 1 January 2004 to 31 December 2004, as well as its financial position as at 31 December 2004;
   - have been prepared in accordance with the accounting principles specified in the Accounting Act referred to above and regulations issued based on that Act, and based on properly maintained accounting records;

- are in accordance with the Accounting Act referred to above and regulations issued based on that Act and the Bank's articles of association that affect their content.

6. We have read the Report by the Management Board on the Company's Activities for the period from 1 January 2004 to 31 December 2004 and the Rules for Preparing Annual Financial Statements (the "Directors' Report") and concluded that the information derived from the attached financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with appropriate provisions prescribed by the Decree on current and periodic information."

We carried out the audit of the Bank's financial statements from 15 November 2004 to 29 March 2005. We were present on the Company's premises from 15 November 2004 to 30 November 2004 and from 1 February 2005 to 29 March 2005 and in the Bank's branches from 1 December 2004 to 8 December 2004.

2.2. Materiality level

Professional judgment was applied taking into account the specific factors relating to the Bank to establish a level of materiality. This determination included considering quantitative and qualitative aspects.

2.3. Representations provided and availability of data

The Management Board confirmed its responsibility for the truth and fairness of the financial statements and has stated that it has provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board has also provided a written representation dated 29 March 2005 confirming that:

- the information disclosed in the books of account was complete,
- all contingent liabilities have been included in the financial statements,
- all material events from the balance sheet date to the date of the representation have been disclosed in the financial statements,

and confirmed that the information provided to us was true and fair to the best of the Bank's Management Board's knowledge and belief, and included all events that could have an effect on the financial statements.

2.4. Financial statements for prior financial year

The Bank's financial statements for the year ended 31 December 2003 were audited by Tomasz Bieske (No 9291/6975) acting on behalf of Ernst & Young Audit Sp. z o.o. with its registered office in Warsaw at Emilii Plater 53 Street (number in the auditors' register 130).

The chartered auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2003.

(in thousand zlotys)

The Bank's financial statements for the year ended 31 December 2003 were approved by the General Shareholders' Meeting on 27 May 2004 at which meeting the shareholders resolved to distribute the 2003 net profit as follows:

Reserve capital	1,017,994
Other reserve capital	10,000
General banking risk fund	200,000
Company's Social Benefits Fund	200
	- - - - - - - -
Total	1,228,194
	========

The financial statements for the financial year ended 31 December 2003 together with the auditor's opinion, the excerpt from the resolution approving the financial statements, the excerpt from the resolution on the distribution of profit were filed on 16 June 2004 in the National Court Register.

The introduction to the financial statements, balance sheet as at 31 December 2003, profit and loss account, statement of changes in shareholders' equity and cash flow statement for the year ended 31 December 2003 together with the auditor's opinion, the excerpt from the resolution approving the financial statements and the excerpt from the resolution on the distribution of profit were published on 26 October 2004, in Monitor Polski-B no. 1177.

The closing balances as at 31 December 2003 were correctly brought forward in the accounts as the opening balances at 1 January 2004.

(in thousand zlotys)

3. Analytical Review

3.1. Basic data and financial ratios

Presented below are selected financial ratios indicating the economic and financial performance of the Bank for the years 2003 - 2004. The ratios for years 2003 and 2004 were calculated on the basis of the financial information included in the financial statements for the year ended 31 December 2004.

Comparable data for the year ended 31 December 2003 were restated in a way like in 2003 the Bank's Management Board would apply uniform accounting policies used to prepare financial statements for the year ended 31 December 2004. Financial ratios for 2002 were not presented due to the fact that financial data for 2002 were not restated to comparability with data for 2004 and 2003.

	2004	**2003**
Gross profit	1,802,949	1,659,986
Net profit	1,511,065	1,192,706
Shareholders' funds	8,070,534	6,399,135
Total assets	87,931,792	84,428,339
Capital adequacy ratio of Bank in accordance with NBP methodology	16.77%	16.51%
Profitability ratio (profit before tax/overhead costs + depreciation)	49.46%	46.54%
The costs to income ratio (overhead costs + depreciation / result on banking activities)	67.20%	66.01%
Return on Equity (ROE) (net profit/average shareholders' funds)	20.89%	20.08%
Return on Assets (ROA) (net profit/average assets)	1.75%	1.43%
Rate of inflation		
Yearly average	3.5%	0.8%
December to December	4.4%	1.7%

3.2 Comments

Trends in the financial ratios were as follows:

- Net profit for 2004 amounted to 1,511,065 thousand zlotys in comparison to the net profit for 2003 amounting to 1,192,706 thousand zlotys (according to the comparable data presented in the Bank's financial statements for year ended 31 December 2004).
- There was an increase of the shareholders' funds in 2004 in comparison to 2003. Shareholders' funds as at 31 December 2004 amounted to 8,070,534 thousand zlotys in comparison to 6,399,135 thousand zlotys as at 31 December 2003.
- There was an increase of the total assets. The total assets as at 31 December 2004 amounted to 87,931,792 thousand zlotys in comparison to 84,428,339 thousand zlotys as at 31 December 2003.
- Cost level ratio increased to 67.20% comparing with 66.01% in 2003,
- The profitability ratios increased in comparison to 2003, particularly:
  - Return on Equity increased from 20.08% in 2003 to 20.89% in 2004.
  - Profitability ratio increased from 46.54% in 2003 to 49.46% in 2004.
  - Return on assets increased from 1.43% in 2003 to 1.75% in 2004.
- The Bank' capital adequacy ratio amounted to 16.77% as at 31 December 2004 comparing with to 16.51% as at the end of 2003.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Bank is unable to continue as a going concern for at least twelve months subsequent to 31 December 2004 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Point 7 of the Introduction to the Bank's audited financial statements for the year ended 31 December 2004 the Management Board has stated that the financial statements were prepared on the assumption that the Bank will continue as a going concern for a period of at least twelve months subsequent to 31 December 2004 and that there are no circumstances that would indicate a threat to its continued activity.

3.4 Application of regulations mitigating banking risk

As at 31 December 2004 the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland and Resolutions of the Banking Supervisory Board envisaged following banking regulatory norms:

- level of currency positions,
- concentration of credit risk,
- concentration of investment in shares,
- loans, issued guarantees and collaterals classification to risk categories, level of provisions related to banking operations,
- solvency ratio,
- level of obligatory reserve,
- capital adequacy ratio.

During our audit we have not identified any facts indicating that during the period from 1 January 2004 to 31 December 2004 the Bank did not comply with these regulations. We have received written representation from the Management Board that during the year the banking regulatory norms were not breached.

3.5 Correctness of the calculation of the capital adequacy ratio

During our audit we have not identified any irregularities in relation to the calculation of the capital adequacy ratio as at 31 December, 2004 in accordance with Resolution no 5/2001 of the Banking Supervisory Board dated 12 December 2001 on the scope and detailed rules of calculating of capital requirements related to particular risk types, including the risk of exceeding concentration limits, and regarding the method and detailed rules of calculating of capital adequacy ratio, taking into account the interrelations of banks with subsidiaries or other entities operating in the same holding and specification of additional balance sheet items recognised under own funds in the calculation of capital adequacy, as well as on the scope and method of their calculation (NBP Journal of Law dated 24 December 2001 together with subsequent changes). *[Uchwała nr 5/2001 Komisji Nadzoru Bankowego z dnia 12 grudnia 2001 roku „Zakres i szczegółowe zasady wyznaczania wymogów kapitałowych z tytułu poszczególnych rodzajów ryzyka, w tym z tytułu przekroczenia limitów koncentracji wierzytelności, sposobu i szczegółowych zasad obliczania współczynnika wypłacalności banku, z uwzględnieniem powiązań banków z innymi podmiotami zależnymi lub działającymi w tym samym holdingu oraz określenie dodatkowych pozycji bilansu banku ujmowanych łącznie z funduszami własnymi w rachunku adekwatności kapitałowej oraz zakres i sposób ich wyznaczania."]*

II. DETAILED REPORT

1. Accounting System

The Bank's accounts are kept using the following computer systems: Zorba 3000 (main Bank's accounting system) and the additional systems (Promak, Profile, SGW, Oracle Financial, Flex Cube) in the Bank's head office.

The Bank has up-to-date documentation, as required under Article 10 of the Accounting Act, including the Bank's chart of accounts, approved by the Bank's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements, and which were not subsequently adjusted including irregularities relating to:

- reasonableness and consistency of applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and trail of entries in the accounting records;
- documentation of business transactions;
- the correctness of the opening balances based on approved prior year figures;
- the consistency between the accounting entries, underlying documentation and the financial statements;
- fulfilling requirements for the safeguarding of accounting documents and the storage of accounting records and financial statements.

As it was described in details in Note 8 of the Introduction to the audited financial statements Bank has changed its accounting policies due to introduction of the following regulations:

- The Decree of the Minister of Finance, dated 2 December 2003 amending the Decree on specific accounting policies for Banks (Journal of Law No. 211, item 2061);
- The Decree of the Minister of Finance, dated 23 February 2004 amending the Decree on the specific rules for recognition, methods of measurement, scope of disclosure and method of presentation of financial instruments (Journal of Laws No. 31, item 266),

and interpretations received from the General Inspectorate of Banking Supervision regarding presentation of receivables by maturity.

Restatements and reclassifications of data as at 31 December 2003 comparing to the approved financial statements of the Bank for the year ended 31 December 2003 resulting from the above regulations were presented in Notes 34 and 35 of the Additional Notes and Explanations to the audited financial statements.

2. Assets, Liabilities and Equity, Profit and Loss Account

Details of the Bank's assets, liabilities and equity, profit and loss account are presented in the audited financial statements for the year ended 31 December 2004.

Verification of assets, liabilities was conducted in accordance with the Accounting Act. Any differences were adjusted in the 2004 books of account.

3. Notes to the Financial Statements

The introduction to the financial statements and the additional information and explanations to the financial statements for the year ended 31 December 2004 were prepared, in all material respects, in accordance with the requirements of the Accounting Act, including the article 45.

4. Directors' Report

We have read the Directors' Report for the period from 1 January 2004 to 31 December 2004 (Director's Report). The information included in the Directors' Report, to the extent that it has been derived from the financial statements, reconciles with the financial statements on which we issued our opinion dated 29 March 2005. The information included in the Directors' Report corresponds with appropriate provisions prescribed by the Council of Ministers Decree, dated 16 October 2001 on current and periodic information provided by issuers of securities (Journal of Laws No. 139, item 1569, with subsequent amendments)

5. Conformity with Law and Regulations

We have obtained a letter of representation from the Management Board that no laws, regulations or provisions of the Bank's Statutes were breached during the financial year.

6. Work of the Expert

During our audit we have taken into account the results of the work of the following independent experts:

- property value experts – in the calculations regarding the level of the specific provisions on the receivables due from loans we included according to the Decree of the Minister of the Finance dated 10 December 2003 on the on the creation of provisions for risk relating to banking activity, value of the collaterals according to the valuations ordered by the Bank prepared by real-estate valuation experts,
- actuary – calculation of pension and disability provisions.

on behalf of
Ernst & Young Audit Sp. z o.o.
Emilii Plater 53 Street
00-113 Warsaw
Ident. no. 130

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Dominik Januszewski
Certified Auditor No 9707/7255

(-)
____
Tomasz Bieske
Certified Auditor No 9291/6975

Warsaw, 29 March 2005

Letter from the President of the Management Board of PKO Bank Polski

Ladies and Gentlemen,

I am very pleased to announce that the year 2004 was remarkably successful for PKO Bank Polski. It was a very arduous period which observed a large number of events and changes in our Bank, all our efforts being crowned with success.

In 2004 PKO BP delivered record-breaking financial results: its gross profit amounted to PLN 1.8 billion and was nearly 9% higher than the previous year's profit. For the first time the Bank's net profit exceeded the threshold of PLN 1.5 billion, which meant a 27% growth compared to the previous year. Shareholders' equity increased substantially and the growth of balance-sheet total and of deposit and credit portfolios was noted.

Such excellent results stem, to a large extent, from the PKO BP modernisation policy which has been consistently pursued for several years. It was in 2004 when a few years' process of Bank restructuring came to an end. As a result, two main divisions of banking operations were created - namely, retail banking and corporate banking. Within each division, customers are serviced by specialised departments to ensure improvement of customer service. Furthermore, the Bank formed specialised units to support its branch offices in legal, IT and administrative areas. In consequence, branch employees are able to devote more time to their customers, quickly recognise their needs and expectations; hence, to develop more effective customised solutions.

The changes in the Bank's structure were accompanied by the reorganisation of management process, as a result of which it was improved and became more flexible. Thus, we accomplished a substantial progress in meeting our market targets. In 2004 PKO BP enhanced its market position, in particular in its strategic areas, such as the retail market with the housing sector and credit cards, the SME segment, services for local government and state budget units. This achievement was also due to the constant extension of our product offer and introduction of state-of-the-art technologies. At the end of the year we extended our offer by electronic banking, under a new brand of PKO Inteligo, targeted at Superkonto and Partner account holders. Subsequently, PKO BP became a multi-channel bank accessible to customers from any place 24 hours a day. In the year of Poland's accession to the European Union, the Bank prepared a European Programme for corporate customers: it is the market's only full-service offer related to EU-funded projects.

Additionally, during the last year we were extending and enhancing the operations of *Grupa Kapitałowa PKO BP*. The goal of these activities was to provide customers with new financial services and products. In 2004, PKO BP became the sole owner of *PTE* Pension Company that manages the *OFE Bankowy* pension fund, acquired the *Broker* brokerage firm, and bought 25.0001% of *Bank Pocztowy* shares. With the purchase of 66.65% stake in *Kredyt Bank Ukraina*, the Bank launched its expansion into foreign markets.

Undoubtedly, the most important 2004 event was the Bank's successful IPO. Transformation of PKO Bank Polski into a public company quoted on the Warsaw Stock Exchange was one of major undertakings of this type in the economic history of III Republic of Poland and a significant event in the 85-year history of the Bank. We waited a long time for this moment but its effects surpassed all expectations. PKO BP privatisation turned out to be an undoubted success of both its authors and those who decided to take part in it. It is also an outstanding success of the Bank which has opened new horizons and created even greater opportunities of attaining new, equally ambitious objectives. Therefore, I believe that our shareholders will have numerous reasons to be satisfied in the future and that the purchase of PKO BP shares will be a long-term investment beneficial to all participants.

All achievements obtained by the Bank in 2004 are to a large extend due to PKO BP employees, whose work and involvement contribute to the growth of the Bank's potential and results and create new development opportunities for the Bank. On behalf of PKO Bank Polski Management Board I would like to thank all the employees. I also wish to express my gratitude to the Supervisory Board for its firm support of the Bank's activities.

Andrzej Podsiadło
President of the Management Board of PKO Bank Polski

Warsaw, March 2005

Introduction to the financial statements of
Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
for the year ended 31 December 2004

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (hereinafter referred to as „PKO BP SA" or the „Bank") was incorporated on the basis of the Decree of the Council of Ministers dated 18 January 2000 on the transformation of the State-owned bank, Powszechna Kasa Oszczędności bank państwowy, into a State-owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (Journal of Laws of 2000, No. 5, item 55) with its registered office located in Warsaw, Puławska Street 15.

On 12 April 2000 the Bank was entered in the Register of Entrepreneurs of the National Court Register kept by the District Court for the capital city of Warsaw, XVI Economic Department of the National Court Register, Entry No. KRS 0000026438. Share capital amounts to PLN 1,000,000 thousand.

1. Bank's business activities

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

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

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

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

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

Additionally, the Bank's scope of activities includes:

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

Furthermore, the Bank can:

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

The Bank conducts its activities on the following markets:

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

According to Warsaw Stock Exchange bulletin Cedula Giełdowa the Bank is classified to macro sector „Finance”, sector „Banks”.

2. Period of operation of the Bank

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna has an unlimited period of operation.

3. Reporting periods covered by these financial statements

The financial statements of the Bank are presented for the period from 1 January 2004 to 31 December 2004, including the comparative financial data for the period from 1 January 2003 to 31 December 2003. The financial data is presented in PLN thousands.

PKO BP SA SAB-R 31 December 2004 PLN thousand

4. Information on the members of the Management and Supervisory Board

As at 31 December 2004, the Bank's Management Board consisted of:

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

- effective 13 May 2004, the Bank's Supervisory Board released Mr Jerzy Gapiński from the duties of a Board Member
- effective 14 May 2004, the Bank's Supervisory Board appointed Mrs Krystyna Szewczyk as a Board Member

As at 31 December 2004, the Bank's Supervisory Board comprised:

- Bazyl Samojlik	President
- Ryszard Kokoszczyński	Vice-President
- Arkadiusz Kamiński	Secretary
- Andrzej Giryn	Member
- Jerzy Osiatyński	Member
- Władysław Szymański	Member
- Stanisław Kasiewicz	Member

5. Internal organisational units

The financial statements of the Bank comprising financial data for the year ended 31 December 2004 and comparative financial data were prepared on the basis of the financial data submitted by all organisational units of the Bank, through which it performs its activities. As at 31 December 2004 these organisational units included: the Bank's Head Office in Warsaw, BDM - Bankowy Dom Maklerski, COK - Centrum Operacji Kartowych, CBE - Centrum Bankowości Elektronicznej Inteligo, 6 specialized units, 12 regional retail braches, 13 regional corporate branches, 537 independent branches, 634 offices, 13 corporate client teams, 57 corporate centres and 2,725 agencies. Except for BDM, none of these organisational units prepares separate financial statements.

6. Statement on whether the Bank is a holding company or significant investor and whether it prepares consolidated financial statements

Bank PKO BP SA is a holding company of the Capital Group of the Bank PKO BP SA and a significant investor of the subsidiaries, joint-ventures and associates and other entities related to them. Therefore, PKO BP SA prepares consolidated financial statements of the Capital Group which contain the financial data of these entities.

7. Going concern

The financial statements of the Bank have been prepared on the basis that the Bank will be a going concern during a period of 12 months from the balance sheet date, i.e. 31 December 2004. As at the date of signing the financial statements, the Bank's Management Board was not aware of any facts or circumstances that would indicate a threat to the Bank's continued activity in the twelve months following the balance sheet date due to an intended or compulsory withdrawal or limitation of its activities.

8. Comparative data

Comparative financial data for the year ended 31 December 2003 was prepared using the uniform accounting policies applied to the financial statements prepared for the year ended 31 December 2004.

The presented comparative data for 2003 includes changes resulting from the introduction of the following regulations:

- Decree of the Minister of Finance dated 2 December 2003 amending the Decree on specific accounting policies for banks (Journal of Laws No. 211, item 2061);
- Decree of the Minister of Finance dated 23 February 2004 amending the Decree on the specific rules for recognition, methods of measurement, scope of disclosure and method of presentation of financial instruments (Journal of Laws No. 31, item 266)

and interpretations received from the General Inspectorate of Banking Supervision regarding presentation of receivables by maturity.

Adjustments and reclassifications of data as at 31 December 2003 comparing to the approved financial statements of the Bank for the year ended 31 December 2003 resulting from the above changes in regulations regulations were presented in Notes 34 and 35 of the Additional Notes and Explanations.

9. Auditor’s opinion on the financial statements

Independent auditor’s opinion on the financial statements for 2003 did not include any qualifications and thus no adjustments were necessary to the approved financial statements for the year 2004 resulting from such qualifications.

10. Accounting policies

Basis of preparing financial statements:

- The Accounting Act dated 29 September 1994 (Journal of Laws of 2002, No. 76, item 694, together with subsequent amendments);
- The Banking Law dated 29 August 1997 (Journal of Laws of 2002, No. 72, item 665, together with subsequent amendments);
- The Decree of the Minister of Finance dated 10 December 2001 on specific accounting policies for banks (Journal of Law No. 149, item 1673, together with subsequent amendments);
- The Act dated 15 February 1992 - Corporate Income Tax (Journal of Laws of 2000, No. 115, item 654, together with subsequent amendments);
- The Decree of the Council of Ministers dated 16 October 2001 on current and periodic information provided by issuers of securities (Journal of Laws No. 139, item 1569, together with subsequent amendments);
- The Decree of the Council of Ministers dated 11 August 2004 on detailed requirements concerning prospectus and short-form prospectus (Journal of Laws of 2004, No. 186, item 1921);
- The Decree of the Minister of Finance dated 12 December 2001 on the specific rules for recognition, methods of measurement, scope of disclosure and method of presentation of financial instruments (Journal of Laws No. 149, item 1674, together with subsequent amendments);
- The Decree of the Minister of Finance dated 10 December 2003 on the creation of provisions for risk relating to banking activity (Journal of Laws No. 218, item 2147);
- The Decree of the Minister of Finance dated 10 December 2001 on the creation of provisions for risk relating to banking activity (Journal of Laws No. 149, item 1672, together with subsequent amendments) in relation to financial data for the year ended 31 December 2003;
- The Decree of the Minister of Finance dated 12 December 2001 setting the standard Chart of Accounts for banks (Journal of Laws No. 152, item 1727);
- The Ruling No. 102 of the Minister of Finance dated 29 December 1993 on the issuance of B Series restructuring bonds (Journal of Laws of Ministry of Finance, No. 23, item 99);

- The Resolution No. 75/KNB/2000 of the Banking Supervision Committee dated 20 July 2000 regarding determining another method for the classification of housing loans advanced to housing cooperatives by Powszechna Kasa Oszczędności Bank Polski SA, which are repaid as stated in the Act of 30 November 1995 on state assistance in the repayment of certain housing loans, the refund of guarantee premium paid to banks and on the amendments to some acts regarding auxiliary construction work and on housing loans advanced to private individuals;
- The Act dated 29 November 2000 on the Coverage of the Repayment of Certain Housing Loans with the Surety of the State Treasury (Journal of Laws No. 122, item 1310);
- The Decree of the Council of Ministers dated 24 July 2001 on the manner and conditions of interbank settlements resulting from sureties of the State Treasury with respect to the repayment of certain housing loans (Journal of Laws No. 85, item 928);
- The Resolution No. 5/2001 of the Banking Supervision Committee dated 12 December 2001 regarding the scope and detailed rules of calculating of capital requirements related to particular risk types, including the risk of exceeding concentration limits, and regarding the method and detailed rules of calculating of capital adequacy ratio, taking into account the interrelations of banks with subsidiaries or other entities operating in the same holding and specification of additional balance sheet items recognised under own funds in the calculation of capital adequacy, as well as on the scope and method of their calculation (Journal of Laws No. 22, item 43, together with subsequent amendments including taking into account the Resolution No. 1/2003 of the Banking Supervisory Committee dated 4 June 2003).

Principal accounting policies and principles used by PKO BP SA

The financial statements were prepared in accordance with the provisions of the Accounting Act dated 29 September 1994 (Journal of Laws of 2002, No. 76, item 694, together with subsequent amendments).

a) Bookkeeping

Bookkeeping is conducted in accordance with the Chart of Accounts of PKO BP SA using the following accounting principles: principle of completeness and chronology of accounting entries, accrual basis, matching concept, materiality principle, prudence principle, principle of consistency in grouping of business transactions, principle of repeated entry in analytical records.

The financial statements were prepared under the historical cost convention in accordance with the Polish Accounting Standards. The historical cost convention was modified in respect of balance sheet items denominated in foreign currencies, shares and financial instruments, tangible and intangible fixed assets.

Assets and liabilities are valued at the actual cost incurred, taking into account changes relating to particular items.

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

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

c) Amounts due from the financial sector; specific provisions for loan exposures

Amounts due from the financial sector are stated at nominal value, increased by interest due and decreased by specific provisions. Specific provisions were created in accordance with the Decree of the Minister of Finance dated 10 December 2003 on the creation of provisions for risk relating to banking activity (Journal of Laws No. 218, item 2147, "The Decree of the Minister of Finance on provisions") whereby loans are classified into the following five categories: "normal", "watch", "substandard", "doubtful" and "lost".

PKO BP SA SAB-R 31 December 2004 PLN thousand

In calculating specific provisions for amounts due from the financial sector the estimates of the value of collaterals were taken in accordance with the binding regulations and internal Bank's policies specifying the methods for estimating the value of accepted collateral. These estimates may change in the future due to potential changes in the value of collateral and efficiency of vindication procedures which may have an impact on the amount of specific provisions, and accordingly on the future financial results of the Bank.

The changes resulting from the introduction of the Decree of the Minister of Finance on provisions were presented in Note 1b of the Additional Notes and Explanations.

According to the provisions of this Decree, PKO BP SA also decreased the required level of specific provisions for loan exposures classified into the "watch" category by the amount not exceeding 25% of the general banking risk provision, created in accordance with Article 130 of the Banking Law dated 29 August 1997 (Journal of Laws of 2002, No. 72, item 665, together with subsequent amendments).

d) Amounts due from the non-financial sector; specific provisions for loan exposures

Amounts due from the non-financial sector are stated at nominal value increased by interest due and decreased by specific provisions created with the purpose of assuring the recoverability of the receivables classified as normal and irregular. Specific provisions are created on the basis of the assessment of the quality of the loan portfolio.

Specific provisions for amounts due from the non-financial sector, taking into account the specifics of the housing loans of the "old" portfolio, were created in accordance with the Decree of the Minister of Finance on provisions whereby loans are classified into the following five categories: "normal", "watch", "substandard", "doubtful" and "lost". The basis for the calculation of specific provision is adjusted by the value of collateral in accordance with the above-mentioned Decree. The provisions for the particular loan categories were calculated using the following minimum rates:

	Loan category	Rate of provision
consumer loans		
	Normal	1.5%
	Lost	100%
corporate loans and housing loans in the „new" portfolio		
	Normal	0%
	Watch	1.5%
	Substandard	20%
	Doubtful	50%
	Lost	100%

In accordance with the provisions of the Decree of the Minister of Finance on provisions, PKO BP SA decreased the required level of specific provisions for "normal" loans (consumer loans) and "watch" loans by the amount not exceeding 25% of the general banking risk provision, as required by Article 130 of the Banking Law dated 29 August 1997 (Journal of Laws of 2002, No. 72, item 665, together with subsequent amendments).

The rules for the classification of "old" portfolio housing loans and for the creation of specific provisions for these loans are based on the Resolution No. 75/KNB/2000 of Banking Supervision Committee dated 20 July 2000 regarding determining another method for the classification of housing loans advanced to housing cooperatives by PKO BP SA, which are repaid as stated in the Act of 30 November 1995 on state assistance in the repayment of certain housing loans, the refund of guarantee premium to banks and amendments to certain acts regarding auxiliary construction work and on housing loans advanced to private individuals.

In order to facilitate the classification of loan receivables into given categories, "old" portfolio housing loans are divided into loan receivables from housing cooperatives and loan receivables from private customers.

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The following criteria are used for the purpose of determining banking risk with respect to “old” portfolio housing loans:

- With respect to loans granted to housing cooperatives – two independent criteria are used:
  i) the timeliness of repayment of loan principal and interest, which is understood to mean the timely payment of instalment, in accordance with the agreed repayment schedule, or within a deadline allowing the Bank to apply to the State Treasury for the repurchase of the interest unpaid for a given quarter, and
  ii) economic and financial situation of the borrower assessed on a basis of the ratio of all payments made by housing cooperatives to the Bank to the sum of all payments made by the members to housing cooperatives for the repayment of debt.
- With respect to loans granted to (receivables from) private individuals – the criteria of timeliness of repayment of loan principal and interest.

The provisions for the particular categories of housing loans in the “old” portfolio were calculated using the following rates:

Loan category	Rate of provision
Normal	0%
Watch	1.5%
Substandard	20%
Doubtful	50%
Lost	100%

Only receivables from housing cooperatives are classified into the „watch” category.

In calculating specific provisions for amounts due from the non-financial sector the estimates of the value of collaterals were taken in accordance with the binding regulations and internal Bank’s policies specifying the methods for estimating the value of accepted collateral. These estimates may change in the future due to potential changes in the value of collateral and efficiency of vindication procedures which may have an impact on the amount of specific provisions, and accordingly on the future financial results of the Bank.

The changes resulting from the introduction of the Decree of the Minister of Finance on provisions were presented in Note 1b of the Additional Notes and Explanations.

e) Amounts due from the public sector; specific provisions for loan exposures

Amounts due from the public sector are recorded at nominal value, increased by interest due, decreased by specific provisions. Specific provisions are created on the basis of the assessment of the quality of loan portfolio. In accordance with the above-mentioned Decree PKO BP SA decreased the required level of specific provisions for “watch” loans by the amount not exceeding 25% of the general banking risk provision, created in accordance with Article 130 of the Banking Law dated 29 August 1997 (Journal of Laws of 2002, No. 72, item 665,together with subsequent amendments).

Specific provisions for amounts due from the public sector were created in accordance with the Decree of the Minister of Finance on provisions whereby loans are classified into the following five categories: “normal”, “watch”, “substandard”, “doubtful” and “lost”. The basis for the calculation of specific provisions is adjusted by the value of collateral, in accordance with the above-mentioned Decree.

The provisions for the particular risk categories of loans were calculated using the following rates:

	Loan category	Rate of provision
Amounts due from the State Treasury		
	Normal	0%
	Doubtful	50%
	Lost	100%
Amounts due from local authorities		
	Normal	0%
	Watch	1.5%
	Substandard	20%

Doubtful	50%
Lost	100%

In calculating specific provisions for amounts due from the public sector the estimates of the value of collaterals were taken in accordance with the binding regulations and internal Bank's policies specifying the methods for estimating the value of accepted collateral. These estimates may change in the future due to potential changes in the value of collateral and efficiency of vindication procedures which may have an impact on the amount of specific provisions, and accordingly on the future financial results of the Bank.

The changes resulting from the introduction of the Decree of the Minister of Finance on provisions were presented in Note 1b of the Additional Notes and Explanations.

f) Debt securities

Debt securities held for trading are stated at fair value. The fair value is determined:

1) for those securities for which there is an active market – with reference to market price,
2) for those securities for which there is no active market – with reference to other values accepted as the fair value and determined using one of the following methods:
   a) reference asset value method,
   b) method using future cash flows discounted at market interest rates, or
   c) the price of the last transaction concluded on the market, unless in the period between the date of the transaction and the balance sheet date there were significant changes in market conditions which might affect the price.

The effects of the fair value valuation are recorded as income or expense from financial operations.

Debt securities available-for-sale are stated at fair value. The fair value is determined:

1) for those securities for which there is an active market – with reference to market price, and
2) for those securities for which there is no active market – with reference to other values accepted as the fair value and determined using one of the following methods:
   a) reference asset value method,
   b) method using future cash flows discounted at market interest rates, or
   c) according to the initial value of the security together with income accrued less costs accrued and less impairment write-downs due to risks related to the issuer.

Differences between the fair value and the amortised cost of available-for-sale debt securities are charged to revaluation reserve. Interest income was presented as financial income, so the profit or loss charged to the revaluation reserve equals the difference between fair value set as at the balance sheet date adjusted by accrued interest and these assets' value at amortized cost. Write-downs due to permanent diminution of value are charged directly to the profit and loss account.

Debt securities held to maturity are presented at acquisition cost, adjusted by accrued interest, discount and premium and taking into account any write-downs due to permanent diminution of value.

g) Restructuring bonds

Restructuring bonds are stated at nominal value increased by capitalised interest, not paid by the State Treasury as at 31 December 2004, and increased by accrued interest at the end of the period. In accordance with the Ruling No. 102 of the Minister of Finance dated 29 December 1993 on the issuance of restructuring bonds series B (Journal of Laws of Ministry of Finance, No. 23, item 99), the principal of restructuring bonds is increased by the amount of capitalised interest (not paid) using the rediscounting rate for bills of exchange set by the Monetary Policy Board (Rada Polityki Pieniężnej).

h) Equity securities

Equity securities classified as securities held for trading or available-for-sale are stated at fair value which in case of securities:

1) for which an active market exists – is determined with reference to market price, and

2) for which there is no active market:
   a) securities under the Bank's management – is determined with reference to other values accepted as the fair value using one of the following:
      - current bid offer,
      - valuation performed by a specialised external entity providing this kind of services, or
      - on the basis of total assets of the issuer, less liabilities, provisions and accruals, taking into account the net result and general economic and financial situation of this entity (if the issuer reports a loss exceeding the total of its reserve capital, other reserve capital and regarding joint stock companies - 1/3 of share capital, and limited companies - 1/2 of share capital, the value of such security in the Bank's balance sheet is nil); not greater, however, than the original acquisition cost, or
   b) securities under the management of Bankowy Dom Maklerski – according to the price of the last transaction concluded on the market, unless in the period between the date of the transaction and the balance sheet date market conditions influencing the price changed significantly.

The effects of changes in the fair value of equity securities classified as held for trading securities are recorded as income or expense from financial operations respectively.

The effects of changes in the fair value of equity securities classified as available-for-sale are charged to revaluation reserve.

Investments in subsidiaries, joint ventures and associates are valued using the equity method. The equity method is based on the valuation of shares and stocks in other entities at the value of share in net assets of entity taking into account goodwill or badwill established at the date of inception of control.

Investments in subsidiaries, joint ventures and associates valued using the equity method are carried at acquisition cost adjusted by changes between the acquisition cost and the share in the equity of these entities at the date acquisition.

The adjusted acquisition cost, as referred to above, is determined at the date on which control is acquired, and is increased or decreased by the proportion of the increases or decreases in equity of the subsidiary attributable to the holding company which took place during the period from the day on which control is acquired up to the balance sheet date

Minority shares were presented at acquisition cost less any write-downs due to permanent diminution of value.

i) Effective interest rate

PKO BP SA took advantage of the provisions of the Decree of the Minister of Finance dated 2 December 2003 amending the Decree on the specific accounting policies for banks, in part concerning the possibility of valuing the financial instruments according to the amortised cost using the effective interest rate method starting from 1 January 2005.

The Bank undertook certain preparatory activities in order to adapt its accounting systems to the implementation of the amortised cost method using the effective interest rate starting from 1 January 2005.

j) Intangible assets

Intangible assets are recorded at acquisition costs or cost of production less accumulated amortisation and impairment losses.

k) Tangible fixed assets

Tangible fixed assets were valued at the balance sheet date at acquisition cost, cost of production or re-valued amount (after the revaluation of fixed assets), less accumulated depreciation and impairment losses.

l) Depreciation, amortisation and write-downs due to permanent diminution of value

PKO BP SA SAB-R 31 December 2004 PLN thousand

Tangible and intangible fixed assets are depreciated using the straight-line method over the assets' estimated economic useful lives, which for the main groups of these assets represent the depreciation periods used for tax purposes. The height of applied depreciation and amortisation rates reflects the economic useful life and takes into account physical and economic usage of tangible and intangible fixed assets. Applied depreciation periods and depreciation rates are subject to periodic verification as to their correctness. Depreciation and amortisation charges are calculated for all tangible and intangible fixed assets with and initial unit cost exceeding PLN 3,500, and in the case of computer hardware - irrespective of its value. Depreciation of tangible and intangible fixed assets commences in the month following the month in which the assets were brought into use. The assets are depreciated/ amortised until such time as the accumulated depreciation/ amortisation equals the initial cost of the asset or until they are earmarked for liquidation. Land, works of art and museum exhibits are not subject to depreciation.

Depreciation rates for the main groups of tangible fixed assets used by PKO BP SA are as follows:

Tangible fixed assets	**Rates**
Buildings, premises, cooperative right to premises	1.5% - 10%
Leasehold improvements	10%*
Plant and machinery	4% - 50%**
Computer hardware	30%**
Motor vehicles	17% - 20%

* For leasehold improvements, depreciation rates depend on the term of the contract. For leasehold improvements subject to indefinite rental contracts, the Bank uses the 10% individual depreciation rate.

** For fixed assets classified to „Plant and machinery" and „Computer hardware" which were entered in the fixed asset register after 1 January 2003 and are subject to quick technological progress, the Bank applied depreciation rates multiplied by index 2.0.

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

Intangible assets	**Rates**
Licences for computer software	20% - 50%
Copyright	20% - 50%
Goodwill, other intangible assets	20%

An assessment is made at each balance sheet date to determine whether there is any objective evidence that the carrying amount of an asset exceeds its anticipated future economic benefits. If such evidence exists, the estimated recoverable amount of that asset is determined and an impairment loss is recognized, carrying amount of these assets is decreased by impairment losses. Impairment losses are recorded under other operating expenses.

m) Assets acquired for re-sale

Assets acquired as part of loan recovery proceedings are recognised at fair value. A specific provision is created for the difference between the amount of debt and the fair value of seized assets or write-downs for permanent diminution of value. Where the fair value of the assets seized is higher than the amount of the debt, the difference constitutes a liability to the debtor.

n) Receivables write-offs

Write-offs of loan exposures and other receivables are charged against specific provisions raised for such exposures. In the case of loan exposures for which no specific provision was created or the provision is lower than the exposure, the write-off is charged directly to other operating expenses. In the case of other receivables that were not fully covered by provisions, the difference is also charged directly to expenses.

o) Financial result

PKO BP SA recognises all significant cost and income items in accordance with the principles: accrual basis; matching principle; principals of recognition and valuation of assets and liabilities; creation of specific provisions and valuation of financial assets and liabilities.

- Interest income and interest expense

Interest income includes accrued amounts due and not due, together with interest capitalised and accrued to be capitalised on receivables classified as “normal” and “watch”, except for interest expected to be written-off or to be repaid in a longer period of time on restructured receivables subject to settlement proceedings, interest received (relating to the current reporting period), interest received in the previous reporting periods relating to the current reporting period.

Interest expense comprises interest on amounts due to the financial, non-financial and public sectors.

- Fees and commission income and expense

Fees and commission income comprises amounts other than interest received on loans, guarantees, letters of credit, operation of bank accounts, conducting banking operations and servicing of payment cards. Fees and commission expense comprises mainly amounts of commission paid to agents.
Fees and commission income and expense are charged to profit and loss account when received or when they become due.

- Foreign exchange result

Foreign exchange result comprises foreign exchange gains and losses, both realised and unrealised, resulting from the daily revaluation of assets and liabilities denominated in foreign currency translated using the average NBP exchange rates and from the fair value valuation of derivatives not settled (FX swap, CIRS)

- Other operating income and expense

Other operating income and expense include income and cost not related directly to banking activity. These mostly relate to the sale or liquidation of fixed assets and assets acquired for re-sale, costs of compensations, fines and penalties.

p) Deferred interest, statutory interest capitalised, other capitalised interest

Interest not due and interest due on irregular loans, together with interest expected to be written off or to be repaid in a longer period of time on restructured receivables subject to settlement proceedings classified as “normal” or “watch” are presented in liabilities under “Other deferred income and suspended income”

Interests accrued and capitalised on a statutory basis (due and not due) – on housing loans of “old” portfolio classified as irregular, excluding 90% of interest capitalised on a statutory basis until 31 December 1999 on housing loans of “old” portfolio (the part covered by the surety of the State Treasury on the basis of the Act dated 29 November 2000 on the coverage of repayment of some housing loans by the surety of the State Treasury) and interest expected to be written off or to be repaid in a longer period of time on restructured receivables subject to settlement proceedings classified as “normal” or “watch” are presented in liabilities in item “Other deferred income and suspended income” (interest capitalised on statutory basis).

Interest capitalised on the basis of other agreements – accrued and capitalised (due and not due) on irregular loans and interest expected to be written off or to be repaid in a longer period of time on restructured receivables subject to settlement proceedings classified as “normal” or “watch” are presented in liabilities under “Other deferred income and suspended income” as “Other interest capitalised”

q) Off-balance sheet liabilities granted

Off-balance sheet liabilities granted are presented at nominal value. For the off-balance sheet liabilities subject to credit risk, specific provisions are created. In the case of unused amounts of loans, according to the Decree of the Minister of Finance on provisions, the provision is created when the liability is unconditional. In accordance with the provisions of this Decree, PKO BP SA decreased the level of required specific provisions for off-balance sheet liabilities granted classified as “watch” by the amount not exceeding 25% of the general banking risk provision, created according to Article 130 of the Banking Law of 29 August 1997 (Journal of Laws of 2002, No. 72, item 665, together with subsequent amendments).

r) Income tax

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

In calculating taxable income the Bank took into account the provisions of the Decree of the Minister of Finance dated 7 May 2001 on the extension of deadlines for payments of advances and corporate income tax for banks granting housing loans (Journal of Laws No. 43, item 481).

s) Deferred tax

Deferred tax liabilities and deferred tax assets arise due to timing differences between the moment income is recognised as earned and cost recognised as incurred, according to the Accounting Act dated 29 September 1994 (Journal of Laws of 2002, No.76, item 694, together with subsequent amendments) and according to tax regulations. The amount of deferred tax is determined, using the balance sheet method, as a change in the balance of the following items – deferred tax assets and deferred tax liability. Deferred tax liability and deferred tax asset are compensated and the net amount is presented in the balance sheet on the assets or liabilities side, respectively. The change in the balance of deferred tax liability and deferred tax asset is included in the taxation, deferred part, except in so far they relate to the deferred tax the effects of valuation of financial fixed assets credited to revaluation reserve. The calculation of deferred tax takes into account the balance of the deferred tax asset and deferred tax liability at the beginning and at the end of the reporting period.

In calculation of obligatory CIT charges against the financial result, in the deferred tax asset the Bank did not include the potential effect of regulations introduced by the Act of 16 April 2004 on EU Guarantee Fund (Journal of Laws of 2004, No.121, item 1262) which came into force 15 June 2004, as currently the Bank does not have the data necessary to estimate the resulting deferred tax asset.

t) Cash and cash equivalents

For the purpose of the cash flow statement, the following were included under item “F” - “Cash and cash equivalents at the beginning of the period” and under item “G” - “Cash and cash equivalents at the end of the period”: cash in hand, current account in NBP, current amounts due from other banks, and deposit of Bankowy Dom Maklerski in the Guarantee Fund of the Stock Exchange (Fundusz Gwarancyjny Giełdy).

u) General banking risk provision

Under Article 130.2 of the Banking Law (Journal of Laws of 2002, No. 72, item 665, together with subsequent amendments), the Bank could create a general banking risk provision to safeguard against the risk relating to banking activity. The Bank systematically analyses the adequacy of the level of the general banking risk provision.

v) Provision for future liabilities to employees

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

w) Holiday accrual

PKO BP SA creates an accrual for the future liabilities of the Bank relating to unused annual leave, taking into account all remaining unused holiday days. The holiday accrual is presented within ”Accruals”.

x) Prepayments and accruals

The Bank recognises prepayments if the costs incurred relate to future reporting periods. Accruals are recognised as the amount of probable liabilities relating to the current reporting periods.

y) Shareholder’s equity

Shareholder’s equity is presented by type and in accordance with the binding legal regulations and the Bank’s Statute. Share capital of PKO BP SA is stated at nominal value, at the amount stated in the Bank’s Statute. According to the Bank’s Statute, reserve capital is created from the appropriations of net profit, from contributions made by the shareholders in exchange for the acquisition of special rights to the shares held by them and from premiums arising on the issuance of shares above their par value after coverage of expenses relating to the issuance of shares. Reserve capital is assigned exclusively for the coverage of potential balance sheet losses. Revaluation reserve represents the effects of revaluation of fixed assets and revaluation of the available-for-sale portfolio, including the tax effects of such revaluations.

z) Derivative instruments

Speculative derivative financial instruments are stated at fair value. In the case where the estimated fair value is lower or higher than the fair value as of the proceeding balance sheet date (for transactions concluded in the reporting period – acquisition cost or the sale price of the instrument), the difference is charged respectively to costs or income from operations with financial instruments or foreign exchange result (FX swap and CIRS) with opposite entry in other financial assets or other liabilities arising from financial instruments, respectively.
The result of the ultimate settlement of derivative instrument transactions is reflected in the result from financial operations or in the foreign exchange result. The nominal value of the underlying instruments is presented in off-balance sheet items from the date of origination the transaction until maturity. Off-balance sheet items denominated in foreign currencies are revalued at the end of each day according to the average NBP exchange rate.
The fair value of financial instruments which are publicly traded is their market value less transaction costs. Where the market value cannot be established, fair value is estimated on the basis of a valuation model, for which the input data is taken from an active market.

aa) Embedded derivative instruments

The Bank, has embedded derivative instruments which are the components of complex financial and non-financial contracts, whereby all or part of the cash flows relating to such agreements vary in a similar way to the stand-alone derivative. An embedded derivative instrument is recognised separately from the host contract, if the following conditions are met:

- the financial instrument, from which the embedded derivative instrument is separated is not classified as held for trading or available-for-sale, and the effects of revaluation of such instrument are charged to income and cost on financial operations of the current financial year,
- according to the Decree of the Minister of Finance dated 10 December 2001 on specific accounting policies for banks (Journal of Laws No. 149, item 1673, together with subsequent amendments), financial instruments classified to assets/ liabilities available-for-sale are subject to fair value valuation. Pursuant to the provisions of the above-mentioned Decree, the results of revaluation of such instruments are recorded under “Revaluation reserve”, which does not exempt the Bank from the separation and separate presentation of embedded derivative instrument.
- the characteristics and risks of the embedded derivative instrument are not closely related to the characteristics and risks of host contract,
- a separate instrument, with the same characteristics as the embedded derivative would meet the definition of a derivative, and
- it is possible to reliably determine the fair value of the embedded derivative.

In determining whether the characteristics and risks of the embedded derivative are not closely related to characteristic and risks of the host contract and risk springing from this contract, the Group uses the provisions of the Decree of the Minister of Finance dated 12 December 2001 on the specific rules for recognition, methods of measurement, scope of disclosure and method of presentation of financial instruments (Journal of Laws No. 149, item 1674, together with subsequent amendments). Based on Article 10.1a Point 5 letter c of this Decree, starting from 1 January 2004 the Group does not separate foreign exchange derivatives embedded in contracts related to the provision of goods and services from IT sector and rental of real property where the payments are denominated in EUR or USD.

The appropriate restatements of data as at 31 December 2003 are presented in Notes 34 and 35 of the Additional Notes and Explanations

Embedded derivative instruments separated from host contracts and presented separately are valued at fair value and presented under “Other securities and financial assets”, if the fair value is positive, or presented under “Other liabilities arising from financial instruments”, if the fair value is negative. Changes in fair value of derivative instruments are recorded in the profit and loss account under “Result from financial operations – Result from securities and other financial instruments operations”.

A host contract which is a financial instrument, and from which an embedded derivative was separated, are presented in the accounting records independent from the embedded derivative and classified in accordance with the provisions of the Decree of the Minister of Finance dated 10 December 2001 on specific accounting policies for banks (Journal of Laws of 2001, No. 149, item 1673, together with subsequent amendments). Contracts which are not financial instruments from which embedded derivatives were separated, are classified in accordance with the provisions of the Accounting Act dated 29 September 1994. (Journal of Laws of 2002, No. 76, item 694, together with subsequent amendments).

Any adjustments to host contracts resulting from the separation of embedded derivative instruments are recorded in the balance sheet with the corresponding charge to the profit and loss account.

bb) Rules for reflecting the effects of the revaluation of balance sheet items in shareholders' equity

In accordance with the Decree of the Minister of Finance dated 10 December 2001 on specific accounting policies for banks (Journal of Laws No. 149, item 1673, together with subsequent amendments), financial assets available-for-sale are valued at fair value and any effects of the change in the fair value are reflected to the revaluation reserve.

cc) Hedge accounting

According to the binding regulations, the Bank may apply hedge accounting policies if and only if certain conditions are fulfilled, and especially if formalised documentation of hedging relationship in which the Bank sets forth the goals of its risk management objective and strategy for undertaking the hedge, together with identification of the hedging instrument, the related hedged item or transaction and the nature of the risks being hedged. In the periods covered by these financial statements the Bank did not use hedge accounting.

11. Differences between the accounting policies applied by PKO BP SA and International Financial Reporting Standards (IFRS)

The below description of main differences between Polish Accounting standards (PAS) and IFRS is based on IFRS standards binding for financial statements prepared for periods starting 1 January 2004. The Capital Group of PKO BP SA ("the Group"), in which Bank PKO BP SA is the holding company, is required to prepare its first consolidated financial statements in accordance with IFRS endorsed by EU for the year 2005. When preparing its first consolidated financial statements in accordance with IFRS, IFRS 1 will be applicable. The International Accounting Standards Board (IASB) introduced many changes to the binding accounting standards and issued new standards during 2004. Additionally, the endorsement process of the EU has not adopted all of IAS 39 and is still in the process on certain standards. Also, the endorsement process of IFRS might impact the presented differences. Therefore, it is possible that the IFRS standards that the Group will apply upon the preparation of its first financial statements in accordance with IFRS containing comparative data for the year 2004 will differ from the standards that were used when preparing the description of main differences below. Additionally, in accordance with IFRS, only a complete set of financial statements comprising a balance sheet, income statement, statement of changes in equity, and cash flow statement, together with comparative financial information and explanatory notes, provides a fair presentation of the Group's financial position, results of operations and cash flows in accordance with IFRSs.

More information about calculation of differences can be found in the consolidated financial statement of the Group for 2004.

Main differences between Polish Accounting Standards and International Financial Reporting Standards are presented below:

Valuation of financial assets and liabilities

IFRS

International Accounting Standard (IAS) 39 require that certain financial assets and liabilities should be valued on the basis of amortised cost using the effective interest rate.

PAS

The Decree of the Minister of Finance dated 2 December 2003 (Journal of Laws No. 211, item 2061) amending the Decree on the specific accounting policies for banks, provides for the extension of the deadline for introducing of the financial asset and liability valuation based on amortised cost using the effective interest rate for financial year commencing on or after 1 January 2005.

PKO BP SA took advantage of the provisions of the Decree of the Minister of Finance dated 2 December 2003 amending the Decree on specific accounting policies for banks (Journal of Laws of 2003, No. 211, item 2061), in part concerning the possibility of commencing the valuation of financial instruments according to amortised cost using the effective interest rate method starting from 1 January 2005.

Impairment of assets

IFRS

According to IAS 39, impairment of financial assets occurs, when its carrying value is higher than its economic value. An enterprise should assess at each balance sheet date whether there is any objective evidence that the financial asset may be impaired.

Such evidence includes, among others, information about significant financial difficulty of the issuer or an actual breach of contract, such as a default or delinquency in interest or principal payments. If the diminution of value occurs, the amount of the loss is the difference between the asset's carrying amount and the present value of expected future cash flows discounted using the original effective interest rate for assets measured at cost, and current interest rate in the case of financial assets measured at fair value.

PSR

According to the Polish Accounting Standards banks perform, at least quarterly, a review of loan exposures and classify them into risk groups (normal receivables, watch receivables, sub-standard receivables, doubtful receivables, lost receivables). The classification derives from the criteria of timeliness of payments of receivables and of economic and financial situation of the borrower. Specific provisions for loan exposure risk are created at least at the level required for particular risk groups (from 1.5% to 100% of the base for creating a provision). Moreover, the required level of specific provisions for risks related to loan exposures:

a. resulting from retail loans and credits, classified as "normal" is decreased by the amount equal to 25% of the general banking risk provision;
b. classified as "watch" is decreased by the amount equal to 25% general banking risk provision, created in accordance with Article 130 of the Banking Law.

In accordance with IAS 30, general banking risk provision should be presented as a separate item of retained earnings rather than under liabilities. Due to the fact, that according to the above-mentioned Polish regulation the general banking risk provision decreases the level of specific provisions, the quantification of differences resulting from the application of IAS 39 (in the part concerning impairment) is closely related to the application of IAS 30 (in the part concerning the requirement of general banking risk provision presentation as a separate item of retained earnings). Determining of the value of general banking risk provision that should be presented in accordance with IAS 30, as part of retained earnings will be possible after the final level of provisions for risk arising from loans is determined in accordance with IAS 39.

In calculating specific provisions for amounts due from the financial sector the estimates of the value of collaterals were taken in accordance with the binding regulations and internal Bank's policies specifying the methods for estimating the value of accepted collateral. These estimates may change in the future due to potential changes in the value of collateral and efficiency of vindication procedures which may have an impact on the amount of specific provisions, and accordingly on the future financial results of the Bank.

The Bank performs regular reviews of loan exposures and the estimation of assets' value, creates specific provisions that safeguard from the diminution of value and makes impairment charges when there is evidence that the diminution of value occurred.

Effects of hyperinflationary economy

IFRS

IAS 29 „Financial reporting in hyperinflationary economies" requires that the assets and liabilities reported in the currency of a hyperinflationary economy should be stated in terms of the measuring unit current at the end of the reporting period and should constitute the basis for the measuring of assets and liabilities in the financial statements for the following periods. The above standard applies to non-monetary balance sheet items. In case of the Group these items include non-monetary tangible fixed assets and equity.

PAS

Until the end of 1996 the Polish economy fulfilled the criteria of the hyperinflationary economy. However, since 1997 the criteria have not been fulfilled. PKP BP SA did not apply IAS 29 in the previous years, revaluing the tangible fixed assets as at 1 January 1995, in accordance with the binding Polish regulations, in order to reflect the inflationary effects on their book value through applying revaluation indices set by the Ministry of Finance for the individual groups of tangible fixed assets. This revaluation did not satisfy the requirements of IAS 29, as PKO BP SA did not apply general price indexes and did not revalue the tangible fixed assets as at 31 December 1996.

Perpetual leasehold of land received free of charge

IFRS

Perpetual leasehold of land received free of charge should be recognized as assets at historical cost or at revalued amount.

PAS

Perpetual leasehold of land received free of charge in case of the rights for which it is not possible to estimate reliably their acquisition cost, these assets are not recognized in balance sheet of the Group.

Valuation of investments in subsidiaries, joint-ventures and associates

The valuation of investments in subsidiaries, joint-ventures and associates in accordance with IFRS may require the transformation of financial statements of Group's companies in accordance with IFRS, which may impact net assets and net financial result of the Bank and the Group.

Deferred tax

The differences between PAS and IFRS described above will have impact on deferred tax.

Scope of Additional Notes and Explanations to the financial statements and format of financial statements

Information presented in the Additional Notes and Explanations to the financial statements and the format of financial statements prepared according to PAS and IFRS differ substantially. The differences refer mainly to the scope of disclosures made in relation to financial instruments, lending activity and corporate income tax.

First-time Adoption of IFRS

First-time adoption of IFRS requires that all enterprises that previously have not made an explicit statement of compliance with IFRS, are to be treated as first time adopters of IFRS. PKO BP SA has never prepared IFRS financial statements.

IFRS 1 requires the Bank to apply the same accounting policies applicable at the reporting date in the opening balance sheet presented and throughout all periods presented. IFRS 1 grants certain exemptions from this rule in determining the opening balance sheet and the Bank may use one or more of these exemptions. The Bank expects that it may use several of these exemptions. Therefore the timing of adopting IFRS will have a significant effect on the reconciliation between PAS and IFRS due to the following issues:

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- At the date of first-time adoption of IFRS, tangible fixed assets, intangible assets and investment property may be recognised at fair value, which will be considered to represent their deemed cost. This mainly relates to perpetual leasehold of land received free of charge, which was not recorded in PAS accounting records due to the inability to determine its acquisition cost, as well as those fixed assets that were revalued in accordance with Main Statistical Office (''GUS'') indices; and

- Business combinations performed prior to the amendments to the Accounting Act will not be restated in accordance with IFRS 3.

12. Exchange rates

EUR	01.01.04 - 31.12.04	01.01.03 - 31.12.03
The rate effective as at the last day of the period	4.0790	4.7170
The rate being the arithmetic mean of the average rates effective as at the last day of each month of the period	4.5182	4.4474
The highest rate for the period	4.9149	4.7170
The lowest rate for the period	4.0518	3.9773

As at 31 December 2004, the Bank translated the balance sheet and off-balance sheet items using the following PLN/EUR exchange rate 4.0790 PLN/EUR which was the average NBP rate prevailing as at the balance sheet date. As at 31 December 2003, the balance sheet and off-balance sheet items were translated into EUR using the exchange rate amounting to 1 EUR = 4.7170 PLN/EUR, which was the average NBP rate effective as at that balance sheet date.

In 2004, the main items of the profit and loss account and cash flow statement were translated into EUR using the exchange rate amounting to 1 EUR = 4.5182 PLN which was the arithmetic mean of the average NBP rates binding on the last day of each month of the period. In 2003, the main items of the profit and loss account and cash flow statement were translated into EUR using the exchange rate amounting to 1 EUR = 4.4474 PLN being the arithmetic mean of the average NBP rates binding on the last day of each month of the period.

13. Selected items of balance sheet, profit and loss account and main items of cash flow statement in Polish zloty and translated into EUR using the exchange rates described in Note 13 of the introduction to the financial statements

	in thousand zloty		in thousand euro	
	2004	2003	2004	2003
I. Interest income	5 244 964	5 099 542	1 160 853	1 146 634
II. Fees and commission income	1 865 208	1 606 340	412 821	361 186
III. Result from banking activities	5 424 328	5 403 923	1 200 551	1 215 075
IV. Operating result	1 802 720	1 659 585	398 991	373 158
V. Gross profit (loss)	1 802 949	1 659 986	399 041	373 249
VI. Net profit (loss)	1 511 065	1 192 706	334 440	268 181
VII. Net cash flow from operating activities	(1 197 248)	(6 507 409)	(264 983)	(1 463 194)
VIII. Net cash flow from investing activities	1 633 385	5 836 771	361 512	1 312 401
IX. Net cash flow from financing activities	70 688	(398 984)	15 645	(89 712)
X. Total net cash flow	506 823	(1 069 622)	112 174	(240 505)
XI. Total assets	87 931 792	84 428 339	21 557 193	17 898 736
XII. Amounts due to the Central Bank	144	-	35	-
XIII. Amounts due to the financial sector	911 042	1 098 505	223 349	232 882
XIV. Amounts due to the non-financial and budget sector	72 465 633	71 552 963	17 765 539	15 169 167
XV. Shareholders' equity	8 070 534	6 399 135	1 978 557	1 356 611
XVI. Share capital	1 000 000	1 000 000	245 158	211 999
XVII. Number of shares	1 000 000 000	1 000 000 000	x	x
XVIII. Net book value per ordinary share (in PLN/EUR)	8.07	6.40	1.98	1.36
XIX. Diluted net book value per ordinary share (in PLN/EUR)	8.07	6.40	1.98	1.36
XX. Capital adequacy ratio	16.77	16.51	x	x
XXI. Net profit/loss per ordinary share (in PLN/EUR)	1.51	1.19	0.33	0.27
XXII. Diluted net profit/loss per ordinary share (in PLN/EUR)	1.51	1.19	0.33	0.27
XXIII. Proposed or paid dividend per ordinary share (in PLN/EUR)	-	-	-	-

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BALANCE SHEET	**Note**	**31.12.2004**	**31.12.2003**
ASSETS			
I. Cash and balances with the Central Bank	1.13	**3 490 505**	**3 807 487**
II. Debt securities eligible for rediscounting in the Central Bank		-	-
III. Amounts due from the financial sector	2.13	**13 775 659**	**8 554 860**
1. Current		1 735 212	911 407
2. Term		12 040 447	7 643 453
IV. Amounts due from the non-financial sector	3.13	**34 358 833**	**31 035 282**
1. Current		5 782 048	5 562 220
2. Term		28 576 785	25 473 062
V. Amounts due from the public sector	4.13	**6 852 229**	**7 243 182**
1. Current		19 811	24 413
2. Term		6 832 418	7 218 769
VI. Reverse repo transactions	5.13	**-**	**283 713**
VII. Debt securities	6.13	**24 139 519**	**29 587 425**
VIII. Investments in subsidiaries	7, 10	**479 535**	**301 379**
IX. Investments in joint-ventures	8, 10	**43 040**	**44 119**
X. Investments in associates	9, 10	**135 595**	**214**
XI. Shares in other entities	11.13	**464 489**	**386 712**
XII. Other securities and financial assets	12.13	**1 365 456**	**261 453**
XIII. Intangible assets, including:	14	**384 045**	**263 323**
- goodwill		-	-
XIV. Tangible fixed assets	15	**1 939 016**	**2 063 015**
XV. Other assets	16	**473 551**	**566 571**
1. Assets acquired for sale		-	-
2. Other		473 551	566 571
XVI. Prepayments and accrued income	17	**30 320**	**29 604**
1. Deferred tax asset		-	-
2. Other prepayments and accrued income		30 320	29 604
TOTAL ASSETS		**87 931 792**	**84 428 339**

LIABILITIES AND EQUITY	Note	**31.12.2004**	**31.12.2003**
I. Amounts due to the Central Bank		**144**	-
II. Amounts due to the financial sector	20	**911 042**	**1 098 505**
1. Current		367 782	37 738
2. Term		543 260	1 060 767
III. Amounts due to non-financial sector	21	**67 096 094**	**68 374 173**
1. Savings accounts, including:		25 693 499	29 527 874
a) current		2 118 110	2 528 782

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b) term		23 575 389	26 999 092
2. Other, including:		41 402 595	38 846 299
a) current		19 506 157	18 758 236
b) term		21 896 438	20 088 063
IV. Amounts due to the public sector	22	**5 369 539**	**3 178 790**
1. Current		2 501 028	1 772 258
2. Term		2 868 511	1 406 532
V. Repo transactions	23	-	-
VI. Liabilities arising from securities issued	24	-	-
1. Short-term		-	-
2. Long-term		-	-
VII. Other liabilities arising from financial instruments		**793 739**	**226 407**
VIII. Special funds and other liabilities	25	**1 012 943**	**879 804**
IX. Accruals and deferred income	26	**3 274 936**	**2 968 367**
1. Accruals		151 406	110 356
2. Negative goodwill		16	18
3. Other deferred and suspended income		3 123 514	2 857 993
X. Provisions	27	**1 402 821**	**1 303 158**
1. Provision for deferred tax		530 302	443 597
2. Other provisions		872 519	859 561
a) short-term		26 809	24 707
b) long-term		845 710	834 854
XI. Subordinated liabilities	28	-	-
XII. Share capital	29	**1 000 000**	**1 000 000**
XIII. Unpaid share capital (negative value)		-	-
XIV. Own share capital (negative value)	30	-	-
XV. Reserve capital	31	**2 804 731**	**1 783 827**
XVI. Revaluation reserve	32	**378 288**	**220 664**
XVII. Other reserve capital	33	**2 370 000**	**2 160 000**
XVIII. Retained earnings (loss) from previous years		**6 450**	**41 938**
XIX. Net profit (loss)		**1 511 065**	**1 192 706**
TOTAL LIABILITIES AND EQUITY		**87 931 792**	**84 428 339**

Capital adequacy ratio (in %)	34	**16.77**	**16.51**

Net book value		**8 070 534**	**6 399 135**
Number of shares		**1 000 000 000**	**1 000 000 000**
Net book value per share (in PLN)	35	**8.07**	**6.40**

Diluted number of shares		**1 000 000 000**	**1 000 000 000**
Diluted net book value per share (in PLN)	35	**8.07**	**6.40**

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OFF-BALANCE SHEET ITEMS	Note	31.12.2004	31.12.2003
I. Contingent liabilities granted and received		**12 292 273**	**19 206 832**
1. Liabilities granted:	36	7 148 458	14 317 584
a) financial		6 290 493	13 926 208
b) guarantees		857 965	391 376
2. Liabilities received:	37	5 143 815	4 889 248
a) financial		714 887	84 906
b) guarantees		4 428 928	4 804 342
II. Liabilities arising from purchase/sale transactions		**170 088 351**	**70 103 906**
III. Other, by title:		**12 368 143**	**3 077 641**
- irrevocable liabilities		9 504 544	97 355
- collaterals received		2 863 599	2 980 286
TOTAL OFF-BALANCE SHEET ITEMS		**194 748 767**	**92 388 379**

PROFIT AND LOSS ACCOUNT	Note	01.01 - 31.12.2004	01.01 - 31.12.2003
I. Interest income	38	5 244 964	5 099 542
II. Interest expense	39	(1 654 658)	(1 667 171)
III. Net interest income (I-II)		**3 590 306**	**3 432 371**
IV. Fees and commission income	40	1 865 208	1 606 340
V. Fees and commission expense		(284 153)	(231 250)
VI. Net Fees and commission income (IV-V)		**1 581 055**	**1 375 090**
VII. Income from shares and other variable income securities and financial instruments	41	**3 396**	**4 401**
1. From subsidiaries		-	-
2. From joint-ventures		-	-
3. From associates		-	-
4. From other companies		3 396	4 401
VIII. Result from financial operations	42	**(185 363)**	**59 897**
IX. Foreign exchange result		**434 934**	**532 164**
X. Result from banking activities		**5 424 328**	**5 403 923**
XI. Other operating income	43	**242 812**	**238 076**
XII. Other operating expense	44	**(145 004)**	**(135 687)**
XIII. Overhead costs	45	**(3 173 840)**	**(3 098 482)**
XIV. Depreciation of tangible assets and amortization of intangible assets		**(471 396)**	**(468 448)**
XV. Provisions created and revaluation	46	**(1 023 983)**	**(1 372 427)**
1. Creation of specific provisions and provisions for general banking risk		(1 022 973)	(1 369 971)
2. Revaluation of financial assets		(1 010)	(2 456)
XVI. Provisions released and revaluation	47	**949 803**	**1 092 630**
1. Release of specific provisions and provisions for general banking risk		949 155	1 088 882

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2. Revaluation of financial assets		648	3 748
XVII. Change in provisions value and revaluation (XV+ XVI)		**(74 180)**	**(279 797)**
XVIII. Operating result		**1 802 720**	**1 659 585**
XIX. Net extraordinary gains (losses)		**229**	**401**
1. Extraordinary gains	48	902	739
2. Extraordinary losses	49	(673)	(338)
XX. Gross profit (loss)		**1 802 949**	**1 659 986**
XXI. Taxation		**(350 330)**	**(416 180)**
1. Current part	50	(303 972)	(552 446)
2. Deferred part	51	(46 358)	136 266
XXII. Other obligatory charges against profit	52	**-**	**-**
XXIII. Share in net profit (loss) of companies valued under the equity pick-up method	53	**58 446**	**(51 100)**
XXIV. Net profit (loss)	54	**1 511 065**	**1 192 706**

Net profit (loss) annualized		**1 511 065**	**1 192 706**
Weighted average number of ordinary shares		**1 000 000 000**	**1 000 000 000**
Net profit (loss) per ordinary share (in PLN)		**1.51**	**1.19**
Weighted average predicted number of ordinary shares		**1 000 000 000**	**1 000 000 000**
Diluted profit (loss) per ordinary share (in PLN)		**1.51**	**1.19**

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STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	01.01 - 31.12.2004	01.01 - 31.12.2003
I. Shareholders' equity at the beginning of the period	**6 392 685**	**5 480 419**
a) adjustments due to changes in accounting policies	6 450	41 938
- in which reffered to subsidiaries	1 724	-
b) adjustments due to fundamental errors	-	-
I.a. Adjusted shareholders' equity at the beginning of the period	**6 399 135**	**5 522 357**
1. Share capital at the beginning of the period	**1 000 000**	**1 000 000**
1.1. Changes in share capital	-	-
a) increase (by title)	-	-
- issue of shares	-	-
- in-kind contribution	-	-
b) decrease (by title)	-	-
- write-offs	-	-
1.2. Share capital at the end of the period	**1 000 000**	**1 000 000**
2. Unpaid share capital at the beginning of the period	-	-
2.1. Changes in unpaid share capital	-	-
a) increase (by title)	-	-
b) decrease (by title)	-	-
2.2. Unpaid share capital at the end of the period	-	-
3. Own shares at the beginning of the period	-	-
a) increase (by title)	-	-
b) decrease (by title)	-	-
3.1. Own shares at the end of the period	-	-
4. Reserve capital at the beginning of the period	**1 783 827**	**806 579**
4.1. Changes in reserve capital	1 020 904	977 248
a) increase (by title)	1 020 904	977 248
- increase of reserve capital by in-kind contribution	-	-
- increase of reserve capital by fund for brokerage activity	-	-
- appropriation of retained profit from previous years	-	136 701
- appropriation of net profit	1 017 994	838 092
- sales of fixed assets	2 910	2 455
b) decrease (by title)	-	-
- covering of losses	-	-
4.2. Reserve capital at the end of the period	**2 804 731**	**1 783 827**
5. Revaluation reserve at the beginning of the period	**220 664**	**539 047**
5.1. Changes in revaluation reserve	157 624	(318 383)
a) increase (by title)	160 534	-
- revaluation charged to revaluation reserve	160 534	-
b) decrease (by title)	(2 910)	(318 383)
- revaluation charged to revaluation reserve		(315 928)

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- sales, liquidation of fixed assets	(2 910)	(2 455)
5.2. Revaluation reserve at the end of the period	**378 288**	**220 664**
6. General banking risk fund at the beginning of the period	**800 000**	**597 000**
6.1. Changes in general banking risk fund	200 000	203 000
a) increase (by title)	200 000	203 000
- appropriation of net profit	200 000	203 000
b) decrease (by title)	-	-
- transfers	-	-
6.2. General banking risk fund at the end of the period	**1 000 000**	**800 000**
7. Other reserve capital at the beginning of the period	**1 360 000**	**1 350 000**
7.1. Changes in other reserve capital	10 000	10 000
a) increase (by title)	10 000	10 000
- appropriation of net profit	10 000	10 000
- transfer of fund for brokerage activity from special purpose fund	-	-
b) decrease (by title)	-	-
- increase of reserve capital by fund for brokerage activity	-	-
7.2. Other reserve capital at the end of the period	**1 370 000**	**1 360 000**
8. Retained earnings (loss) from previous years at the beginning of the period	**1 228 194**	**1 187 793**
8.1. Retained earnings at the beginning of the period	**1 228 194**	**1 187 793**
a) adjustments due to changes in accounting policies	6 450	41 938
- in which reffered to subsidiaries	1 724	-
b) adjustments due to fundamental errors	-	-
8.2. Adjusted retained earnings from previous years at the beginning of the period	**1 234 644**	**1 229 731**
8.3. Change in retained earnings	**(1 228 194)**	**(1 187 793)**
a) increase (by title)	-	-
b) decrease (by title)	(1 228 194)	(1 187 793)
- appropriation of profit to reserve capital	(1 017 994)	(838 092)
- appropriation of profit to other reserve capital	(10 000)	(10 000)
- appropriation of profit to general banking risk fund	(200 000)	(203 000)
- transfer of retained profit to reserve capital	-	(136 701)
- appropriation of profit to ZFŚS (Company's Social Benefits Fund)	(200)	-
- other	-	

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (continued)	01.01 - 31.12.2004	01.01 - 31.12.2003
8.4. Retained earnings from previous years at the end of the period	**6 450**	**41 938**
8.5. Retained loss from previous years at the beginning of the period	-	-
a) adjustments due to changes in accounting policies	-	-
b) adjustments due to fundamental errors	-	-
8.6. Adjusted retained loss from previous years at the beginning of the period	-	-
8.7. Change in retained loss	-	-
a) increase (by title)	-	-
b) decrease (by title)	-	-
8.8. Retained loss from previous years at the end of the period	-	-
8.9. Retained earnings (loss) from previous years at the end of the period	**6 450**	**41 938**
9. Net result	**1 511 065**	**1 192 706**
a) net profit	1 511 065	1 192 706
b) net loss	-	-
II. Shareholders' equity at the end of the period	**8 070 534**	**6 399 135**
III. Shareholders' equity after proposed profit appropriation (covering of loss)	**7 070 334**	**6 398 935**

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STATEMENT OF CASH FLOW	Note	01.01 - 31.12.2004	01.01 - 31.12.2003
A. Cash flow from operating activities			
I. Net profit (loss)		**1 511 065**	**1 192 706**
II. Total adjustments:		**(2 708 313)**	**(7 700 115)**
1. Share in profit (loss) of companies valued under the equity pick-up method		(58 446)	51 100
2. Depreciation and amortization		471 396	468 448
3. Foreign exchange differences		-	-
4. Interest and share in profits (dividends)		(455 008)	(447 237)
5. Profit/loss from investing activities		41 551	(19 610)
6. Change in provisions		(70 973)	44 138
7. Change in debt securities		3 294 738	(8 349 949)
8. Change in amounts due from the financial sector		(4 395 291)	2 822 959
9. Change in amounts due from the non-financial and the public sector		(2 804 012)	(5 446 544)
10. Change in receivables from reverse repo transactions		283 713	262 248
11. Change in shares, other securities and other financial assets		(1 078 390)	332 250
12. Change in amounts due to the financial sector		(259 465)	(149 311)
13. Change in amounts due to the non-financial and the public sector		912 670	1 410 403
14. Change in liabilities arising from repo transactions		-	-
15. Change in liabilities arising from securities issued		-	-
16. Change in other liabilities		128 146	47 029
17. Change in prepayments and accruals		40 332	4 634
18. Change in deferred and suspended income		265 521	418 391
19. Other adjustments	57	975 205	850 936
III. Net cash flow from operating activities (I + II)		**(1 197 248)**	**(6 507 409)**

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STATEMENT OF CASH FLOW (CONTINUED)	Note	01.01 - 31.12.2004	01.01 - 31.12.2003
B. Cash flow from investing activities			
I. Inflows		**2 496 874**	**6 351 469**
1. Sale of investments in subsidiaries		-	-
2. Sale of investments in joint-ventures		-	-
3. Sale of investments in associates		200	-
4. Sale of shares in other entities, other securities and other financial assets		2 021 501	5 884 622
5. Sale of intangible and tangible fixed assets		20 165	19 610
6. Sale of real estate and intangible assets investments		-	-
7. Other investment inflows		455 008	447 237
II. Outflows		**(863 489)**	**(514 698)**
1. Purchase of investments in subsidiaries		(137 589)	(165 303)
2. Purchase of investments in joint-ventures		-	-
3. Purchase of investments in associates		(146 500)	(4 600)
4. Purchase of shares in other entities, other securities and other financial assets		(1 004)	(234)
5. Purchase of intangible and tangible fixed assets		(578 396)	(344 561)
6. Investments in real estate and intangible assets		-	-
7. Other investment outflows		-	-
III. Net cash flow from investing activities (I + II)		**1 633 385**	**5 836 771**

C. Cash flow from financing activities			
I. Inflows		**72 144**	**59 746**
1. Long-term loans received from other banks		72 146	9 434
2. Long-term loans received from other than banks institutions from the financial sector		-	50 312
3. Issuance of debt securities		-	-
4. Increase in subordinated liabilities		-	-
5. Proceeds form share issuance and contributions to capital		-	-
6. Other financial inflows		(2)	-
II. Outflows		**(1 458)**	**(458 730)**
1. Repayments of long-term loans from other banks		(1 147)	-
2. Repayments of long-term loans from other than banks institutions from the financial sector		(311)	(458 730)
3. Redemption of debt securities			-
4. Repayment of other financial liabilities			-
5. Repayment of liabilities under finance lease agreements			-
6. Decrease in subordinated liabilities			-
7. Dividends and other amounts paid to shareholders			-
8. Outflows from profit appropriation other than payments to shareholders			-
9. Purchase of own shares			-

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10. Other financial outflows			-
III. Net cash flow from financing activities (I + II)		**70 686**	**(398 984)**
D. Total net cash flow (A.III+B.III+C.III)		506 823	(1 069 622)
E. Balance sheet net change in cash and cash equivalents, including:		506 823	(1 069 622)
- change due to foreign exchange differences			
F. Cash and cash equivalents at the beginning of the period		**4 718 894**	**5 788 516**
G. Cash and cash equivalents at the end of the period (F+ D), including:		**5 225 717**	**4 718 894**
- of limited transferability			

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ADDITIONAL INFORMATION AND EXPLANATIONS
EXPLANATORY NOTES

Note 1A

CASH AND BALANCES WITH THE CENTRAL BANK	31.12.2004	31.12.2003
a) current account	3 490 505	3 807 487
b) obligatory reserve	-	-
c) Bank Guarantee Fund	-	-
d) other	-	-
Total cash and balances with the Central Bank	**3 490 505**	**3 807 487**

Note 1B

CASH AND BALANCES WITH THE CENTRAL BANK (BY CURRENCY)	31.12.2004	31.12.2003
a) in PLN	3 281 053	3 496 205
b) in foreign currencies (by currency and PLN equivalent)	209 452	311 282
b1. Unit/currency 787/USD ths	20 857	28 500
PLN ths	62 371	106 605
b2. Unit/currency 789/GBP ths	5 580	3 310
PLN ths	32 193	22 070
b3. Unit/currency 797/CHF ths	2 972	3 548
PLN ths	7 852	10 744
b4. Unit/currency 978/EUR ths	25 803	35 748
PLN ths	105 250	168 623
b5. Other currencies (PLN ths)	1 786	3 240
Total cash and balances with the Central Bank	**3 490 505**	**3 807 487**

Note 2A

AMOUNTS DUE FROM THE FINANCIAL SECTOR (BY TYPE)	31.12.2004	31.12.2003
a) current accounts	1 735 151	911 527
b) loans and deposits, including:	11 870 925	7 573 852
- deposits in other banks and financial institutions	11 273 387	6 973 256
c) purchased receivables	9 969	10 642
d) realized guarantees and sureties	-	-
e) other receivables (by title)	37 071	22 019
- other receivables from the financial sector	37 071	22 019
f) interest:	192 226	108 206
- accrued	186 698	100 895
- due, not received	5 528	7 311
Total gross amounts due from the financial sector	**13 845 342**	**8 626 246**
g) provisions for irregular amounts from the financial sector (negative value)	(69 683)	(71 386)
Total net amount due from the financial sector	**13 775 659**	**8 554 860**

As at 31 December 2004 PKO BP SA had irregular receivables from banks, including: lost deposits in Animex Bank S.A. in the amount of PLN 1,131 thousand, in Bank Komercyjny Posnania S.A. in the amount of PLN 329 thousand, in Bank Spoldzielczosci Polskiej in the amount of PLN 294 thousand.

As at 31 December 2003 PKO BP SA had irregular receivables from banks, including: lost deposits in Animex Bank S.A. in the amount of PLN 1,250 thousand, in Bank Komercyjny Posnania S.A. in the amount of PLN 329 thousand, in Bank Spoldzielczosci Polskiej in the amount of PLN 294 thousand.

As at 31 December 2004 and 31 December 2003 PKO BP SA did not have any non interest bearing receivables.

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Note 2B

AMOUNTS DUE FROM THE FINANCIAL SECTOR (BY MATURITY)	31.12.2004	31.12.2003
a) current accounts	1 733 816	910 970
b) term (by period remaining to maturity):	11 919 300	7 607 070
- within 1 month	4 897 858	3 069 497
- from 1 month to 3 months	3 685 343	2 068 774
- from 3 months to 1 year	2 825 105	1 974 587
- from 1 year to 5 years	444 354	390 812
- over 5 years	8 128	20 135
- amounts due but not received	58 512	83 265
c) interest	192 226	108 206
- accrued	186 698	100 895
- due, not received	5 528	7 311
Total gross amounts due from the financial sector	**13 845 342**	**8 626 246**

Note 2C

GROSS AMOUNTS DUE FROM THE FINANCIAL SECTOR (BY ORIGINAL MATURITY)	31.12.2004	31.12.2003
a) current accounts	1 733 816	910 970
b) term (by original maturity):	11 919 300	7 607 070
- within 1 month	2 628 110	3 409 438
- from 1 month to 3 months	4 096 566	592 275
- from 3 months to 1 year	4 155 879	3 044 440
- from 1 year to 5 years	980 890	414 060
- over 5 years	57 855	146 857
c) interest	192 226	108 206
- accrued	186 698	100 895
- due, not received	5 528	7 311
Total gross amounts due from the financial sector	**13 845 342**	**8 626 246**

Note 2D

GROSS AMOUNTS DUE FROM THE FINANCIAL SECTOR (BY CURRENCY)	31.12.2004	31.12.2003
a) in PLN	5 102 063	5 030 589
b) in foreign currencies (by currency and PLN equivalent)	8 743 279	3 595 657
b1. Unit/currency 787/USD ths	2 618 096	667 840
PLN ths	7 829 154	2 498 055
b2. Unit/currency 789/GBP ths	39 680	29 385
PLN ths	228 950	195 959
b3. Unit/currency 797/CHF ths	87 796	2 569
PLN ths	231 966	7 779
b4. Unit/currency 978/EUR ths	108 517	187 425
PLN ths	442 641	884 084
b5. other currencies (PLN ths)	10 568	9 780

Total gross amounts due from the financial sector	**13 845 342**	**8 626 246**

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Note 2E

GROSS AMOUNTS DUE FROM THE FINANCIAL SECTOR	31.12.2004	31.12.2003
1. Amounts classified as normal	13 554 144	8 196 707
2. Amounts classified as watch	16 991	223 036
3. Irregular amounts, including:	81 981	98 297
a) substandard	22	135
b) doubtful	8 659	19 329
c) lost	73 300	78 833
4. Interest:	192 226	108 206
a) accrued	186 698	100 895
b) due, not received	5 528	7 311
- on amounts classified as normal and watch	-	-
- on amounts classified as irregular	5 528	7 311
Total gross amounts due from the financial sector	**13 845 342**	**8 626 246**

Note 2F

VALUE OF COLLATERAL LOWERING AMOUNTS DUE FROM THE FINANCIAL SECTOR USED FOR CALCULATION OF SPECIFIC PROVISIONS	31.12.2004	31.12.2003
a) watch	8 389	15 883
b) irregular	10 419	22 340
- substandard	-	46
- doubtful	6 605	12 045
- lost	3 814	10 249
Total value of collateral lowering amounts due from the financial sector used for calculation specific provisions	**18 808**	**38 223**

Note 2G

PROVISIONS FOR AMOUNTS DUE FROM THE FINANCIAL SECTOR	31.12.2004	31.12.2003
a) watch	-	-
b) irregular	69 683	71 386
- substandard	4	18
- doubtful	1 027	3 642
- lost	68 652	67 726
Total provisions for amounts due from the financial sector	**69 683**	**71 386**

Note 2H

CHANGE IN PROVISIONS FOR AMOUNTS DUE FROM THE FINANCIAL SECTOR	01.01 - 31.12.2004	01.01. - 31.12.2003
1. Provisions for the amounts due from the financial sector at the beginning of the period	71 386	77 259
a) increase (by title)	12 128	22 561
- creation of specific provisions against the profit and loss account	12 128	22 561
b) realization (by title)	(2 810)	(2 877)

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- coverage with provision	(2 810)	(2 877)
c) release (by title)	(11 021)	(25 557)
- release of provisions	(11 021)	(25 557)
2. Provisions for amounts due from the financial sector at the end of the period	69 683	71 386
3. Required upon regulations level of provisions for amounts due from the financial sector at the end of the period.	69 683	71 386

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Note 3A

AMOUNTS DUE FROM THE NON-FINANCIAL SECTOR (BY TYPE)	31.12.2004	31.12.2003
a) loans	33 615 124	30 779 684
b) purchased receivables	104 596	123 940
c) realized guarantees and sureties	7 741	9 932
d) other amounts due, including:	-	-
- amounts due related to contribution to interest on loans with preferential terms	-	-
e) interest	2 995 255	2 618 478
- accrued	2 893 122	2 497 074
- due, not received	102 133	121 404
Total gross amounts due from the non-financial sector	**36 722 716**	**33 532 034**
f) provisions for amounts due from the non-financial sector (negative value)	(2 363 883)	(2 496 752)
Total net amounts due from the non-financial sector	**34 358 833**	**31 035 282**

As at 31 December 2004 and 31 December 2003 the Bank did not have any leasing receivables.

As at 31 December 2004 and 31 December 2003 the Bank did not have any non interest bearing receivables.

Note 3B

GROSS AMOUNTS DUE FROM THE NON-FINANCIAL SECTOR (BY MATURITY)	31.12.2004	31.12.2003
a) current accounts	4 985 423	4 808 417
b) term (by period remaining to maturity):	28 742 038	26 105 139
- within 1 month	639 754	515 668
- from 1 month to 3 months	1 093 632	1 025 814
- from 3 months to 1 year	4 019 765	3 249 262
- from 1 year to 5 years	9 418 607	8 316 759
- over 5 years	11 234 094	9 601 963
- amounts due but not received	2 336 186	3 395 673
c) interest	2 995 255	2 618 478
- accrued	2 893 122	2 497 074
- due, not received	102 133	121 404
Total gross amounts due from the non-financial sector	**36 722 716**	**33 532 034**

Note 3C

GROSS AMOUNTS DUE FROM THE NON-FINANCIAL SECTOR (BY ORIGINAL MATURITY)	31.12.2004	31.12.2003
a) current accounts	4 985 423	4 808 417
b) term (by original maturity):	28 742 038	26 105 139
- within 1 month	337 655	391 931
- from 1 month to 3 months	44 001	49 042
- from 3 months to 1 year	1 945 868	1 945 334
- from 1 year to 5 years	8 302 884	7 161 805

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- over 5 years	18 111 630	16 557 027
c) interest	2 995 255	2 618 478
- accrued	2 893 122	2 497 074
- due, not received	102 133	121 404
Total gross amounts due from the non-financial sector	**36 722 716**	**33 532 034**

Note 3D

GROSS AMOUNTS DUE FROM THE NON-FINANCIAL SECTOR (BY CURRENCY)	**31.12.2004**	**31.12.2003**
a) in PLN	30 287 220	26 473 172
b) in foreign currencies (by currency and PLN equivalent)	6 435 496	7 058 862
b1. Unit/currency 787/USD ths	274 344	388 066
PLN ths	820 398	1 451 561
b3. Unit/currency 797/CHF ths	1 151 281	644 359
PLN ths	3 041 800	1 951 183
b4. Unit/currency 978/EUR ths	630 865	775 094
PLN ths	2 573 298	3 656 118
b5. other currencies (PLN ths)	-	-
Total gross amounts due from the non-financial sector	**36 722 716**	**33 532 034**

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Note 3E

GROSS AMOUNTS DUE FROM THE NON-FINANCIAL SECTOR	31.12.2004	31.12.2003
1. Amounts classified as normal	27 492 050	24 988 137
2. Amounts classified as watch	2 652 099	1 296 263
3. Irregular amounts:	3 583 312	4 629 156
a) substandard	471 106	794 163
b) doubtful	369 609	686 577
c) lost	2 742 597	3 148 416
4. Interest:	2 995 255	2 618 478
a) accrued	2 893 122	2 497 074
b) due, not received	102 133	121 404
- on amounts classified as normal and watch	9 346	7 955
- on amounts classified as irregular	92 787	113 449
Total gross amounts due from the non-financial sector	**36 722 716**	**33 532 034**

Note 3F

VALUE OF COLLATERAL LOWERING AMOUNTS DUE FROM THE NON-FINANCIAL SECTOR USED FOR CALCULATION OF SPECIFIC PROVISIONS	31.12.2004	31.12.2003
a) normal	-	-
b) watch	706 769	546 653
c) irregular	774 448	1 434 407
- substandard	202 631	338 712
- doubtful	193 609	438 164
- lost	378 208	657 531
Total value of collateral lowering amounts due from the non-financial sector used for calculation of specific provisions	**1 481 217**	**1 981 060**

Note 3G

PROVISIONS FOR AMOUNTS DUE FROM THE NON-FINANCIAL SECTOR	31.12.2004	31.12.2003
a) normal	-	-
b) watch	14 736	9 724
c) irregular	2 349 147	2 487 028
- substandard	37 796	61 943
- doubtful	81 169	106 869
- lost	2 230 182	2 318 216
Total provisions for amounts due from the non-financial sector	**2 363 883**	**2 496 752**

Note 3H

CHANGE IN PROVISIONS FOR AMOUNTS DUE FROM THE NON-FINANCIAL SECTOR	01.01 - 31.12.2004	01.01. - 31.12.2003
1. Provisions for amounts due from the non-financial sector at the beginning of the period	2 496 752	2 437 286
a) increase (by title)	965 276	1 123 648
- creation of specific provisions against the profit and loss account	965 276	1 123 648
b) realization (by title)	(221 786)	(81 349)
- coverage with provision	(221 786)	(81 349)

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c) release (by title)	(876 359)	(982 833)
- release of provisions	(876 359)	(982 833)
2. Provisions for amounts due from the non-financial sector at the end of the period	2 363 883	2 496 752
3. Required upon regulations level of provisions for amounts due from the non-financial sector at the end of the period	2 347 545	2 496 752

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Note 4A

AMOUNTS DUE FROM THE PUBLIC SECTOR (BY TYPE)	31.12.2004	31.12.2003
a) loans	6 793 405	7 211 041
b) purchased receivables	7 224	6 209
c) realized guarantees and sureties	-	-
d) other amounts due, including:	-	-
- other amounts due from the public sector	-	-
e) interest	64 634	34 683
- accrued	64 375	34 477
- due, not received	259	206
Total gross amounts due from the public sector	**6 865 263**	**7 251 933**
f) provisions for amounts due from the public sector (negative value)	(13 034)	(8 751)
Total net amounts due from the public sector	**6 852 229**	**7 243 182**

As at 31 December 2004 and 31 December 2003 the Bank did not have any non interest bearing receivables.

Note 4B

GROSS AMOUNTS DUE FROM THE PUBLIC SECTOR (BY MATURITY)	31.12.2004	31.12.2003
a) current accounts	19 572	24 091
b) term (by period remaining to maturity):	6 781 057	7 193 159
- within 1 month	43 999	36 935
- from 1 month to 3 months	80 538	44 291
- from 3 months to 1 year	1 971 935	2 163 056
- from 1 year to 5 years	3 609 141	3 750 430
- over 5 years	995 582	1 114 804
- amounts due but not received	79 862	83 643
c) interest	64 634	34 683
- accrued	64 375	34 477
- due, not received	259	206
Total gross amounts due from the public sector	**6 865 263**	**7 251 933**

Note 4C

GROSS AMOUNTS DUE FROM THE PUBLIC SECTOR (BY ORIGINAL MATURITY)	31.12.2004	31.12.2003
a) current accounts	19 572	24 091
b) term (by original maturity):	6 781 057	7 193 159
- within 1 month	-	7 167
- from 1 month to 3 months	6 776	6 827
- from 3 months to 1 year	1 673 875	1 889 413
- from 1 year to 5 years	3 316 164	3 592 581
- over 5 years	1 784 242	1 697 171
c) interest	64 634	34 683
- accrued	64 375	34 477

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- due, not received	259	206
Total gross amounts due from the public sector	**6 865 263**	**7 251 933**

Note 4D

GROSS AMOUNTS DUE FROM THE PUBLIC SECTOR (BY CURRENCY)	**31.12.2004**	**31.12.2003**
a) in PLN	6 835 712	7 195 344
b) in foreign currencies (by currency and PLN equivalent)	29 551	56 589
b1. Unit/currency 787/USD ths	2 066	2 345
PLN ths	6 178	8 772
b2. Unit/currency 797/CHF ths	51	233
PLN ths	135	708
b3. Unit/currency 978/EUR ths	5 697	9 987
PLN ths	23 238	47 109
b4. other currencies (PLN ths)	-	-
Total gross amounts due from the public sector	**6 865 263**	**7 251 933**

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Note 4E

GROSS AMOUNTS DUE FROM THE PUBLIC SECTOR	31.12.2004	31.12.2003
1. Amounts classified as normal	6 757 542	7 187 423
2. Amounts classified as watch	2 678	192
3. Irregular amounts:	40 409	29 635
a) substandard	26 214	4 834
b) doubtful	7 986	18 544
c) lost	6 209	6 257
4. Interest:	64 634	34 683
a) accrued	64 375	34 477
b) due, not received	259	206
- on amounts classified as normal and watch	253	203
- on amounts classified as irregular	6	3
Total gross amounts due from the public sector	**6 865 263**	**7 251 933**

Note 4F

VALUE OF COLLATERAL LOWERING AMOUNTS DUE FROM THE PUBLIC SECTOR USED FOR CALCULATION OF SPECIFIC PROVISIONS	31.12.2004	31.12.2003
a) normal	-	-
b) watch	737	-
c) irregular	6 358	16 746
- substandard	2 560	2 171
- doubtful	3 798	14 527
- lost	-	48
Total value of collateral lowering amounts due from the public sector used for calculation of specific provisions	**7 095**	**16 746**

Note 4G

PROVISIONS FOR AMOUNTS DUE FROM THE PUBLIC SECTOR	31.12.2004	31.12.2003
a) normal	-	-
b) watch	-	-
c) irregular	13 034	8 751
- substandard	4 731	533
- doubtful	2 094	2 009
- lost	6 209	6 209
Total provisions for amounts due from the public sector	**13 034**	**8 751**

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Note 4H

CHANGE IN PROVISIONS FOR AMOUNTS DUE FROM THE PUBLIC SECTOR	**01.01 - 31.12.2004**	**01.01. - 31.12.2003**
1. Provisions for amounts due from the public sector at the beginning of the period	8 751	7 273
a) increase (by title)	13 276	5 982
- creation of specific provisions against the profit and loss account	13 276	5 982
b) realization (by title)	(799)	-
- coverage with provision	(799)	-
c) release (by title)	(8 194)	(4 504)
- release of provisions	(8 194)	(4 504)
2. Provisions for amounts due from the public sector at the end of the period	13 034	8 751
3. Required upon regulations level of provisions for amounts due from the public sector at the end of the period	13 034	8 751

Note 5

REVERSE REPO TRANSACTIONS	**31.12.2004**	**31.12.2003**
a) with the financial sector		280 997
b) with the non-financial sector	-	-
c) with the public sector	-	-
d) interest		2 716
Total reverse repo transactions	**-**	**283 713**

Note 6A

DEBT SECURITIES	**31.12.2004**	**31.12.2003**
a) issued by central banks, including:	3 768 909	2 826 890
- bonds in foreign currencies	-	-
b) issued by other banks, including:	105 107	-
- in foreign currencies	105 107	-
c) issued by other financial institutions, including:	70 788	89 294
- in foreign currencies	-	-
d) issued by non-financial institutions, including:	445 959	754 875
- in foreign currencies	-	-
e) issued by State Treasury, including:	19 073 060	25 085 350
- in foreign currencies	652 457	44 350
f) issued by local authorities, including:	675 696	831 016
- in foreign currencies	-	-
g) repurchased own debt securities	-	-
Total debt securities	**24 139 519**	**29 587 425**

Note 6B

DEBT SECURITIES (BY TYPE)	**31.12.2004**	**31.12.2003**
1. Issued by State Treasury, including:	19 073 060	25 085 350

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a) bonds	16 735 829	20 030 773
b) Treasury bills	2 337 231	5 054 577
c) other (by type):	-	-
2. Issued by parent entity, including:	-	-
a) bonds	-	-
b) other (by type):	-	-
3. Issued by significant investor, including:	-	-
a) bonds	-	-
b) other (by type):	-	-
4. Issued by subsidiaries, including:	70 788	89 294
a) bonds	65 951	87 352
b) bills of exchange	4 837	1 942
5. Issued by joint-ventures, including:	-	-
a) bonds	-	-
b) other (by type):	-	-
6. Issued by associates, including:	-	-
a) bonds	-	-
b) other (by type):	-	-
7. Issued by other entities, including:	4 995 671	4 412 781
a) bonds	1 084 974	991 469
b) other (by type):	3 910 697	3 421 312
- money-market bills	1 127 839	180 443
- commercial bills	-	-
- bills of exchange	141 788	594 422
- NBP bonds	2 641 070	2 646 447
Total debt securities	**24 139 519**	**29 587 425**

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Note 6C

CHANGE IN DEBT SECURITIES	**01.01 - 31.12.2004**	**01.01. - 31.12.2003**
Balance at the beginning of the period	29 587 425	28 083 600
- adjustments due to changes in accounting policies	-	-
Adjusted balance at the beginning of the period	29 587 425	28 083 600
a) increase (by title)	122 975 195	96 599 113
- purchase	116 732 944	93 060 596
- take-over	4 400 810	128 861
- accrued interest	924 113	562 718
- amortization of discount	802 865	633 028
- foreign exchange differences	1 153	188
- reclassification	-	2 212 058
- revaluation	103 229	1 450
- other increase	10 081	214
b) decrease (by title)	(128 423 101)	(95 095 288)
- sale	(102 807 875)	(59 561 427)
- redemption	(25 351 329)	(32 783 113)
- foreign exchange differences	(60 923)	(836)
- amortization of premium	(112 022)	(51 777)
- revaluation	(36 969)	(411 263)
- interest due	(53 946)	(63 784)
- reclassification	-	(2 221 857)
- other decrease	(37)	(1 231)
Debt securities at the end of the period	**24 139 519**	**29 587 425**

Note 7A

INVESTMENTS IN SUBSIDIARIES	**31.12.2004**	**31.12.2003**
a) in banks	94 641	-
b) in other institutions from the financial sector	131 976	110 260
c) in institutions from the non-financial sector	252 918	191 119
Total investments in subsidiaries	**479 535**	**301 379**

Note 7B

CHANGE IN INVESTMENTS IN SUBSIDIARIES	**01.01 - 31.12.2004**	**01.01. - 31.12.2003**
Balance at the beginning of the period	301 379	193 444
- adjustments due to changes in accounting policies	-	-
Adjusted balance at the beginning of the period	301 379	193 444
a) increase (by title)	216 727	207 107
- purchase of shares	128 118	75 765
- take up of shares in the increased share capital	-	51 300
- contributions to capital	9 470	40 560

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- increase in assets value	-	-
- increase due to Bank's share in net profit of a company	79 051	19 196
- negative goodwill	88	3 912
- other	-	16 374
b) decrease (by title)	(38 571)	(99 172)
- sale of shares	-	-
- decrease in assets value	(1 200)	(2 300)
- decrease due to Bank's share in net loss of a company	(2 139)	(83 431)
- goodwill amortization	(21 536)	(13 441)
- other	(13 696)	-
Total investments in subsidiaries at the end of the period	**479 535**	**301 379**

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Note 7C

INVESTMENTS IN SUBSIDIARIES, INCLUDING:	**31.12.2004**	**31.12.2003**
- goodwill - subsidiaries	84 920	58 942
- negative goodwill - subsidiaries	-	-

Note 7D

CHANGE IN GOODWILL - SUBSIDIARIES	**01.01 - 31.12.2004**	**01.01. - 31.12.2003**
a) gross goodwill at the beginning of the period	118 100	65 178
b) increase (by title):	47 514	52 922
- purchase	47 514	52 922
c) decrease (by title)	-	-
d) gross goodwill at the end of the period	165 614	118 100
e) goodwill write-off at the beginning of the period	(59 158)	(45 717)
f) goodwill write-off over the period (by title)	(21 536)	(13 441)
- goodwill write-off	(21 536)	(13 441)
g) goodwill write-off at the end of period	(80 694)	(59 158)
h) net goodwill at the end of the period	84 920	58 942

Note 7E

CHANGE IN NEGATIVE GOODWILL - SUBSIDIARIES	**01.01 - 31.12.2004**	**01.01. - 31.12.2003**
a) gross negative goodwill at the beginning of the period	8 574	8 574
b) increase (by title)	88	-
- purchases	88	
c) decrease (by title)	-	-
d) gross negative goodwill at the end of the period	8 662	8 574
e) negative goodwill write-off at the beginning of the period	(8 574)	(4 662)
f) negative goodwill write-off over period (by title):	(88)	(3 912)
- share in net loss	(88)	(3 912)
g) negative goodwill write-off at the end of period	(8 662)	(8 574)
h) net negative goodwill at the end of the period	-	-

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Note 8A

INVESTMENTS IN JOINT-VENTURES	31.12.2004	31.12.2003
a) in banks	-	-
b) in other institutions from the financial sector	24 960	30 379
c) in institutions from the non-financial sector	18 080	13 740
Total investments in joint-ventures	**43 040**	**44 119**

Note 8B

CHANGE IN INVESTMENTS IN JOINT-VENTURES	01.01 - 31.12.2004	01.01. - 31.12.2003
Balance at the beginning of the period	44 119	47 571
- adjustments due to changes in accounting policies	-	-
Adjusted balance at the beginning of the period	44 119	47 571
a) increase (by title)	4 339	13 325
- purchase of shares	-	-
- take up of shares in the increased share capital	-	-
- increase in assets value	-	-
- increase due to Bank's share in net profit of a company	4 339	13 325
- negative goodwill	-	-
- other	-	-
b) decrease (by title)	(5 418)	(16 777)
- sale of shares	-	-
- decrease in assets value	-	-
- decrease due to Bank's share in net loss of a company	(5 418)	(403)
- purchase of additional shares in a company and valuation under full method		(16 374)
Total investments in joint-ventures at the end of the period	**43 040**	**44 119**

Note 8C

INVESTMENTS IN JOINT-VENTURES, INCLUDING:	31.12.2004	31.12.2003
- goodwill - joint-ventures	-	-
- negative goodwill - joint-ventures	-	-

Note 8D

CHANGE IN GOODWILL IN JOINT-VENTURES	01.01 - 31.12.2004	01.01. - 31.12.2003
a) gross goodwill at the beginning of the period	-	-
b) increase (by title)	-	-
c) decrease (by title)	-	-
d) gross goodwill at the end of the period	-	-
e) goodwill write-off at the beginning of the period	-	-
f) goodwill write-off over period	-	-
g) goodwill write-off at the end of period	-	-
h) net goodwill at the end of the period	-	-

Note 8E

CHANGE IN NEGATIVE GOODWILL - JOINT VENTURES	01.01 - 31.12.2004	01.01. - 31.12.2003
a) gross negative goodwill at the beginning of the period	-	-

b) increase (by title)	-	-
c) decrease (by title)	-	-
d) gross negative goodwill at the end of the period	-	-
e) negative goodwill write-off at the beginning of the period	-	-
f) negative goodwill write-off over period	-	-
g) negative goodwill write-off at the end of period	-	-
h) net negative goodwill at the end of the period	-	-

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Note 9A

INVESTMENTS IN ASSOCIATES	31.12.2004	31.12.2003
a) in banks	133 820	-
b) in other institutions from the financial sector	1 532	-
c) in institutions from the non-financial sector	243	214
Total investments in associates	**135 595**	**214**

Note 9B

CHANGE IN INVESTMENTS IN ASSOCIATES	01.01 - 31.12.2004	01.01. - 31.12.2003
Balance at the beginning of the period	214	327
- adjustments due to changes in accounting policies	-	-
Adjusted balance at the beginning of the period	214	327
a) increase (by title)	150 759	4 600
- purchase of shares	146 500	-
- take up of shares in the increased share capital	-	4 600
- increase in assets value	-	-
- increase due to Bank's share in net profit of a company	2 795	-
- negative goodwill	-	-
- other	1 464	-
b) decrease (by title)	(15 378)	(4 713)
- sale of shares	-	-
- decrease in assets value	-	(4 691)
- decrease due to Bank's share in net loss of a company	-	(22)
- goodwill amortization	(15 378)	-
- arising of reserves	-	
- other	-	-
Total investments in associates at the end of the period	**135 595**	**214**

Note 9C

INVESTMENTS IN ASSOCIATES	31.12.2004	31.12.2003
- goodwill - associates	95 348	-
- negative goodwill - associates	-	-

Note 9D

CHANGE IN GOODWILL IN ASSOCIATES	01.01 - 31.12.2004	01.01. - 31.12.2003
a) gross goodwill at the beginning of the period	-	-
b) increase (by title)	110 726	-
- purchase	110 726	-
c) decrease (by title)	-	-
d) gross goodwill at the end of the period	110 726	-
e) goodwill write-off at the beginning of the period	-	-
f) goodwill write-off over period	(15 378)	-
- goodwill write-off	(15 378)	-
g) goodwill write-off at the end of period	(15 378)	-

h) net goodwill at the end of the period	**95 348**	**-**

Note 9E

CHANGE IN NEGATIVE GOODWILL - ASSOCIATES	**01.01 - 31.12.2004**	**01.01. - 31.12.2003**
a) gross negative goodwill at the beginning of the period	-	-
b) increase	-	-
c) decrease	-	-
d) gross negative goodwill at the end of the period	-	-
e) negative goodwill amortization at the beginning of the period	-	-
f) negative goodwill amortization over period	-	-
g) negative goodwill amortization at the end of period	-	-
h) net negative goodwill at the end of the period	**-**	**-**

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Note 10A

INVESTMENT IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES AS AT 31 December 2004

No.	a	b	c	d	e	f	g	h	i	j	k	l
	Name of the entity (with indication of its legal form)	Registered office	Core activity	Character of capital relation	Consolidation method /equity pick-up method, or indication that the entity is not consolidated / valued under equity pick-up method	Date of acquiring the control / significant influence	Value of shares at purchase price	Total revaluation adjustments	Book value of shares	Percent of owned share capital	Share in total number of votes at General Shareholders Meeting	Indication of other than described in letters j or k basis for control / joint control / significant influence
1	PTE BANKOWY S.A.	Warsaw	Pension fund management	subsidiary	equity pick-up method	year 1998 2003	205 786	(110 835)	94 951	100.00%	100.00%	-
2	Centrum Finansowe Puławska Sp. z o.o.	Warsaw	Construction and development of premises	subsidiary	equity pick-up method	year 1995	128 288	71 572	199 860	100.00%	100.00%	-
3	Kredyt Bank (Ukraina) S.A.	Lwow, Ukraina	Financial Services	subsidiary	equity pick-up method	year 2004	109 093	(14 452)	94 641	66.651%	66.651%	-
4	PKO Inwestycje Sp. z o.o.	Warsaw	Real estate	subsidiary	equity pick-up method	year 1989	60 403	(23 953)	36 450	100.00%	100.00%	-
5	Inteligo Financial Services S.A.	Warsaw	Financial Services	subsidiary	equity pick-up method	year 2002	59 602	(42 994)	16 608	100.00%	100.00%	-
6	Centrum Elektronicznych Usług Platniczych "eService" S.A.	Warsaw	Cash intermediation	subsidiary	equity pick-up method	year 1999	55 500	(55 500)	-	100.00%	100.00%	-
7	Bankowy Fundusz Leasingowy S.A.	Warsaw	Leasing	subsidiary	equity pick-up method	year 1999	30 000	(12 735)	17 265	100.00%	100.00%	-
8	Dom Maklerski BROKER S.A.	Warsaw	Financial Services	subsidiary	equity pick-up method	year 2004	18 566	1 194	19 760	100.00%	100.00%	-
9	PKO Towarzystwo Finansowe Sp. z o.o. (in liquidatoin)	Gdansk	Financial Services	subsidiary	equity pick-up method	year 1998	12 670	(12 670)	-	100.00%	100.00%	-
10	International Trade Center Sp. z o.o. (in liquidation)	Warsaw	Construction of buildings for commercial services	subsidiary	equity pick-up method	year 1989	33	(33)	-	65.00%	65.00%	-
11	Przedsiebiorstwo Informatyki Bankowej Elbank Sp. z o.o. (in liquidation)	Warsaw	Development and servicing of banking cards systems	subsidiary	equity pick-up method	year 1989	6	(6)	-	100.00%	100.00%	-
12	PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.	Warsaw	Pension fund management	joint venture	equity pick-up method	year 1997	14 000	10 960	24 960	50.00%	50.00%	-
13	Wawel Hotel Development Sp. z o.o.	Krakow	Hotels	joint venture	equity pick-up method	year 2001	13 865	4 215	18 080	35.40%	35.40%	-
14	Bank Pocztowy S.A.	Bydgoszcz	Banking	associate	equity pick-up method	year 2004	146 500	(12 680)	133 820	25.0001%	25.0001%	-
15	Kolej Gondolowa Jaworzyna Krynicka S.A.	Krynica	Construction and utilisation of gondola railway	associate	equity pick-up method	year 1995	15 531	(15 531)	-	38.23%	37.03%	-
16	Ekogips S.A. (in bancruptcy)	Warsaw	Production of building materials	associate	equity pick-up method	year 1998	5 400	(5 400)	-	60.26%	23.53%	-
17	Poznanski Fundusz Poręczen Kredytowych Sp. z o.o.	Poznan	Sureties under civil and bills of exchange law	associate	equity pick-up method	year 1989	1 500	31	1 531	33.33%	33.33%	-
18	Hotel Jan III Sobieski Sp. z o.o.	Warsaw	Construction and utilisation of Jan III Sobieski hotel	associate	equity pick-up method	year 1989	522	(522)	-	32.50%	32.50%	-
19	Agencja Inwestycyjna "CORP" S.A.	Warsaw	Manufacturing, trade and servicing activities on real estate investments market	associate	equity pick-up method	year 1996	29	215	244	22.31%	22.31%	-
	TOTAL						**877 294**	**(219 124)**	**658 170**			

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Note 10B

INVESTMENT IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES AS AT 31 December 2004 cont.

	a	m								n			o			p	r	s	t
No.	Entity's name	Shareholders equity, including:	Share capital	Unpaid capital (negative value)	Reserve capital	Other reserve capital including:	Revaluation Capital	Retained profit (loss)	Net profit (loss)	Liabilities of the entity, including:	Short - term	Long - term	Receivables of the entity, including:	Short - term	Long - term	Total assets of the entity	Sales income***	Unpaid by the issuer value of shares	Received or due dividends / shares in results for the last financial year
1	PTE BANKOWY S.A.	54 377	260 000	-	-	(205 623)	120	(228 385)	22 642	3 628	3 628	-	3 821	2 825	996	59 748	52 766	-	-
2	Centrum Finansowe Pulawska Sp. z o.o.	199 860	78 808	-	449	120 603	-	71 277	47 922	135 121	24 583	110 538	6 139	6 139	0	334 025	73 018	-	-
3	Kredyt Bank (Ukraina) S.A.	75 459	80 991	-	-	(5 532)		(11 972)	5 039	666 315	571 204	95 111	640 349	422 234	218 115	743 738	106 113		
4	PKO Inwestycje Sp. z o.o.	49 356	4 500	-	221	44 635	-	(12 306)	1 041	6 533	864	5 669	1 340	1 340	-	55 889	11 388	-	-
5	Inteligo Financial Services S.A.	16 608	99 528	-	32 786	(115 706)	-	(129 073)	13 367	22 176	17 009	5 167	11 534	11 524	10	51 410	43 842	-	-
6	Centrum Elektronicznych Uslug Platniczych "eService" S.A.	(3 889)	56 000	-	-	(59 889)	-	(58 273)	(1 616)	37 420	8 481	28 939	7 692	6 335	1 357	33 774	40 577	-	-
7	Bankowy Fundusz Leasingowy S.A.	19 762	30 000	-	-	(10 238)	-	(13 733)	3 495	538 020	263 338	274 682	37 953	21 550	16 403	557 869	64 166	-	-
8	Dom Maklerski BROKER S.A.	19 760	21 244	-	-	(1 484)	2	(570)	(916)	6 961	6 961	-	4 943	4 943	-	26 721	6 745		
9	PKO Towarzystwo Finansowe Sp. z o.o. (in liquidation) ***	779	1 592	-	-	(813)	-	-	(813)	-	-	-	-	-	-	779	-	-	-
10	International Trade Center Sp. z o.o. (in liquidation) *	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Przedsiebiorstwo Informatyki Bankowej Elbank Sp. z o.o. (in liquidation) *	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.	49 920	18 000	-	5 084	26 836	-	1	26 835	6 575	6 575	-	8 838	8 103	735	57 329	71 955	-	18 837
13	Wawel Hotel Development Sp. z o.o.	51 074	39 167	-	172	11 735	-	(523)	12 258	122 039	6	122 033	2 341	1 753	588	176 443	21 608	-	-
14	Bank Pocztowy S.A.	153 888	97 290		13 616	42 982	1 501	(3 750)	18 361	1 995 995	1 418 061	577 934	1 621 325	929 715	691 610	2 273 065	140 268		
15	Kolej Gondolowa Jaworzyna Krynicka S.A	25 783	40 627	-	-	(14 844)	-	(17 086)	2 236	11 222	3 686	7 536	212	212	-	37 099	9 848	-	-
16	Ekogips S.A. (in bankruptcy) *	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Poznanski Fundusz Poreczen Kredytowych Sp. z o.o.	4 595	4 500	-	226	(131)	-	(217)	86	7	7	-	105	105	-	4 627	84	-	-
18	Hotel Jan III Sobieski Sp. z o.o.	(154 005)	864	-	25 025	(179 894)	371	(230 239)	49 974	287 560	5 033	282 527	11 226	2 783	8 443	135 760	53 048	-	-
19	Agencja Inwestycyjna "CORP" S.A.	1 092	501	-	167	424	-	-	418	2 823	2 823	-	1 097	1 016	81	4 373	17 017	-	58

* Regarding subsidiaries being under liquidation or bankruptcy - lack of data(except PKO Towarzystwo Finansowe SP. z o.o.)

**For Kredyt Bank Ukraina and Bank Pocztowy - banking activities result

***Amount of payables, receivables, assets and income from sales as at 20 December 2004.

PKO BP SA SAB-R 31 December 2004 PLN thousand

Note 10C

INVESTMENT IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES AS AT 31 December 2004

No.	a	b	c	d	e	f	g	h	i	j	k	l
	Name of the entity (with indication of its legal form)	Registered office	Core activity	Character of capital relation	Consolidation method /equity pick-up method, or indication that the entity is not consolidated / valued under equity pick-up method	Date of acquiring the control / significant influence	Value of shares at purchase price	Total revaluation adjustments	Book value of shares	Percent of owned share capital	Share in total number of votes at General Shareholders Meeting	Indication of other than described in letters j or k basis for control / joint control / significant influence
1	Bankowy Fundusz Leasingowy S.A.	Lodz	Leasing	subsidiary	equity pick-up method	year 1999	30 000	(11 254)	18 746	100.00%	100.00%	-
2	PKO/Handlowy Powszechne Towarzystwo Emerytalne S.A.	Warsaw	Pension fund management	subsidiary	equity pick-up method	year 1998 year 2003	205 765	(115 757)	90 008	100.00%	100.00%	-
3	PKO Towarzystwo Finansowe Sp. z o.o.	Gdansk	Financial Services	subsidiary	equity pick-up method	year 1998	11 470	(11 470)	-	100.00%	100.00%	-
4	Poznanski Fundusz Poreczen Kredytowych Sp. z o.o.	Poznan	Sureties under civil and bills of exchange law	subsidiary	equity pick-up method	year 1989	1 500	6	1 506	75.00%	75.00%	-
5	Centrum Finansowe Pulawska Sp. z o.o.	Warsaw	Construction and development of premises	subsidiary	equity pick-up method	year 1995	128 288	31 434	159 722	100.00%	100.00%	
6	Centrum Elektronicznych Uslug Platniczych "eService" S.A.	Warsaw	Cash intermediation	subsidiary	equity pick-up method	year 1999	55 500	(55 500)	-	100.00%	100.00%	-
7	Inteligo Financial Services S.A.	Warsaw	Usługi finansowe	subsidiary	equity pick-up method	year 2002	59 601	(56 360)	3 241	100.00%	100.00%	-
8	International Trade Center Sp. z o.o. (in liquidation)	Warsaw	Construction of buildings for commercial services	subsidiary	equity pick-up method	year 1989	33	(33)	-	65.00%	65.00%	-
9	PKO Inwestycje Sp. z o.o.	Warsaw	Real estate	subsidiary	equity pick-up method	year 1989	52 133	(23 977)	28 156	100.00%	100.00%	-
10	Przedsiebiorstwo Informatyki Bankowej Elbank Sp. z o.o. (in liquidation)	Warsaw	Development and servicing of banking cards systems	subsidiary	equity pick-up method	year 1989	6	(6)	-	100.00%	100.00%	-
11	PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.	Warsaw	Pension fund management	joint venture	equity pick-up method	year 1997	14 000	16 379	30 379	50.00%	50.00%	-
12	Wawel Hotel Development Sp. z o.o.	Krakow	Hotels	joint venture	equity pick-up method	year 2001	13 865	(125)	13 740	35.40%	35.40%	-
13	Agencja Inwestycyjna "CORP" S.A.	Warsaw	Manufacturing, trade and servicing activities on real estate investments market	associate	equity pick-up method	year 1996	29	185	214	22.31%	22.31%	-
14	Ekogips S.A. (in bankruptcy)	Warsaw	Production of building materials	associate	equity pick-up method	year 1998	5 400	(5 400)	-	60.26%	23.53%	-
15	Hotel Jan III Sobieski Sp. z o.o.	Warsaw	Construction and utilisation of Jan III Sobieski hotel	associate	equity pick-up method	year 1989	522	(522)	-	32.50%	32.50%	-
16	Kolej Gondolowa Jaworzyna Krynicka S.A.	Krynica	Construction and utilisation of gondola railway	associate	equity pick-up method	year 1995	15 531	(15 531)	-	38.64%	37.22%	-
17	Wroclawskie Zintegrowane Centrum Logistyczne S.A. (in liquidation)	Wroclaw	Domestic and international transport services	associate	equity pick-up method	year 2000	200	(200)	-	12.73%	21.65%	-
	TOTAL						**593 843**	**(248 131)**	**345 712**			

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Note 10D

INVESTMENT IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES AS AT 31 December 2003 cont.

No.	a	m								n			o			p	r	s	t
	Name of the entity (with indication of its legal form)	Shareholders equity, including:	Share capital	Unpaid capital (negative value)	Reserve capital	Other reserve capital including:	Revaluation Capital	Retained profit (loss)	Net profit (loss)	Liabilities of the entity, including:	Short - term	Long - term	Receivables of the entity, including:	Short - term	Long - term	Total assets of the entity	Sales income****	Unpaid by the issuer value of shares	Received or due dividends / shares in results for the last financial year
1	Bankowy Fundusz Leasingowy S.A.	16 267	30 000	-	-	(13 733)	-	(14 179)	446	453 553	244 411	209 142	42 348	27 250	15 098	469 808	59 474	-	-
10	PKO/Handlowy Powszechne Towarzystwo Emerytalne S.A.	31 650	260 000	-	-	(228 350)	35	(227 510)	(875)	3 571	3 105	466	3 377	2 913	464	35 673	34 407	-	-
6	PKO Towarzystwo Finansowe Sp. z o.o.	1550***	2 850	-	-	(4 375)	-	-	(4 375)**	257	257	-	1 641	1 641	-	2 085	4 286	-	-
7	Poznanski Fundusz Poreczen Kredytowych Sp. z o.o.	2 009	2 000	-	226	(217)	-	(8)	(209)	14	13	1	127	117	10	2 114	51	-	-
	Centrum Finansowe Puławska Sp. z o.o.	151 938	78 808	-	449	72 681	-	(52 922)	23 829	131 302	22 482	108 820	6 788	3 708	3 080	357 227	82 525	-	8 000
4	Centrum Elektronicznych Uslug Platniczych "eService" S.A.	(2 273)	56 000	-	-	(58 273)	-	(50 260)	(8 012)	42 579	11 546	31 033	8 608	8 481	127	40 400	53 940	-	-
3	Inteligo Financial Services S.A.	3 231	99 528	-	32 785	(129 082)	-	(70 200)	(58 882)	14 145	13 874	271	4 126	4 097	29	17 337	20 438	-	-
8	International Trade Center Sp. z o.o. (in liquidation)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	PKO Inwestycje Sp. z o.o.	41 063	4 500	-	221	36 342	-	(9 655)	(1 634)	8 255	8 014	241	2 483	2 483	-	49 769	16 928	-	-
9	Przedsiebiorstwo Informatyki Bankowej Elbank Sp. z o.o. (in liquidation)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.	60 760	18 000	-	1 809	40 951	-	-	40 951	4 881	4 881	-	7 180	6 708	472	66 185	92 990	-	7 151
12	Wawel Hotel Development Sp. z o.o.	38 816	39 167	-	791	(1 142)	-	(623)	(519)	78 275	11 260	67 015	2 863	2 738	125	117 189	63	-	-
17	Agencja Inwestycyjna "CORP" S.A.	957	501	-	138	318	-	-	312	3 459	3 459	-	1 167	1 082	85	4 893	19 244	-	76
14	Ekogips S.A. (in bankruptcy)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Hotel Jan III Sobieski Sp. z o.o.	(203 979)	864	-	25 007	(229 850)	-	(187 684)	(42 555)	344 116	3 780	340 336	13 613	2 712	10 901	142 202	54 640	-	-
13	Kolej Gondolowa Jaworzyna Krynicka S.A	23 114	40 194	-	-	(17 080)	-	(17 355)	269	12 390	684	11 706	618	618	-	35 590	7 752	-	-
16	Wroclawskie Zintegrowane Centrum Logistyczne S.A. (in liquidation)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

* Regarding entities being under liquidation or bankruptcy - lack of data.

** Amount includes result of the subsidiary for the period from 1 January 2003 to 31 December 2003.

*** Amount of the capital includes result for the period from 8 August 2003 to 31 December 2003.

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Note 11A

SHARES IN OTHER ENTITIES	31.12.2004	31.12.2003
a) in institutions from the financial sector	131 179	90 357
b) in institutions from the non-financial sector	333 310	296 355
Total shares in other entities	**464 489**	**386 712**

Note 11B

CHANGE IN SHARES IN OTHER ENTITIES	01.01 - 31.12.2004	01.01. - 31.12.2003
Balance at the beginning of the period	386 712	286 527
- adjustments due to changes in accounting policies	-	-
Adjusted balance at the beginning of the period	386 712	286 527
a) increase (by title)	116 326	227 594
- purchase of shares	4 009	52 441
- take up of shares in the increased share capital	1 000	-
- take up of shares by conversion	-	13 361
- increase in assets value	110 954	143 161
- other	363	18 631
b) decrease (by title)	(38 549)	(127 409)
- sale of shares	(29 624)	(43 099)
- decrease in assets value	(1 572)	(84 278)
- other	(7 353)	(32)
Total shares in other entities at the end of the period	**464 489**	**386 712**

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Note 11C

SHARES IN OTHER FINANCIAL ENTITIES AT 31 DECEMBER 2004

No.	a	b	c	d	e	f	g		h	i
	Name of the entity (with indication of its legal form)	Registered office	Core activity	Book value of shares	Percent of owned share capital	Share in total number of votes at General Shareholders Meeting	Shareholders equity, including:	Share capital	Unpaid by the issuer value of shares	Received or due dividends / shares in results for the last financial year
1	Bank Handlowy S.A.**	Warsaw	Banking	91 421	1.09%	1.09%	5 999 292	522 638		2 639
2	MST CeTO S.A.**	Warsaw	OTC public turnover with securities	-	2.18%	2.18%	6 329	10 000	-	-
3	Krajowa Izba Rozliczeniowa S.A.*	Warsaw	Interbanking settlements	312	5.74%	5.74%	80 247	5 445	-	750
4	Towarzystwo Ubezpieczen na Zycie Warta Vita S.A. *	Warsaw	Insurance	-	4.55%	6.40%	23 026	88 000	-	-
5	Wschodni Bank Cukrownictwa S.A. ***	Lublin	Banking	39 147	25.13%	25.13%	178 779	200 191		
6	Inne			299						-
	Total			**131 179**						**3 389**

Note 11D

SHARES IN OTHER NON-FINANCIAL ENTITIES AT 31 DECEMBER 2004

No.	a	b	c	d	e	f	g		h	i
	Name of the entity (with indication of its legal form)	Registered office	Core activity	Book value of shares	Percent of owned share capital	Share in total number of votes at General Shareholders Meeting	Shareholders equity, including:	Share capital	Unpaid by the issuer value of shares	Received or due dividends / shares in results for the last financial year
1	Agro-Technika S.A.*	Zabki	Wholesale market and leasing	-	18.55%	6.35%	11 364	8 600	-	-
2	Biuro Informacji Kredytowej S.A.*	Warsaw	Credit scoring	2 325	14.96%	14.96%	19 074	15 550	-	-
3	KGHM Polska Miedz S.A.	Lublin	Metal industry	303 735	4.85%	4.85%	5 336 804	2 000 000	-	-
4	Stalexport S.A.	Katowice	Wholesale trade in metals and metal ores	20 543	7.11%	7.11%	(28 970)	215 524	-	-
5	Infomonitor Biuro Informacji Gospodarczej S.A.	Warsaw	Agency of ecenomic information release	-	12.05%	12.05%	4 761	4 000	-	-
6	ATM S.A.	Warsaw	Wholesale of machines and office gear	28	0.04%	0.04%	56 564	24 526		
6	Inne			6 679					-	-
	Total			**333 310**						-

* The value of shareholders' equity and share capital at 30 June 2004

** The value of shareholders' equity and share capital at 30 September 2004

*** The company was not classified to the category of subsidiaries, joint ventures or associates as the Bank does not influence the company to significant extent.

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Note 11E

SHARES IN OTHER FINANCIAL ENTITIES AT 31 DECEMBER 2003

No.	a	b	c	d	e	f	g		h	i
	Name of the entity (with indication of its legal form)	Registered office	Core activity	Book value of shares	Percent of owned share capital	Share in total number of votes at General Shareholders Meeting	Shareholders equity, including:		Unpaid by the issuer value of shares	Received or due dividends / shares in results for the last financial year
								Share capital		
1	Bank Handlowy S.A.	Warsaw	Banking	89 900	1.19%	1.19%	5 946 967	522 638		2 882
2	Centralna Tabela Ofert S.A.	Warsaw	OTC public turnover with securities	-	2.91%	2.91%	5 019	7 500	-	-
3	Krajowa Izba Rozliczeniowa S.A.	Warsaw	Interbanking settlements	313	5.74%	5.74%	74 702	5 445	-	1 438
4	Towarzystwo Ubezpieczen na Życie Warta Vita S.A.	Warsaw	Insurance	-	4.55%	6.40%	22 183	88 000	-	-
5	Wschodni Bank Cukrownictwa S.A.**	Lublin	Banking	-	25.13%	25.13%	109 980	200 191	-	-
6	Inne			144	-	-	-	-	-	-
	Total			**90 357**						**4 320**

Note 11F

SHARES IN OTHER NON-FINANCIAL ENTITIES AT 31 DECEMBER 2003

No.	a	b	c	d	e	f	g		h	i
	Name of the entity (with indication of its legal form)	Registered office	Core activity	Book value of shares	Percent of owned share capital	Share in total number of votes at General Shareholders Meeting	Shareholders equity, including:		Unpaid by the issuer value of shares	Received or due dividends / shares in results for the last financial year
								Share capital		
1	Agro-Technika S.A.	Zabki	Wholesale market and leasing	-	18.55%	6.35%	10 578	6 500	-	-
2	Biuro Informacji Kredytowej S.A.*	Warsaw	Credit scoring	1 685	14.95%	14.95%	12 243	15 550	-	-
3	KGHM Polska Miedz S.A.	Lubin	Metal industry	275 126	5.25%	5.25%	4 006 502	2 000 000	-	-
4	Stalexport S.A.	Katowice	Wholesale trade in metals and metal ores	13 702	7.10%	7.10%	(56 412)	215 524	-	-
5	Sniezka S.A.	Lubzina	Production of paints and lacquers	1 455	0.36%	0.32%	118 342	14 200	-	-
6	Inne			4 387					-	-
	Total			**296 355**						-

* The value of shareholders' equity and share capital have been published according to unverifiable financial data

** The company was not classified to the category of subsidiaries, joint ventures or associates as the Bank does not influence the company to significant extent.

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Note 12A

OTHER SECURITIES AND OTHER FINANCIAL ASSETS (BY TYPE)	31.12.2004	31.12.2003
a) drawing rights	-	-
b) derivative rights	-	-
c) other (by type)	1 365 456	261 453
- participation units in trust funds	-	-
- derivatives valuation	1 363 874	260 532
- fair value of embedded derivatives	1 582	921
Total other securities and other financial assets	**1 365 456**	**261 453**

Note 12B

CHANGE IN OTHER SECURITIES AND OTHER FINANCIAL ASSETS	01.01. - 31.12.2004	01.01. - 31.12.2003
Balance at the beginning of the period	261 453	616 414
- adjustments due to changes in accounting policies	-	-
Adjusted balance at the beginning of the period	261 453	616 414
a) increase (by type)	1 245 638	121 488
- valuation	1 245 638	121 488
b) decrease (by type)	(141 635)	(476 449)
- sale		(209 408)
- valuation	(141 635)	(267 041)
Total other securities and other financial assets at the end of the period	**1 365 456**	**261 453**

Note 12C

OTHER SECURITIES AND OTHER FINANCIAL ASSETS (BY CURRENCY)	31.12.2004	31.12.2003
a. in PLN	645 872	260 601
b. in foreign currencies (by currency and PLN equivalent)	719 584	852
b1. Unit/currency 787/USD ths	224 506	224
PLN ths	671 363	836
b2. Unit/currency 789/GBP ths	-	-
PLN ths	-	-
b3. Unit/currency 797/CHF ths	10 393	-
PLN ths	27 459	-
b4. Unit/currency 978/EUR ths	5 087	-
PLN ths	20 750	-
b5. other currencies (PLN ths)	12	16
Total other securities and other financial assets	**1 365 456**	**261 453**

Note 13A

FINANCIAL ASSETS	31.12.2004	31.12.2003
a) financial assets held for trading	5 202 092	4 943 976
b) loans granted and own receivables not available for trade	54 986 721	46 833 324
c) financial assets held to maturity	2 652 581	5 051 053
d) financial assets available for sale	21 605 296	24 331 761
Total financial assets	**84 446 690**	**81 160 114**

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Note 13B

FINANCIAL ASSETS (BY CURRENCY)	**31.12.2004**	**31.12.2003**
a. in PLN	67 631 236	70 234 733
b. in foreign currencies (by currency and PLN equivalent)	16 815 454	10 925 381
b1. Unit/currency 787/USD ths	3 273 215	1 096 488
PLN ths	9 788 222	4 101 412
b2. Unit/currency 789/GBP ths	45 260	32 695
PLN ths	261 146	218 031
b3. Unit/currency 797/CHF ths	1 250 830	646 592
PLN ths	3 304 818	1 957 946
b4. Unit/currency 978/EUR ths	845 526	982 607
PLN ths	3 448 901	4 634 957
b5. other currencies (PLN ths)	12 367	13 035
Total financial assets	**84 446 690**	**81 160 114**

Note 13C

FINANCIAL ASSETS HELD FOR TRADING (BY TRANSFERABILITY)	**31.12.2004**	**31.12.2003**
A. Unlimited transferability, listed on stock exchanges (book value)	213 460	294 894
a) shares (book value):	5 006	3 013
- fair value	5 006	3 013
- market value	5 006	3 013
- purchase cost	4 973	2 628
b) bonds (book value):	208 454	291 881
- fair value	208 454	291 881
- market value	208 454	291 881
- purchase cost	207 746	288 805
c) other by type (book value):	-	-
B. Unlimited transferability, listed on over-the-counter markets (book value)	369	249
a) shares (book value):	8	2
- fair value	8	2
- market value	8	2
- purchase cost	22	4
b) bonds (book value):	361	247
- fair value	361	247
- market value	361	247
- purchase cost	356	239
C. Unlimited transferability, not listed on regulated markets	3 622 807	4 387 380
a) other by type (book value):	3 622 807	4 387 380
a1) Treasury bills	132 302	579 893
- fair value	132 302	579 893
- market value	132 302	579 893
- purchase cost	132 216	579 134
a2) other	3 490 505	3 807 487

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- fair value	3 490 505	3 807 487
- market value	3 490 505	3 807 487
- purchase cost	3 490 505	3 807 487
D. Limited transferability (book value)	1 365 456	261 453
a) other by type (book value):	1 365 456	261 453
a1) participation units in trust funds	-	-
- fair value	-	-
- market value	-	-
- purchase cost	-	-
a2) derivatives valuation (book value)	1 365 456	261 453
- fair value	1 365 456	261 453
- market value	1 365 456	261 453
- purchase cost	1 365 456	261 453
Total purchase cost	**5 201 274**	**4 939 750**
Total value at the beginning of the period*	**4 943 976**	**5 886 447**
Total adjustments to value in the period*	**(889)**	**4 073**
Total book value	**5 202 092**	**4 943 976**

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Note 13D

FINANCIAL ASSETS HELD TO MATURITY (BY TRANSFERABILITY)	31.12.2004	31.12.2003
A. Unlimited transferability, listed on stock exchanges (book value)	1 893 017	3 830 980
a) bonds (book value):	1 893 017	3 821 074
- adjustments (in the period)	-	-
- value at the beginning of the period	3 821 074	2 209 763
- purchase cost	1 791 737	3 626 964
b) other by type (book value):	-	9 906
b1) Treasury bills (book value):	-	9 906
- adjustments (in the period)	-	-
- value at the beginning of the period	9 906	1 729 823
- purchase cost	-	9 493
B. Unlimited transferability, listed on over-the-counter market (book value)	-	-
C. Unlimited transferability, not listed on regulated markets (book value)	-	283 713
a) other by type (book value):	-	283 713
a1) money-market bills (book value):	-	-
- adjustments (in the period)	-	-
- value at the beginning of the period	-	3 979 680
- purchase cost	-	-
a2) treasury bills	-	-
- adjustments (in the period)	-	-
- value at the beginning of the period	-	-
- purchase cost	-	-
a3) reverse repo transactions	-	283 713
- adjustments (in the period)	-	-
- value at the beginning of the period	283 713	545 961
- purchase cost	-	280 997
D. Limited transferability (book value)	759 564	936 360
a) other by type (book value):	759 564	936 360
a1) money-market bills (book value):	-	-
- adjustments (in the period)	-	-
- value at the beginning of the period	-	-
- purchase cost	-	-
a2) NBP bonds (book value):	-	-
- adjustments (in the period)	-	-
- value at the beginning of the period	-	1 689 568
- purchase cost	-	-
a3) bonds denominated in USD (book value):	-	-
- adjustments (in the period)	-	-
- value at the beginning of the period	-	3 882
- purchase cost	-	-

a4) restructuring bonds (book value):	759 564	936 360
- adjustments (in the period)	-	-
- value at the beginning of the period	936 360	1 107 423
- purchase cost	757 355	934 101
Total purchase cost	**2 549 092**	**4 851 555**
Total value at the beginning of the period*	**5 051 053**	**11 266 100**
Total adjustments to value in the period*	-	-
Total book value	**2 652 581**	**5 051 053**

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Note 13E

FINANCIAL ASSETS AVAILABLE FOR SALE (BY TRANSFERABILITY)	31.12.2004	31.12.2003
A. Unlimited transferability, listed on stock exchanges (book value)	14 097 714	15 361 070
a) shares (book value):	415 640	379 612
- fair value	415 640	379 612
- market value	415 640	379 612
- purchase cost	349 978	377 953
b) bonds (book value):	13 682 074	14 981 458
- fair value	13 682 074	14 981 458
- market value	13 682 074	14 981 458
- purchase cost	13 245 885	14 556 950
c) other by type (book value):	-	-
B. Unlimited transferability, listed on over-the-counter markets (book value)	2 310 036	4 208 747
a) shares (book value):	-	-
- fair value	-	-
- market value	-	-
- purchase cost	-	-
b) other by type (book value):	2 310 036	4 208 747
b1) Treasury bills (book value):	2 204 929	4 177 818
- fair value	2 204 929	4 177 818
- market value	2 204 929	4 177 818
- purchase cost	2 175 119	4 094 504
b2) municipal bonds	-	30 929
- fair value	-	30 929
- market value	-	30 929
- purchase cost	-	30 486
b3) commercial bonds	105 107	-
- fair value	105 107	-
- market value	105 107	-
- purchase cost	110 820	-
C. Unlimited transferability, not listed on regulated markets (book value)	5 004 826	4 474 984
a) shares (book value):	43 835	4 085
- fair value	43 835	4 085
- market value	43 835	4 085
- purchase cost	70 972	70 007
b) other (by type) (book value):	4 960 991	4 470 899
b1) money-market bills	1 127 839	180 443
- fair value	1 127 839	180 443
- market value	1 127 839	180 443
- purchase cost	1 127 868	180 392
b2) NBP bonds	2 641 070	2 646 447
- fair value	2 641 070	2 646 447

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- market value	2 641 070	2 646 447
- purchase cost	2 522 220	2 522 220
b3) municipal bonds	675 335	799 840
- fair value	675 335	799 840
- market value	675 335	799 840
- purchase cost	670 777	799 231
b4) bills of exchange	146 625	596 364
- fair value	146 625	596 364
- market value	146 625	596 364
- purchase cost	168 612	616 572
b5) corporate bonds	370 122	247 805
- fair value	370 122	247 805
- market value	370 122	247 805
- purchase cost	371 662	267 574
D. Limited transferability (book value)	192 720	286 960
a) shares (book value):	-	-
- fair value	-	-
- market value	-	-
- purchase cost	-	-
b) other by type (book value):	192 720	286 960
b1) treasury bills serving as collateral for BFG (book value):	-	286 960
- fair value	-	286 960
- market value	-	286 960
- purchase cost	-	274 312
b2) treasury bills BFG (book value):	192 720	-
- fair value	192 720	-
- market value	192 720	-
- purchase cost	182 400	-
Total purchase cost	**20 996 313**	**23 790 201**
Total value at the beginning of the period*	**24 331 761**	**17 132 331**
Total adjustments to value in the period*	**221 745**	**(396 444)**
Total book value	**21 605 296**	**24 331 761**

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Note 14A

INTANGIBLE ASSETS	**31.12.2004**	**31.12.2003**
a) research and development costs	-	-
b) goodwill	-	-
c) concessions, patents, licenses and similar items, including:	124 069	124 475
- computer software	124 069	124 475
d) other intangible assets	8 969	3 532
e) prepayments for intangible assets	251 007	135 316
Total intangible assets	**384 045**	**263 323**

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Note 14B

MOVEMENTS IN INTANGIBLE FIXED ASSETS IN 2004 (by type)

	a	b	c		d	e	
	research and development costs	goodwill	concessions, patents, licences and other similar items, including:	computer software	other intangible fixed assets	prepayments for intagible fixed assets	Total intangible fixed assets
a) gross value of intangible fixed assets at the beginning of the period	-	32	475 122	475 122	6 460	135 316	616 930
b) increase (by title):	-	-	132 722	132 722	9 709	261 992	404 423
- transfer from investments	-	-	132 529	132 529	9 709	-	142 238
- purchase	-	-	-	-	-	-	-
- other increase	-	-	193	193	-	261 992	262 185
c) decrease (by title):	-	-	(2 672)	(2 672)	(407)	(146 301)	(149 380)
- sale or liquidation	-	-	(1 265)	(1 265)	(38)	-	(1 303)
- other decrease	-	-	(1 407)	(1 407)	(369)	(146 301)	(148 077)
d) gross value of intangible fixed assets at the end of the period	-	32	605 172	605 172	15 762	251 007	871 973
e) accumulated amortization at the beginning of the period	-	(32)	(350 647)	(350 647)	(2 928)	-	(353 607)
f) change in accumulated amortization (by title):	-	-	(130 456)	(130 456)	(3 865)	-	(134 321)
- amortization	-	-	(132 594)	(132 594)	(3 002)	-	(135 596)
- sale or liquidation	-	-	1 261	1 261	6	-	1 267
- other changes	-	-	877	877	(869)	-	8
g) accumulated amortization at the end of the period	-	(32)	(481 103)	(481 103)	(6 793)	-	(487 928)
h) write-offs for permanent diminution in value at the beginning of the period		-	-	-	-	-	-
- increase	-	-	-	-	-	-	-
- decrease	-	-	-	-	-	-	-
i) write-offs for permanent diminution in value at the end of the period	-	-	-	-	-	-	-
j) net value of intangible fixed assets at the end of the period	**-**	**-**	**124 069**	**124 069**	**8 969**	**251 007**	**384 045**

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Note 14C

MOVEMENTS IN INTANGIBLE FIXED ASSETS IN 2002 (by type) in 2003							
	a	b	c		d	e	f
	research and development costs	goodwill	concessions, patents, licences and other similar items, including:	computer software	other intangible assets	prepayments for intagible fixed assets	Total intangible fixed assets
a) gross value of intangible fixed assets at the beginning of the period	-	32	371 134	371 134	9 969	157 973	539 108
b) increase (by title):	-	-	113 294	113 294	663	112 284	226 241
- transfer from investments	-	-	110 805	110 805	656	-	111 461
- purchase	-	-	192	192	7	109 304	109 503
- other increase	-	-	2 297	2 297	-	2 980	5 277
c) decrease (by title):	-	-	(9 306)	(9 306)	(4 172)	(134 941)	(148 419)
- sale or liquidation	-	-	(2 698)	(2 698)	(197)	(72 963)	(75 858)
- other decrease	-	-	(6 608)	(6 608)	(3 975)	(61 978)	(72 561)
d) gross value of intangible fixed assets at the end of the period	-	32	475 122	475 122	6 460	135 316	616 930
e) accumulated amortization at the beginning of the period	-	(32)	(249 703)	(249 703)	(3 006)	-	(252 741)
f) amortization for the period:	-	-	(100 944)	(100 944)	78	-	(100 866)
- amortization	-		(103 485)	(103 485)	(511)	-	(103 996)
- sale or liquidation	-		2 568	2 568	176	-	2 744
- other changes	-		(27)	(27)	413	-	386
g) accumulated amortization at the end of the period	-	(32)	(350 647)	(350 647)	(2 928)	-	(353 607)
h) write-offs for permanent diminution in value at the beginning of the period	-	-	-	-	-	-	-
- increase	-	-	-	-	-	-	-
- decrease	-	-				-	-
i) write-offs for permanent diminution in value at the end of the period		-	-	-	-	-	-
j) net value of intangible fixed assets at the end of the period		**-**	**124 475**	**124 475**	**3 532**	**135 316**	**263 323**

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Note 14D

INTANGIBLE ASSETS (OWNERSHIP STRUCTURE)	31.12.2004	31.12.2003
a) owned	384 045	263 323
b) used under rental or other agreements, including leasing	-	-
Total intangible fixed assets	**384 045**	**263 323**

Note 15A

TANGIBLE FIXED ASSETS	31.12.2004	31.12.2003
a) fixed assets, including:	1 699 998	1 862 179
- land (including perpetual leasehold of land)	15 636	15 832
- buildings and premises	1 270 861	1 317 085
- machinery and equipment	325 073	428 741
- means of transport	8 588	13 835
- other fixed assets	79 840	86 686
b) fixed assets under construction	239 018	200 836
Total tangible fixed assets	**1 939 016**	**2 063 015**

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Note 15B

MOVEMENTS OF TANGIBLE FIXED ASSETS IN 2004

	a	b	c	d	e	f	
	Land (including perpetual leasehold of land)	Buildings and premises	Machinery and equipment	Means of transport	Other tangible fixed assets	Fixed assets under construction	**Total tangible fixed assets**
a) gross value of tangible fixed assets at the beginning of the period	17 773	1 671 863	2 105 632	41 146	358 458	201 519	4 396 391
b) increase (by title)	47	57 830	153 624	298	13 143	299 459	524 401
- transfer from fixed assets under construction	12	52 663	151 213	296	12 469	-	216 653
- recognition of fixed assets	-	2 244	-	-	-	-	2 244
- other increase	35	2 923	2 411	2	674	299 459	305 504
c) decrease (by title)	(49)	(9 939)	(73 944)	(1 435)	(9 174)	(261 960)	(356 501)
- sale and liquidation	(49)	(7 344)	(68 583)	(1 340)	(6 094)	(1 136)	(84 546)
- other	-	(2 595)	(5 361)	(95)	(3 080)	(260 824)	(271 955)
d) gross value of tangible fixed assets at the end of the period	17 771	1 719 754	2 185 312	40 009	362 427	239 018	4 564 291
e) accumulated depreciation at the beginning of the period	(1 941)	(354 657)	(1 676 891)	(27 311)	(271 764)	-	(2 332 564)
f) change in accumulated depreciation (by title)	(194)	(59 015)	(183 348)	(4 110)	(10 823)	-	(257 490)
- depreciation	(202)	(61 572)	(253 721)	(5 150)	(15 155)	-	(335 800)
- sale and liquidation	8	2 393	67 814	1 001	5 904	-	77 120
- other changes	-	164	2 559	39	(1 572)	-	1 190
g) accumulated depreciation at the end of the period	(2 135)	(413 672)	(1 860 239)	(31 421)	(282 587)	-	(2 590 054)
h) write-offs for permanent diminution in value at the beginning of the period	-	(121)	-	-	(8)	(683)	(812)
- increase	-	(35 221)	-	-	-	-	(35 221)
- decrease	-	121	-	-	8	683	812
i) write-offs for permanent diminution in value at the end of the period	-	(35 221)	-	-	-	-	(35 221)
j) net value of tangible fixed assets at the end of the period	**15 636**	**1 270 861**	**325 073**	**8 588**	**79 840**	**239 018**	**1 939 016**

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Note 15C

MOVEMENTS IN TANGIBLE FIXED ASSETS in 2003 (by type)

	a	b	c	d	e	f	
	land (including perpetual leashold of land)	buildings and premises	machinery and equipment	means of transport	other tangible fixed assets	capital work	**Total tangible fixed assets**
a) gross value of tangible fixed assets at the beginning of the period	15 089	1 547 212	2 013 447	43 433	421 125	298 694	4 339 000
b) increase (by title)	2 833	151 711	180 620	1 672	24 062	236 070	596 968
- transfer from capital work in progress	2 577	131 243	178 102	1 441	10 979	-	324 342
- recognition of fixed asset	-	161	170	6	240	-	577
- other increase	256	20 307	2 348	225	12 843	236 070	272 049
c) decrease (by title)	(149)	(27 060)	(88 435)	(3 959)	(86 729)	(333 245)	(539 577)
- sale and liquidation	(10)	(6 453)	(86 250)	(3 671)	(6 583)	(2)	(102 969)
- other decrease	(139)	(20 607)	(2 185)	(288)	(80 146)	(333 243)	(436 608)
d) gross value of tangible fixed assets at the end of the period	17 773	1 671 863	2 105 632	41 146	358 458	201 519	4 396 391
e) accumulated depreciation at the beginning of the period	(1 565)	(300 125)	(1 476 572)	(23 224)	(264 136)	-	(2 065 622)
f) depreciation for the period (by title)	(376)	(54 532)	(200 319)	(4 087)	(7 628)	-	(266 942)
- depreciation	(288)	(57 432)	(285 246)	(6 847)	(14 639)	-	(364 452)
- sale and liquidation	-	2 721	85 252	2 763	6 421	-	97 157
- other changes	(88)	179	(325)	(3)	590	-	353
g) acumulated depreciation at the end of the period	(1 941)	(354 657)	(1 676 891)	(27 311)	(271 764)	-	(2 332 564)
h) write-offs for permanent diminution in value at the beginning of the period	-	-	-	-	(8)	-	(8)
- increase	-	(121)	-	-	-	(683)	(804)
- decrease	-	-	-	-	-	-	-
i) write-offs for permanent diminution in value at the end of the period	-	(121)	-	-	(8)	(683)	(812)
j) net value of tangible fixed assets at the end of the period	**15 832**	**1 317 085**	**428 741**	**13 835**	**86 686**	**200 836**	**2 063 015**

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Note 15D

BALANCE SHEET TANGIBLE FIXED ASSETS (OWNERSHIP STRUCTURE)	31.12.2004	31.12.2003
a) owned	1 934 815	2 056 089
b) used under rental or other agreements, including leasing	4 201	6 926
Total tangible fixed assets	**1 939 016**	**2 063 015**

Note 15E

OFF-BALANCE SHEET TANGIBLE FIXED ASSETS	31.12.2004	31.12.2003
- used under rental or other agreements, including leasing	192 301	188 761
- value of perpetual leasehold of land	171 419	167 336
Total off-balance fixed assets	**192 301**	**188 761**

Note 16A

OTHER ASSETS	31.12.2004	31.12.2003
a) assets acquired for sale	4 671	7 575
b) other, including:	578 486	669 684
- receivables arising from transactions realized with the use of cards	192 276	352 464
- receivables arising from financial activity separated on the Company Social Fund	74 006	73 993
- receivables arising due to shortages and damages	69 590	68 627
- receivables from counterparties	63 645	44 283
- receivables from other banks and points of sale in relation to the distribution of currency	15 923	15 890
- inventories related to maintenance and side activities	16 594	15 030
- receivables from the State Treasury related to the distribution of currency	16 367	12 489
- settlements of securities and financial instruments operations	10 913	6 013
- settlements related to securities dealing	596	2 353
- inter-bank and inter- branch clearing accounts	1 800	4 692
- receivables related to Bank's resources management	3 159	733
- receivables from the State Treasury	22 329	552
- inventories acquired for sale	-	49
- receivables arising from other operations with financial institutions	-	11
- other	91 288	72 505
Total gross other assets	**583 157**	**677 259**
Impairment write-downs for assets acquired for sale	(4 671)	(7 575)
Impairment write-downs for other assets	(104 935)	(103 113)
Total net other assets	**473 551**	**566 571**

Note 16B

ASSETS ACQUIRED FOR SALE	31.12.2004	31.12.2003
a) fixed assets under construction	-	-
b) real estate	-	-
c) other	-	-

Total assets acquired for sale	-	-

Note 16C

CHANGES IN ASSETS ACQUIRED FOR SALE (BY TITLE)	**01.01 - 31.12.2004**	**01.01 - 31.12.2003**
Assets acquired for sale at the beginning of the period	-	74 518
a) increase in the period (by title):	5 263	4 841
- assets acquired for debts	2 359	4 841
- other	2 904	-
b) decrease in the period (by title):	(5 263)	(79 359)
- sale and liquidation	(4 980)	(62 612)
- transfer from fixed assets under construction to own assets	(254)	(2 506)
- other	(29)	(14 241)
Assets acquired for sale at the end of the period	-	-

Note 17A

PREPAYMENTS AND ACCRUED INCOME	**31.12.2004**	**31.12.2003**
a) long-term	7 929	7 021
- deferred tax asset	-	-
- other prepayments and accrued income	7 929	7 021
b) short-term	22 391	22 583
- amounts paid in advance	14 069	22 583
Total prepayments and accrued income	**30 320**	**29 604**

Note 17B

CHANGE IN DEFERRED TAX ASSET	01.01 - 31.12.2003	01.01 - 30.06.2003
1. Balance at the beginning of the period, including:	-	-
a/ charged to financial result	-	-
- arising and reversal of temporary differences	-	-
b/ charged to equity	-	-
- revaluation charged to revaluation reserve	-	-
c/ charged to goodwill or negative goodwill	-	-
2. Increase	-	-
a/ charged to financial result of the period in connection with negative temporary differences (by title)	-	-
b/ charged to equity in connection with negative temporary differences (by title)	-	-
- charge to revaluation reserve	-	-
c/ charged to goodwill or negative goodwill in connection with negative temporary differences (by title)	-	-
3. Decrease	-	-
a/ charged to financial result of the period in connection with negative temporary differences (by title)	-	-
- arising and reversal of temporary differences	-	-
b/ charged to equity in connection with negative temporary differences (by title)	-	-
- charged to revaluation reserve	-	-
c/ charged to goodwill or negative goodwill in connection with negative temporary differences (by title)	-	-
4.Total deferred tax assets at the end of the period, including:	-	-
a/ charged to financial result	-	-
- arising and reversal of temporary differences	-	-
b/ charged to equity	-	-
- charge to revaluation reserve	-	-
c/ charged to goodwill or negative goodwill	-	-

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Note 17C

OTHER PREPAYMENTS AND ACCRUED INCOME	31.12.2004	31.12.2003
a) prepayments and accrued income, including:	21 998	20 040
- amounts paid in advance	21 998	20 040
b) other prepayments and accrued income, including:	8 322	9 564
- accrued income	8 322	9 564
Total other prepayments and accrued income	**30 320**	**29 604**

Note 18

SUBORDINATED DEBT					
a	b		c	d
Entity name	Value		Interest	Maturity
	Currency	PLN ths	rate	
-	-	-	-	-
-	-	-	-	-

Note 19

An aggregated amount of impairment loss(exluding reserves) is immaterial. The data is included in Notes concerning Profit & Loss Account No 46 and 47.

Note 20A

AMOUNTS DUE TO THE PUBLIC SECTOR (BY TYPE)	31.12.2004	31.12.2003
a) current accounts and deposits	748 644	1 022 269
- deposits of banks and other financial institutions	748 644	1 022 269
b) loans received	131 892	59 746
c) own bills of exchange	-	-
d) securities issued	-	-
e) other liabilities (by title)	23 210	12 143
- cash collaterals	505	525
- other	22 705	11 618
f) interest	7 296	4 347
Total amounts due to the public sector	**911 042**	**1 098 505**

Note 20B

AMOUNTS DUE TO THE PUBLIC SECTOR - OTHER (BY MATURITY)	31.12.2004	31.12.2003
a) current liabilities	367 758	37 738
b) term (by period remaining to maturity)	535 988	1 056 420
- within 1 month	150 835	128 520
- from 1 month to 3 months	4 761	155 100
- from 3 months to 1 year	248 000	721 984
- from 1 year to 5 years	82 080	50 816

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- from 5 years to 10 years	50 312	-
- from 10 years to 20 years	-	-
- over 20 years	-	-
- overdue amounts	-	-
c) interest	7 296	4 347
Total amounts due to the public sector - other	**911 042**	**1 098 505**

Note 20C

AMOUNTS DUE TO THE PUBLIC SECTOR - OTHER (BY ORIGINAL MATURITY)	**31.12.2004**	**31.12.2003**
a) current liabilities	367 758	37 738
b) term (by original maturity)	535 988	1 056 420
- within 1 month	19 851	148 548
- from 1 month to 3 months	141 185	150 000
- from 3 months to 1 year	218 060	50 318
- from 1 year to 5 years	106 580	707 554
- from 5 years to 10 years	50 312	-
- from 10 years to 20 years	-	-
- over 20 years	-	-
c) interest	7 296	4 347
Total amounts due to the public sector - other	**911 042**	**1 098 505**

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Note 20D

AMOUNTS DUE TO THE FINANCIAL SECTOR (BY CURRENCY)	**31.12.2004**	**31.12.2003**
a) in PLN	499 372	376 962
b) in foreign currencies (by currency and PLN equivalent)	411 670	721 543
b1. Unit/currency 787/USD ths	79 516	205
PLN ths	237 785	768
b2.Unit/currency 789/GBP ths	3	5
PLN ths	17	34
b3. Unit/currency 797/CHF ths	2	1
PLN ths	5	3
b4. Unit/currency 978/EUR ths	42 624	152 796
PLN ths	173 863	720 738
b5. other currencies (PLN ths)	-	-
Total amounts due to the financial sector	**911 042**	**1 098 505**

Note 21A

AMOUNTS DUE TO THE NON-FINANCIAL SECTOR (BY TYPE)	**31.12.2004**	**31.12.2003**
a) current accounts and deposits	65 202 439	66 436 789
b) loans received	-	-
c) own bills of exchange	-	-
d) securities issued	-	-
e) other liabilities (by title)	45 708	20 106
- cash collaterals	16 042	19 472
- other	29 666	634
f) interest	1 847 947	1 917 278
Total amounts due to non-financial sector	**67 096 094**	**68 374 173**

Note 21B

AMOUNTS DUE TO THE NON-FINANCIAL SECTOR - SAVINGS DEPOSITS (BY MATURITY)	**31.12.2004**	**31.12.2003**
a) current liabilities	2 117 930	2 528 570
b) term (by period remaining to maturity)	21 967 251	25 308 807
- within 1 month	5 582 987	5 908 163
- from 1 month to 3 months	6 315 535	7 364 513
- from 3 months to 1 year	9 073 027	10 650 010
- from 1 year to 5 years	864 430	1 230 964
- from 5 years to 10 years	1 114	10 314
- from 10 years to 20 years	6	8 033
- over 20 years	-	7 706
- overdue amounts	130 152	129 104
c) interest	1 608 318	1 690 497
Total amounts due to the non-financial sector - savings deposits	**25 693 499**	**29 527 874**

Note 21C

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AMOUNTS DUE TO THE NON-FINANCIAL SECTOR - SAVINGS DEPOSITS (BY ORIGINAL MATURITY)	31.12.2004	31.12.2003
a) current liabilities	2 117 930	2 528 570
b) term (by original maturity)	21 967 251	25 308 807
- within 1 month	2 786 927	2 142 700
- from 1 month to 3 months	4 521 721	6 252 950
- from 3 months to 1 year	11 602 051	13 698 100
- from 1 year to 5 years	3 056 552	3 215 057
- from 5 years to 10 years	-	-
- from 10 years to 20 years	-	-
- over 20 years	-	-
c) interest	1 608 318	1 690 497
Total amounts due to the non-financial sector - savings deposits	**25 693 499**	**29 527 874**

Note 21D

AMOUNTS DUE TO THE NON-FINANCIAL SECTOR - OTHER (BY MATURITY)	31.12.2004	31.12.2003
a) current liabilities	19 505 070	18 757 295
b) term (by period remaining to maturity)	21 657 896	19 862 223
- within 1 month	6 979 189	8 435 260
- from 1 month to 3 months	4 835 277	4 928 628
- from 3 months to 1 year	9 194 281	6 163 926
- from 1 year to 5 years	646 647	320 160
- from 5 years to 10 years	555	11 972
- from 10 years to 20 years	-	-
- over 20 years	-	-
- overdue amounts	1 947	2 277
c) interest	239 629	226 781
Total amounts due to the non-financial sector - other	**41 402 595**	**38 846 299**

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Note 21E

AMOUNTS DUE TO THE NON-FINANCIAL SECTOR - OTHER (BY ORIGINAL MATURITY)	31.12.2004	31.12.2003
a) current liabilities	19 505 070	18 757 295
b) term (by original maturity)	21 657 896	19 862 223
- within 1 month	6 079 395	5 989 739
- from 1 month to 3 months	3 450 152	4 018 212
- from 3 months to 1 year	11 587 512	8 469 881
- from 1 year to 5 years	540 837	1 384 391
- from 5 years to 10 years	-	-
- from 10 years to 20 years	-	-
- over 20 years	-	-
c) interest	239 629	226 781
Total amounts due to the non-financial sector - other	**41 402 595**	**38 846 299**

Note 21F

AMOUNTS DUE TO THE NON-FINANCIAL SECTOR (BY CURRENCY)	31.12.2004	31.12.2003
a) in PLN	62 127 246	62 967 101
b) in foreign currencies (by currency and PLN equivalent)	4 968 848	5 407 072
b1. Unit/currency 787/USD ths	790 582	764 213
PLN ths	2 364 156	2 858 540
b2. Unit/currency 789/GBP ths	45 000	31 801
PLN ths	259 646	212 065
b3. Unit/currency 797/CHF ths	17 964	15 586
PLN ths	47 463	47 196
b4. Unit/currency 978/EUR ths	563 039	485 180
PLN ths	2 296 636	2 288 592
b5. other currencies (PLN ths)	947	679
Total amounts due to the non-financial sector	**67 096 094**	**68 374 173**

Note 22A

AMOUNTS DUE TO THE PUBLIC SECTOR (BY TYPE)	31.12.2004	31.12.2003
a) current accounts and deposits	5 156 445	2 903 739
b) loans received	-	-
c) own bills of exchange	-	-
d) securities issued	-	-
e) other liabilities (by title)	203 882	270 688
- cash collaterals	281	290
- other	203 601	270 398
f) interest	9 212	4 363
Total amounts due to the public sector	**5 369 539**	**3 178 790**

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Note 22B

AMOUNTS DUE TO THE PUBLIC SECTOR - SAVINGS DEPOSITS (BY MATURITY)	31.12.2004	31.12.2003
a) current liabilities	-	-
b) term (by period remaining to maturity)	-	-
- within 1 month	-	-
- from 1 month to 3 months	-	-
- from 3 months to 1 year	-	-
- from 1 year to 5 years	-	-
- from 5 years to 10 years	-	-
- from 10 years to 20 years	-	-
- over 20 years	-	-
- overdue amounts	-	-
c) interest	-	-
Total amounts due to the public sector - savings deposits	-	-

Note 22C

AMOUNTS DUE TO THE BUDGET SECTOR - SAVINGS DEPOSITS (BY MATURITY)	31.12.2004	31.12.2003
a) current liabilities	-	-
b) term (by period remaining to maturity)	-	-
- within 1 month	-	-
- from 1 month to 3 months	-	-
- from 3 months to 1 year	-	-
- from 1 year to 5 years	-	-
- from 5 years to 10 years	-	-
- from 10 years to 20 years	-	-
- over 20 years	-	-
c) interest	-	-
Total amounts due to the budgert sector - savingsdeposits	-	-

Note 22D

AMOUNTS DUE TO THE PUBLIC SECTOR - SAVINGS DEPOSITS (BY MATURITY)	31.12.2004	31.12.2003
a) current liabilities	2 501 012	1 772 245
b) term (by original maturity)	2 859 315	1 402 182
- within 1 month	1 830 026	1 033 599
- from 1 month to 3 months	1 014 370	355 101
- from 3 months to 1 year	14 735	9 588
- from 1 year to 5 years	184	3 894
- from 5 years to 10 years	-	-
- from 10 years to 20 years	-	-
- over 20 years	-	-

- overdue amounts	-	-
c) interest	9 212	4 363
Total amounts due to the public sector - savings deposits	**5 369 539**	**3 178 790**

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Note 22E

AMOUNTS DUE TO THE PUBLIC SECTOR - OTHER (BY ORIGINAL MATURITY)	31.12.2004	31.12.2003
a) current liabilities	2 501 012	1 772 245
b) term (by period remaining to maturity)	2 859 315	1 402 182
- within 1 month	2 839 868	1 380 873
- from 1 month to 3 months	13 476	15 241
- from 3 months to 1 year	3 598	3 230
- from 1 year to 5 years	2 373	2 838
- from 5 years to 10 years	-	-
- from 10 years to 20 years	-	-
- over 20 years	-	-
c) interest	9 212	4 363
Total amounts due to the public sector - other	**5 369 539**	**3 178 790**

Note 22F

AMOUNTS DUE TO THE PUBLIC SECTOR (BY CURRENCY)	31.12.2004	31.12.2003
a) in PLN	5 347 592	3 168 797
b) in foreign currencies (by currency and PLN equivalent)	21 947	9 993
b1. Unit/currency 787/USD ths	485	234
PLN ths	1 450	874
b2. Unit/currency 789/GBP ths	-	-
PLN ths	-	-
b3. Unit/currency 797/CHF ths	-	-
PLN ths	-	-
b4. Unit/currency 978/EUR ths	5 025	1 933
PLN ths	20 497	9 119
b5. other currencies (PLN ths)	-	-
Total amounts due to the public sector	**5 369 539**	**3 178 790**

Note 23

REPO TRANSACTIONS	31.12.2004	31.12.2003
a) the financial sector	-	-
b) the non-financial and the public sector	-	-
c) interest	-	-
Total repo transactions	-	-

Note 24A

LIABILITIES ARISING FROM SECURITIES ISSUED	31.12.2004	31.12.2003
a) bonds	-	-
b) certificates	-	-
c) other (by type)	-	-
d) interest	-	-

Total liabilities arising from securities issued	-	-

Note 24B

CHANGE OF LIABILITIES ARISING FROM SECURITIES ISSUED	**01.01 - 31.12.2004**	**01.01 - 31.12.2003**
Balance at the beginning of the period	-	-
a) increase (by type)	-	-
b) decrease (by type)	-	-
Liabilities arising from securities issued at the end of the period	-	-

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Note 24C

LONG TERM LIABILITIES DUE TO ISSUE OF DEBT SECURITIES							
a	b	c	d	e	f	g	h
Debt securities by type	Nominal value	Interest rate	Maturity	Guarantees / collaterals	Additional rights	Listing market	Others
…							

Note 25

SPECIAL FUNDS AND OTHER LIABILITIES	31.12.2004	31.12.2003
a) special funds (by type)	87 091	82 098
- Company Social Fund	87 091	82 098
b) other liabilities (by title)	925 852	797 706
- inter-bank clearing accounts	138 521	118 417
- liabilities arising from transactions realized with the use of cards	12 374	6 952
- liabilities due to the counterparties	19 105	22 350
- liabilities to the State Treasury	145 317	158 320
- liabilities arising from settlements of operations on securities	66 691	163 603
- liabilities related to foreign currency dealing activities	41 526	55 990
- liabilities due to sale of currency	22 994	25 266
- liabilities arising from transactions with non-financial entities	224 855	11 615
- settlements of funds for payments from Foundation "Polsko-Niemieckie Pojednanie"	13 153	14 212
- liabilities related to investment activity and Bank's resource management	104 401	86 728
- liabilities related to bank transfers to be paid out in PLN	1 895	4 820
- sundry credit operational liabilities	3 292	4 558
- settlements related to the substitution service of Poczta Polska	4 836	4 314
- liabilities to RUP related to payments of unemployment benefits	1 388	2 707
- other	125 504	117 854
Total special funds and other liabilities	**1 012 943**	**879 804**

Note 26A

ACCRUALS	31.12.2004	31.12.2003
a) short-term, including:	151 406	110 356
- accrual for employees' bonuses	51 357	51 708
- holiday accrual	20 995	10 846
- other costs related to Bank's resource management	79 054	47 802

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b) long-term, including:	-	-
- accrual for employees' bonuses	-	-
- holiday accrual	-	-
- other costs related to Bank's resource management	-	-
Total accruals	**151 406**	**110 356**

Note 26B

CHANGE IN NEGATIVE GOODWILL	**01.01 - 31.12.2004**	**01.01 - 31.12.2003**
Balance at the beginning of the period	18	-
a) increase (by title)	-	18
b) decrease (by title)	(2)	-
Negative goodwill at the end of the period	**16**	**18**

Note 26C

OTHER DEFERRED AND SUSPENDED INCOME	**31.12.2004**	**31.12.2003**
a) short-term, including:	356 113	400 258
- due suspended interest	157 397	159 903
- interests capitalized according to regulatory requirements	15 373	47 161
- other capitalized interest	81 913	110 384
- other	101 430	82 810
b) long-term, including:	2 767 401	2 457 735
- due suspended interest	2 690 330	2 340 942
- interests capitalized according to regulatory requirements	25 936	26 584
- other capitalized interest	51 135	90 209
- other	-	-
Total other deferred and suspended income	**3 123 514**	**2 857 993**

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Note 27A

CHANGE IN THE BALANCE OF PROVISION FOR DEFERRED TAX	01.01 - 31.12.2004	01.01 - 31.12.2003
1. Provision for deferred tax at the beginning of the period, including:	**441 173**	**713 497**
a/ charged to financial result	424 941	571 053
- arising and reversing of temporary differences	424 941	571 053
b/ charged to equity	16 232	142 444
- revaluation charged to revaluation reserve	16 232	142 444
c/ charged to goodwill or negative goodwill	-	-
Adjustments due to changes in accounting policies	**2 424**	**(7 422)**
- charged to financial result	2 424	(7 422)
- charged to revaluation reserve	-	-
1a. Adjusted provision for deferred tax at the beginning of the period, including:	**443 597**	**706 075**
a/ charged to financial result	427 365	563 631
- arising and reversing of positive temporary differences	427 365	563 631
b/ charged to equity	16 232	142 444
- revaluation charged to revaluation reserve	16 232	142 444
c/ charged to goodwill or negative goodwill	-	-
2. Increase	**86 705**	**-**
a/ charged to financial result for the period, arising on temporary positive differences (by title)	46 358	-
b/ charged to equity, arising on temporary positive differences (by title)	40 347	-
- revaluation charged to revaluation reserve	40 347	-
c/ charged to goodwill or negative goodwill, arising on temporary positive differences (by title)	-	-
3. Decrease	**-**	**(262 478)**
a/ charged to financial result for the period, arising on temporary positive differences (by title)	-	(136 266)
- arising and reversing of temporary differences	-	(136 266)
b/ charged to equity, arising on temporary positive differences (by title)	-	(126 212)
- revaluation charged to revaluation reserve	-	(126 212)
c/ charged to goodwill or negative goodwill, arising on temporary positive differences (by title)	-	-
4. Provision for deferred tax at the end of the period, including:	**530 302**	**443 597**
a/ charged to financial result	473 723	427 365
- arising and reversing of temporary differences	473 723	427 365
b/ charged to equity	56 579	16 232
- revaluation charged to revaluation reserve	56 579	16 232
c/ charged to goodwill or negative goodwill	-	-

Note 27B

PROVISION FOR DEFERRED TAX (CURRENCY STRUCTURE)	31.12.2004	31.12.2003

a) in PLN	530 302	443 597
b) in foreign currencies (by currency and PLN equivalent)	-	-
b1. Unit/currency	-	-
PLN ths	-	-
b2. other currencies (PLN ths)	-	-
Total provision for deferred tax	**530 302**	**443 597**

Note 27C

OTHER PROVISIONS (BY TITLE), INCLUDING	**31.12.2004**	**31.12.2003**
- provision for off-balance sheet contingent liabilities	5 567	13 221
- general banking risk provision	661 597	661 597
- provision for jubilee and retirement benefits	184 113	173 257
- provision for disputes	5 614	5 614
- provision for other off-balance sheet liabilities	4 763	2 474
- other provisions	10 865	3 398
Total other provisions	**872 519**	**859 561**

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Note 27D

OTHER PROVISIONS	31.12.2004	31.12.2003
a) short-term (by title):	26 809	24 707
- provision for off-balance guarantee liabilities	5 567	13 221
- provision for potential liabilitiy due to unfavorable court sentence	5 614	5 614
- provision for other off-balance liabilities	4 763	2 474
- other provisions	10 865	3 398
b) long-term (by title):	845 710	834 854
- general banking risk provision	184 113	173 257
- provision for jubilee and retirement benefits	661 597	661 597
Total other provisions	**872 519**	**859 561**

Note 27E

CHANGE IN OTHER SHORT-TERM PROVISIONS	31.12.2004	31.12.2003
Balance at the beginning of the period	872 169	859 547
a) increase (by title)	350	14
- creation of provision for other contingent liabilities	12	-
- creation of other provisions	36	-
b) realization (by title)	-	-
- other	-	-
c) release (by title)	-	-
- release of provision for other contingent liabilities	-	-
- release of general banking risk provision	77	3
- release of provision for guarantee liabilities	314	14
Other short-term provisions at the end of the period	-	-
Total other provisions	**872 519**	**859 561**

Note 27F

CHANGE IN OTHER SHORT-TERM PROVISIONS	01.01 - 31.12.2004	01.01 - 31.12.2003
Balance at the beginning of the period	24 707	21 551
a) increase (by title)	44 738	14 609
- creation of provision for other contingent liabilities	30 021	11 211
- release of provision for guarantee liabilities	3 024	-
- creation of other provisions	11 693	3 398
b) realization (by title)	-	-
c) release (by title)	(42 636)	(11 453)
- release of provision for other contingent liabilities	(29 731)	(11 453)
- release of general banking risk provision	-	
- release of provision for guarantee liabilities	(8 679)	
- creation of other provisions	(4 226)	
Other short-term provisions at the end of the period	**26 809**	**24 707**

Note 27G

CHANGE IN OTHER LONG-TERM PROVISIONS	01.01 - 31.12.2004	01.01 - 31.12.2003
Balance at the beginning of the period	834 854	705 257

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a) increase (by title)	10 856	129 597
- creation of general banking risk provision		95 000
- creation of provision for jubilee and retirement benefits	10 856	34 597
b) realization (by title)	-	-
c) release (by title)	-	-
- release of general banking risk provision	-	-
Other long-term provisions at the end of the period	**845 710**	**834 854**

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Note 28

SUBORDINATED LIABILITIES						
a	b		c	d	e	f
	Value of loan		Interest rate	Maturity	Exposure	Interest
	In original	PLN ths				
-	-	-	-	-	-	-
...	-	-	-	-	-	-

Note 29

SHARE CAPITAL								
Series / Isue	Type of share	Nature of preference	Limitation of right to shares	Number of shares	Nominal value (PLN ths) of series/issue	Capital paid up by	Date of registration	Right to divident from
A	registered	none	none	510 000 000	510 000 000	cash / in-kind contribution	25.08.2004	1.05.2000
B	registered	none	none	105 000 000	105 000 000		25.08.2004	1.01.2001
C	to bearer	none	none	385 000 000	385 000 000		25.08.2004	1.01.2001
Total number of shares				1 000 000 000				
Total share capital					1 000 000 000			

Note 30

OWN SHARES				
a	b	c	d	e
Number	value at purchase price	book value	purpose of acquisition	purpose
-	-	-	-	-
-	-	-	-	-

OWN SHARES OWNED BY SUBORDINATED ENTITIES			
a	b	c	d
Name (company) of the entity, registered office	Number of shares	Value at purchase price	Book value
-	-	-	-

Note 31

RESERVE CAPITAL	31.12.2004	31.12.2003
a) share premium	-	-
b) statutory reserve capital	333 333	333 333
c) reserve capital created in accordance with statute in excess of regulatory (minimal) requirements	2 456 432	1 438 438

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d) capital contribution by shareholders	-	
e) other	14 966	12 056
Total reserve capital	**2 804 731**	**1 783 827**

Note 32

REVALUATION RESERVE	**31.12.2004**	**31.12.2003**
a) from revaluation of fixed assets	148 555	151 465
b) from revaluation of financial assets	-	-
c) from deferred tax	(56 579)	(16 232)
d) other	286 312	85 431
including valuation of securities available for sale	297 784	85 431
exchange rate differences	(11 472)	-
Total revaluation reserve	**378 288**	**220 664**

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Note 33

OTHER RESERVE CAPITAL, INCLUDING:	31.12.2004	31.12.2003
- General banking risk fund	1 000 000	800 000
- Fund for brokerage activity	150 000	50 000
- Other reserve capital	1 220 000	1 310 000
Total other reserve capital	**2 370 000**	**2 160 000**

Note 34

CAPITAL ADEQUACY RATIO	31.12.2004	31.12.2003
Capital requirement, including:	**2 660 989**	**2 309 175**
a) credit risk of assets	2 485 466	2 162 699
b) credit risk of off-balance sheet liabilities	102 170	48 666
c) market risk	66 951	95 320
d)others	6 402	2 490
Net own funds, including:	**5 577 932**	**4 766 655**
- share capital	1 000 000	1 000 000
- reserve capital	2 804 731	1 783 827
- revaluation reserve from revaluation of fixed assets	137 083	151 465
- other reserve capital	2 370 000	2 160 000
- subordinated liabilities	(426 394)	(140 640)
- shares in financial institutions	(384 045)	(263 323)
- intangible assets	6 450	41 938
- retained profit (loss) from the previous years	-	-
- loss of the current period	-	-
- missing amount of required specific provisions	70 107	33 388
CAPITAL ADEQUACY RATIO	**16.77**	**16.51**

Note 35A

NET BOOK VALUE PER ORDINARY SHARE	31.12.2004	31.12.2003
Net book value, including:	**8 070 534**	**6 399 135**
- share capital	1 000 000	1 000 000
- reserve capital	2 804 731	1 783 827
- revaluation reserve from revaluation of fixed assets	148 555	151 465
- revaluation reserve from revaluation of financial fixed assets	(11 472)	-
- deferred tax	(56 579)	(16 232)
- valuation of securities available for sale	297 784	85 431
- other reserve capital	2 370 000	2 160 000
- retained profit (loss) from the previous years	6 450	41 938
- net profit	1 511 065	1 192 706
Number of ordinary shares	**1 000 000 000**	**1 000 000 000**
Net book value per ordinary share (in PLN)	**8.07**	**6.40**

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Note 35B

DILUTED NET BOOK VALUE PER ORDINARY SHARE	**31.12.2004**	**31.12.2003**
Net book value, including:	**8 070 534**	**6 399 135**
- share capital	1 000 000	1 000 000
- reserve capital	2 804 731	1 783 827
- revaluation reserve from revaluation of fixed assets	148 555	151 465
- revaluation reserve from revaluation of financial fixed assets	(11 472)	-
- deferred tax	(56 579)	(16 232)
- valuation of securities available for sale	297 784	85 431
- other reserve capital	2 370 000	2 160 000
- retained profit (loss) from the previous years	6 450	41 938
- net profit	1 511 065	1 192 706
Predicted number of shares	**1 000 000 000**	**1 000 000 000**
- number of shares as at the balance sheet date	1 000 000 000	1 000 000 000
- number of shares issued after the balance sheet date until the date of the financial statements	-	-
Diluted net book value per ordinary share (in PLN)	**8.07**	**6.40**

Note 36

OFF-BALANCE SHEET CONTINGENT LIABILITIES GRANTED TO RELATED ENTITIES	**31.12.2004**	**31.12.2003**
a) guarantees and sureties granted, of which granted to:	128 989	13 264
- subsidiaries	128 922	13 071
- joint ventures	67	193
- associates	-	
- other entities	-	-
b) other, of which granted to:	581 544	93 250
- subsidiaries	581 544	15 845
- joint ventures		77 405
- associates	-	-
- other entities	-	-
Total off-balance sheet contingent liabilities granted to related entities	**710 533**	**106 514**

Note 37

OFF-BALANCE SHEET CONTINGENT LIABILITIES RECEIVED FROM RELATED ENTITIES	**31.12.2004**	**31.12.2003**
a) guarantees and sureties, of which received from:	-	-
- subsidiaries	-	-
- joint ventures		
- associates	-	-
- other entities	-	-
b) other, of which received from:	-	-

- subsidiaries	-	-
- joint ventures	-	-
- associates	-	-
- other entities	-	-
Total off balance sheet contingent liabilities received from related entities	-	-

ADDITIONAL EXPLANATORY NOTES TO THE PROFIT AND LOSS ACCOUNT

Note 38

INTEREST INCOME	**01.01 - 31.12.2004**	**01.01 - 31.12.2003**
a) from the financial sector	516 617	496 108
b) from the non-financial sector	2 291 341	2 003 259
c) from the public sector	685 267	611 024
d) from fixed income securities	1 751 739	1 989 151
e) other	-	-
Total interest income	**5 244 964**	**5 099 542**

Note 39

INTEREST EXPENSE	**01.01 - 31.12.2004**	**01.01 - 31.12.2003**
a) from the financial sector	(55 863)	(52 132)
b) from the non-financial sector	(1 440 710)	(1 516 011)
c) from the public sector	(158 085)	(99 028)
e) other	-	-
Total interest expense	**(1 654 658)**	**(1 667 171)**

Note 40

FEES AND COMMISSION INCOME	**01.01 - 31.12.2004**	**01.01 - 31.12.2003**
a) fees and commission from banking operations	1 824 483	1 587 505
b) fees and commission from brokerage activities	40 725	18 835
Total fees and commission income	**1 865 208**	**1 606 340**

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Note 41

INCOME FROM SHARES AND OTHER VARIABLE INCOME SECURITIES AND FINANCIAL INSTRUMENTS	01.01 - 31.12.2004	01.01 - 31.12.2003
a) from subsidiaries	-	-
b) from joint-ventures	-	-
c) from associates	-	-
d) from other entities	3 396	4 401
Total income from shares and other variable income securities and financial instruments	**3 396**	**4 401**

Note 42

RESULT FROM FINANCIAL OPERATIONS	01.01 - 31.12.2004	01.01 - 31.12.2003
a) result from operations on securities and other financial instruments	(181 623)	68 730
- income from operations on securities and other financial instruments	1 911 940	659 862
- cost of operations on securities and other financial instruments	(2 093 563)	(591 132)
b) result from other financial operations	(3 740)	(8 833)
Total result from financial operations	**(185 363)**	**59 897**

Note 43

OTHER OPERATING INCOME	01.01 - 31.12.2004	01.01 - 31.12.2003
a) asset management on behalf of third parties	82 732	51 770
b) sale or liquidation of fixed assets, intangible assets and assets held for sale	3 378	116 362
c) recovery of overdue, written-off and unrecoverable receivables	36 090	3 851
d) compensation, penalties and fines received	4 165	3 825
e) donations received	7	4
f) other (by title):	116 440	62 264
- revenues from refunds of bailiff prepayments	4 713	8 033
- profit from sales of coins for numismatic purposes	2 325	1 516
- other casual income of the Bank	30 283	37 439
- other operating income*	79 119	15 276
Total other operating income	**242 812**	**238 076**

*Other operating income includes e.g. revenue from credit-related overpayments, refunds of court fees and liquidation of accounts.

Note 44

OTHER OPERATING EXPENSE	01.01 - 31.12.2004	01.01 - 31.12.2003
a) costs attributable to asset management on behalf of third parties	(8 645)	(4 046)
b) sale or liquidation of fixed assets, intangible assets and assets held for sale	(7 408)	(84 504)
c) receivables written-off	(1 416)	(263)
d) compensation, penalties and fines paid	(1 244)	(1 482)
e) donations	(7 096)	(6 581)

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f) other (by title):	(119 195)	(38 811)
- expenses related to investments without economic result	-	(12 927)
- not planned depreciation charges	(36 507)	(4 589)
- other casual expenses of the Bank	(4 263)	(3 641)
- bailiff payments	(4 401)	(9 076)
- other operating expenses*	(74 024)	(8 578)
Total other operating costs	**(145 004)**	**(135 687)**

* Other operating expenses include e.g. expenses from credit underpayments and credit agreements not to be settled, ex-officio liquidation of current accounts and court charges and fees

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Note 45

OVERHEAD COSTS	**01.01 - 31.12.2004**	**01.01 - 31.12.2003**
a) salaries and wages	(1 568 343)	(1 534 982)
b) statutory employment costs	(317 569)	(306 178)
c) non-personnel costs	(653 529)	(636 293)
d) taxes and charges	(49 142)	(50 213)
e) contribution and payment to Bank Guarantee Fund	(11 769)	(14 575)
f) other	(573 488)	(556 241)
- premises costs	(179 163)	(187 757)
- security costs	(82 983)	(50 026)
- IT costs	(85 302)	(71 458)
- cleaning costs	(25 818)	(36 902)
- insurance costs	(4 187)	(7 350)
- licence fees for software and other related charges including	(47 167)	(43 787)
-medical costs	(5 183)	(4 976)
- others	(143 685)	(153 985)
Total overhead costs	**(3 173 840)**	**(3 098 482)**

Note 46

PROVISIONS CREATED AND REVALUATION	**01.01 - 31.12.2004**	**01.01 - 31.12.2003**
a) provisions created for:	(1 022 973)	(1 369 971)
- normal loans	(221 889)	(243 664)
- watch loans	(72 599)	(34 658)
- irregular loans	(728 485)	(993 345)
- general banking risk provision	-	(95 000)
- other	-	(3 304)
b) revaluation of:	(1 010)	(2 456)
- financial assets	(1 010)	(2 456)
- other	-	-
Total provisions created and revaluation	**(1 023 983)**	**(1 372 427)**

Note 47

PROVISIONS RELEASED AND REVALUATION	**01.01 - 31.12.2004**	**01.01 - 31.12.2003**
a) release of provisions for:	949 155	1 088 882
- normal loans	212 809	204 447
- watch loans	67 826	31 319
- irregular loans	668 520	852 888
- general banking risk provision	-	-
- other	-	228
b) revaluation of:	648	3 748
- financial assets	648	3 748
- other	-	-

Total provisions released and revaluation	**949 803**	**1 092 630**

Note 48

EXTRAORDINARY GAINS	**01.01 - 31.12.2004**	**01.01 - 31.12.2003**
a) force majeure	902	739
b) other (by title)	-	-
Total extraordinary gains	**902**	**739**

Note 49

EXTRAORDINARY LOSSES	**01.01 - 31.12.2004**	**01.01 - 31.12.2003**
a) force majeure	(673)	(338)
b) other (by title)	-	-
Total extraordinary losses	**(673)**	**(338)**

Note 50

CURRENT TAXATION	**01.01 - 31.12.2004**	**01.01 - 31.12.2003**
1. Gross profit (loss)	1 861 395	1 608 886
2. Differences between gross profit (loss) and taxable profit (loss) (by title):	(261 545)	437 212
a) permanent differences between gross profit (loss) and taxable profit (loss)	(704 315)	(1 000 401)
b) temporary differences between gross profit (loss) and taxable profit (loss)	445 484	1 442 788
c) other differences between gross profit (loss) and taxable profit (loss)	(2 714)	(5 175)
3. Taxable profit (loss)	1 599 850	2 046 098
4. Corporate income tax (at 27% in 2003 and 28% in 2002 and 2001)	303 972	552 446
5. Increases, decreases, abandonment, allowances and reduction of income tax	-	-
6. Income tax presented in the income tax declaration for the period, including:	303 972	552 446
- presented in profit and loss account	303 972	552 446
- regarding positions that increased or decreased equity	-	-
- regarding positions that decreased or increased goodwill or negative	-	-

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Note 51A

DEFERRED TAX PRESENTED IN PROFIT & LOSS ACCOUNT	01.01 - 31.12.2004	01.01 - 31.12.2003
- decrease (increase) due to arising and reversing of temporary differences	46 358	(136 266)
- decrease (increase) due to changes of income tax rates	-	-
- decrease (increase) due to previously not taken tax loss, tax relief or temporary timing difference of prior period	-	-
- decrease (increase) due to write-off of deferred tax asset	-	-
- other components of deferred tax (by title)	-	-
Total deferred tax in profit & loss account	**46 358**	**(136 266)**

Note 51B

TOTAL AMOUNT OF DEFERRED TAX	01.01 - 31.12.2004	01.01 - 31.12.2003
- included in equity	56 579	16 232
- included in goodwill or negative goodwill	-	-

Note 51C

CORPORATE INCOME TAX PRESENTED IN PROFIT & LOSS ACCOUNT CONCERNING:	01.01 - 31.12.2004	01.01 - 31.12.2003
- discontinued activities	-	-
- net extraordinary gains (losses)	44	118

During the calculation of the obligatory deductions from the financial result due to the income tax of the legal entities, Bank did not include because of prudency reasons in the asset for the deffered tax the possible effects of the introduction in 15 June 2004 the new regulations of the Fund of Union's Sureties (Journal of Law No. 121, item 1262), dated at 16 April 2004.

Note 52

OTHER OBLIGATORY CHARGES AGAINST RESULT	01.01 - 31.12.2004	01.01 - 31.12.2003
Other obligatory charges against result	-	-
Total other obligatory charges against result	-	-

Note 53

SHARE IN NET PROFIT (LOSS) OF ENTITIES VALUED UNDER THE EQUITY PICK-UP METHOD	01.01 - 31.12.2004	01.01 - 31.12.2003
- goodwill amortization in equity accounted entities	(36 914)	(13 441)
- negative goodwill amortization in equity accounted entities	88	3 912
- write-off of the difference in the valuation of net assets	95 272	(41 571)
Total share in net profit (loss) of entities valued under the equity pick-up method	**58 446**	**(51 100)**

Note 54

Profit Appropriation	2004	2003
- appropriation of profit to other reserve capital	1 000 000	1 017 994
- appropriation of profit to reserve capital	500 865	10 000
- appropriation of profit to general risk fund	10 000	200 000
- transfer of retained profit to reserve capital	-	-
- appropriation of profit to ZFŚS (Company's Social Benefits Fund)	6 450	200
- other	200	-

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Net Profit	**1 519 319**	**1 228 194**

Note 55

NET PROFIT PER ORDINARY SHARE	**01.01 - 31.12.2004**	**01.01 - 31.12.2003**
Net profit (loss)	1 511 065	1 192 706
Weighted average number of ordinary shares	1 000 000 000	1 000 000 000
Net profit (loss) per ordinary share (in PLN)	**1.51**	**1.19**
DILUTED NET PROFIT PER ORDINARY SHARE		
Net profit (loss)	1 511 065	1 192 706
Predicted number of ordinary shares	1 000 000 000	1 000 000 000
Diluted net profit (loss) per ordinary share (in PLN)	**1.51**	**1.19**

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EXPLANATION NOTES TO THE PROFIT AND LOSS

a) For the purpose of cash flow statement PKO BP included in item "F" of the statement "Cash and cash equivalents at the beginning of the period" and item "G" "Cash and cash equivalents at the end of the period": cash at hand, amounts at nostro account in NBP, a'vista amounts at nostro accounts in other banks and amounts of Bankowy Dom Maklerski (Brokerage House) in Stock Exchange Guarantee Fund.

Note 56

Cash and cash equivalents	**31.12.2004**	**31.12.2003**
Cash and balances with the Central Bank	3 490 505	3 807 487
Amounts due from other financial institutions	1 732 301	910 964
Amounts of Bankowy Dom Maklerski (Brokerage House) in Stock Exchange Guarantee Fund	2 911	443
Total cash and cash equivalents	**5 225 717**	**4 718 894**

Note 57

Cash flow from operating activities - other adjustments	**31.12.2004**	**31.12.2003**
Change of balance of other assets and special funds	98 013	(42 591)
Repayment of interest on a long-term loan	1 458	8 730
Change in impairment write-offs for shares	(72 544)	(62 842)
Change in impairment write-offs of debt securities held for trading	292 236	(83 698)
Change in the corporate income tax clearing accounts balances	40 347	126 212
Non cash changes concerning the settlement of tanglibles and intangibles	48 561	109 512
Other	567 134	795 613
Total	**975 205**	**850 936**

Note 58

Inflows from investing activities - other inflows	**01.01 - 31.12.2004**	**01.01 - 31.12.2003**
Received dividends from subsidiaries, joint-venture, associates and minority companies	750	-

Explanation of the division of Group's activities in operating, investing and financing activities applied in cash flow statement.

Operating activity – core activity, not classified to investing and financing activity.

Investing activity – activity related to purchase and sale of tangible and intangible fixed assets, stock, investments in subsidiaries, joint ventures and associates and other financial assets (including debt securities held to maturity) and monetary costs and benefits related to them.

Financing activity - activity related to non operating acquisition of sources of financing or the repayment of financing, as well as monetary costs and benefits related to them.

Explanation of differences between balance sheet changes of certain items and changes of these items as presented in cash flow statement.

Change in debt securities – includes change in purchase price of debt securities held for trading and debt securities available for sale (in the period ended 31 December 2001 – includes change in trading debt securities).

Change in amounts due from the financial sector - includes change in amounts due from the financial sector adjusted by items included in item "Cash and cash equivalents".

Change in shares, other securities and other financial assets- includes also change in shares valued at purchase price and other securities and other financial assets.

Change in amounts due to the financial sector – includes change in amounts due to the financial sector excluding taking and repayment of loans from banks and other non-bank entities of the financial sector or and payments arising from financial leasing.

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Signatures of all Members of the Management Board

29 March 2005	Andrzej Podsiadło	Chairman of the Bank	
(date)	(Name and Surname)	(function)	(signature)
29 March 2005	Kazimierz Małecki	Vice-Chairman and Deputy Chairman of the Bank	
(date)	(Name and Surname)	(function)	(signature)
29 March 2005	Danuta Demianiuk	Vice-Chairman of the Bank	
(date)	(Name and Surname)	(function)	(signature)
29 March 2005	Piotr Kamiński	Member of the Management Board	
(date)	(Name and Surname)	(function)	(signature)
29 March 2005	Jacek Obłękowski	Member of the Management Board	
(date)	(Name and Surname)	(function)	(signature)

Signature of a person responsible for keeping
the books of account

29 March 2005
(Date)

Krystyna Szewczyk
(Name and Surname)

Member of the Management Board (Chief Accountant)
(signature)

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Additional Notes and Explanations to the financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna for the year ended 31 December 2004

1. Concentration of the Bank's exposure by entity, capital group, industry sector and geographic region

a) Structure of loan portfolio

Analysis of amounts due from customers and the public sector	31.12.2004 Gross receivables	31.12.2004 Provisions	31.12.2003 Gross receivables	31.12.2003 Provisions
Housing loans in "old" portfolio	1,155,633	(11,582)	1,333,475	(13,982)
Housing loans in "new" portfolio	11,967,340	(244,753)	10,375,299	(333,475)
Retail loans	10,767,636	(803,103)	8,682,536	(893,209)
Corporate loans	7,807,064	(1,304,445)	8,308,846	(1,256,086)
Loans to the public sector	6,800,629	(13,034)	7,217,250	(8,751)
Capitalised interest	2,029,788	-	2,213,400	-
Accrued interest not due	358,618	-	299,159	-
Interest due unpaid	102,366	-	121,610,	-
Overdue interest	2,591,382	-	2,221,616	-
Interest accrued on contractual capitalisation	7,404	-	10,712	-
Interest on preferential agriculture loans to be paid by the borrower	1	-	39	-
Other	118	-	25	-
Total	**43,587,979**	**(2,376,917)**	**40,783,967**	**(2,505,503)**

"Old" portfolio housing loans

The tables below present the structure of „old" portfolio housing loans:

- as at 31 December 2004

Type of loan	Principal	Capitalised interest	Total	Provisions	Total net
Loans repaid using the „normative" formula	1,133,963	1,765,647	2,899,610	(6,913)	2,892,697
Loans repaid using the „income" formula	9,684	3,574	13,258	(3,519)	9,739
Loans repaid using the „quotient" formula	1,389	60,884	62,273	(110)	62,163
Loans for auxiliary construction work	10,484	78,851	89,335	(761)	88,574
Other	113	166	279	(279)	-
Total	**1,155,633**	**1,909,122**	**3,064,755**	**(11,582)**	**3,053,173**

- as at 31 December 2003

Type of loan	Principal	Capitalised interest	Total	Provisions	Total net
Loans repaid using the „normative" formula	1,306,441	1861,334	3,167,775	(8,862)	3,158,913
Loans repaid using the „income" formula	12,461	4,149	16,610	(3,967)	12,643
Loans repaid using the „quotient" formula	1,917	77,738	79,655	(112)	79,543
Loans for auxiliary construction work	12,512	110,921	123,433	(1,009)	122,424
Other	144	168	312	(32)	280
Total	**1,333,475**	**2,054,310**	**3,387,785**	**(13,982)**	**3,373,803**

The majority of the “old” portfolio housing loans was granted to housing cooperatives until 31 May 1992 and after this date – only on the basis of the Decree of the Council of Ministers of 28 December 1994 on the principals and procedures for the redemption in 1994 of bank’s receivables from interest on housing loans and settlement of this redemption (Journal of Laws No. 139, item 750) and of 27 February 1996 on the terms of providing state support in the repayment of certain housing loans taken prior 31 March 1996 (Journal of Laws No 27, item 121), whereas to private persons - until 31 March 1995.

Although the “old” portfolio housing loans (except for mortgage loans) have maturities specified in the respective loan contracts, for the majority of those loans the repayment method is not directly related to these maturities.

On 1 January 1996, the Law dated 30 November 1995 on the state support in the repayment of certain housing loans, granting guarantee premium and the refund of guarantee premium to banks (Journal of Laws of 2003, No. 119, item 1115, together with subsequent amendments) came into force. This law changed significantly the assessment of the viability of repayments of “old” portfolio housing loans within contractual repayment dates. The law enabled, among other things:

- temporary redemption of unpaid interest by the State budget (including interest on mortgage loans),
- the process of updating the Bank’s and the State budget debt relating to credited apartments,
- forgiving a part of or the entire amount due to the State budget, and
- forgiving interest due to the State budget together with retention of tax relief on personal income tax, and thus made it possible for the loans to be repaid according to the repayment schedule.

The solutions provided by this law opened the possibility to repay loans, type “1% and 2%” using the “quotient” formula. Irrespective of the above, the legislator enabled the borrowers to change the repayment method and use the “normative” formula. This opportunity was used by many borrowers repaying loans, type “1% and 2%”, until 31 December 1995.

Loans, which are repaid using the “normative” formula where the balance of instalment is a product of the usable area and the normative rate defined in Article 7.2 of the Law dated 30 November 1995 on State support in the repayment of certain housing loans, granting guarantee premium and the refund of guarantee premium to banks (Journal of Laws of 2003, No. 119, item 1115), represent 94.7% (93.6% in 2003) of the “old portfolio”. Current interest is redeemed by the State budget.

Loans repaid using the „quotient” formula, which represent 2.0% of the portfolio (2.4% in 2003), concern the borrowers, who concluded contracts with an original maturity of 40 years and whose annual instalment balance was calculated as 1% or 2% of the value of apartments. At present, the balance of the annual instalments cannot be lower than the quotient of the amount of the debt comprising principal and interest (including interest which is temporarily redeemed by the State budget) at the end of the previous year and number of years to maturity.

Loans repaid using the „income” formula, which represent 0.3% of the portfolio (0.4% in 2003) are characterised by a required repayment in the amount of 25% of the monthly gross income of a given household. Current interest on these loans is also redeemed by the State budget.

On 29 November 2000 the Law on the Coverage of the Repayment of Certain Housing Loans with the Guarantee of the State Treasury was passed and came into force on 1 January 2001 (Journal of Laws, No. 122, item 1310). The coverage of the „old” portfolio housing loans by guarantees of the State Treasury resulted in the reduction of the risk of default on these loans. The realisation of guarantees of the State Treasury takes place when the borrower fails to repay the loan instalment on dates specified in the loan agreement. The responsibility of the State Treasury is auxiliary and is effective if the recovery of the unpaid part of principal and interest becomes ineffective. The above-mentioned law covers 90% of the unpaid loans taken out by housing cooperatives. As a consequence of the realisation of the State Treasury responsibilities as guarantor, the State Treasury itself enters into the rights of the satisfied creditor (the Bank) and thus becomes the creditor towards the borrower.

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„New" portfolio housing loans

The tables below present the structure of „new" portfolio housing loans:

- as at 31 December 2004

Type of loan	Principal	Capitalised interest	Total	Provisions	Total net
„Własny kąt" housing loan, including:	11,566,054	85,430	11,651,484	(166,823)	11,484,661
- "Alicja" loans with deferred repayment of a part of loan	777,327	71,614	848,941	(74,133)	774,808
„Nowy dom" housing loans	351,172	6,448	357,620	(48,906)	308,714
Commercial loans	12,326,	3,770	16,096	(4,970)	11,126
Constructions loans	13,535	2,285	15,820	(11,615)	4,205
Other	24,253	3,658	27,911	(12,439)	15,472
Total	**11,967,340**	**101,591**	**12,068,931**	**(244,753)**	**11,824,178**

- as At 31 December 2003

Type of loan	Principal	Capitalised interest	Total	Provisions	Total net
„Własny kąt" housing loans, including:	9,933,265	97,585	10,030,850	(182,062)	9,848,788
- "Alicja" loans with deferred repayment of a part of loan	1,044,164	86,389	1,130,553	(77,367)	1,053,186
„Nowy dom" housing loans	373,500	34,705	408,205	(129,323)	278,882
Commercial loans	18,651,	4,272	22,923	(7,140)	15,783
Constructions loans	15,131	2,310	17,441	(6,262)	11,179
Other	34,752	4,310	39,062	(8,688)	30,374
Total	**10,375,299**	**143,182**	**10,518,481**	**(333,475)**	**10,185,006**

The "Own Flat" *(Własny Kąt)* housing loan, which is intended for retail clients, was prevailing housing loan product sold in 2004 and 2003.The balance of these loans (excluding loans with deferred repayment of a part of loan) accounted for 90.57% of the "new" portfolio of housing loans as ate 31 December 2004 (as at 31 December 2003: 86.35%).

In 2004 the Bank modified its offer and divided the "Own Flat" loan into three sub-products depending on the purpose of the loan:

"Own flat" mortgage – granted for the financing of purchase, construction, completion of a single family house/apartment, purchase of land for construction, reconstruction of a non-residential premises or building for own housing purposes,

„Own flat" business – granted for the financing of the purchase, construction, completion of construction, renovation or extension of a single family house or an apartment house for subsequent rental, a flat built in an apartment house or in single family house for subsequent rental, stand-alone business premises or premises in an apartment or single family house for subsequent rental,

"Own flat" tenancy – granted for the financing of contribution paid for co-operative tenancy right to apartment (*spółdzielcze lokatorskie prawo do lokalu mieszkalnego*), participation in the costs of construction of flats in Towarzystwo Budownictwa Społecznego, renovation, modernization of a single family house or an apartment.

As a rule, the Bank finances up to 80% of the purchase or construction costs of apartment/house and up to 100% of the cost of investment (i.e. with no contribution of the borrower) in case of renovation, completion of construction, reconstruction or refinancing of costs incurred for the investment project. If the borrower insures own contribution or its missing part, the loan may be extended for the amount up to 100% of the investment costs.

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Loans may be repaid in diminishing instalments (equal principal instalments and diminishing interest) and in annuity instalments (equal principal and interest instalments). Principal and interest are repaid in monthly instalments, in cash or other form (credit transfer or direct debit order). Until the date of full disbursement of the loan, the borrower uses a period of grace in the repayment of principal, interest may be capitalised or repaid on a current basis. Over the entire repayment period, there is the possibility of suspending the repayment of one principal instalment in each calendar year.

Loans may be extended in Polish zloty or in convertible currencies (US dollars, Swiss francs and euro). Loans carry interest at a floating rate that is set as a sum of the reference rate and fixed margin over the agreed term.

The reference rate for loans extended in Polish currency is three – month WIBOR, set on the basis of arithmetic mean of 3-month deposits on the interbank market. The reference rates for loans extended in convertible currencies are, respectively: LIBOR for US dollar or Swiss franc for one-month interbank deposits and EURIBOR for one-month interbank deposits (for loans granted in euro).

In the case of “Own Flat” mortgage loans extended in Polis currency or convertible currencies, margin depends on the amount of own contribution of the borrower and on the amount of the loan. In case of “Own flat” business and ”Own flat” tenancy loans extended in both Polish curenty and convertible currencies, the margin depends solely on the amount on the amount of own contribution of the borrower.

In 2004 the Bank extended its offer to include an ‘‘offset account’’, granted for the repayment of loans and other documented financial liabilities of the borrower which are not connected with its business activities. An additional portion of the loan (25%) may be used for any other purpose that is not connected with the borrower’s business activities.

The offer relating to the “New house” loan has been modified; separate products have been created within its structure, according to the loan purpose: „Nowy dom sprzedaż”, „Nowy dom wynajem”, „Nowy dom zakup” and „Nowy dom remont”.

The restructuring of the portfolio of loans with deferred repayment has been prepared, giving the possibility to convert these loans into “Własny kąt” loans, what will contribute to higher profitability of the portfolio of these loans.

Retail loans

The tables below present the structure of retail loans:

- as at 31 December 2004

Type of loan	Principal	Capitalised interest	Total	Provisions	Total net
Revolving credit for holders of savings giro accounts	3,743,601	-	3,743,601	(144,594)	3,599,007
Loans for purchase of vehicles	467,118	73	467,191	(189,966)	277,225
Cash credit	2,370,174	304	2,370,478	(143,119)	2,227,359
Education loans and loans for students	1,076,157	321	1,076,478	(2,703)	1,073,775
Loans for purchase of industrial goods	67,077	-	67,077	(58,896)	8,181
Debit balances on savings giro accounts	431,154	-	431,154	(192,586)	,238,568
Mortgage loan *(pożyczka hipoteczna)* and consolidation loan	1,240,954	1,880	1,242,834	(11,867)	1,230,967
Other	1,371,401	30	1,371,431	(59,372)	1,312,059
Total	**10,767,636**	**2,608**	**10,770,244**	**(803,103)**	**9,967,141**

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- as at 31 December 2003

Type of loan	Principal	Capitalised interest	Total	Provisions	Total net
Revolving credit for holders of savings giro accounts	3,669,657	-	3,669,657	(149,562)	3,520,095
Loans for purchase of vehicles	695,421	121	695,542	(217,517)	478,025
Cash credit	665,371	320	665,691	(175,004)	490,687
Education loans and loans for students	960,679	537	961,216	(3,173)	958,043
Loans for purchase of industrial goods	112,761	-	112,761	(77,712)	35,049
Debit balances on savings giro accounts	457,951	-	457,951	(208,229)	249,722
Mortgage loan (pożyczka hipoteczna)	823,100	887	823,987	(6,358)	817,629
Other	1,297,596	19	1,297,615	(55,654)	1,241,961
Total	**8,682,536**	**1,884**	**8,684,420**	**(893,209)**	**7,791,211**

Corporate loans

The tables below present the structure of corporate loans:

- as at 31 December 2004

Type of loan	Principal	Capitalised interest	Total	Provisions	Total net
Investment loans	3,649,459	10,609	3,660,068	(358,328)	3,301,740
Revolving working capital facilities	1,602,508	5,829	1,608,337	(529,167)	1,079,170
Current account overdraft	1,496,254	-	1,496,254	(224,519)	1,271,735
Preferential loans	640,515	29	640,544	(72,313)	568,231
Other	418,328	-	418,328	(120,118)	298,210
Total	**7,807,064**	**16,467**	**7,823,531**	**(1,304,445)**	**6,519,086**

- as at 31 December 2003

Type of loan	Principal	Capitalised interest	Total	Provisions	Total net
Investment loans	3,560,171	7,403	3,567,574	(343,967)	3,223,607
Revolving working capital facilities	2,501,485	6,583	2,508,068	(520,432)	1,987,636
Current account overdraft	1,423,668	-	1,423,668	(206,154)	1,217,514
Preferential loans	478,556	38	478,594	(66,828)	411,766
Other	344,966	-	344,966	(118,705)	226,261
Total	**8,308,846**	**14,024**	**8,322,870**	**(1,256,086)**	**7,066,784**

b) Changes in the process of creating provisions, introduced by the Decree of the Minister of Finance dated 10 December 2003 on the creation of provisions for risk relating to banking activity, (Journal of Laws No.218, item 2147)

The Decree of the Minister of Finance dated 10 December 2003 on the creation of provisions for risk relating to the banking activity came into force on 1 January 2004. The decree introduced a number of significant changes in the classification of loan exposure and calculation of specific provisions, including the following:

- periods of delay in the repayment which do not require classification of loan exposure into higher risk category, have been extended,
- the requirement to assess the economic and financial position of the debtor has been eliminated from classification of exposures to individuals under housing loans, and the ‘‘substandard’’ and ‘‘doubtful’’ categories have been eliminated from retail loans, and
- the best collateral can be taken into account when classifying the credit exposure.

The changes in the amount of provisions, resulting from the application of the above Decree have been reflected by the Bank as a change in estimate relating to specific provisions. Accordingly, these changes have been recognised in the profit and loss account for the year 2004 without the need to adjust the financial statements for the prior periods.

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Due to the substantial scope of changes introduced by the new Decree of the Minister of Finance, they were implemented by the Bank gradually, and the entire process was completed on 31 July 2004.

The new regulations relating to loans to corporate clients were implemented at the end of the first quarter of 2004. The Bank estimates that the extension of periods of delay in the repayment of loans did not have a material impact on the balance of irregular loans or specific provisions. This is due to the fact that the majority of corporate loans are classified as ''irregular'' based on the assessment of the economic and financial position of the borrower.

The new regulations mainly affected the classification and amounts of specific provisions for the ''new'' portfolio housing loans extended to individuals. It is estimated that, as a result of the introduction of the above Decree, the balance of irregular loans decreased by PLN 228 million and the gross profit of the Bank increased by approximately PLN 62.7 million.

The amended decree did not have an impact on the classification and amount of specific provisions for ''old'' portfolio housing loans due to the criteria used, as specified in Resolution No. 75/2000 of the Banking Supervision Committee dated 20 July 2000.

The regulations of the decree of the Minister of Finance relating to other loans extended to individuals, the classification of which, according to new regulations, required thorough modification of IT systems, were fully implemented in July 2004. It is estimated that, as a result of the above Decree, the balance of irregular loans decreased by PLN 84 million, and the gross profit of the Bank increased by approximately PLN 23.2 million.

c) Concentration of credit risk

The largest balance and off-balance sheet loan exposures of PKO BP SA to individual entities (excluding housing cooperatives) concerned the following borrowers:

- As at 31 December 2004

Entity	Exposure
Compulsory social security (entity E)	2,782,080
Administration of basic types of public activities (entity A)	2,504,664
Administration of basic types of public activities (entity B)	881,046
Renting of other machinery and equipment	618,460
Manufacturing and distribution of electricity (Company A)	458,883
Manufacturing and processing of refined petroleum products (Company B)	441,847
Manufacturing and distribution of electricity (Company C)	236,004
Manufacturing and distribution of electricity (Company D)	219,022
Production of sugar (Company E)	201,416
Administration of basic types of public activities (entity C)	190,286
Ships manufacturing and repair	176,649
Administration of basic types of public activities (entity D)	166,590
Manufacturing and distribution of electricity (Company F)	156,212
Finance lease (Company G)	146,518

- As at 31 December 2003

Entity	Exposure
Compulsory social security (entity E)	2,949,840
Administration of basic types of public activities (entity A)	2,301,577
Administration of basic types of public activities (entity B)	980,739
Manufacturing and processing of refined petroleum products (Company B)	717,868
Manufacturing and distribution of electricity (Company A)	563,988
Manufacturing and distribution of electricity	532,239
Renting of other machinery and equipment	440,355
Extraction of non-metal ores, excluding uranium and thorium ores	429,496
Manufacturing and distribution of electricity (Company F)	373,497
Manufacturing and distribution of electricity (Company D)	309,021
Mining and enrichment of coal	300,030
Manufacturing and distribution of electricity (Company C)	270,397
Manufacturing and distribution of gas fuels	235,850
Finance lease (Company G)	200,978

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Exposures towards two major entities from the central State budget (see lines 1 and 2 of the above table) constitute a significant share of the loan portfolio. These two exposures are excluded from the loan concentration limits, as they are guaranteed by the Treasury. The limit of 10% of the holding company's own funds is exceeded in two cases only (see lines 3 and 4 of the table as at 31 December 2004). These two exposures are towards one of the biggest local government entities in Poland and towards one of subsidiaries of the Bank.

d) Loan concentration limits

According to Article 71.1 and 71.2 of the Banking Law dated 29 August 1997 (Journal of Laws of 2002, No. 72, item 665, together with subsequent amendments), loan concentration limits were as follows:

	31.12.2004	31.12.2003
For receivables of PKO BP SA related to one entity or to a group of entities related by capital or management		
– up to 20% of Bank's own funds, if the entity is a parent or subsidiary company to the Bank or is a subsidiary of the Bank's parent company,	1,115,586	975,382
- up to 25% of Bank's own funds, if the entity is not related to the Bank	1,394,483	1,219,227
For receivables of PKO BP SA exceeding 10% of own funds – up to 800% of Bank's own funds	44,623,440	39,015,264

As at 31 December 2004, the exposure of PKO BP SA towards two entities amounted respectively to: PLN 2,782,080 thousand and PLN 2,504,664 thousand, whereas as at 31 December 2003 the exposure of PKO BP SA towards two entities amounted respectively to: PLN 2,949,840 thousand and PLN 2,301,577 thousand. According to Article 71.3 of the Banking Law (Journal of Laws of 2002, No. 72, item 665, together with subsequent amendments), concentration limits do not apply for these exposures.

e) Concentration of credit risk by the industry sector

PKO BP SA had significant loan exposures to the following industry sectors (the data below concerns only corporate loans and loans extended to the State budget entities):

No	Sector description	31.12.2004		31.12.2003	
		Exsposure (%)	Number of borrowers (%)	Exsposure (%)	Number of borrowers (%)
A	Agriculture, hunting, forestry	2.5%	7.1%	2.1%	10.0%
B	Fishing	0.0%	0.1%	0.1%	0.1%
C	Mining	0.1%	0.1%	2.7%	0.3%
D	Manufacturing	14.8%	14.5%	15.6%	21.5%
E	Electricity, gas and water supply	9.4%	0.2%	11.9%	0.7%
F	Construction	2.7%	8.9%	2.9%	8.7%
G	Trade	10.8%	34.7%	8.8%	33.4%
H	Hotels and restaurants	1.7%	2.4%	1.3%	1.9%
I	Transport, communication	2.6%	10.8%	2.6%	8.7%
J	Financial intermediation	1.0%	3.1%	0.9%	1.0%
K	Real estate activities, renting, education and business-related services	7.1%	9.9%	5.7%	4.7%
L	Public administration and national defense	45.4%	1.2%	43.8%	5.5%
M	Education	0.3%	0.8%	0.3%	0.5%
N	Health and social work	0.6%	3.9%	0.4%	1.8%
O	Other community, social and personal service activities	1.0%	2.3%	0.9%	1.2%
Total		**100,0%**	**100.0%**	**100.0%**	**100.0%**

PKO BP SA manages credit risk by means of monitoring credit exposures both towards individual borrowers and towards particular industry sectors. According to the Management Board of PKO BP SA, loan concentration towards individual borrowers and to particular industry sectors does not generate excessive credit risk.

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f) Concentration by geographic regions

	31.12.2004		31.12.2003	
Region	**Amount**	**%**	**Amount**	**%**
Mazowiecki	10,684,583	26.0	11,098,234	28.7
Śląsko-opolski	5,385,092	13.1	4,916,779	12.7
Wielkopolski	3,831,530	9.3	3,571,324	9.2
Dolnośląski	3,211,972	7.8	3,223,414	8.3
Lubelsko-podkarpacki	3,055,814	7.4	2,852,997	7.4
Małopolsko-świętokrzyski	3,050,997	7.4	2,563,148	6.6
Łódzki	2,614,245	6.4	2,482,011	6.4
Zachodnio-pomorski	2,329,394	5.7	2,298,140	5.9
Kujawsko-pomorski	2,151,108	5.2	2,003,070	5.2
Pomorski	2,083,910	5.1	1,566,004	4.0
Warmińsko-mazurski	1,423,000	3.5	1,308,312	3.4
Podlaski	1,067,645	2.6	862,870	2.2
Internet branch	-	-	2,682	-
Head Office	219,525	0.5	-	-
Total	**41,108,815**	**100.0**	**38,748,985**	**100.0**

The loan portfolio is diversified geographically. The main share of the credit portfolio is accounted by Mazowiecki Region, which includes receivables from the entities of the central State budget which are neutral to geographic risk. The data presented includes the loan portfolio with individual exposures exceeding PLN 100 thousand.

2. Information on sources of deposits by industries and geographic regions

a) Liabilities by geographic regions

Region	**31.12.2004**		**31.12.2003**	
	Amount	**%**	**Amount**	**%**
Mazowiecki	19,346,889	26.3	18,607,544	25.6
Śląsko-opolski	9,033,291	12.3	9,172,027	12.6
Wielkopolski	7,322,431	10.0	7,180,954	9.9
Małopolski-świętokrzyski	6,575,979	9.0	6,641,667	9.1
Łódzki	5,278,876	7.2	5,286,076	7.3
Dolnośląski	5,163,930	7.0	5,209,762	7.2
Lubelsko-podkarpacki	5,044,540	6.9	5,113,114	7.1
Pomorski	3,131,933	4.3	3,200,063	4.4
Zachodnio-pomorski	3,082,340	4.2	3,061,934	4.2
Kujawsko-pomorski	2,793,900	3.8	2,838,079	3.9
Warmińsko-mazurski	2,099,813	2.9	2,120,815	2.9
Podlaski	2,073,418	2.8	2,078,197	2.9
Centrala	1,035,519	1.4	1,322,426	1.8
Centrum Obsługi Inteligo	1,242,618	1.7	726,801	1.0
Bankowy Dom Maklerski	151,194	0.2	92,005	0.1
Centrum Operacji Kartowych	4	-	4	-
Total	**73,376,675**	**100.0**	**72,651,468**	**100.0**

b) Liabilities by industry sectors

Specification	**31.12.2004**		**31.12.2003**	
	Amount	**%**	**Amount**	**%**
State companies	654,402	0.9	597,847	0.8
Private companies, cooperatives	4,231,878	5.8	3,495,747	4.8
Sole traders	2,036,258	2.8	1,897,832	2.6
Individual farmers	40,882	0.1	32,041	0.0
Non-profit organizations	1,490,087	2.0	1,427,799	2.0
Private persons	58,642,587	79.9	60,922,907	83.9
State budget	5,369,539	7.3	3,178,790	4.4
Financial sector	911,042	1.2	1,098,505	1.5
Total	**73,376,675**	**100.0**	**72,651,468**	**100.0**

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As at 31 December 2004, 91.44% (as at 31 December 2003 – 94.11%) of total liabilities is concentrated in the non-financial sector, of which 87.40% (as at 31 December 2003 – 89.10%) relates to private individuals.

3. Information on subsidies for foreign branches, including the balance at the beginning of the period, increases, decreases in particular entities and the balance as at the end of the period

Bank PKO BP SA does not have any foreign branches.

4. Financial instruments

a) Division of financial instruments

- **Change in the balance of financial instruments in 2004**

Financial assets held for trading

	Debt securities	Shares in other entities	Other securities and financial assets	Cash, balances with the Central Bank	Total
As at 1 January 2004	**872,021**	**3,015**	**261,453**	**3,807,487**	**4,943,976**
a) increases (due to)	**81,021,513**	**4,077**	**1,245,638**	**-**	**82,271,228**
- purchase	80,993,032	4,004	-	-	80,997,036
- reclassification	-	-	-	-	-
- accrued interest	10,226	-	-	-	10,226
- amortisation of discount	17,358	-	-	-	17,358
- increase of assets' value	870	73	1,245,638	-	1,246,581
- other	27	-	-	-	27
b) decreases (due to)	**(81,552,417)**	**(2,078)**	**(141,635)**	**(316,982)**	**(82,013,112)**
- sale	(81,479,096)	(1,642)	-	-	(84,480,738)
- redemption	(71,699)	-	-	-	(71,699)
- decrease of assets' value	(1,345)	(436)	(141,635)	-	(143,416)
- amortisation of premium	(277)	-	-	-	(277)
- movement in the balance of „Cash, balances with Central Bank)	-	-	-	(316,982)	(316,982)
Total financial assets held for trading as at 31 December 2004	**341,117**	**5,014**	**1,365,456**	**3,490,505**	**5,202,092**

Financial liabilities held for trading

As at 1 January 2004	**226,407**
- derivatives valuation	567,332
Total financial liabilities held for trading as at 31 December 2004	**793,739**

Financial assets held to maturity

	Debt securities	Reverse repo transactions	Total
As at 1 January 2004	**4,767,340**	**283,713**	**5,051,053**
a) increases (due to)	**236,892**	**-**	**236,892**
- accrued interest	98,253	-	98,253
- amortisation of discount	138,639	-	138,639
b) decreases (due to)	**(2,351,651)**	**(283,713)**	**(2,635,364)**
- redemption	(2,337,819)	-	(2,337,819)
- amortisation of premium	(13,832)	-	(13,832)
- movement in the balance of „Reverse repo transactions”	-	(283,713)	(283,713)
Total financial assets held to maturity as at 31 December 2004	**2,652,581**	**-**	**2,652,581**

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Financial assets available-for-sale

	Debt securities	Stock/shares in other entities	Total
As at 1 January 2004	**23,948,064**	**383,697**	**24,331,761**
a) increases (due to):	**41,716,790**	**112,249**	**41,829,039**
- purchase	35,739,912	5	35,739,917
- accrued interest	815,634	-	815,634
- increase in assets' value	102,359	110,881	213,240
- amortisation of discount	646,868	-	646,868
- exchange rate differences	1,153	-	1,153
- take-up of shares in increased capital	-	1,000	1,000
- take over	4,400,810	-	4,400,810
- other	10,054	363	10,417
b) decreases (due to):	**(44,519,033)**	**(36,471)**	**(44,555,504)**
- sale	(21,328,779)	(27,982)	(21,356,761)
- redemption	(22,941,811)	-	(22,941,811)
- decrease in assets' value	(35,624)	(1,136)	(36,760)
- entrustment	-	-	-
- amortisation of premium	(97,913)	-	(97,913)
- interest due	(53,946)	-	(53,946)
- exchange rate differences	(60,923)	-	(60,923)
- other	(37)	(7,353)	(7,390)
Total financial assets available-for-sale as at 31 December 2004	**21,145,821**	**459,475**	**21,605,296**

Credit and loans granted and Bank's own receivables

	Receivables from the financial sector	Receivables from the non-financial sector	Receivables from the public sector	Total receivables
As at 1 January 2004	**8,554,860**	**31,035,282**	**7,243,182**	**46,833,324**
Change in the balance of gross receivables	5,135,076	2,813,905	(416,621)	7,532,360
Change in the balance of provisions	1,703	132,869	(4,283)	130,289
Change in the balance of accrued interests	84,020	376,777	29,951	490,748
As at 31 December 2004	**13,775,659**	**34,358,833**	**6,852,229**	**54,986,721**

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- **Change in the balance of financial instruments in 2003**

Financial assets held for trading

	Debt securities	Stocks/shares in other entities	Other securities and financial assets	Cash, balances with the Central Bank	Total
As at 1 January 2003	**510,051**	**7,606**	**616,414**	**4,752,376**	**5,886,447**
a) increases (due to)	**51,681,282**	**5,077**	**121,488**	**-**	**51,807,847**
- purchase	49,460,981	2,133	-	-	49,463,114
- reclassification	2,212,058	-	-	-	2,212,058
- accrued interest	6,986	-	-	-	6,986
- amortisation of discount	971	-	-	-	971
- increase of assets' value	178	2,944	121,488	-	124,610
- other	108	-	-	-	108
b) decreases (due to):	**(51,319,312)**	**(9,668)**	**(476,449)**	**(944,889)**	**(52,750,318)**
- sale	(51,163,719)	(9,668)	(209,408)	-	(51,382,795)
- redemption	(152,841)	-	-	-	(152,841)
- interest due	(2,059)	-	-	-	(2,059)
- decrease of assets' value	(239)	-	(267,041)	-	(267,280)
- other	(454)	-	-	-	(454)
- movement in the balance of "Cash, balances with Central Bank"	-	-	-	(944,889)	(944,889)
Total financial assets held for trading as at 31 December 2003	**872,021**	**3,015**	**261,453**	**3,807,487**	**4,943,976**

Financial liabilities held for trading

As at 1 January 2003	**99,633**
- derivatives valuation	126,774
Total financial liabilities held for trading as at 31 December 2003	**226,407**

Financial assets held to maturity

	Debt securities	Reverse repo transactions	Total
As at 1 January 2003	**10,720,139**	**545,961**	**11,266,100**
a) increases (due to):	**5,131,478**	**-**	**5,131,478**
- purchase	4,924,491	-	4,924,491
- accrued interest	45,129	-	45,129
- amortisation of discount	161,670	-	161,670
- foreign exchange rate differences	188	-	188
b) decreases (due to):	**(11,084,277)**	**(262,248)**	**(11,346,525)**
- redemption	(11,078,209)	-	(11,078,209)
- amortisation of premium	(6,068)	-	(6,068)
- movement in the balance of „Reverse repo transactions"	-	(262,248)	(262,248)
Financial assets held to maturity as at 31 December 2003	**4,767,340**	**283,713**	**5,051,053**

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Financial assets available-for-sale

	Debt securities	Shares in other entities	Total
As at 1 January 2003	**16,853,410**	**278,921**	**17,132,331**
a) increases (due to):	**39,786,353**	**222,518**	**40,008,871**
- purchase	38,675,124	50,308	38,725,432
- accrued interest	510,603	-	510,603
- take over	128,861	-	128,861
- increase in assets' value	1,272	140,217	141,489
- amortisation of discount	470,388	-	470,388
- take-up of shares by conversion	-	13,361	13,361
- other	105	18,632	18,737
b) decreases (due to):	**(32,691,699)**	**(117,742)**	**(32,809,441)**
- sale	(8,397,708)	(33,432)	(8,431,140)
- redemption	(21,552,063)	-	(21,552,063)
- decrease in assets' value	(411,024)	(84,278)	(495,302)
- reclassification	(2,221,857)	-	(2,221,857)
- amortisation of premium	(45,709)	-	(45,709)
- interest due	(61,725)	-	(61,725)
- exchange rate differences	(836)	-	(836)
- other	(777)	(32)	(809)
Total financial assets available-for-sale as at 31 December 2003	**23,948,064**	**383,697**	**24,331,761**

	Receivables from the financial sector	Receivables from the non-financial sector	Receivables from the public sector	Total receivables
As at 1 January 2003	**11,496,679**	**27,623,555**	**5,269,309**	**44,389,543**
Change in the balance of gross receivables	(2,996,924)	3,038,377	1,970,504	2,011,957
Change in the balance of provisions	5,873	(59,466)	(1,478)	(55,071)
Change in the balance of accrued interests	49,232	432,816	4,847	486,895
As at 31 December 2003	**8,554,860**	**31,035,282**	**7,243,182**	**46,833,324**

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- **Financial instruments by maturities**

  - **As at 31 December 2004**

Financial assets held for trading	**- up to 1 month**	**- from 1 month to 3 months**	**- from 3 months to 1 year**	**- from 1 year to 5 years**	**- over 5 years**	**overdue**	**with unspecified maturity**	**Total**
Cash and balances with Central Bank	3,490,505	-	-	-	-	-	-	**3,490,505**
Debt securities issued by State Treasury	259	61,131	93,592	181,460	4,314	-	-	**340,756**
Debt securities issued by local authorities	-	-	-	-	361	-	-	**361**
Shares and stocks in other entities	-	-	-	-	-	-	5,014	**5,014**
Other securities and other financial assets	95,550	405,836	423,525	428,111	12,434	-	-	**1,365,456**
Total	**3,586,314**	**466,967**	**517,117**	**609,571**	**17,109**	**-**	**5,014**	**5,202,092**

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Financial assets held to maturity	**- up to 1 month**	**- from 1 month to 3 months**	**- from 3 months to 1 year**	**- from 1 year to 5 years**	**- over 5 years**	**overdue**	**with unspecified maturity**	**Total**
Debt securities issued by State Treasury	-	124,080	1,768,937	759,564	-	-	-	**2,652,581**
Total	**-**	**124,080**	**1,768,937**	**759,564**	**-**	**-**	**-**	**2,652,581**

Financial assets available for sale	**- up to 1 month**	**- from 1 month to 3 months**	**- from 3 months to 1 year**	**- from 1 year to 5 years**	**- over 5 years**	**overdue**	**with unspecified maturity**	**Total**
Debt securities issued by State Treasury	351,969	1,816,793	4,163,781	8,127,552	1,619,630	-	-	**16,079,725**
Debt securities issued by local authorities	-	11,026	82,093	482,991	99,223	-	-	**675,333**
Debt securities issued by financial institutions	1,127,839	-	85,769	90,125	2,641,071	-	-	**3,944,804**
Debt securities issued by non-financial entities	41,615	109,950	8,053	151,479	133,562	1,300	-	**445,959**
Shares and stocks in other entities	-	-	-	-	-	-	459,475	**459,475**
Total	**1,521,423**	**1,937,769**	**4,339,696**	**8,852,147**	**4,493,486**	**1,300**	**459,475**	**21,605,296**

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- **as at 31 December 2003**

Financial assets held for trading	**- up to 1 month**	**- from 1 month to 3 months**	**- from 3 months to 1 year**	**- from 1 year to 5 years**	**- over 5 years**	**overdue**	**with unspecified maturity**	**Total**
Cash and balances with Central Bank	3 807 487	-	-	-	-	-	-	**3 807 487**
Debt securities issued by State Treasury	1 902	158 449	528 306	145 210	37 907	-	-	**871 774**
Debt securities issued by local authorities	-	-	-	-	247	-	-	**247**
Shares and stocks in other entities	-	-	-	-	-	-	3 015	**3 015**
Other securities and other financial assets	980	18 360	198 624	43 489	-	-		**261 453**
Total	**3 810 369**	**176 809**	**726 930**	**188 699**	**38 154**	**-**	**3 015**	**4 943 976**

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Financial assets held to maturity	**- up to 1 month**	**- from 1 month to 3 months**	**- from 3 months to 1 year**	**- from 1 year to 5 years**	**- over 5 years**	**overdue**	**with unspecified maturity**	**Total**
Debt securities issued by State Treasury	-	9 906	3 821 074	-	936 360	-	-	**4 767 340**
Securities with repurchase agreement	103 921	179 792	-	-	-	-	-	**283 713**
Total	**103 921**	**189 698**	**3 821 074**	**-**	**936 360**	**-**	**-**	**5 051 053**

Financial assets available for sale	**- up to 1 month**	**- from 1 month to 3 months**	**- from 3 months to 1 year**	**- from 1 year to 5 years**	**- over 5 years**	**overdue**	**with unspecified maturity**	**Total**
Debt securities issued by State Treasury	242 514	1 502 924	8 728 981	8 970 227	1 590	-	-	**19 446 236**
Debt securities issued by local authorities	1 006	2 421	51 962	465 689	309 691	-	-	**830 769**
Debt securities issued by financial institutions	180 443	-	89 294	-	2 646 447	-	-	**2 916 184**
Debt securities issued by non-financial entities	440 281	116 052	42 141	155 101	-	1 300	-	**754 875**
Shares and stocks in other entities	-	-	-	-	-	-	383 697	**383 697**
Total	**864 244**	**1 621 397**	**8 912 378**	**9 591 017**	**2 957 728**	**1 300**	**383 697**	**24 331 761**

b) Characteristics of financial instruments

- **Characteristics of debt securities**

Treasury bills and NBP money-market bills

At present, NBP issues money-market bills with 14 day maturity. Minimal yield on NBP bills is established at the level of the money-market intervention rate set by the Monetary Policy Council (Rada Polityki Pieniężnej). The intervention rate as at 31 December 2004 amounted to 6.50% (as at 31 December 2003 – 5.25%). The portfolio of Treasury bills comprised mainly bills with 52-week, 26-week and 13-week maturity. The average mean of yields of these Treasury bills in 2004 amounted to 6.628% in case of 52-weeks maturity bills (in 2003 - 5.342%); 5.546% (in 2003 – 5.811%) in case of 26-week maturity bills and 5.826% (in 2003 – 5.373%) in case of 13-week maturity bills.

As at 31 December 2004, the portfolio of Treasury bills amounted to PLN 2,337,233 thousand (as at 31 December 2003 – PLN 5,054,577 thousand) and the portfolio of NBP money-market bills amounted to PLN 1,127,839 thousand (as at 31 December 2003 – PLN 180,443 thousand).

Restructuring bonds

In December 1993, in accordance with the Law dated 3 February 1993 on the financial restructuring of companies and banks and on amendments of certain laws (Journal of Laws No. 18, item 82, together with subsequent amendments), the Bank received restructuring bonds with the nominal value of PLN 573,420 thousand. They were granted to the Bank to increase the Bank's own funds and to create additional specific provisions for irregular receivables to the level required by NBP. Interest on these bonds is calculated in particular interest periods as an average mean of rediscount rates of NBP effective on the sixteenth day of each month of the interest period. Starting from June 1995, part of accrued interest is half-yearly paid to PKO BP SA in the amount calculated on the basis of the base interest rate not less than 5% annually. The value of restructuring bonds as at 31 December 2004 amounted to PLN 759,564 thousand (as at 31 December 2003 – PLN 936,360 thousand).

The other part of the accrued interest is capitalised. The redemption of principal and capitalised interest started in June 1995 and it will be continued half-yearly till December 2008.

State Treasury bonds

In the portfolio of PKO BP SA there were 2-, 3-, 5- and 10- year Treasury bonds. Among the 10-year bonds, prevailed those with fixed interest rate, issued in the previous years. The interest on these bonds depends on yields of 52-week Treasury bills – established at tenders conducted before the particular interest period. The value of Treasury bonds as at 31 December 2004 amounted to PLN 15,946,320 thousand, including PLN 192,720 thousand of collateral to the Bank Guarantee Fund (as at 31 December 2003 – PLN 19,094,413 thousand).

As at 31 December 2004, 2-year and 5-year bonds with fixed interest accounted for 82.92 % (as at 31 December 2003 – 97.49%) of all Treasury bonds (excluding restructuring bonds and bonds denominated in USD). The average yield of 2- and 5-year bonds sold at tenders held in 2004 was 7.101% and 7.1639% respectively (in 2003 – 5.49% and 5.44%).

As at 31 December 2004 PKO BP SA held Treasury bonds denominated in US dollars with the nominal value of USD 80,000 thousand, translated into PLN at NBP average exchange rate as at 31 December 2004, with interest rate 5.25% and 6.25% annually (as at 31 December 2003 PKO BP SA held Treasury bonds denominated in US dollars with the nominal value of USD 11,103 thousand, translated into PLN at NBP average exchange rate as at 31 December 2003, with interest rate 7.125% annually).

As at 31 December 2004 PKO BP SA held Treasury bonds denominated in euro with the nominal value of EUR 80,000 thousand, translated into PLN at NBP average exchange rate as at 31 December 2004, with interest rate 4.5% annually (as at 31 December 2003 PKO BP SA did not hold Treasury bonds denominated in euro).

Foreign bonds

As at 31 December 2004 PKO BP SA held foreign bonds issued in US dollars with the nominal value of USD 45,000 thousand, translated into PLN at NBP average exchange rate as at 31 December 2004. These bonds have been issued by: Hungarian government, Bayerische HypoVereinsbank and Morgan Stanley Bank of New York (as at 31 December 2003 PKO BP SA did not hold foreign bonds).

NBP bonds

In 1999, due to the decrease in the rate of obligatory reserve maintained by banks, the National Bank of Poland issued 6-, 7-, 8-, 9- and 10-year bonds. The value of bonds purchased on 30 September 1999 by PKO BP SA amounted to PLN 4,198,690 thousand. This value was calculated in accordance with the provisions of the Resolution of the Management Board of NBP No. 36/28/PPK/1999 dated 25 June 1999 on the issuance of bonds by NBP for banks in relation to the decrease of interest rates on obligatory reserve (Journal of Laws of NBP of 1999, No. 15, item 23). Interest on these bonds was set on the basis of the general price index in the consecutive 12 months (from August till July next year).

The redemption of the particular series of bonds at their nominal value, according to the conditions of the issue, was to be conducted at one time for each series on 30 September of the years 2005, 2006, 2007, 2008 and 2009 respectively. On 21 December 2000 there was concluded an agreement between the National Bank of Poland and PKO BP SA on the conditions and forms of NBP aid for PKO BP SA in relation to the realisation of the restructuring programme. According to the provisions of the agreement NBP repurchased from PKO BP SA on 2 January 2001 part of NBP bonds with the total value of PLN 3,200,000 thousand. On 16 January 2002 the agreement dated 21 December 2000 on the conditions and forms of NBP aid for PKO BP SA in relation to the realisation of the restructuring programme expired. According to the provisions of this agreement, PKO BP SA again acquired the repurchased NBP bonds issued on the basis of the Resolution of the Management Board of NBP No. 36/28/PPK/1999 dated 25 June 1999 on the issuance of bonds by NBP for banks in relation to the decrease of interest rates on obligatory reserve (Journal of Laws of NBP, No. 15, item 23).

On 11 February 2002 the Resolution No. 5/6/PPK/2002 of the Management Board of NBP dated 8 February 2002 (on the issuance by NBP of bonds aimed at conversion of a part of bonds acquired by banks in relation to the decrease in the rate of obligatory reserve – Journal of Laws of NBP of 2002, No. 3, item 5) came into force. The provisions of this resolution enabled the conversion of 6-, 7- and 8- year NBP bonds issued by NBP on the basis of the Resolution of the Management Board of NBP No. 36/28/PPK/1999 dated 25 June 1999 on the issuance of bonds by NBP for banks in relation to the decrease in the rates of obligatory reserve (Journal of Laws of NBP of 1999, No. 15, item 23) for 10-year bonds with floating interest rate and maturity on 1 March 2012, in the proportion 1:1. The conversion took place on 28 February 2002.

On 2 April 2003 the Resolution No. 1/9/OK/2003 of the Management Board of NBP dated 4 March 2003 (on the early redemption of NBP bonds issued for banks in relation to the decrease of interest rates on obligatory reserve – Journal of Laws of NBP of 2003, No. 6, item 7) came into force. The early redemption, which took place on 3 April 2003, covered 9- and 10-years bonds, with maturities on 30 September 2008 and 30 September 2009 respectively. The nominal value of these bonds amounted to PLN 1,679,476 thousand. On the same date, with the intermediation of the National Custody of Securities, the Bank received the interest due on these NBP bonds for the period from 1 October 2002 to 3 April 2003. PKO BP SA received interest amounting to PLN 18,716 thousand.

As at 31 December 2004 the NBP bonds amounted to PLN 2,641,070 thousand (as at 31 December 2003 – PLN 2,646,447 thousand).

Commercial bills of exchange

As at 31 December 2004 the PKO BP SA portfolio of commercial bills was predominated by commercial bills of exchange of Elektrownia Bełchatów S.A., issued in five tranches with the nominal value of PLN 136,000 thousand (as at 31 December 2003 in the PKO BP SA portfolio of commercial bills predominated by the bills of Polskie Sieci Elektroenergetyczne S.A., issued in ten tranches with the nominal value of PLN 318,000 thousand and the bills of Elektrownia Bełchatów, issued in 6 tranches with the nominal value of PLN 230,000 thousand).

PKO BP SA SAB-R 31 December 2004 PLN thousand

- **Bank's debt securities by nominal value and amount**

As at 31 December 2004	Nominal value	Currency	Number of securities	Carrying amount
Securities held for trading				**Total**
1. Treasury bills	10,000	PLN	13,564	132,302
2. Treasury bonds	1,000	PLN	183,326	187,205
3. Treasury bonds	100	PLN	189,991	21,249
4. municipal bonds	1,000	PLN	446	361
Securities available-for-sale				**Total**
1. Treasury bills	10,000	PLN	225,252	2,204,931
2. Treasury bonds	1,000	PLN	13,181,117	13,874,794
including: foreign bonds				
	1,000	EUR	80,000	355,671
	1,000	USD	70,000	233,547
3. NBP bonds	100	PLN	25,221,120	2,641,070
4. corporate foreign bonds	1,000	USD	35,000	105,107
5. NBP bonds	10,000	PLN	113,072	1,127,839
6. municipal bonds	200,000	PLN	430	88,036
municipal bonds	100,000	PLN	7,620	469,184
municipal bonds	50,000	PLN	171	8,384
municipal bonds	20,000	PLN	150	2,551
municipal bonds	10,000	PLN	6,603	67,084
municipal bonds	1,600	PLN	2,500	4,130
municipal bonds	1,000	PLN	11,965	12,412
municipal bonds	100	PLN	231,090	23,552
7. bills of exchange	1,000,000	PLN	136	134,922
bills of exchange	500,000	PLN	14	6,827
bills of exchange	50,000	PLN	98	4,876
8. corporate bonds	500,000	PLN	256	128,269
corporate bonds	200,000	PLN	150	31,264
corporate bonds	100,000	PLN	1427	144,639
corporate bonds	10,000	PLN	6819	65,950
Securities held to maturity				**Total**
1. Treasury bonds	1,000	PLN	1,895,000	1,893,017
2. restructuring bonds		PLN	573,420	759,564

- **Types and characteristics of off-balance sheet liabilities arising from purchase/sale transactions**

	31.12.2004	**31.12.2003**
Spot purchase/sale transactions	6,868,487	1,578,279
Forward purchase/sale transactions	17,603,817	11,858,041
Securities transactions	757,551	522,611
Transactions with financial instruments	144,858,496	56,144,975
Total	**170,088,351**	**70,103,906**

PKO BP SA SAB-R 31 December 2004 PLN thousand

Spot purchase/sale transactions

- purchase

currency	31.12.2004		31.12.2003	
	in currency	in PLN	in currency	in PLN
USD	447,561	1,338,386	40,572	151,758
EUR	16,371	66,779	28,198	133,009
CHF	40,000	105,684	48,000	145,349
CZK	23,000	3,084	28,900	4,185
SEK	-	-	700	363
GBP	5,000,	28,850,	-	-
PLN		1,892,206		354,863
		3,434,989		**789,527**

- sale

currency	31.12.2004		31.12.2003	
	in currency	in PLN	in currency	in PLN
USD	664,872	1,988,232	134,125	501,696
GBP	-	-	530,	3,534
EUR	11,687	47,673	44,984	212,187
CHF	76,210	201,355	300	908
SEK	-	-	2,700	1,402
CZK	10,600	1,422	14,300	2,071
DKK		-	230	146
NOK	1,000	495	800	448
HUF	20,000	332	-	-
PLN		1,193,989		66,360
		3,433,498		**788,752**

The item “Spot purchase/sale transactions” includes operations, for which the off-balance sheet liabilities have maturity not exceeding 48 hours, according to the working days calendar. The balance of item “Spot purchase/sale transactions – purchase” represents purchased currency on a date of conclusion of agreement, whereas the balance of “Spot purchase/sale transactions – sale” relates to the currency sold on a date of conclusion of agreement.

Forward purchase/sale transactions and operations with financial instruments

PKO BP SA concludes various derivative transactions such as: currency swap, currency forward and forward rate agreements (FRA, IRS, futures, CIRS, sell-buy-back and currency options). Derivative transactions are concluded with the following objectives:
a) Bank’s liquidity management,
b) speculation,
c) arbitrage between financial markets.

- **As at 31 December 2004**

- Purchase

	in currency	**in PLN**
USD	405,829	1,213,590
CHF	1,000	2,642
EUR	1,902	7,757
PLN		7,917,582
Total		**9,141,571**

PKO BP SA SAB-R 31 December 2004 PLN thousand

▪ Sale

	in currency	in PLN
USD	2,375,471	7,103,608
EUR	147,323	600,932
CHF	180,000	475,578
PLN		282,128
Total		**8,462,246**

The item „Transactions with financial instruments" includes balances of the following transactions: FRA amounting to PLN 46,895,000 thousand, IRS amounting to PLN 89,870,364 thousand, futures amounting to PLN 498 thousand, embedded derivative instruments amounting to PLN 19,763 thousand, options amounting to PLN 356,065 thousand, CIRS amounting to PLN 6,088,770 thousand, sell-buy-back transactions amounting to PLN 1,628,037 thousand.

Transactions such as swap, forward, FRA, IRS and futures are subject to the risk of unfavourable change for the Bank of exchange rates of currencies in which the transactions were concluded and PLN interest rate, respectively. There is no additional hedge of the above-mentioned transactions.

In the profit and loss account for 2004, the Bank recognised income from the settlement of derivative instruments amounting to PLN 1,027,051 thousand, including: profit from currency swap operations amounting to PLN 753,453 thousand, loss from FRA operations amounting to PLN 2,617 thousand, loss from futures operations amounting to PLN 104 thousand, profit from IRS operations amounting to PLN 203,300 thousand, profit from embedded derivatives amounting to PLN 596 thousand, profit from options amounting to PLN 1,069 thousand and profit from CIRS operations amounting to PLN 71,354 thousand.

Moreover, in the profit and loss account for 2004, the item „Result from financial operations" includes the total net amount (loss) on the fair value valuation of open derivative transactions amounting to PLN 250,168 thousand, including: valuation of IRS transactions (loss) amounting to PLN 239,170 thousand, valuation of FRA (loss) amounting to PLN 13,559 thousand, valuation of sell-buy-back (profit) amounting to PLN 548 thousand, valuation of options (profit) amounting to PLN 431 thousand, valuation of embedded derivatives (profit) amounting to PLN 1,582 thousand.

- **As at 31 December 2003**

▪ purchase

	in currency	In PLN
USD	270,297	1,011,046
EUR	25,150	118,633
PLN		4,814,200
Total		**5,943,879**

▪ sale

	in currency	In PLN
USD	505,979	1,892,615
CHF	678,000	2,053,052
EUR	346,899	1,636,321
NOK	1,000	560
PLN		331,614
Total		**5,914,162**

In the item „Transactions with financial instruments" the following balances have been presented: FRA, amounting to 29,125,000 thousand; IRS, amounting to 25,710,000, futures, amounting to 3,471 thousand, embedded derivatives, amounting to 16,765 thousand; options, amounting to 949,684 thousand and sell-buy-back transactions, amounting to 340,055 thousand.

Transactions such as swap, forward, FRA, IRS and futures are subject to the risk of unfavourable change for the

Bank of respectively: exchange rates of currencies in which the transactions were concluded or PLN interest rate. There is no additional hedge of the above-mentioned transactions.

In the profit and loss account for the year 2003 the Bank recognised the income from the settlement of derivative instruments in item “Result from financial operations” amounting to PLN 418,861 thousand, including: profit from swap operations amounting to PLN 292,212 thousand, profit from FRA operations amounting to PLN 3,041 thousand, profit from futures operations amounting to PLN 40 thousand, profit from IRS operations amounting to PLN 110,284 thousand, profit from embedded derivatives amounting to PLN 13,284 thousand.

Moreover, „Result from financial operations” in the profit and loss account for the year 2003 includes the total net amount (profit) on the fair value valuation of open derivative transactions amounting to PLN 3,759 thousand, including: valuation of IRS transactions (profit) amounting to PLN 26,313 thousand, valuation of FRA (loss) amounting to PLN 15,560 thousand, valuation of sell-buy-back (profit) amounting to PLN 693 thousand, valuation of options (profits) PLN 995 thousand, valuation of embedded derivatives (loss) amounting to PLN 8,682 thousand.

<u>Securities transactions</u>

As at 31 December 2004 in the item „Securities transactions” the Bank presented the amount of PLN 346,214 thousand (as at 31 December 2003 – PLN 510,282 thousand) representing securities to be provided and the amount of PLN 411,337 thousand (as at 31 December 2003 – PLN 12,329 thousand) representing securities to be received.

<u>Embedded derivative instruments</u>

In the Bank there are embedded derivative instruments, which are components of complex contracts of both a financial and non financial character, whereby all or part of cash flows related to such contracts vary in a way similar to the derivative alone. Embedded derivative instruments cause that all or part of cash flow resulting from the host contract, is indexed on the basis of a specific interest rate, stock or commodity price, foreign currency exchange rate, price or interest rate index, assessment of creditworthiness or index or other similar variables.

The Bank has analysed its portfolio of agreements in order to determine whether the embedded derivative instruments should be separated. There were analysed agreements/ instruments from the following categories:

a) loan and deposit contracts, warrantees and other off-balance sheet items,
b) debt securities,
c) equity securities,
d) standard agreements.

In point 10 of the Introduction to the financial statements, changes resulting from the Decree of the Minister of Finance amending the Decree of the Minister of Finance dated 12 December 2001 on the specific rules for recognition, methods of measurement, scope of disclosure and method of presentation of financial instruments (Journal of Laws, No. 31, item 266). Adjustments assuring the comparability of data for the year ended 31 December 2003 have been presented in note 34 and 35 of the Additional Notes and Explanations.

a) Loan and deposit contracts, warranties and other off-balance sheet items

In the case of loan and deposit contracts, warranties and other off-balance sheet instruments, the Bank identified an embedded derivative instrument in the form of currency index in the deposit “Double income area”, which was separated from the host contract and valued at fair value.

Furthermore, there are options to convert to another currency in some loan agreements. The options are structured in such a way that in the moment of conversion, new conditions of loan agreement are established on the basis of current market conditions (currency exchange rate). The conditions of revaluation in these loan products are set in the contract in a way that does not expose the Bank to foreign exchange rate risk. The economic characteristics and risks of the options of conversion are not closely related to those of the host contract. However, due to the reasons described above, the fair value of these options equals zero. As a consequence, these instruments are neither separated from the host contracts nor separately recognised in the accounting records.

b) Debt securities

The Bank did not identify in its debt securities any significant embedded derivative instruments that should be separated.

c) Equity securities

The Bank did not identify in its equity securities any significant embedded derivative instruments that should be separated from host contracts and separately recognised in accounting records.

d) Standard agreements

Certain agreements entered by the Bank ("standard agreements") (e.g. premises rental agreements, service purchase agreement, agreements for purchase of tangible and intangible fixed assets) contain embedded derivative instruments. These are contracts expressed in currency, which is not commonly used in the economic environment of any of the significant parties of the contract (on the basis of par. 10/1a, point 5 of the Decree of the Minister of Finance dated 12 December 2001 on the specific rules for recognition, methods of measurement, scope of disclosure and method of presentation of financial instruments (Journal of Laws of 2001, No. 149, item 1674, together with subsequent amendments). Thus, the economic characteristics and risks of the embedded derivative instruments are not closely related to those of the host contract. As a consequence, the embedded derivative instruments are separated and recognised separately in the accounting records, as it was described in the Introduction to the financial statements. As it was described in the point 8 of the Introduction to the financial statements, the Bank has changed the rules of recognition of the embedded derivatives, in accordance with the amendment of the Decree of the Minister of Finance dated 12 December 2001 on the specific rules for recognition, methods of measurement, scope of disclosure and method of presentation of financial instruments (Journal of Laws of 2001, No. 149, item 1674 , together with subsequent amendments). Adjustments assuring the comparability of data as at 31 December 2003 have been presented in Notes 34 and 35 of the Additional Notes and Explanations.

- Embedded derivative instruments

Embedded derivative instruments in standard agreements are derivative currency instruments (currency forward) and are re-measured to fair value on the basis of a valuation model according to the present value of the cash flows not due as of the day of valuation. Embedded derivative instruments are valued at the present value of cash flows not due on a day of valuation (as the present value of the difference between the cash flows calculated using the forward exchange rate prevailing as at the date on which a binding commitment arose/date of valuation and the date of subsequent valuation). Forward exchange rates are calculated on the basis of the theory of interest rate parity, and the input data include the average NBP exchange rates on a date of valuation, daily interest rate quotations on the deposit market and daily interest rate quotation on IRS market. Discounting factors are calculated using the bootstrapping method.

Embedded derivative instruments are presented in the balance sheet at fair value on the assets' side under "Other securities and financial assets", if the fair value is positive, and under "Other liabilities arising from financial instruments" if the fair value is negative. Changes in fair value of derivative instruments are reflected in profit and loss account in item "Result from financial operations – Result from securities and other financial instruments operations".

- Adjustment to host contracts

Standard agreements containing embedded derivative instruments are valued on the basis of the forward exchange rate prevailing as at the date on which a binding commitment arose.

The adjustment relating to standard agreements amounts to the difference between the value of these contracts valued using the forward exchange rate binding as at the date on which a binding commitment arose and an amount calculated using the average NBP exchange rate binding as at the date of payment/issuance of invoice. As a consequence, host contracts are valued using the forward exchange rate prevailing as at the date on which a binding commitment arose.

In the case of standard agreements for the purchase of tangible and intangible fixed assets, the adjustment due to the separation of embedded derivative instruments is recognised in the balance sheet in item "Tangible fixed assets" and "Intangible fixed assets" with the corresponding entry to the profit and loss account item "Result from financial operations – Result from securities and other financial instruments operations". The above-described adjustment to the initial costs of tangible and intangible fixed assets is also the basis for the depreciation adjustment, which is recognised in the balance sheet (accumulated depreciation/amortisation) with the corresponding entry to the profit and loss account item "Depreciation of tangible and amortisation intangible fixed assets".

In the case of standard agreements containing embedded derivative instruments which represent "Overhead costs" or other operating income (e.g. rental agreement, service purchase agreement), the adjustment to the host contract is recognised in the profit and loss account under "Overhead costs" or „Casual income" with the corresponding entry to the "Result from financial operations – Result from securities and other financial instruments operations". As a consequence, host contracts are valued using the forward exchange rate prevailing as at the date of on which the binding commitment arose.

The table below presents fair values of embedded derivative instruments not matured as at 31 December 2004 and 31 December 2003.

PKO BP SA SAB-R 31 December 2004 PLN thousand

Embedded derivative instruments in standard agreements according to fair value

	31.12.2004		31.12.2003	
	Fair value		Fair value	
	Assets	Liabilities	Assets	Liabilities
Forward FX transactions	1,582	-	921	22

The cumulative impact of the separation of embedded derivative instruments on the profit and loss account for the year 2004 and 2003 and on the value of net assets as at 31 December 2004 and 31 December 2003, taking into account the adjustment to host contracts due to separation of embedded derivative instruments, is presented in the table below (positive value means profit and increase in the Bank's net assets).

	01.01 - 31.12.2004	01.01 - 31.12.2003
Impact on the Profit and Loss Account	750	45
Impact on the Net Assets	1,649	899

The impact on the profit and loss accounts for the years 2004 and 2003 by categories, due to the separation of derivative instruments embedded in standard agreements is presented in the table below:

	01.01 - 31.12.2004	01.01 - 31.12.2003
Impact on the Profit and Loss Account, including:	**750**	**45**
Result from financial operations - revaluation of embedded derivatives (including matured transactions)[1]	1,279	45
Other operating income - adjustment of agreements[2]	74	-
Overheads - adjustment of agreements[2]	(588)	-
Depreciation of tangible fixed assets and amortisation of intangible fixed assets[3]	(15)	-

1 – revaluation of fair value of embedded derivative instruments including: re-measurement to fair value of not matured transactions and a result from settlement of matured transactions recognised as part of the journal entry made in accordance with double entry principle in items typical for host agreements

2 – adjustment relating to the standard agreement constitutes a difference between the value of the agreement valued using the forward exchange rates binding as at the date on which binding commitment arose and its value calculated using the average NBP exchange rate prevailing as at the date of issue/payment of the invoice,

3 – depreciation adjustment constitutes the difference between the depreciation charged and adjustment of initial value calculated using forward exchange rate from the date of on which a binding commitment arose.

The impact on the value of net assets as at 31 December 2004 and December 2003 by categories, due to the separation of embedded derivative instruments from standard agreements (host contracts) is presented in a table below:

	31.12.2004	31.12.2003
Impact on the Net Assets (increase in net assets), including:	**1,649**	**899**
ASSETS	**1,649**	**921**
Tangible fixed assets – adjustment[1]	**3**	**-**
Tangible assets - initial value	3	-
Tangible assets - accumulated depreciation	-	-
Intangible assets – adjustment[1]	**64**	**-**
Intangible assets - initial value	78	-
Intangible assets - accumulated depreciation	(14)	-
Other securities and other financial assets - embedded derivatives[2]	**1,582**	**921**
LIABILITIES	**-**	**(22)**
Other financial liabilities due to financial instruments-embedded derivatives	**-**	**(22)**

1 – adjustment relating to the standard agreement constitutes a difference between the value of the agreement valued using the forward exchange rates binding as at the date on which binding commitment arose and its value calculated using the average NBP exchange rate

PKO BP SA SAB-R 31 December 2004 PLN thousand

binding as at the date of issue/payment of the invoice. Accumulated depreciation is charged on the adjustment to the initial cost of intangible or tangible fixed asset (valued using the exchange rate binding as at the date on which a binding agreement arose. Depreciation adjustment constitutes the difference between the depreciation charged on the initial value calculated using forward exchange rate from the date on which the binding commitment arose and the value calculated using NBP exchange rate from the date of payment/issuance of invoice,

2 – fair value of embedded derivative instruments constitutes present value of future cash flow as at the date of valuation.

The notional amount of embedded derivative instruments separated from standard agreements is presented in off-balance sheet liabilities. The maturity of derivative instruments separated from standard agreements varies from one month to 10 years after the balance sheet date.

The table below presents the level of exposure to currency risk as at 31 December 2004 and 31 December 2003 arising from the fair value of derivative instruments embedded in standard agreements:

	EUR	**USD**	**Other**	**Total**
Fair value as at 31.12.2004				
Assets				
Embedded derivatives	832	750	-	**1,582**
Liabilities				
Embedded derivatives	-	-	-	-
Fair value as at 31.12.2003				
Assets				
Embedded derivatives	88	603	230	**921**
Liabilities				
Embedded derivatives	(2)	(20)	-	**(22)**

c) Description of methods and significant assumptions made for the purpose of determining the fair value of financial assets and liabilities

The method and significant assumptions made for the purpose of determining the fair value of financial assets and liabilities were described in the Introduction to the financial statements of PKO BP SA.

d) Assets held for trading or available-for-sale valued at amortised cost

- **Assets held for trading**

Assets held for trading are stated at fair value. As at 31 December 2004 and 31 December 2003 there were no assets held for trading valued at amortised cost.

- **Assets available-for-sale**

Due to the fact that a reliable assessment of the fair value of equity assets available-for-sale is not possible, equity assets available-for-sale not belonging to minority shares portfolio of the Bank, not quoted on the Warsaw Stock Exchange, as at 31 December 2004 and 31 December 2003 were valued at acquisition cost adjusted for write-downs due to the permanent diminution of value. Write-downs due to permanent diminution of value were made in respect of shares of companies in liquidation and for corporate bonds and commercial bills of exchange due to lack of public trade in these securities.

e) Financial instruments not valued at fair value

Financial instruments which are not subject to fair value valuation include:

- granted loans, credits, loans and receivables originated by the Bank and deposits. These instruments are not quoted on an active market and their valuation methods were described in point 10 of the Introduction to the Bank's financial statements, and
- debt securities held to maturity valued at acquisition cost adjusted by accrued interest, discount, and premium less write-downs for impairment.

The portfolio of debt securities held to maturity comprises Treasury bonds. These securities are valued at acquisition cost adjusted by accrued interest, discount, and premium. The carrying amount of Treasury bonds in the portfolio of instruments held to maturity as at 31 December 2004 amounted to PLN 1,893,017 thousand. If those instruments were re-measured to fair value, their carrying amount would be lower by PLN 9,255 thousand and would amount to PLN 1,883,762 thousand. The difference from the valuation of debt securities issued by the State Treasury is not subject to impairment due to lack of credit risk of the issuer.

PKO BP SA SAB-R 31 December 2004 PLN thousand

The carrying amount of Treasury bonds, Treasury bills and NBP bills held in the portfolio of financial instruments held to maturity portfolio as at 31 December 2003 amounted to PLN 3,830,980 thousand. If those instruments were re-measured to fair value, their carrying amount would be lower by PLN 7,601 thousand and would amount to PLN 3,823,379 thousand.

Restructuring bonds are not traded on any active market and as a consequence their market value is not defined. The rules of their balance sheet valuation were described in point 10 of the Introduction to the financial statements of PKO BP SA. The carrying amount of restructuring bonds as at 31 December 2004 amounted to PLN 759,564 thousand (as at 31 December 2003 – PLN 936,360).

Income and cost on financial assets resulting from permanent diminution of value

- **for the year 2004**

	Impairment write-offs of the value of financial assets	Write-ups of the value of financial assets
Shares and stock	(1,010)	648
Debt securities	-	-
Total	**(1,010)**	**648**

- **for the year 2003**

	Impairment write-offs of the value of financial assets	Write-ups of the value of financial assets
Shares and stock	-	-
Debt securities	(2,456)	3 748
Total	**(2,456)**	**3 748**

f) Accounting for instruments purchased on the regulated market

Financial instruments are entered in the Bank’s books at the date of concluding the transaction at acquisition cost representing their fair value as at that day.

g) Agreements on conversion of financial assets into securities or repurchase agreements.

The Bank did not conclude such agreements.

h) Effects of re-measuring financial assets available-for-sale to fair value

As at 31 December 2004, the Bank reflected in the revaluation reserve the valuation of securities available-for-sale amounting to PLN 297,784 thousand decreased by the deferred tax provision amounting to PLN 56,579 thousand. As at 31 December 2003, the Bank reflected in the revaluation reserve the valuation of securities available-for-sale amounting to PLN 85,431 thousand decreased by the deferred tax provision amounting to PLN 16,232 thousand.

Income and cost on sale resulting from sale of financial assets available-for-sale

- **In 2004**

	Income from sale	Cost of sale	Result from sale of financial assets available-for-sale
Shares and stock	8,012	(561)	7,451
Debt securities	21,134	(65,287)	(44,153)
Total	**29,146**	**(65,848)**	**(36,702)**

PKO BP SA SAB-R 31 December 2004 PLN thousand

- **In 2003**

	Income from sale	Cost of sale	Result from sale of financial assets available-for-sale
Shares and stock	1,476	(15,608)	(14,132)
Debt securities	48,601	(15,469)	33,132
Total	**50,077**	**(31,077)**	**19,000**

i) Income and costs relating to de-recognized financial assets available-for-sale

	01.01.-31.12.2004	01.01.-31.12.2003
Income from financial assets available-for-sale that were removed from the balance sheet, including:	**128,876**	**94,905**
- income from financial assets available-for-sale that were removed from the balance sheet, whose fair value could not be previously reliable established	-	3
Costs from the financial assets available-for-sale that were removed from the balance sheet, including:	**(65,848)**	**(31,074)**
- costs from financial assets available-for-sale that were removed from the balance sheet, whose fair value could not be previously reliably established.	-	-

j) Reclassifications of financial assets from the group of assets valued at fair value to the group of assets valued at adjusted purchase price

There were no such reclassifications.

k) Write-downs for permanent diminution of value of financial assets

- **Write-downs charge to expenses**

	01.01 -31.12.2004	01.01 - 31.12.2003
financial assets, including:	(991,690)	(1,154,388)
- debt securities	-	(2,456)

- **Reversal of write-downs**

	01.01 -31.12.2004	01.01 - 31.12.2003
financial assets, including:	896,221	1,016,383
- debt securities	-	3,748

l) Income from debt securities, loans and receivables originated by the Bank

Income resulting from accrued realised interest on:

	01.01 -31.12.2004	01.01 - 31.12.2003
-debt securities	1,696,840	1,778,438
-receivables	3,160,587	2,848,358
Total	**4,857,427**	**4,626,796**

Income resulting from accrued not realised interest on:

	01.01 -31.12.2004	01.01 - 31.12.2003
-debt securities	54,899	210,713
-receivables	332,638	262,033
Total	**387,537**	**472,746**

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m) Unrealised accrued interest on loans and receivables originated by the Bank with write-downs due to permanent diminution of value

	31.12.2004	31.12.2003
- unrealised accrued interest on irregular receivables	3,123,514	2,857,995

n) Interest expense on financial liabilities

	01.01 - 31.12.2004	01.01 - 31.12.2003
- realised accrued interest on financial liabilities	1,607,489	1,459,092
- unrealised accrued interest on financial liabilities	47,169	208,079
Total	**1,654,658**	**1,667,171**

PKO BP SA SAB-R 31 December 2004 PLN thousand

o) Notional amounts of derivatives [1)]

- **as at 31 December 2004**

By maturities:	- up to one month	- from 1 month to 3 months	- from 3 months to 1 year	- from 1 year to 5 years	- over 5 years	- overdue	Total	Fair value[2)]
Currency								
Currency swap								638,908
- Purchase of currency	4,721,861	3,092,662	1,239,986	-	-	-	**9,054,509**	
- Sale of currency	4,470,034	2,900,785	1,006,196	-	-	-	**8,377,015**	
Cross currency interest rate swap								178,937
- Purchase of currency	562,780	563,060	-	1,649,620	344,890	-	**3,120,350**	
- Sale of currency	528,420	528,420	-	1,585,260	326,320	-	**2,968,420**	
Currency forward								2,950
- Purchase of currency	31,678	46,768	13,923	4,723	-	-	**97,092**	
- Sale of currency	31,056	45,910	13,502	4,495	-	-	**94,963**	
Futures								
- Purchase	498	-	-	-	-	-	**498**	
- Sale	-	-	-	-	-	-	**-**	
Interest rate transactions								
Interest rate swap (IRS)								(239,170)
- Purchase	3,300,000	3,816,000	19,897,000	17,144,000	778,182	-	**44,935,182**	
- Sale	3,300,000	3,816,000	19,897,000	17,144,000	778,182	-	**44,935,182**	
Forward Rate Agreement (FRA)								(13,559)
- Purchase	3,600,000	6,970,000	10,850,000	2,250,000	-	-	**23,670,000**	
- Sale	3,500,000	6,595,000	10,680,000	2,450,000	-	-	**23,225,000**	

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By maturities:	**- up to one month**	**- from 1 month to 3 months**	**- from 3 months to 1 year**	**- from 1 year to 5 years**	**- over 5 years**	**- overdue**	**Total**	**Fair value[2)]**
Transactions on securities								
Sell buy back								548
- Purchase	978,302	312,921	-	-	-	-	**1,291,223**	
- Sale	296,240	40,574	-	-	-	-	**336,814**	
Options not quoted on stock exchange								-
- Purchase of currency	-	-	-	-	-	-	-	
- Sale of currency	-	-	-	-	-	-	-	
Currency options								431
- Purchase	-	-	-	176,738	-	-	**176,738**	
- Sale	-	-	-	179,327	-	-	**179,327**	

1) Par values of derivative financial instruments are presented as off-balance sheet items. Nominal values of certain types of financial instruments form a basis for comparison with the instruments presented in the balance sheet. However, they do not necessarily indicate either the amounts of future cash flows or present value of these instruments. Therefore, they do not determine the credit or price risk exposure of the Bank. Derivative instruments become assets (profitable) or liabilities (unprofitable) as a result of changes of the market interest rates, inidices and foreign exchange rates in comparison to the terms of the contracts.

2) Fair values of derivative instruments are based in market (stock exchange) quotations or brokers' quotations. In case of instruments, for which reliable market quotations are unavailable, fair values are estimated using valuation models which take into account the current market quotations of underlying instruments, discounted cash flows valuation, yield curve and volatility ratios.

PKO BP SA SAB-R 31 December 2004 PLN thousand

- **as at 31 December 2003**

By maturities:	- up to one month	- from 1 month to 3 months	- from 3 months to 1 year	- from 1 year to 5 years	- over 5 years	- overdue	Total	Fair value[2)]
Currency transactions								
Currency swap								22,609
- Purchase of currency	1,356,892	1,504,008	1,800,584	1,205,340	-	-	**5,866,824**	
- Sale of currency	1,223,417	1,610,587	1,791,034	1,211,240	-	-	**5,836,278**	
Cross currency interest rate swap								
- Purchase of currency	-	-	-	-	-	-	-	
- Sale of currency	-	-	-	-	-	-	-	
Currency forward								(200)
- Purchase of currency	6,425	12,960	44,381	22,134	115	-	**86,015**	
- Sale of currency	6,398	12,617	44,636	21,957	81	-	**85,689**	
Futures								-
- Purchase	472	236	-	-	-	-	**708**	
- Sale	2,763	-	-	-	-	-	**2,763**	
Interest rate transactions								
Interest rate swap (IRS)								26,314
- Purchase	400,000	750,000	5,525,000	6,180,000	-	-	**12,855,000**	
- Sale	400,000	750,000	5,525,000	6,180,000	-	-	**12,855,000**	
Forward Rate Agreement (FRA)								(15,560)
- Purchase	1,500,000	4,450,000	7,425,000	400,000	-	-	**13,775,000**	
- Sale	700,000	4,200,000	8,400,000	2,050,000	-	-	**15,350,000**	

By maturities:	- up to one month	- from 1 month to 3 months	- from 3 months to 1 year	- from 1 year to 5 years	- over 5 years	- overdue	Total	Fair value[2)]
Transactions on securities								
Sell buy back								693
- Purchase	324,318	14,718	1,019	-	-	-	**340,055**	
- Sale	-	-	-	-	-	-	-	
Options not quoted on stock exchange								
- Purchase	-	-		-	-	-	-	
- Sale	-	-		-	-	-	-	
Currency options								3)
- Purchase	-	-	474,842	-	-	-	474,842	
- Sale	-	-	474,842	-	-	-	474,842	

1) Par values of derivative financial instruments are presented as off-balance sheet items. Nominal values of certain types of financial instruments form a basis for comparison with the instruments presented in the balance sheet. However, they do not necessarily indicate either the amounts of future cash flows or present value of these instruments. Therefore, they do not determine the credit or price risk exposure of the Bank. Derivative instruments become assets (profitable) or liabilities (unprofitable) as a result of changes of the market interest rates, inidices and foreign exchange rates in comparison to the terms of the contracts.

2) Fair values of derivative instruments are based in market (stock exchange) quotations or brokers' quotations. In case of instruments, for which reliable market quotations are unavailable, fair values are estimated using valuation models which take into account the current market quotations of underlying instruments, discounted cash flows valuation, yield curve and volatility ratios.

3) The Bank presented the fair value of currency swap option transactions as nil, due to the fact that these transactions are concluded in pairs of opposite transactions.

p) Risk management objectives and principles

- **market risk**

  - *interest rate risk*

The objective of the interest rate risk management is:

- to shape the balance sheet and off-balance sheet liabilities' structure in order to maximize the value of the net assets and interest result of the Bank,
- to neutralize the impact of market risks, which are beyond the control of business units, on the financial results,
- to define the optimal interest rate risk profile in line with financial plans relating to interest rate activity.

In the process of interest rate risk management the Bank measures risk based on price sensitivity, interest income sensitivity and internal model of value at risk. Scenario analyses, which are supplementary to the measures used, inform on the exposure of the Bank to interest rate risk in situations of sudden changes of interest rates.

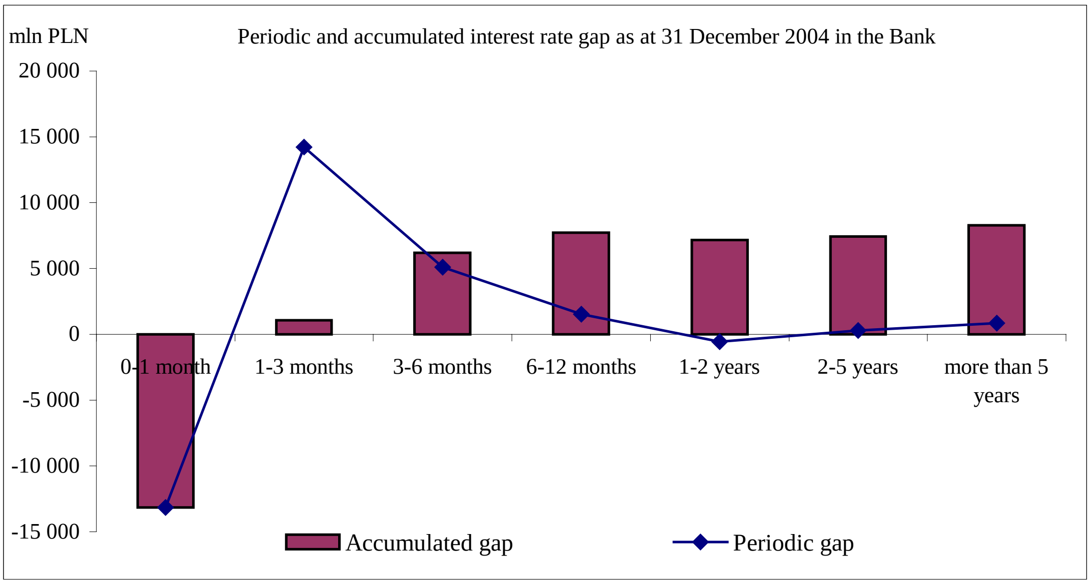
The main tools of interest rate risk management include:

- internal procedures for interest rate risk management,
- limits and thresholds for interest rate risk, and,
- defining allowable transactions for interest rates.

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

Interest rate gap in PLN, USD, EUR and CHF as at 31 December 2004:

PLN valuation gap (in PLN million)	**- up to one month**	**- above 1 month to 3 months**	**- above 3 months to 6 months**	**- above 6 months to 12 months**	**- above 1 year to 2 years**	**- above 2 years to 5 years**	**- above 5 years**	**Total**
Periodic gap	(13,152)	14,232	5,101	1,539	(570)	281	859	8,290
Accumulated gap	(13,152)	1,080	6,181	7,720	7,150	7,431	8,290	



As at the end of December 2004 the Bank had short position in floating interest rate (excess of liabilities over assets in positions subject to interest rate risk) in time horizon up to 1 month and long positions for longer time horizons.

USD valuation gap (in USD million)	- up to one month	- above 1 month to 3 months	- above 3 months to 6 months	- above 6 months to 12 months	- above 1 year to 2 years	- above 2 years to 5 years	- above 5 years	Total
Periodic gap	-	117	(13)	(87)	-	-	6	23
Accumulated gap	-	117	104	18	17	17	23	

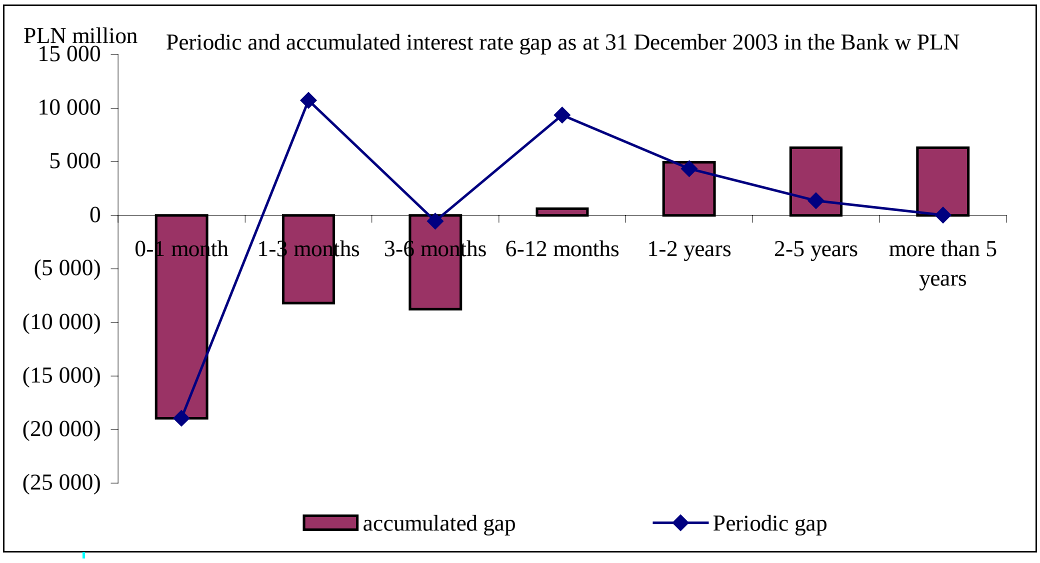
EUR valuation gap (in EUR million)	- up to one month	- above 1 month to 3 months	- above 3 months to 6 months	- above 6 months to 12 months	- above 1 year to 2 years	- above 2 years to 5 years	- above 5 years	Total
Periodic gap	113	14	(56)	(40)	-	-	4	35
Accumulated gap	113	127	71	31	31	31	35	

CHF valuation gap (in CHF million)	- up to one month	- above 1 month to 3 months	- above 3 months to 6 months	- above 6 months to 12 months	- above 1 year to 2 years	- above 2 years to 5 years	- above 5 years	Total
Periodic gap	456	(466)	(2)	(2)	-	-	-	(14)
Accumulated gap	456	(10)	(12)	(14)	(14)	(14)	(14)	

The Bank's exposure to interest rate risk in 2004 remained at an acceptable level – in the period under analysis no interest rate risk limits were exceeded. The Bank was exposed almost exclusively to PLN interest rate risk, which generated on average more than 96% of risk in this area, measured using Value at Risk.

Interest rate gap in PLN, USD, EUR and CHF as at 31 December 2003:

PLN valuation gap (in PLN million)	- up to one month	- above 1 month to 3 months	- above 3 months to 6 months	- above 6 months to 12 months	- above 1 year to 2 years	- above 2 years to 5 years	- above 5 years	Total
Periodic gap	(18,949)	10,744	(551)	9,358	4,342	1,364	1	6,309
Accumulated gap	(18,949)	(8,205)	(8,756)	602	4,944	6,308	6,309	



USD valuation gap (in USD million)	- up to one month	- above 1 month to 3 months	- above 3 months to 6 months	- above 6 months to 12 months	- above 1 year to 2 years	- above 2 years to 5 years	- above 5 years	Total
Periodic gap	(5)	153	(71)	(87)	-	-	-	(10)
Accumulated gap	(5)	148	77	(10)	(10)	(10)	(10)	

EUR valuation gap (in EUR million)	- up to one month	- above 1 month to 3 months	- above 3 months to 6 months	- above 6 months to 12 months	- above 1 year to 2 years	- above 2 years to 5 years	- above 5 years	Total
Periodic gap	49	18	(51)	(33)	-	-	-	(17)
Accumulated gap	49	67	16	(17)	(17)	(17)	(17)	

CHF valuation gap (in CHF million)	- up to one month	- above 1 month to 3 months	- above 3 months to 6 months	- above 6 months to 12 months	- above 1 year to 2 years	- above 2 years to 5 years	- above 5 years	Total
Periodic gap	329	(328)	(2)	(1)	-	-	-	(2)
Accumulated gap	329	1	(1)	(2)	(2)	(2)	(2)	

The Bank's exposure to interest rate risk in 2003 remained at an acceptable level – in the period under analysis no interest rate risk limits were exceeded. The Bank was exposed almost exclusively to PLN interest rate risk, which generated on average more than 98% of risk in this area, measured using Value at Risk.
The yield curve changed its inclination from negative to positive. At the end of the year 2003, the volatility of interest rate increased.
In the year 2003 the Bank used derivative instruments for investment purposes and to hedge the balance sheet, as well as maintained speculative interest rate positions.

- *liquidity risk*

The objective of liquidity risk management is to shape the Bank's balance sheet and off-balance sheet liabilities' structure to ensure the continuous solvency of the Bank taking into account the nature of its activities and changes on PLN and foreign currencies money markets or changes resulting from customers' behavior.
The Bank's policy concerning liquidity is based on a portfolio of market securities and stable deposits. In its liquidity risk management policy, the Bank also uses money market instruments, including NBP open market operations.
The Bank uses the following liquidity risk measurement tools:

- the „contractual liquidity gap" method and the „liquidity gap in real terms" method,
- the "surplus liquidity" method,
- analysis of stability of deposit and loan portfolio,
- stress testing.

The main liquidity risk management tools include:

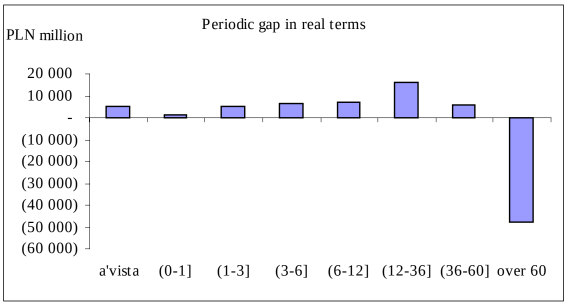
- internal procedures for liquidity risk management,
- limits and thresholds reducing liquidity risk,
- deposit transactions, including structural currency transactions and securities purchase and sale transactions,
- cash management.

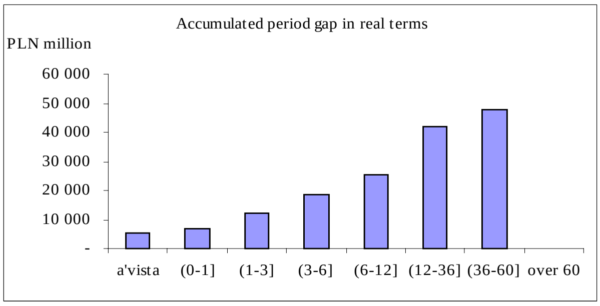
To ensure adequate liquidity level, the Bank sets limits and thresholds for liquidity risk. The limits and thresholds are used to measure both the current liquidity (up to 1 month) and the medium-term liquidity.

Liquidity gap in real terms as at 31 December 2004:

In all time horizons the accumulated liquidity gap in real terms was positive. This means that there is an excess of maturing assets over maturing liabilities.

PLN million	a'vista	- up to 1 month	- from 1 month to 3 months	- from 3 months to 6 months	- from 6 months to 12 months	- from 1 year to 2 years	- from 2 years to 5 years	- over 5 years
Periodic gap in real terms	5 439	1 429	5 354	6 259	6 891	16 354	6 035	(47 761)
Accumulated periodic gap in real terms	5 439	6 868	12 222	18 481	25 372	41 726	47 761	-



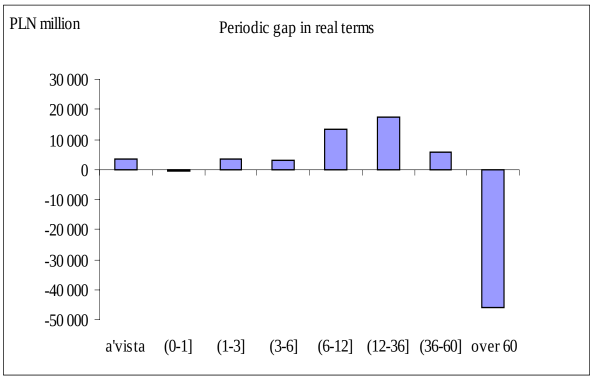


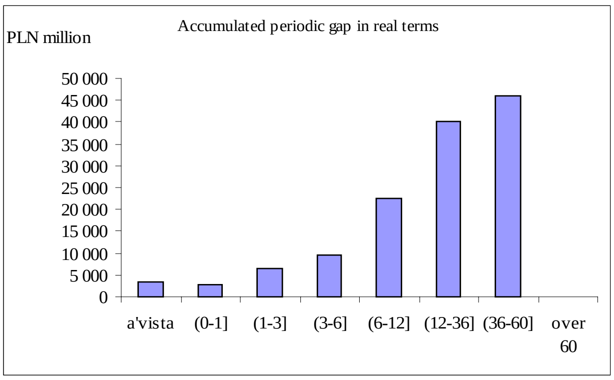
Liquidity risk in PKO BP SA remains on the stable and low level. As at 31 December 2004 the total liquidity surplus in time horizon up to 1 month amounted to PLN 23,231,166 thousand.

Liquidity gap in real terms as at 31 December 2003 (in PLN million):

	a'vista	- up to 1 month	- from 1 month to 3 months	- from 3 months to 6 months	- from 6 months to 12 months	- from 1 year to 2 years	- from 2 years to 5 years	- over 5 years
Periodic gap in real terms	3,439	(518)	3,496	3,017	13,152	17,541	5,709	(45,836)
Accumulated periodic gap in real terms	3,439	2,921	6,417	9,434	22,586	40,127	45,836	-

In all time horizons the accumulated periodic liquidity gap in real terms was positive. It means a surplus of maturing assets over maturing liabilities.





- *currency risk*

The objective of currency risk management is to identify currency risk areas and to take measures to reduce the currency risk to the levels accepted by the Bank's Management Board. As part of currency risk management, the Management Board sets the adequate currency risk profile of the Bank in line with the accepted financial plan of the Bank concerning the result from currency transactions.
The Bank adopted the Value at Risk model to measure currency risk. Scenario analyses, which are

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supplementary to the measures used, inform on the exposure of the Bank to currency risk in situations of sudden changes of foreign exchange rates.
Currency risk management is conducted by means of setting limits and thresholds for this risk. The values to which the limits apply include: currency position, Value at Risk calculated for 10-day time horizon and loss from transactions on currency market.

The main tools of currency risk management are as follows:

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

- *credit risk of financial institutions*

The objective of the management of credit risk of financial institutions is to identify the types and areas of risk, to assess creditworthiness of particular entities and to undertake activities to reduce the risk to the level acceptable by the Management Board of the Bank, with the assumption not to take collaterals which is a standard procedure on the wholesale market.

The main tools of the management of risk of financial institutions are:

- internal procedures relating to the management of risk of financial institutions,
- methods of creditworthiness assessment of counterparties,
- pre-settlement and settlement limits for particular counterparties,
- framework agreements (ISDA,ZBP) defining, among others, settlement mechanisms.

In the process of the management of credit risk of financial institutions the Bank monitors the financial situation of counterparties on a on-going basis and sets adequate risk limits for pre-settlement and settlement exposure for particular counterparties.

- *capital adequacy risk*

The objective of capital adequacy risk management is to ensure that the Bank follows prudence regulations concerning capital adequacy requirements due to risk exposure, expressed as capital adequacy ratio.

The main tools of capital adequacy management are as follows:

- selection of optimum measures for capital adequacy requirements for specific types of risk, according to the Resolution No. 5/2001 of the Banking Supervision Committee (Journal of Laws No. 22, item 43, together with subsequent amendments),
- internal procedures for capital adequacy.

The Bank calculates capital requirements relating to market risk and other risks relating to trading book:

- currency risk for banking and trading books jointly,
- equity securities prices risk for trading book (general and specific risk),
- general interest rate risk for trading book,
- settlement risk – delivery and counterparty risk for trading book,
- specific risk related to debt securities for trading book,
- underwriting risk for trading book.

The table below presents market risk capital requirements:

	31.12.2004	31.12.2003
Market risk including:	**66,951**	**95,320**
Currency risk	-	-
Commodity price risk	-	-
Equity price risk	772	473
Specific debt securities risk	50,506	79,903
General interest rate risk	15,673	14,944
Others	**6,402**	**2,490**
Settlement risk - delivery and counterparty risk	4,489	1,244
Risk of underwriting securities issue	1,913	1,246

- *equity price risk in trading book*

The objective of equity securities price risk management is to shape the Bank’s balance sheet structure to ensure the adequacy of the Bank's price profile to the nature of its business activities and to reduce the impact of unfavourable changes in share prices on the Bank's financial result.

Limits for equity price risk are set separately for particular sub-portfolios of the trading book. The values that are subject to limits are open positions and daily losses.

- *derivative instruments risk*

The objective of derivative risk management includes a detailed specification of the methods of derivative risk management in the Bank, the tools for derivative risk management and the tasks for individual organisational units in the process of derivative risk management. The principles of derivative risk management are related to the risks of derivative transactions.

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

The main tools of derivative risk management are as follows:

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

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

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

- *credit risk*

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

In the process of credit risk management the Bank follows the following principles:

- each loan transaction requires a comprehensive credit risk assessment using the internal rating or scoring assessment,
- measurement of credit risk of potential or executes loan transactions is performed on a regular basis taking into account changes external conditions and changes in the financial situation of the borrowers,
- credit risk assessment is subject to additional verification by independent business units, units for the credit risk assessment,
- in PKO BP SA credit risk is diversified geographically, by industry, by product and by clients,
- credit decisions may be taken only by authorized persons,
- the Bank hedges its credit risk by creating specific provisions for individual credit risk exposures and in doing so it takes into account the value of individual collaterals which decrease the balance of specific provisions.

The basic factor which influences the credit risk assessment of the Group is the completeness and genuineness of credit documentation, as well as its compliance with legal regulations and current financial status of a given borrower.

The assessment of the Bank's credit risk is conducted while:

- assessing the loan application,
- monitoring the loan transaction over the period of its realisation.

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The tables below present the carrying amount and the risk weighted value of individual balance sheet instruments.

- **as at 31 December 2004**

Instrument type	Carrying amount	Risk weighted value
Cash	1,203,637	-
Receivables	54,986,721	25,861,237
Securities and shares	23,723,981	712,107
Tangible and intangible fixed assets	2,323,061	1,939,016
Other	4,156,179	2,555,957
Total - banking book	86,393,579	31,068,317
Securities - trading book	1,538,213	656,901
Total balance sheet instruments	**87,931,792**	**31,725,218**

- **as at 31 December 2003**

Instrument type	Carrying amount	Risk weighted value
Cash	1,000,464	-
Receivables	46,833,324	20,992,829
Securities and shares	28,064,599	585,210
Tangible and intangible fixed assets	2,326,338	2,063,015
Other	3,664,633	3,392,688
Total – banking book	81,889,358	27,033,742
Securities – trading book	2,538,981	1,014,752
Total balance sheet instruments	**84,428,339**	**28,048,494**

The table below presents the nominal value of the underlying instruments, the credit equivalent and the risk weighted value of individual off-balance sheet instruments.

- **as at 31 December 2004**

Instrument type	Notional amount of the underlying instrument	Credit equivalent	Risk weighted value
Derivative instruments			
Interest rate instruments:	**68,605,182**	**464,006**	**92,802**
FRA	23,670,000	47,725	9,545
IRS	44,935,182	416,281	83,257
Foreign currency instruments	**12,278,405**	**421,787**	**84,510**
Currency forward	87,063	871	267
Forward - embedded derivatives	10,029	201	100
SWAP	9,054,509	222,247	44,449
FX futures	498	5	1
CIRS	3,120,350	198,118	39,624
Options (delta equivalent)	5,956	345	69
Other instruments	**1,291,223**	**129,122**	**25,824**
SBB	1,291,223	129,122	25,824
Other	-	-	-
Total derivative instruments	**82,174,810**	**1,014,915**	**203,136**
including:			
- banking book	29,158,026	758,071	151,674
- trading book	53,016,784	256,844	51,462

PKO BP SA SAB-R 31 December 2004 PLN thousand

- **as at 31 December 2003**

Instrument type	Notional amount of the underlying instrument	Credit equivalent	Risk weighted value
Derivative instruments			
Interest rate instruments:	**26,630,000**	**194,723**	**38,945**
FRA	13,775,000	22,250	4,450
IRS	12,855,000	172,473	34,495
Foreign currency instruments:	**6,021,108**	**124,985**	**25,501**
Currency forward	77,053	1,509	752
Forward – embedded derivatives	8,962	179	90
SWAP	5,866,824	120,698	24,140
FX futures	708	7	1
Options (delta equivalent)	67,561	2,592	518
Other instruments	**340,055**	**34,005**	**6,801**
SBB	340,055	34,005	6,801
Other	-	-	-
Total derivative instruments	**32,991,163**	**353,713**	**71,247**
Including:			
- banking book	12,318,347	279,317	55,917
- trading book	20,672,816	74,396	15,330

The table below presents the nominal value of the underlying instrument, the credit equivalent and the risk weighted value for other off-balance sheet items.

- **as at 31 December 2004**

Instrument type	Notional amount of the underlying instrument	Credit e quivalent	Risk weighted value
Credit liabilities	16,472,672	1,161,685	797,814
Warranties granted	207,420	149,448	148,696
Letters of credit issued	28,784	14,321	14,321
Other liabilities	3,602,239	714,341	164,626
Total banking book	**20,311,115**	**2,039,795**	**1,125,457**
Issue warranties	275,147	275,147	142,017
Total trading book	**275,147**	**275,147**	**142,017**

	Risk weighted value	Capital requirement
Total credit risk exposure (banking book)	**3,345,447**	**2,587,569**
Market risk (trading book)*		**66,951**
Other		**6,402**
Total capital requirements (banking and market risks)		**2,660,922**

*currency risk (trading and banking book)

- **as at 31 December 2003**

Instrument type	Notional amount of the underlying instrument	Credit equivalent	Risk weighted value
Credit liabilities	14,126,312	685,180	451,526
Warranties granted	93,140	51,829	49,855
Letters of credit issued	6,489	3,125	3,125

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Other liabilities	1,057,113	174,331	47,905
Total banking book	**15,283,054**	**914,465**	**552,410**
Issue warranties	167,791	167,791	90,031
Total traiding book	**167,791**	**167,791**	**90,031**

	Risk weighted value	Capital requirement
Total credit risk exposure (banking book)	**27,642,070**	**2,211,366**
Market risk (trading book)*		**95,320**
Other		**2,490**
Total capital requirements (banking and market risks)		**2,309,176**

*currency risk (trading and banking book)

- *operational risk*

The Bank defines operational risk as a risk of a loss incurred as a result of an inadequate or erroneous internal process, human mistake, system error or as a result of external circumstances. This definition includes legal risk, but it does not include loss of good reputation and strategic risk.
In the operational risk management the Bank applies the following principles:

- operational risk management comprises the systematical and on-going management of this risk,
- optimisation of operational effectiveness is performed in each organisational unit of the Bank's Head Office, including a specialised organisational entity within the scope of its activities,
- systematical operational risk management is conducted by selected organizational units of the Head Office and specialized organizational units which are responsible for defining detailed goals,
- assessment of risk management methods is performed at least once a year,
- the activities performed within operational risk management take into account the specifics and complexity of operational processes, geographical distribution of Bank's organizational units, number and size of transactions performed, as well as the functioning of IT systems,
- tasks within operational risk management relating to the preparation and supervision over the implementation of system solutions, preparation of regular reports on operational risk and designing of tools supporting operational risk management.

5. Hedge accounting

As described in point 10 of the Introduction to the financial statements, the Bank did not apply hedge accounting in the periods covered by the financial statements.

According to the accounting policies applied by the Bank, financial assets classified as available to sale are subject to fair value valuation. Changes in fair value are charged to the revaluation reserve. The consequence of classification of assets to the available for sale portfolio is that the accumulated changes in fair value reflected in revaluation reserve might be charged to profit and loss account only at the date of sale, maturity or due to the permanent diminution of value. Although the Bank did not apply hedge accounting, hedge transactions for the above-mentioned financial assets are performed in the macro scale for business purposes. These transactions include financial derivatives like IRS. In the period from 1 January 2004 to 31 December 2004 changes in fair value of the available for sale portfolio charged to revaluation reserve were positive and amounted to PLN 212,353 thousand. The valuation of hedging instruments which was reflected in the revaluation reserve charged to profit and loss account for the year 2004 was negative and amounted to PLN 70,034 thousand.

The above-mentioned IRS transactions are classified as trading and the effects of their revaluation are charged to profit and loss account.

As a consequence, there is no compensation of the result from hedging instruments and those being hedged held in different portfolios.

6. Information on concluded transactions concerning options for subscription or sale of ordinary shares

The Bank did not conclude any transactions concerning options for the sale or subscription of ordinary shares of any joint-stock company.

7. Assets pledged as collateral of Bank's liabilities and liabilities of third parities

The Bank held the following assets serving as collateral of the liabilities of PKO BP SA and third party liabilities:

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Fund for Protection of Guaranteed Money

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

	31.12.2004	31.12.2003
Fund's value	174,307	273,472
Nominal value of collateral	200,000	290,000
Type of collateral	Treasury bonds	Treasury bills
Maturity of collateral	12.08.2005	30.03.2004
Balance sheet value of collateral	192,720	286,960

Stock Exchange Guarantee Fund

	31.12.2004	31.12.2003
Stock Exchange Guarantee Fund	2,911	443

The money that constitutes the collateral for securities transactions conducted by BDM PKO BP SA are deposited in KDPW in the stock exchange guarantee fund.

8. Information on transactions with a repurchase obligation not included in the balance sheet

As at 31 December 2004 the notional amount of transactions with repurchase obligations not included in the balance sheet (sell-buy-back) amounted to PLN 1,628,037 thousand (as at 31 December 2003 – PLN 340,055 thousand), whereas their fair value amounted to PLN 548 thousand (as at 31 December 2003 – PLN 693 thousand).

9. Financial liabilities granted

	31.12.2004	31.12.2003
For the financial sector	2,130,848	900,363
-including irrevocable	25,072	96
For the non-financial sector	12,387,189	12,300,601
-including irrevocable	9,388,597	97,131
For the public sector	1,277,000	822,599
-including irrevocable	90,875	128
Total financial liabilities granted	**15,795,037**	**14,023,563**

10. Off-balance sheet contingent liabilities

a) Contingent liabilities

	31.12.2004	31.12.2003
Contingent financial liabilities granted	**6,290,493**	**13,926,208**
- Credit lines	4,585,158	13,038,438
- Other	1,705,335	887,770
Contingent guarantee liabilities granted	**857,965**	**391,376**
- Guarantees and sureties on loan repayment	45,373	20,770
- Other	812,592	370,606
Contingent financial liabilities received	**714,887**	**84,906**
- Credit lines	407,900	84,906
- Other	306,987	-
Contingent guarantee liabilities received	**4,428,928**	**4,804,342**
- Guarantees and sureties on loan repayment	4,419,104	4,799,036
- Other	9,824	5,306
Total	**12,292,273**	**19,206,832**

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b) Issue underwriting and sureties

- **in 2004**

Name of issuer of securities underwritten	Type of underwritten securities	Amount to which the Bank committed in case of realisation of underwriting agreement	Financial, organisational and personal interrelation between the Bank and the entity the issue of which is subject to underwriting	Information of transferability of securities
Company B	Commercial bills of exchange	**69,871**	100 % share in capital 100% share in voting rights at GSM State Treasury	traded on OTC market
Company C	Commercial bills of exchange	**39,912**	no interrelation	traded on OTC market
other	Municipal bonds	**40,500**	local authorities	traded on public market - CETO
other	Municipal bonds	**125,912**	local authorities	traded on OTC market
Total	X	**276,195**	X	X

- **in 2003**

Name of issuer of securities underwritten	Type of underwritten securities	Amount to which the Bank committed in case of realisation of underwriting agreement	Financial, organisational and personal interrelation between the Bank and the entity the issue of which is subject to underwriting	Information of transferability of securities
Company A	Commercial bills of exchange	**696**	18.55% share in capital, 6.35% share in voting rights at GSM	not traded
Company B	Commercial bills of exchange	**69,895**	100 % share in capital 100% share in voting rights at GSM State Treasury	traded on OTC market
other	Municipal bonds	**40,500**	local authorities	traded on public market - CETO
other	Municipal bonds	**56,700**	local authorities	traded on OTC market
Total	X	**167,791**	X	X

c) Off balance sheet liabilities (financial and guarantees) granted for related entities:

	31.12.2004	**31.12.2003**
Bankowy Fundusz Leasingowy S.A.	599,831	26,066
PKO Inwestycje Sp. z o.o.	5,585	1,250
PKO/Credit Suisse S.A.	67	193
Wawel Hotel Development Sp. z o.o.	-	77,405
PKO Towarzystwo Finansowe Sp. z o.o.	-	1,600
Powszechne Towarzystwo Emerytalne Bankowy S.A.	-	-
Dom Maklerski "Broker" S.A.	105,000	-
Kredyt Bank Ukraina S.A.	1,711	-
Centrum Elektronicznych Usług Płatniczych "eService" S.A.	50	-
Total	**712,244**	**106,514**

11. Information on proposed dividend payment, if it was not formally approved, and also on any undisclosed accumulated dividends on preference shares

PKO BP SA will devote for the payment of dividend to the shareholders 66% of the net profit. The value of the dividend for 1 share will amount to 1 PLN

12. Information on liabilities resulting from approved dividend payments

The Bank did not formally approve the value of the dividend.

13. Potential liabilities

a) Unfair competition proceedings

The Bank is a party to proceedings initiated based on the decision of the President of the Consumers and Competition Protection Office (UOKiK) dated 23 April 2001, with a claim asserted by Polska Organizacja Handlu i Dystrybucji – Związek Pracodawców [Polish Trade and Distribution Organisation – Association of Employers] against: VISA CEMEA – Visa International, Europay International S.A., Visa Forum Polska, Europay Forum Polska and banks participating in issuers' associations Visa Forum Polska and Europay Forum Polska, including the Bank, for using practices restricting competition on the market of services relating to the settlement of consumer liabilities towards accepting parties in respect of payments for goods and services acquired by the consumers in Poland with the use of payment cards. Such practices involved participation in the agreement for and setting the rates of the "interchange" fees charged on transactions made using Visa cards in Poland (which may be in breach of Art. 5.1.1 of the Act on Protection of Competition), participation in the agreement for and setting the rates of the "interchange" fees charged on transactions made using the Europay/Eurocard/Mastercard cards in Poland (which may be in breach of Art. 5.1.1 of the Act on Protection of Competition) and coordination of activities taken in order to restrict access to the market for entrepreneurs who do not belong to the above-mentioned associations of issuers (which may be in breach of Art. 5.1.1 and 6 of the Act on Protection of Competition). The proceedings have been extended several times. The last extension of the proceedings till 31 March 2005 was introduced by the letter of UOKiK dated 28 February 2005 due to the need to obtain the necessary data and information and analyse the collected evidence. UOKiK asked in the letter dated 1 September 2004 the parties of the proceedings to complete the evidence documentation.

In accordance with the Act on Protection of Competition, if an entrepreneur violates the provisions of Art. 5 of the Act on Protection of Competition, be it intentionally or unintentionally, the President of UOKiK may decide to impose on a fine not exceeding 10% of the revenue earned during the financial year preceding the year in which such fine was imposed.

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

As at the date of these financial statements, seven administrative proceedings are pending to invalidate decisions issued by public administration authorities with respect to properties held by the Bank or, in one case, by the Bank's subsidiary. These proceedings, in the case of an unfavourable outcome for the Bank, may result in re-privatisation claims being raised against the Bank. Only one of these proceedings relates to property which was classified by the Bank as material for its operations, i.e. property located in Warsaw at ul. Puławska 15, which houses Bank's Headquarters. Perpetual leasehold of land to this property is held by CFP Sp. z o.o. Given the current status of these proceedings, it is not possible to assess their potential negative financial effects for the Bank. Moreover, there were submitted claims relating to property by two former owners. In these cases there are conducted negotiations which aim at settling the legal status of these properties.

The Management Board of the Bank believes that the probability of significant claims being ascertained against the Bank resulting from proceedings described above in points 13 a) and 13 b) is remote.

The financial statements for the year ended 31 December 2004 do not include any adjustments in respect of potential liabilities as described in points 13 a) and 13 b) above.

14. Information on liabilities to the State budget or local authorities resulting from acquired property rights to buildings and constructions

The Bank had no liabilities towards the State budget or local authorities resulting from acquired property rights to buildings and constructions.

15. Information on income, costs and results of activities discontinued in the reporting period or activities that will be discontinued in the next period and the explanation of the reasons

In 2004 the Bank did not record any income or incur any costs from discontinued activities.

In the year 2003, the Bank charged to costs a discontinued investment amounting to PLN 11,688 thousand relating to advisory and consultancy services incurred for the Central IT System (Centralny System Informatyczny) in the years 1999-2002.

16. Cost of assets under construction and cost of fixed assets produced for own use

The Bank did not incur any costs for assets under construction or fixed assets produced for its own use.

17. Capital expenditures

The Management Board of PKO BP SA determined the level of capital expenditures for own investments in the year 2005 at the amount of PLN 1,105,000 thousand, of which the amount of PLN 182,163 thousand is assigned to projects and the amount of PLN 922,837 thousands to investment undertakings (data not verified).

The volume of capital expenditures incurred by PKO BP SA in relation to purchase of tangible and intangible fixed assets was as follows:

- in the period from 1 January 2004 to 31 December 2004 amounting to PLN 516,267 thousand,
- in the period from 1 January 2003 to 31 December 2003 amounting to PLN 344,561 thousand.

PKO BP SA SAB-R 31 December 2004 PLN thousand

18. Related party transactions

All transactions with capital related companies were executed on an arm's length basis. The maturities of these transactions vary from 1 month to 10 years.

a) The table below presents transactions of PKO BP SA with capital related entities:

- **as at 31 December 2004**

Entity	Type of relation	Net receivables	Of which: gross loans	Liabilities	Total income	Of which: interest and fees and commission income	Total costs	Of which: interest and fees and commission cost	Costs of provisions	Off-balance sheet liabilities granted
Bankowy Fundusz Leasingowy S.A.	Subsidiary	432,325	361,453	4,390	20,931	19,702	173	15	-	599,831
Powszechne Towarzystwo Emerytalne BANKOWY S.A.	Subsidiary	-	-,	3,106	47	47	80	80	-	-
Centrum Elektronicznych Usług Płatniczych "eService" S.A.	Subsidiary	17,056	17,037	4,486	13,438	13,425	10,997	10,997	-	50
Centrum Finansowe Puławska Sp. z o.o.	Subsidiary	78,253	78,253	5,813	2,328	2,295	68,910	451	-	-
Inteligo Financial Services S.A.	Subsidiary	2,500	2,500	9,703	370	368	41,704	136	-	-
PKO Inwestycje Sp. z o.o.	Subsidiary	2	-	279	726	726	125	118	-	5,585
Kredyt Bank Ukraina S.A.	Subsidiary	27,466	-	541	122	122	-	-	-	1,711
Dom Maklerski BROKER S.A.	Subsidiary	-	-	-	286	240	-	-	-	105,000
PKO/Credit Suisse Towarzystwo Funduszy Iwestycyjnych S.A.	Joint venture	-	-	188	1,132,	1,093	-	-	-	67
Wawel Hotel Developmet Sp. z o.o.	Joint venture	120,637	115,950	7,371	256	224	122	122	-	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Associate	-	-	2,347	4	1	27	11	-	-
Agencja Inwestycyjna CORP S.A.	Associate	203	-	-	1	-	2,169	-	-	-
Ekogips S.A. (in bankruptcy)	Associate	-	-	-	-	-	-	-	-	-
Hotel Jan III Sobieski Sp. z o.o.	Associate	41,952	83,793	1	2,287	2,287	219	-	-	-
Kolej Gondolowa Jaworzyna Krynicka S.A.	Associate	3,750	3,750	439	796	796	96	56	-	-
Bank Pocztowy S.A.	Associate	-	-	-	-	-	-	-	-	-
Finanse – Agent Transferowy	Indirect subsidiary	-	-	2,063	3	3	56	56	-	-
Total		**726,879**	**665,236**	**40,727**	**42,727**	**41,329**	**124,678**	**12,042**		**712,244**

PKO BP SA SAB-R 31 December 2004 PLN thousand

Entity	Type of relation	Net receivables	Of which: gross loans	Liabilities	Total income	Of which: interest and fees and commission income	Total costs	Of which: interest and fees and commission cost	Costs of provisions	Off-balance sheet liabilities granted
Entities under liquidation										
PKO Towarzystwo Finansowe Sp. z o.o. (under liquidation)	Subsidiary	211	-	-	5	5	18	16	-	-
International Trade Center Sp. z o.o. (under liquidation)	Subsidiary	-	-	-	-	-	-	-	-	-
Elbank Sp. z o.o. (under liquidation)	Subsidiary	-	-	-	-	-	-	-	-	-
Total		**211**	**-**	**-**	**5**	**5**	**18**	**16**	**-**	**-**

As at 31 December 2004, the Bank's net receivables from and liabilities to related entities accounted for 0.83% and 0.05% of the balance sheet total respectively.

PKO BP SA SAB-R 31 December 2004 PLN thousand

- **as at 31 December 2003**

Entity	Type of relation	Net receivables	Of which: gross loans	Liabilities	Total income	Of which: interest and fees and commission income	Total costs	Of which: interest and fees and commission income	Costs of provisions	Off-balance sheet liabilities granted
Bankowy Fundusz Leasingowy S.A.	Subsidiary	384,290	294,879	3,232	13,318	12,445	451	175	-	26,066
PKO/Handlowy Powszechne Towarzystwo Emerytalne S.A.	Subsidiary	-	-	1,530	335	314	28	28	-	-
Centrum Elektronicznych Usług Płatniczych „eService” S.A.	Subsidiary	26,478	21,017	10,725	41,300	41,287	293	290	-	-
Centrum Finansowe Puławska Sp. z o.o.	Subsidiary	127,434	125,848	8,160	2,712	2,674	73,487	915	-	-
Inteligo Financial Services S.A.	Subsidiary	-	-	1,199	323	320	19,931	180	-	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Subsidiary	-	-	1,896	10	1	30	9	-	-
PKO Inwestycje Sp. z o.o.	Subsidiary	7,050	6,647	4,935	780	619	72	54	-	1,250
PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.	Joint venture	1,200	-	1,673	32,238	25,026	-	-	-	193
Wawel Hotel Development Sp. z o.o.	Joint venture	69,686	68,115	64	83	83	52	52	-	77,405
Agencja Inwestycyjna CORP S.A.	Associate	187	-	-	78	-	2,256	-	-	-
Ekogips S.A. (w upadłości)	Associate	668	2,948	-	-	-	-	-	-	-
Hotel Jan III Sobieski Sp. z o.o.	Associate	50,470	100,812	25,720	3,072	3,072	4,695	-	18,411	-
Kolej Gondolowa Jaworzyna Krynicka S.A.	Associate	5,838	3,750	307	1	1	50	13	-	-
Finanse – Agent Transferowy Sp. z o.o.	Indirect subsidiary	-	-	1,372	7	7	32	32	-	-
Total		**673,301**	**624,016**	**60,813**	**94,257**	**85,849**	**101,377**	**1,748**	**18,411**	**104,914**

PKO BP SA SAB-R 31 December 2004 PLN thousand

Entity	Type of relation	Net receivables	Of which: gross loans	Liabilities	Total income	Of which: interest and fees and commission income	Total costs	Of which: interest and fees and commission income	Costs of provisions	Off-balance sheet liabilities granted
Entities under liquidation										
PKO Towarzystwo Finansowe Sp. z o.o. (under liquidation)	Subsidiary	-	-	296	421	389	180	226	2,700	1,600
International Trade Center Sp. z o.o. (under liquidation)	Subsidiary	6	-	-	-	-	-	-	-	-
Elbank Sp. z o.o. (under liquidation)	Subsidiary	-	-	-	-	-	-	-	-	-
Wrocławskie Zintegrowane Centrum Logistyczne S.A. (under liquidation)	Associate	-	-	22	1	1	46	46	-	-
Total		**6**	**-**	**318**	**422**	**390**	**226**	**272**	**2,700**	**1,600**

As at 31 December 2003, the Bank's net receivables from and liabilities to related entities accounted for 0.80% and 0.07% of the balance sheet total respectively.

PKO BP SA SAB-R 31 December 2004 PLN thousand

b) Transactions with State budget

According to the Law dated 30 November 1995 on state support in the repayment of certain housing loans, the refund of guarantee premium to banks and amendments to certain acts (Journal of Laws of 2003, No. 119, item 1115, together with subsequent amendments), PKO BP SA receives payments from the State budget due to the repurchase of interest on housing loans. As part of realisation of the statutory obligations of the State budget, in 2004 the Bank recognised income amounting to PLN 205,896 thousand (in 2003 – PLN 255,600 thousand) from temporary repurchase by the State budget of interest on housing loans from the "old" portfolio. During this period, the Bank received PLN 160,507 thousand in cash (in 2003 – PLN 253,160 thousand,) due to the temporary repurchase by the State treasury of interest on housing loans from the "old" portfolio for the year 2004, and the amount of PLN 6,453 thousand as a settlement for the fourth quarter of 2003 (in 2003 – PLN 5,366 thousand for the fourth quarter of the year 2002). The difference of PLN 45,389 thousand (in 2003 – PLN 2,440 thousand) between income recognised for the year on the accruals basis and income received in cash is reflected in the balance sheet of the Bank under "Amounts due from the public sector".

PKO BP SA also receives a commission for the settlements relating to the repurchase of interest on housing loans. In 2004 PKO BP SA received a commission for the fourth quarter of 2003 amounting to PLN 1,646 thousand (in 2003 – PLN 1,135 thousand for the fourth quarter of 2002) and a commission for the first, second and third quarter of 2004 amounting to PLN 3,018 thousand (in 2003 – PLN 2,263 thousand for the first, second and third quarter of 2003). This commission is included in the profit and loss account under "Fees and commission income" as part of "Fees and commission from banking operations".

The balance sheet of the Bank includes receivables, securities and liabilities arising from transactions with the State Treasury, local authorities and entities for which the State Treasury is the shareholder. The largest loan exposures were disclosed in Note 1a) "Structure of loan portfolio". These transactions were concluded on market conditions.

As of 1 January 1996 the Bank became the general distributor of duty stamps. In 2004 the amount received in this respect from the State budget amounting to PLN 46,794 thousand (in 2003 – PLN 42,740 thousand). The total amount was recognised in the Bank's income and included under "Fees and commission income" as part of "Fees and commission from banking operations".

In 2004 the Bank also recognized commission income amounting to PLN 13,054 thousand (in 2003 - PLN 24,840 thousand) for the activities relating to the servicing of compensation payments for pensioners who in 1991 lost the increases or additions to their pensions payable for performing work in specific conditions or of a specific nature as well as for public sector employees whose salaries were not adjusted in the first half of 1991 and in the first half of 1992. This amount was included under "Fees and commission income" as part of "Fees and commission from banking operations".

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

19. Information on joint-venture projects not included in consolidation

As at 31 December 2004 and as at 31 December 2003 the Bank did not carry out any joint-venture projects not included in consolidation.

20. Information on income and costs related to brokerage activities conducted by the Bank

The Bank conducts brokerage activities through Bankowy Dom Maklerski, an internal organisational unit that prepares independent financial statements.
Gross profit of Bankowy Dom Maklerski PKO BP SA was as follows:

	01.01-31.12.2004	01.01-31.12.2003
Income	137,831	83,425
Cost	(80,823)	(60,280)

PKO BP SA SAB-R 31 December 2004 PLN thousand

Gross profit of BDM	**57,008**	**23,145**

21. Write-offs of irrecoverable receivables

During the period from 1 January 2004 to 31 December 2004 PKO BP SA charged the following amounts against bad debt provisions: PLN 2,810 thousands in respect of bad debts from the financial sector (in 2003 - PLN 2,877 thousand) and PLN 221,786 thousand in respect of bad debts from the non-financial sector (in 2003 PLN 81,349 thousand).

22. Information on costs related to creation of provisions and accruals for future liabilities to employees

	01.01-31.12.04	**01.01-31.12.03**
Provisions for bonuses for employees	48,191	45,164
Holiday accrual	10,149	432
Provision for jubilee and retirement bonuses	10,856	34,598
Other provisions (bonuses)	3,145	4,456
Total	**72,341**	**84,650**

23. Information on costs relating to the financing of employee pension programs

During the year 2004 and as at 31 December 2004, as well as during the year 2003 and as at 31 December 2003 the Bank did not finance any employee pension program.

24. Information on average employment by category

Employment structure in PKO BP according to age

Age (years)	**31.12.2004** Number of employees	**31.12.2004** Share in total employees	**31.12.2003** Number of employees	**31.12.2003** Share in total employees
up to 25	1,770	4.8%	2,350	6.3%
26-35	12,577	34.5%	12,778	33.9%
36-45	10,865	29.8%	11,222	29.8%
46-55	10,492	28.7%	10,535	28.0%
56 and more	808	2.2%	771	2.0%
Total	**36,512**	**100.0%**	**37,656**	**100.0%**

There were minor changes in the employment age structure in 2004. There was a decrease in the percentage of youngest employees (up to 25 years), which amounted to 4.8% in 2004 and 6.3% in 2003. Persons at the age of 26-35 continue to represent the largest group of the Bank's employees.

Employment structure in PKO BP according to education

Education	**31.12.2004** Number of employees	**31.12.2004** Share in total employees	**31.12.2003** Number of employees	**31.12.2003** Share in total employees
Higher	15,326	42.0%	14,162	37.6%
Secondary	20,744	56.8%	22,976	61.0%
Below secondary	442	1.2%	518	1.4%
Total	**36,512**	**100,0%**	**37,656**	**100.0%**

In 2004 the number of employees with higher education increased. The number of employees with secondary education decreased.

	01.01-31.12.2004	**01.01-31.12.2003**
average headcount	36,931	38,156

PKO BP SA SAB-R 31 December 2004 PLN thousand

25. Total amount of benefits paid to members of Management Board and Supervisory Board in accordance with Art. 99.1 of the Decree of the Council of Ministers dated 11 August 2004 on detailed requirements concerning prospectus and short-form prospectus (Journal of Law No. 186; item 1921).

- **31 December 2004**

PKO BP SA Supervisory Board members' remuneration

Name	Position	Amount
Samojlik Bazyl	Chairman of the Supervisory Board	29
Kokoszczyński Ryszard	Deputy of the Chairman Nadzorczej	29
Kamiński Arkadiusz	Secretary of the Board	29
Giryn Andrzej	Member of the Board	29
Kasiewicz Stanisław	Member of the Board	29
Osiatyński Jerzy	Member of the Board	29
Szymański Władysław	Member of the Board	29
Total		**208**

PKO BP SA Management Board members' remuneration

Name	Position	Amount
Podsiadło Andrzej	President of the Board	251
Małecki Kazimierz	Vice-President and DeputyPresident	248
Demianiuk Danuta	Vice-President of the Board	221
Kamiński Piotr	Member of the Board	193
Obłękowski Jacek	Member of the Board	221
Szewczyk Krystyna*	Member of the Board	143
Total		**1 277**

* Board Member since 14 May 2004.

The Management Board members' remuneration consists of the salary for the 2004, bonuses for the 2003 and additional benefits.

Total gross remuneration (including bonuses from the profit) of the Bank's Management Board members received in 2004 from:

subsidiaries	121
joint ventures	117
associates	34
others	19
Total	**291**

The Supervisory Board members did not receive any remuneration from the subsidiaries, joint ventures and associates.

- **31 December 2003**

Total remuneration received by the members of the Bank's Management Board in 2003 amounted to PLN 1,797 thousand and by the members of the Supervisory Board amounted to PLN 179 thousand.

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Total gross remuneration (including benefits from profit) received by the members of the Bank's Management Board from subsidiaries, joint ventures and associates of PKO BP SA in 2003 amounted to PLN 101 thousand.

The members of the Supervisory Board did not receive any remuneration from subsidiaries, joint ventures and associates.

26. Loans, credits, guarantees and other benefits provided by the Bank to related parties

a) Loans, credits and guarantees granted to employees, members of the Management Board and Supervisory Board of PKO BP SA and relatives of the Management Board and Supervisory Board of the PKO BP

	01.01-31.12.04	01.01-31.12.03
Employees	389,624	335,833
Members of the Management Board	7	-
Members of the Supervisory Board	-	-
Relatives of the Management Board and Supervisory Board Members	-	-
Total	**389,631**	**335,833**

Terms of interest and repayment periods for these receivables do not differ from market terms. As at 31 December 2004 and as at 31 December 2003 the Bank did not grant any significant loans, credits and guarantees to persons related to the members of Management Board and the members of Supervisory Board.

b) Loans, credit and guarantees granted by the Bank to subsidiaries, joint ventures and associates

Transactions (including loans, credits, guarantees) with related entities have been described in detail in Note 18 of the Additional Notes and Explanations to the financial statements of the Bank.

27. Information on custodial activities

The Bank is a direct participant of the National Custody for Securities. As at 31 December 2004 the Bank had an open securities account for entity.

28. Securitisation of assets

PKO BP SA did not perform securitisation of any of its receivables.

29. Significant prior year events included in the financial statements for the current period

There were no significant events relating to prior years that would have impact on the data presented in these financial statements.

30. Significant events after the balance sheet date

- On 1 January 2005 the following resolutions come into force:
  - The Resolution No. 4 of the Banking Supervisory Committee dated 8 September 2004 regarding the scope and detailed rules of calculating of capital requirements related to particular risk types and the scope of use of statistical methods and conditions which fulfilment might grant the permission for their use, the method and detailed rules of calculating of capital adequacy ratio, the scope and method of including the operation of banks in holdings in calculating of capital requirements and capital adequacy ratio and describing Bank's additional balance sheet positions classified together with own funds in the account of capital adequacy and the scope, method and method of their calculating (Journal of Laws of NBP, No. 15, item 25). The Resolution No. 5/2001 of the Banking Supervisory Committee dated 12 December 2001 (Journal of Laws of NBP, No. 22, item 43, together with subsequent amendments) has expired.
    The most important amendments in comparison to previous regulations:
    - modification of the formula for the calculation of bank's capital adequacy ratio,
    - lowering of the factors in the calculation of capital requirements for specific risk of equity securities using basic method,
    - broader definition of exposure,

- including securitization and subparticipation in the calculation of capital requirements for credit risk,
- including credit derivatives in the calculation of capital requirements for credit risk,
- unification of the treatment of mortgages with the system of creation of specific provisions.

- The Resolution No. 5 of the Banking Supervisory Committee dated 8 of September 2004 regarding detailed rules and conditions of reducing own funds by shares in financial institutions, lending institutions, banks and insurance companies and the scope and method of considering the operation of banks in holdings in the calculation of own funds (Journal of Laws of NBP, No. 15, item 26). The Resolution No. 6/2001 of the Banking Supervisory Committee dated 12 December 2001 (Journal of Laws of NBP, No. 22, item 44) has expired.
- The Resolution No. 6 of the Banking Supervisory Committee dated 8 of September 2004 regarding detailed rules and conditions of including exposures in the verification of concentration limits, limits of large exposures, determining other exposures in relation to which the rules regarding concentration limits and large exposures and the scope and method of including operations of banks in holdings in the calculation of concentration limits (Journal of Laws of NBP, No. 15, item 27). The Resolution No. 7/2001 of the Banking Supervisory Committee dated 12 December 2001 (Journal of Laws of NBP, No. 22, item 45, together with subsequent amendments) has expired.

  The above resolution adjusts the detailed rules relating to concentration limits to the changes incorporated by the amendment of the banking law. In comparison to previous regulations the major amendment includes the substitution of receivable concentration limit by the exposure concentration limit which includes not only receivables and off-balance sheet liabilities but also stocks or shares in other entity held by the Bank indirectly or directly, contributions made to limited liability company or contributions or the sum in limited partnership.

- On 13 January 2005 the rating agency Moody's increased the rate of financial strength of PKO BP SA from D^+ with positive perspective to C^- w positive perspective. Other rates have not changed.
- On 1 February 2005 the Bank obtained the report from the rating agency Capital Intelligence of December 2004 regarding PKO BP SA. In this report the rate of support of PKO BP SA has been decreased from 1 to 2 (other rates have not been changed). The change of the rate has been explained by the decrease of the share of the State Treasury in the Bank's share capital.
- On 4 January 2005 the Bank's Management Board passed a resolution approving the acquisition of shares in Centrum Obsługi Biznesu Sp z o.o. located in Poznań by the Bank. On 6 January 2005 the Bank made a statement about the acquisition of 34,992 shares in Centrum Obsługi Biznesu Sp. z o.o. and on 11 January 2005 the Bank transferred the funds in the amount of PLN 17,496 thousand for the acquired shares.
  After registration of the capital increase, which took place on 25 January 2005, PKO BP SA has 41.44% in the company's share capital. The main business of the company is construction and maintenance of a hotel located in Poznań. The hotel will be managed by the international chain operator Sheraton.
- On 12 of January 2005 the Bank made a contribution to the company PKO Inwestycje Sp. z o.o in the amount PLN 1,020 thousand assigned for the realization of the investment project "Miasteczko Wilanów".
- On 31 January 2005 the guarantee granted by PKO BP SA to the subsidiary Dom Maklerski BROKER S.A for the Krajowy Depozyt Papierów Wartościowych S.A. in the amount of PLN 105 million expired. The guarantee secured the payments for the Fundusz Gwarantowania Rozliczeń Transakcji Giełdowych (The Fund of the guarantee of settlements of the stock exchange transactions).
- Based on the decision of the Committee of the Supervision and Regulation of the National Bank of Ukraine dated 2 February 2005 Kredyt Bank (Ukraina) S.A. has been granted the status of a specialist savings bank. This causes a change in the economic regulations for the bank.
- Based on the decision of the National Bank of Ukraine Kredyt Bank (Ukraina) S.A. was classified to the Group II – "big banks" i.e. to the group of banks whose assets exceed UAH 1,300 million,
- On 15 February 2005 the Commission of Securities and Stock Exchanges issued the decision on the withdrawal of the permission for Dom Maklerski BROKER S.A. for performing brokerage activities due to the change in core activity of the Company.
- The process of liquidation of the Bank's subsidiary company – PKO Towarzystwo Finansowe Sp. z o.o. has been finished. On 22 February 2005 the Company was removed from the Court's Register (KRS).
- On 24 March 2005 Bank signed annex no. 14 to the agreement dated 27 October 2003 signed in Warsaw between PKO BP SA and Softbank SA concerning the acquisition of the licence for software for Mainframe computers. Regarding this fact Bank released reserve for the investments Euro 12,011 thousand and USD 1,705 thousand.

31. Significant events of the current financial year and the presented comparative periods that resulted in a significant change of the balance sheet item structure or the financial result

- The acquisition of shares in Bank Pocztowy.
  On 23 June 2004, on the basis of the agreement, Prokom Investment made the commitment to sell 243,227 registered ordinary shares in Bank Pocztowy S.A. ("Bank Pocztowy") to the Bank at the nominal value PLN 100 each, constituting 25% plus one share in the share capital and in votes at the general shareholders meeting of Bank Pocztowy. On 7 July 2004 the Banking Supervisory Committee issued the permission for the State Treasury, which would indirectly acquire shares in Bank Pocztowy for exercising through subsidiaries of PKO BP and PPUP Poczta Polska over 75% votes at the shareholders meeting of Bank Pocztowy. On 26 July 2004 the president of UOKiK issued the permission for concentration of shares due to the acquisition of Bank Pocztowy by the Bank. As a consequence, on 5 August 2004 the transfer of ownership of 25% plus one share of Bank Pocztowy for PKO BP was realized. The purchase price amounted to PLN 146,500 thousand. The above acquisition was preceded with and analysis conducted by the Bank based on the existing strategy of Bank Pocztowy taking into account the potential advantages deriving from agreements concluded by Bank Pocztowy. Considering the price paid for the shares and the corresponding value of the share in net assets of Bank Pocztowy, for the purpose of equity pick-up valuation method the Bank recognized goodwill amounting to PLN 110,726 thousand which is amortized over the period a 3 years. The amortization period was chosen following the prudence concept considering the period for which the current agreements of Bank Pocztowy with external institutions are signed. At present, PKO BP SA in cooperation with the other shareholder and the new Management Board of the Bank intend to commence works relating to the preparation and implementation of a new strategy. As PKO BP SA holds 25% plus one share Bank Pocztowy, the Bank has a possibility to exercise significant influence on the operations of Bank Pocztowy through the Bank's members in the Bank Pocztowy Supervisory Board, however the Bank does not exercise control over the Bank Pocztowy operations. As a result, the recognition of goodwill as well as the estimated amortization period might be subject to adjustment within twelve months of the acquisition date as the Bank acquires more complete information concerning financial standing of Bank Pocztowy, as well as result of changes in the strategy of that bank.
  The core activity of the bank is offering financial products and services, particularly to the clients of Poczta Polska (Polish Post). The differentiating factor of the Bank Pocztowy from other financial institutions is the access to almost all its products and services in post offices located throughout the country.
- On 12 August 2004 the Extraordinary General Meeting of Shareholders based on the Resolution introduced the amendment to the Statue of the Bank. Based on the decision of 25 August 2004 the Court Register registered the above amendment. The most important change is the division of the share capital in the amount of PLN 1,000,000 thousand into 1,000,000,000 shares of the nominal amount of PLN 1 each. The above split was conducted in relation 1:10.
- The acquisition of shares in Kredyt Bank (Ukraina) S.A.
  On 26 August 2004 the Bank acquired 66.65% of shares in Kredyt Bank (Ukraina) Spółka Akcyjna ("KBU") from Kredyt Bank S.A.. The purchase price amounted to PLN 109,531 thousand. Taking into account the appropriate share in the net assets of the KBU at the day of acquisition, PKO BP SA has recognized, for the purpose of valuation under the equity pick–up method, goodwill amounting to PLN 47,514 thousand. Based on the Bank's, the goodwill will be amortized over five years, i.e. during the period when associated future benefits will flow to the Bank as acquirer.
  KBU is a commercial bank, rendering standard banking services for corporate and retail customers. KBU specializes in servicing small and medium sized companies.
- The acquisition of shares in Dom Maklerski BROKER S.A.
  On 8 September 2004 PKO BP acquired 212,439 shares in Dom Maklerski Broker S.A. ("DM Broker"), constituting 100% of share capital and giving right to exercise 100% votes at the general shareholders meeting. The purchase price amounted to PLN 18,567 thousand. Due to the fact that the net assets of the DM Broker as at the day of acquisition amounted to PLN 18,655 thousand, a negative goodwill amounting to PLN 88 thousand was recognized directly in the Bank's financial result for the year 2004.
  The core activity of the company in 2004 was the provision of brokerage services in Poland. In 2005 the operations of DM Broker were taken over by Bankowy Dom Maklerski (BDM), which should allow for the increase in the Bank's market share in the brokerage market, expansion and modernisation of the offer and acquisition of a number of foreign institutional clients. After the acquisition of the brokerage operations by BDM, the core activity of the company will change.
- In 2004 the process of privatization of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna was successfully completed. The above matter is further described in Note 39 of the Additional Notes and Explanations to the consolidated financial statements.

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32. Information on the relation between the Bank and its legal predecessor

On 28 January 2000, on the basis of the Decree of the Council of Ministers dated 18 January 2000 (Journal of Laws of 2000, No. 5, item 55) and the Announcement of the Prime Minister dated 4 February 2004 on the adjustment of errors, Powszechna Kasa Oszczędności – bank państwowy (state bank), was transformed into a single member joint-stock company of the State Treasury under the name Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna. On the basis of the above-mentioned decree, the closing balances of PKO-bp became the opening balances of PKO BP SA, the statutory fund became share capital and the remaining PKO-bp assets were donated to PKO BP SA.

33. Basic items of balance sheet and profit and loss account, adjusted with appropriate inflation rate

The cumulative average inflation rate for the period of the last three years of the Bank's operations did not exceed 100%. Therefore, these financial statements have not been adjusted for inflation.

34. Explanation of differences between the previously published financial statements and these financial statements

The data concerning the years ended 31 December 2004 and 31 December 2003 was presented in the format prescribed with the Decree of the Council of Ministers dated 11 August 2004 on detailed requirements concerning prospectus and short-form prospectus (Journal of Laws No. 186, item 1921). The data for the year ended 31 December 2003 was prepared in a way that assures comparability through the application of the same accounting policies that were applied by the Bank when preparing the financial statements for the year ended 31 December 2004.

The tables below present the restatement data as at 31 December 2003 for comparability purposes.

Items subject to changes	As at 31.12.2003 presented previously	Adjustments affecting the result and equity	As at 31.12.2003 after adjustments
ASSETS			
VIII. Investments subsidiaries	299 657	1 722 (1)	301 379
XIII. Other securities and financial assets	200 454	60 999 (1)	261 453
XIV. Intangible assets	265 941	(2 618) (2)	263 323
XVI. Tangible fixed assets	2 066 421	(3 406) (3)	2 063 015
Total assets	**84 371 642**	**56 697**	**84 428 339**

Items subject to changes	As at 31.12.2003 presented previously	Adjustments affecting the result and equity	As at 31.12.2003 after adjustments
LIABILITIES AND EQUITY			
VII. Other liabilities arising from financial instruments	113,965	112,442 (1)	226,407
IX. Accruals and deferred income	3,032,986	(64,619) (4)	2,968,367
X. Provisions	1,300,734	2,424 (5)	1,303,158
XXII. Retained earnings (loss) from previous years	-	41,938 (6)	41,938
XXIII. Net profit (loss)	1,228,194	(35,488) (1) (4) (5)	1,192,706
Total liabilities and equity	**84,371,642**	**56,697**	**84,428,339**

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Item	As at 31.12.2003 presented previously	Reclassifications	As at 31.12.2003 after adjustments
OFF-BALANCE SHEET ITEMS			
II. Liabilities arising from purchase/sale transactions	59,126,416	10,977,490 (7), (11)	70,103,906
III. Others	97,355	2,980,286 (8)	3,077,641
Total off-balance sheet items	**78,430,603**	**13,357,776**	**92,388,379**

In 2004 the Bank changed the presentation of off-balance sheet revocable and irrevocable liabilities.

Items subject to changes	Year ended 31.12.2003 presented previously	Reclassifications	Year ended 31.12.2003 after reclassifications
PROFIT AND LOSS ACCOUNT			
I. Interest income	5,133,594	(34,052) (4)	5,099,542
VIII. Result from financial operations	378,172	(318,275) (1) (9)	59,897
IX. Foreign exchange result	218,445	313,719 (9)	532,164
X. Result from banking activities	5,442,531	(38,608) (1) (4)	5,403,923
XI. Other operating income	239,052	(976) (1)	238,076
XIII. Overhead costs	(3,109,319)	10,837 (1)	(3,098,482)
XIV. Depreciation of tangible assets and amortization of intangible assets	(469,829)	1,381 (1)	(468,448)
XVIII. Operating result	1,686,951	(27,366) (1) (4)	1,659,585
XX. Gross profit (loss)	1,687,352	(27,366) (1) (4)	1,659,986
XXI. Taxation	(406,336)	(9,844) (5)	(416,180)
XXIII. Share in net profit (loss) of companies valued under the equity pick-up method	(52,822)	1,722, (1)	(51,100)
XXIV. Net profit (loss)	1,228,194	(35,488) (1) (4) (5)	1,192,706

Items subject to changes	Year ended 31.12.2003 presented previously	Reclassifications	Year ended 31.12.2003 after reclassifications
CASH FLOW			
A. Cash flow from operating activities			
I. Net profit (loss)	1,228,194	(35,488) (1) (4) (5)	1,192,706
II. Total adjustments:	(7,292,767)	(407,348)	(7,700,115)
1. Share in profit (loss) of subsidiaries, joint ventures and associates valued under the equity pick-up method	52,822	(1,722), (1)	51,100
2. Depreciation and amortization	469,829	(1,381) (1)	468,448
4. Interest and share in profits (dividends)	(4,401)	(442,836) (10)	(447,237)
6. Change in provisions	41,714	2,424 (5)	44,138
11. Change in shares, other securities and other financial assets	393,249	(60,999) (1)	332,250
18. Change in prepayments and accruals	483,010	(64,619) (4)	418,391
19. Other adjustments	689,151	161,785 (1) (4) (5) (6)	850,936
III. Net cash flow from operating activities	(6,064,573)	(442,836) (10)	(6,507,409)
B. Cash flow from investing activities			
I. Inflows	5,908,633	442,836 (10)	6,351,469
7. Other investment inflows	4,401	442,836 (10)	447,237
III. Net cash flow from investing activities	5,393,935	442,836 (10)	5,836,771

Description of changes:

(1) Adjustment of item „Other securities and financial assets" , including:

- Valuation of embedded derivatives as at 31 December 2003 valued according to the principles binding as at that date;
- Change in the presentation of derivative instruments.

(2) Adjustment of the value of intangible assets due to changes in recognition and valuation rules for embedded financial instruments.

(3) Adjustment of the value of tangible fixed assets due to changes in recognition and valuation rules for embedded financial instruments.

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(4) Recognition of accrued interest on receivables classified as “watch” in the financial result.
(5) Change in deferred tax liability balances.
(6) Retained earnings from previous years due to changes in accounting policies, including:
- Adjustment due to changes in recognition and valuation rules for embedded financial instruments;
- Recognition of accrued interest on receivables classified as “watch” in the financial result;
- Deferred tax related to the above adjustments.

(7) Adjustment due to changes in recognition and valuation rules for embedded financial instruments.
(8) Presentation of legal collaterals.
(9) Change in presentation of the result from financial instruments.
(10) Reclassification of interest on securities from held to maturity portfolio.
(11) Change in the presentation of derivative instruments in off-balance sheet liabilities.

In accordance with guidelines concerning analysis of receivables from the financial and non-financial sector per maturity provided by the General Inspector for the Banking Supervision overdraft receivables should include both normal and watch overdraft receivables. Irregular overdraft receivables are disclosed under overdue receivables. Restated comparative data as at 31 December 2003 is presented in the table below:

	As at 31.12.2003 presented previously	Reclassifications	As at 31.12.2003 after reclassifications
Gross amounts due from the financial sector by maturity			
a) current	911,527	(557)	910,970
b) term	7,606,513	557	7,607,070
Gross amounts due from the non-financial sector by maturity			
a) current	5,551,657	(743,240)	4,808,417
b) term	25,361,899	743,240	26,105,139
Gross amounts due from the public sector by maturity			
a) current	24,258	(167)	24,091
b) term	7,192,992	167	7,193,159

35. Changes in applied accounting policies and the way of preparation of the financial statements.

On 1 January 2004, the amendments to the Accounting Act dated 29 September 1994 and to the Decree of the Minister of Finance dated 10 December 2001 on the specific rules of accounting for banks came into effect (Journal of Laws No. 149, item 1672, together with subsequent amendments). The resulting most significant changes are as follows:

- including interest accrued on “watch” receivables as income in the financial result for the reporting period;
- extending until 1 January 2005 the deadline for the obligatory application of the amortized cost method using the effective interest rate for valuation of the following items: financial assets held for trading, loans and credits granted and other receivables originated by the bank, financial liabilities which are not earmarked for trading and which are not financial derivative instruments;
- including more details on the principals of creating specific provisions, with no requirement to write off borrower’s debt.

On 1 January 2004, the Resolution No. 1/2003 of the Banking Supervisory Committee dated 4 June 2004 came into force amending the Resolution No. 5/2001 of the Banking Supervisory Committee dated 12 December 2001 on the scope and specific polices for determining capital requirements with respect to specific risks types, including exceeding concentration limits, the manner and specific principles of calculating solvency ratio, taking into account banks’ relations with its subsidiaries or entities operating as part of the same holding, and on determining additional balance sheet items disclosed in the bank’s statement of capital adequacy together with the bank’s own fund, and the scope and manner of their disclosure (Journal of Laws of NBP, No. 11, item 16).
The Resolution introduced the requirement to divide loans and credits/deposits and placements into trading and banking book.

Other changes refer to the following:

- change in the definition of short-term capital;
- excluding non-liquid assets from the statement of short-term equity, previously recognised as a „minus" item;
- change in the definition of result from trading operations with respect to trading book.

As a result of the above changes, the short-term capital is included in the numerator when calculating solvency ratio.

Moreover, the Decree of the Minister of Finance dated 23 February 2004 amending the Decree on the specific rules for recognition, methods of measurement, scope of disclosure and method of presentation of financial instruments (Journal of Laws, No. 31, item. 266) came into force on 8 March 2004. The provisions of this Decree changed, among others, the principles of disclosure and valuation of embedded derivatives.
The effects of the above changes concerning the disclosure of interest on "watch" receivables and the disclosure and valuation method of embedded derivatives were described in Note 34 of the Additional Notes and Explanations to the financial statements.

36. Adjustments arising from fundamental errors

As no fundamental errors were identified, the financial statements of PKO BP SA do not contain any fundamental error adjustments.

37. Business combinations

During the years covered by these financial statements, the Bank did not merge with any other entity.

38. Going concern

As it was described in Point 7 of the Introduction to 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 the twelve months following the balance sheet date due to an intended or compulsory withdrawal or limitation of its activity.

39. Activities related to the privatization of PKO BP SA

Transformation of Powszechna Kasa Oszczędności – bank państwowy into a state owned joint-stock company under the name Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna on 12 April 2000 initiated preparations to the Bank's privatisation. The decision concerning the Bank's commercialisation started a public debate on the formula of PKO BP SA privatisation in the context of high share of foreign capital in the Polish banking sector. On 10 May 2000 the Polish Parliament resolved that the privatisation of PKO BP SA should be conducted taking into account the intentions of the society and the Polish Parliament, and in the manner that assures the reason of State.

On 7 August 2001 the Council of Ministers approved the privatisation of PKO BP SA and accepted the Strategy of the Bank's privatisation through the sale of shares in public offer. The Strategy was to guarantee that the Polish character of the Bank and the control of the State Treasury over PKO BP SA will be maintained.

The privatisation of PKO BP SA was taken into account in the "Strategy of PKO BP SA for the years 2003-2005" prepared by the Management Board of the Bank. The document, approved by the Bank's Supervisory Board on 7 November 2002, indicates that the realization of strategic goals of the Bank is closely linked to the necessity to carry out privatisation of PKO BP SA in the manner that ensures maintaining the Polish character of the Bank and guarantees keeping the required level of capital and finding partners ready to start the cooperation on new markets. New management system of the Bank, supported by modern IT solutions, will be aimed at maximization of the Bank's value, taking into account clients, shareholders and employees interest.

In November 2002 the Ministry of the State Treasury announced its intention to start tender proceedings with view to select an advisor to the Ministry of the State Treasury in the PKO BP SA privatisation process. The Bank participated in the works related to the preparation of the tender, submitted representations required to initiate the procedure, prepared and updated all information concerning the Bank which represented significant terms and conditions for tender participants.

As part of its preparatory work to carry out the ownership transformation process efficiently, the Bank verified information resources and reviewed documents kept in all units of the Head Office, as required for the preparation of pre-privatisation analyses and share prospectus. The new Strategy implementation schedule covered the necessity to update the information and adjust the reporting procedures for their applicability in the privatisation process.

On 6 March 2003 the Minister of the State Treasury announced an open tender to appoint the advisor to the Minister of the State Treasury for the PKO BP SA privatisation process. According to the tender invitation, the Minister of the State Treasury intended to start the Bank's privatisation process and intended to sell the Bank's shares to third parties. To realize the above, the Minister of the State Treasury intended to appoint the advisor, who would prepare the required analyses and conduct the sale of 30% of the Bank's shares as part of initial public offering (IPO). According to the terms of tender, the owner intended to start the Bank's privatisation process in a manner set forth in the "Outline strategy for banks with indirect or direct participation of the State Treasury in the banking sector in Poland" approved by the Council of Ministers on 4 June 2002. The intention of the Ministry of the State Treasury was to conduct the Bank's privatisation process in compliance with all the assumptions of the above strategy, including maintaining the State Treasury's control over the Bank.

In 2003, two tenders were announced for the selection of the advisor to the Minister of the State Treasury in respect of the PKO BP SA privatisation process. Both of them were cancelled for procedural reasons.

In 2004, the Minister of the State Treasury announced the next tender, in which the advisor for the Bank's privatization process was finally selected.

On 30 March 2004, the State Treasury represented by the Minister of the State Treasury concluded an agreement with Credit Suisse First Boston Sp. z o.o. and Bank Gospodarki Żywnościowej SA, in respect of the following:

- preparation of analysis of PKO BP SA
- recommending of IPO strategy
- preparation of the Share Issue Prospectus and International Offering Document
- carrying out and servicing IPO, with the possibility to increase the Bank's share capital.

The Bank closely co-operated with the advisor to the Minister of the State Treasury, who prepared pre-privatisation analyses relating to the legal status of the Bank's assets, its current financial situation and perspectives of development, assessment of the realization of requirements concerning the protection of natural environment and national heritage.

On 28 June 2004, these pre-privatisation analyses together with the representations of the Bank's Management Board were forwarded to the Minister of the State Treasury.

The works relating to the preparation of the Prospectus were carried out together with the preparation of the pre-privatisation analyses. On 23 July 2004, the Share Issue Prospectus was submitted to the Securities and Exchange Commission and on 31 August 2004 the Commission agreed to admit shares of PKO BP SA to public trading.

In the fourth quarter of 2004 the Minister of the State Treasury sold 37.7% shares in the Bank in the public offer.

Shares were offered in Individual Investors Tranche (divided into Bank Clients Subtranche and Retail Investors Sub-Tranche), Polish Corporate Tranche and Foreign Corporate Investors Tranche.

The price spread determined by the Minister of the State Treasury on 21 October 2004 ranged from PLN 17.50 to PLN 20.50 per share.

The total of 377,000,000 of the Bank's shares were allocated by the Minister of the State Treasury as part of the Initial Public Offering, of which:

– 55,811,678 shares accounting for 5.58% of the total number of shares and giving 5.58% of votes at the Bank's General Shareholders Meeting were allocated to the Bank Client Sub-Tranche on 4 November 2004,
– 104,188,322 shares accounting for 10.42% of the total number of shares and giving 10.42% of votes at the Bank's General Shareholders Meeting were allocated to the Retail Investors Sub-Tranche on 6 November 2004; given the number of shares allocated to this Sub-Tranche, the purchase order average reduction rate was: 89.99% in the First Call and 94.84% in the Second Call,
– 132,000,000 shares accounting for 13.2% of the total number of shares and giving 13.2% of votes at the Bank's General Shareholders Meeting were allocated to the Polish Corporate Investors Tranche on 9 November 2004,

PKO BP SA SAB-R 31 December 2004 PLN thousand

– 85,000,000 shares accounting for 8.5% of the total number of shares and giving 8.5% of votes at the Bank's General Shareholders Meeting were allocated to the Foreign Corporate Investors Tranche on 9 November 2004.

The selling price was PLN 20.50 per share, with the provision that shares in the Bank Clients Sub-Tranche and Retail Investors Sub-Tranche in the First Call were sold with a 4% discount, i.e. at PLN 19.7 per share, and in the Retail Investors Sub-Tranche in the Second Call – with a 2% discount thus giving PLN 20.1 per share.
After the completion of the Initial Public Offering, the shareholding structure of PKO Bank Polski SA was as follows:

- 62.3% – State Treasury,
- 29.2% – domestic investors (corporate and retail sector),
- 8.5% – foreign investors.

As at 31 December 2004 the closing rate of Bank's shares at the Warsaw Stock Exchange was PLN 27.80 per share.

These financial statements consist of 133 consecutively numbered pages.

Signatures of All Members of the Management Board

29 march 2005 (date)	Andrzej Podsiadło (name and surname)	President of the Board (function)	.... (signature)
29 march 2005 (date)	Kazimierz Małecki (name and surname)	Vice-President and First Deputy President of the Board (function)	.... (signature)
29 march 2005 (date)	Danuta Demianiuk (name and surname)	Vice-President of the Board (function)	.... (signature)
29 march 2005 (date)	Piotr Kamiński (name and surname)	Board Member (function)	.... (signature)
29 march 2005 (date)	Jacek Obłękowski (name and surname)	Board Member (function)	.... (signature)

Signature of a person responsible for keeping the books of account

29 March 2005
(date)

Krystyna Szewczyk
(name and surname)

Chief Accountant – Board Member
(signature)

PKO BANK POLSKI
SPÓŁKA AKCYJNA

DIRECTORS' REPORT ON THE ACTIVITIES OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA FOR 2004

WARSAW, MARCH 2005

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1. EXTERNAL FACTORS AND EVENTS WHICH ARE SIGNIFICANT TO THE BANK'S PERFORMANCE

1.1. Macroeconomic factors

During 2004 the Polish economy saw a rapid economic growth. According to the preliminary estimations of GUS (Central Statistical Office), the growth of GDP in 2004 amounted to 5.3%, while in 2003 – to 3.8%. **One of the factors stimulating the economic growth was the internal demand**. The revival in internal demand, mainly in the first half of 2004, was due to increased accumulation of stocks and raw materials by companies, growth of individual consumption (resulting from factors related to Poland's accession to the European Union) and gradual increase in companies' investment expenditures. Furthermore, low PLN/EUR exchange rate (in the first half of 2004), better condition of the world economy and companies' restructuring (decrease in overhead costs, increase in work efficiency, improvement of product offer) contributed to sustained, high export dynamics. Due to dynamic growth in exports, the revival of industrial production continued. In the second half of 2004 the economic growth slowed down (as the extraordinary accession related factors ceased to play a key role), nevertheless further improvement was observed in companies investment activities.

Despite the economic revival and the overall improvement in companies' financial standing, in 2004 only slight improvement was observed in the labour market. In December 2004, official unemployment rate decreased by 0.9 percentage point, amounting to 19.1%, with 3 million persons without regular employment (176 thousand less than in December 2003).

In 2004 the declining trend in household deposits was restrained. This was, among others, due to the increased profitability of bank deposits, resulting from interest rate increases regulated by the Monetary Policy Council. As a result, household deposits' balance as at the end of December 2004 increased by 0.1% comparing to the balance as at the end of 2003.

The improved financial situation of enterprises contributed to considerable increase in the balance of corporate deposits. Consequently, in December 2004 the corporate deposit balance was greater by PLN 16.9 billion, i.e. by 24% compared with the balance as at the end of 2003.

During 2004, the strong growing trend observed in household loans continued. During the period from December 2003 to December 2004, the balance of housing loans increased by PLN 13.5 billion, i.e. by 13.3%. High demand for housing loans continued. Moreover, minor revival in consumption loans was observed. According to preliminary NBP data, corporate loans in 2004 decreased by 3.9% compared to the balance as at December 2003.

During the first half of 2004, the economy saw a significant growth in the inflation rate, resulting from successive increases in fuel prices and higher demand for Polish products abroad after Poland's accession to the European Union. Inflation pressure in the second half of 2004 was limited due to the PLN appreciation and slower dynamics of fuel prices. Eventually, the inflation rate as at the end of 2004 amounted to 4.4%, exceeding the upper limit of acceptable inflation rate assumed by the Monetary Policy Council (3.5%).

1.2. Monetary Policy of the National Bank of Poland

Pursuant to the NBP's *Strategy of monetary policy after 2003,* maintaining the annualised inflation rate at 2.5%, with allowable fluctuations of +/-1 percentage point, continued to be its main objective in 2004. Rapid growth of the inflation rate caused that **in April 2004 the Polish Monetary Policy Council changed its standpoint from neutral to restrictive. During the period June-August 2004, the Monetary Policy Council increased the basic interest rates by 1.25 percentage**

points. As a result, at the end of 2004, reference rate amounted to 6.5%, lombard rate – 8%, and deposit rate – 5%.

1.3. Financial market

During 2004, there were significant profitability fluctuations and there was a swing in the yield curve from rising to declining. At the end of 2004 the profitability of Polish Treasury securities at the short end of the curve was higher by 50 basic points than at the end of 2003, and at the long end of the curve - over 50 basic points lower. Gradual increase in profitability during the first seven months of the previous year was due to increased investors' expectations of a more restrictive monetary policy, which was confirmed by the change in Monetary Policy Council standpoint, and subsequent increases of interest rates.

The declining trend in profitability that lasted from August to the end of the previous year was an outcome of: • lower expectations of further increases in NBP interest rates • improvement of fiscal perspective as a result of better than expected current realization of budget assumptions and the approval of draft budget for 2005 by the government • reduction of demand for loans and of issuance of state Treasury securities at the end of 2004.

In 2004, Polish currency appreciated by 20% in relation to US dollar and by 13.5% in relation to euro. In the first half of the year, the Polish currency was extremely weak (4.89 PLN/EUR). Poland's accession to the European Union in May 2004, better fiscal and political perspectives, and strong basis of Polish economy resulted in a strong appreciation trend in the second half of the year. As a result of all these factors, Polish currency appreciated (exchange rates as at the end of the year: PLN/EUR – 4.08; PLN/USD – 2.99).

1.4. Regulatory environment

In 2004, major changes in the banking system regulatory environment were subordinated to the following factors:

- harmonization of Polish law with EU law as a result of Poland's accession to the European Union,
- realization of the agreements concluded by the representatives of the government, Banking Supervisory Board ("KNB") and Polish Banks Association ("ZBP") on 30 October 2003, concerning obligatory reserves, specific provisions and their taxation, accounting policies and banks' contribution the EU Guarantee Fund *(Fundusz Poręczeń Unijnych)*,
- new regulatory solutions resulting from the harmonization of the Polish legal system, including those influencing banks' competitive environment.

The most significant regulatory changes related to the following:

- significant amendments to the Banking Law (effective from 1 May 2004), which imposed on banks new duties, opened new possibilities for cost rationalization (e.g. through outsourcing of bank's activities, securitization of bank's receivables) and for launching new products, including cash pooling,
- decrease in the taxation rate for corporate entities from 27% to 19%, positively affecting the Bank's net financial results,
- the Act on VAT, enabling the realization of centralized settlements,
- amendments to accounting regulations enabling the Bank to recognize interest on "watch" receivables as income,
- new regulations concerning the creation of specific provisions (among others, modification of rules relating to exposure classification, creation of specific provisions for retail exposures, including collaterals in adjusting the basis for creation of specific provisions, new requirements with respect to internal "credit risk models");

- changes in the interest on obligatory reserve (in 2004, 20% of interest accrued was included in the Bank's revenue, while 80% was allocated to the EU Guarantee Fund - *Fundusz Poręczeń Unijnych*) and the introduction of a zero interest rate on obligatory reserve referring to the income on sale of debt securities with repurchase obligation,
- BFG regulations decreasing the obligatory annual contribution paid by the banks and the indicator specifying the amount of the fund for the protection of guaranteed funds,
- changes in policies concerning determining capital requirements for particular risks,
- law on electronic payment instruments, which required that banks conclude agreements for the use of banking cards with all clients that had been offered banking cards before the law came into force (which increased the Bank's costs, including costs of correspondence with clients),
- new regulatory solutions which provide a basis for the Bank's engagement in the absorption of structural funds,
- new bankruptcy and restructuring law, regulating the issue of joint creditors' claims against insolvent debtors and the rules to be applied in the restructuring proceedings of enterprises under the risk of insolvency (although the law came into force at the end of 2003, its results had not been observed until 2004).

Most of the above changes resulted in additional financial and organizational expenditures incurred by the Bank, were reflected in the Bank's assets' structure and financial results, had an impact on the Bank's capital adequacy ratio, and enabled the Bank to pursue new business initiatives.

The Bank's business activities were also influenced by the following regulations that created new instruments for the allocation of savings:

- law on Individual Pension Accounts (ustawa o Indywidulanych Kontach Emerytalnych), which enabled the Bank to broaden its product offer,
- law on investment funds.

Furthermore, the Bank's results in 2004 were influenced by preparations to the introduction of new regulations in the following years, relating to:

- International Accounting Standards (IAS; IFRS),
- solutions of the Banking Supervision Board relating to the calculation of own funds, exposures concentration and capital adequacy.

In 2004 the Bank began works related to the introduction in 2007 of regulations introduced by the New Capital Accord (Basel II Accord) and the project of European directive CAD3, recognising the need to gradually implement more advanced methods of calculation of capital requirements.

1.5. Competition in the banking sector

In 2004, the economic condition of the banking sector improved significantly. Major factors contributing to that improvement were as follows:

- improvement of the financial standing of bank customers due to the overall economic revival,
- higher quality of bank loan portfolios,
- decrease in the effective fiscal burden due to lower tax rates,
- increase in household demand for loans.

As a result, most banks observed an increase in income from banking activity and a significant improvement in efficiency.

The development in the banking sector was also affected by market processes. The most important of these related to:

- **higher competition on the retail banking services market**, accompanied by increased customer expectations and demands , resulting in amongst other things:
  - development of financial services offered by non-banking institutions, in particular: investment funds, companies providing credit agency services, SKOK. These non-banking institutions

became significant competitors in terms of deposit and credit products, such as credit cards and mortgages.

- extension and updating of bank offers and the search for additional income sources. Banks intensively developed their offers of housing loans, bancassurance and capital market products and products related to making use of EU aid funds. Banks have diversified the prices of their services by promoting loyalty programs and packages.
- e-banking development,

- **cost reduction**, which consisted in restructuring proceedings and modernization activities that resulted in the reduction of employment and the rationalization of the branch network.
- **entrance to the Polish banking market of new foreign competitors** interested in providing international services to Polish clients. About 60 foreign banks, mainly from EU countries, intend to offer products and services relating to housing loans and asset management, and to provide services to the wealthiest clients.

2. BANK'S DEVELOPMENT STRATEGY

The Bank's mission, set out in the "PKO BP S.A. Strategy for 2003-2005", accepted by the Management Board and the Supervisory Board, is as follows:

Powszechna Kasa Oszczędności Bank Polski is and will remain a universal domestic bank, with a Polish character, whose core value is the client. Maintaining its leading position in the retail banking sector the Bank is also playing a leading role in services for local authorities, small and medium size enterprises, housing loans and services connected with EU funds distribution system. The Bank assures its shareholders effective management of capital and its employees full professional development.

PKO BP SA is currently implementing the Bank Modernization Strategy, assuming that the following objectives will be reached:

- to increase operational effectiveness,
- to retain its leading position in the retail banking and real estate financing segment ,
- to gain the leading position in the segment connected with EU fund distribution system
- to strengthen the Bank's position as an SME service provider,
- to create an image of the Bank asa service provider to large businesses and to strengthen the Bank's position in servicing the public sector, including local authorities.

The Bank intends to achieve the above goals by:

- modernizing the Bank,
- extending the Bank's business activity to cover new fields,
- improving business activity and innovation.

The Bank intends to maintain its leading position on the retail banking and housing loan market, while strengthening its position in other market segments. As regards financial objectives, the Bank plans to maintain the share of irregular loans in overall loans below the level of 10% and to increase the loans/assets ratio to more than 50%. The Bank also intends to maintain average equity profitability at the level exceeding 20%.

3. MAJOR EVENTS THAT HAD A SIGNIFICANT INFLUENCE ON THE BANK'S ACTIVITIES AND RESULTS

2004 was the second year after implementation of the Bank's Modernization Strategy. The Bank's activity in this period was focused on the following priorities, determined in the Strategy:

- privatization
- implementation of an Integrated IT System (ZSI),
- Bank's structural reorganization,

– sales intensification,
– entering new markets.

3.1. Bank's privatization

The privatization of PKO BP was completed successfully, considerably improving the Bank's image. The privatization model (including privatization deposit) was positively welcomed by the market. During the privatization process, the Bank cooperated with a State Treasury advisor to prepare the pre-privatization analysis and the prospectus that was submitted to the KPWiG (Polish Securities and Exchange Commission) in July 2004. KPWiG gave its consent to the Bank's shares being traded on the public market on 31 August 2004. Trading in the Bank's shares on the Warsaw Stock Exchange opened on 10 November 2004. The closing rate on the first day was PLN 24.50 (issue price was PLN 20.50). In the public offering the Minister of the State Treasury sold 37.7% of the Bank's shares. Therefore, the ownership structure was as follows: State Treasury – 62.3% (of which 0.8% consisted of premium shares and 10.5% was intended for the Bank's employees); domestic investors (corporate and retail sector) – 29.2%; foreign investors – 8.5%.

3.2. Implementation of the Integrated IT System (ZSI)

In 2004 PKO BP SA continued to prepare for implementation of the Integrated IT System. Realization of the specific tasks listed in the agreement signed on 18 August 2003 with Accenture Sp. Z o.o., Alnova Technologies Corporation SL and Softbank S.A., was initiated.

The functionality of the Integrated IT System was extended. This was necessary after new regulations entered into force, in particular the amendments to the Accounting Act which obliged issuers of securities admitted to public trading and banks to prepare consolidated financial statements in accordance with International Accounting Standards (IAS). Furthermore, the Act allowed for preparing standalone financial statements in accordance with IAS. As a consequence, the Bank was obliged to make a decision on drawing up standalone financial statements in accordance with IAS, in order to unify the methods of presenting standalone and consolidated financial statements. This resulted in the need to adapt the IT systems to the new accounting principles and the above-mentioned need to extend the functionality of the IT Integrated System.

The necessity to extend the ZSI functionality was also due to the Bank's growing business needs (introduction of new products, such as Individual Pension Accounts) and client services modernization projects.

As a result of these conditions (unknown to the Bank on the date the agreement was signed), Annex No 1 to the agreement of 2003 was signed with the Consortium on 17 December 2004.

The extended functionality of the system will enable the Bank to reach a level of IT solutions that meets the standards appropriate for leading European banks of a profile similar to that of PKO BP. Moreover, it will bring benefits resulting from the standardization of operational processes, simplification of product and infrastructure management and also will improve operational safety.

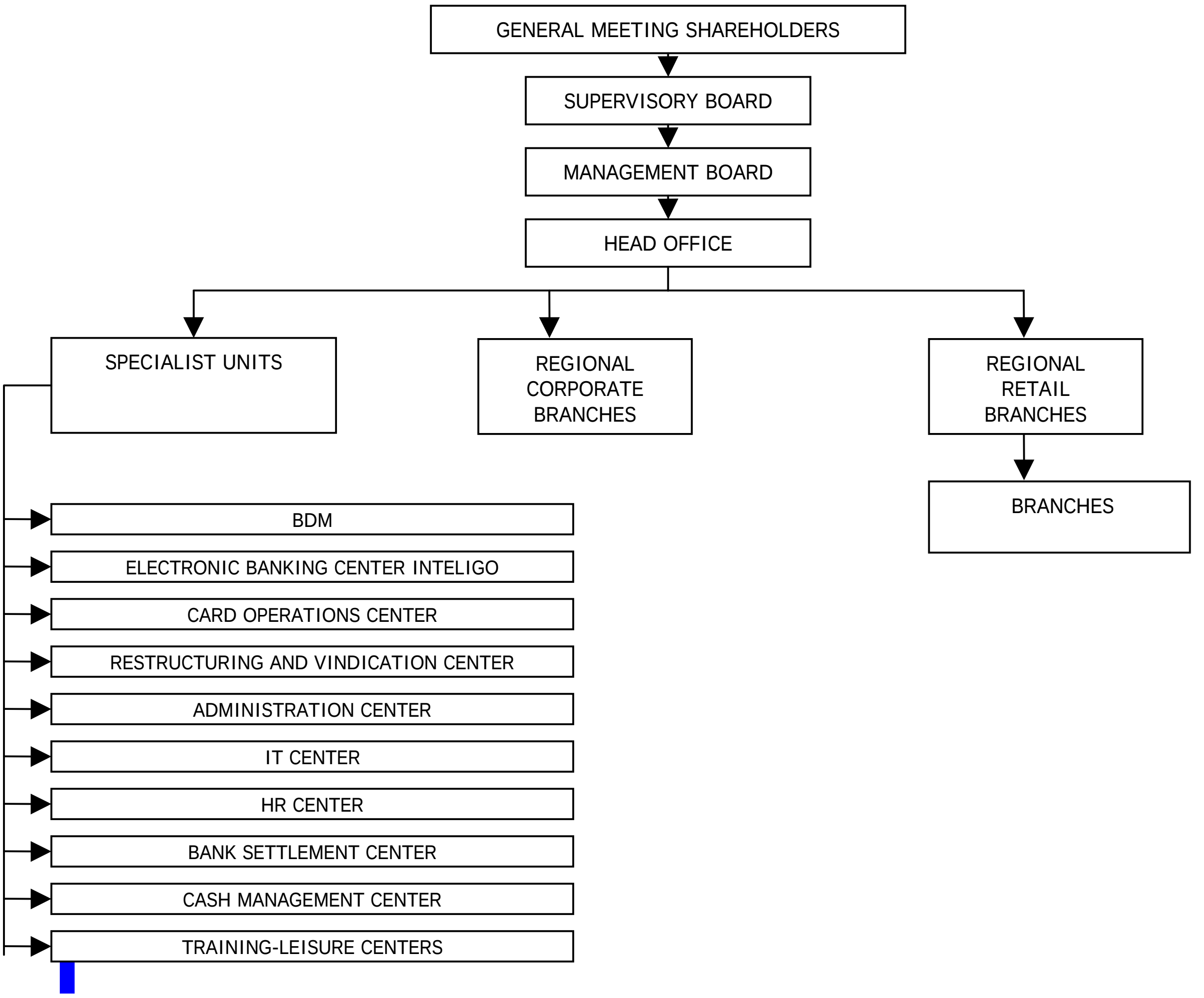
3.3. Reorganization of the Bank's structures

In 2004 the reorganization of the Bank's structures was successfully completed. The PKO BP network was divided into retail and corporate branches. Also, separate regional retail and corporate branches were set up and as a result of the reorganization of operating branches (among others – former branches – centres) 537 branches and 634 affiliated branches were opened. Operating branches have been relieved of support functions, which have been centralized in specialized organizational units and departments. The purpose of this work was to focus the Bank's network on the sale of products and services. As a result of the reorganization, six support centres began to operate. The centralized support functions include: HR services, restructuring and vindication, administration, settlements, IT and cash management. Three departments were also set up to provide support with legal services, security and credit risk assessment. Furthermore, independent regional retail and corporate branches were opened.

In 2004 customer service and quality enhancement projects were completed. As a result the Bank was able to offer new e-banking services, i.e. call centre and internet access to Superkonto and Partner accounts to its clients. The *MultiCash* system was implemented and accounts were delocated.

As a result of these changes the Bank's structure is as follows:

Organizational structure of the Bank



3.4. Sales intensification

In 2004 the Bank conducted activities relating to the intensification of sales of products and services which contributed to the Bank's market position being strengthened and maintained in selected segments.

The Bank finished work on the client segmentation, which contributed to a better understanding of client preferences. This better understanding of client preferences contributed to an increase in sales. As a result of the segmentation, clients were divided in the IT system into Retail and Corporate Sectors. This allowed for and enhanced analyses in this area.

The activities that contributed to the increase in sales are described further on in this Report.

3.5. Entering new markets

The Bank's development on new markets in 2004 consisted mainly in:

- signing an agreement with PZU S.A., for insurance distribution – third party liability insurance and property insurances for holders of giro saving accounts (ROR),
- signing an agreement with PZU Życie SA for SUPEROPIEKA group life insurance for holders of ROR,
- undertaking activities concerning servicing European Union funds,
- acquiring shares in Kredyt Bank (Ukraina) S.A.,

- acquiring shares in Bank Pocztowy S.A.

4. FINANCIAL RESULTS

4.1. Accounting changes introduced in 2004

In January 2004 amendments to the Accounting Act of 29 September 1994 and to the Minister of Finance Decree of 10 December 2001 on specific rules of accounting for banks came into effect. The most significant changes are as follows:

- including interest accrued on "watch" receivables as income in the financial result for the reporting period;
- extending until 1 January 2005 the deadline for the obligatory application of the amortized cost method using the effective interest rate to value the following items: financial assets held for trading, loans and credits granted and other receivables originated by the bank, financial liabilities which are not earmarked for trading and which are not financial derivative instruments;
- allowing loan receivables to be written off against specific provisions, with no requirement to write off borrower's debt.

On 1 January 2004, the Resolution of the Banking Supervision Committee of 4 June 2004 came into force amending previous regulations on capital requirements and calculation of capital adequacy ratio.

The Minister of Finance Decree of 23 February 2004 amending the Decree on specific rules for recognition, methods of measurement, scope of disclosure and method of presentation of financial instruments came into force on 8 March 2004. The provisions of this Decree changed, among other things, the principles of disclosure and valuation of embedded derivatives.

In these financial statements, 2003 data is presented in a way assuring comparability and was prepared using the same accounting policies as those which were applied when the 2004 financial statements were prepared. A detailed description of the differences between previously published data for 2003 and the data for 2003 contained in these financial statements is presented in the Additional Notes and Explanations to PKO BP SA's 2004 financial statements.

4.2. Balance sheet structure

Assets

As at 31 December 2004, total assets were PLN 87,931.8 million which was PLN 3,503.5 million (+4.1%) higher than the balance as at the end of 2003. Main asset categories were receivables (62.5%), debt securities, stocks and shares, other securities and financial assets (30.3%).

In the asset structure there was a significant increase in receivables (by PLN 7,869.7 million, i.e. +16.7%), while debt securities, stocks and shares, other securities and financial assets decreased by PLN 3,953.7 million (-12.9%). There were no significant changes in other items. The share of "Cash and amounts due from the Central Bank" and tangible fixed assets dropped slightly, while other assets increased.

Table 1: Major asset categories (in PLN thousand)

Assets	As at 31.12.2004		As at 31.12.2003		Dynamics
	PLN thousand	Structure	PLN thousand	Structure	
1	*2*	*3*	*4*	*5*	*6*
1. Cash and balances with the Central Bank	3 490 505	4,0%	3 807 487	4,5%	91,7%
2. Receivables	54 986 721	62,5%	47 117 037	55,8%	116,7%
- amounts due from financial, non-financial and public sectors	*54 986 721*	*62,5%*	*46 833 324*	*55,5%*	*117,4%*
3. Debt securities, stocks, shares, other securities and other financial assets	26 627 634	30,3%	30 581 302	36,2%	87,1%
4. Tangible fixed assets	1 939 016	2,2%	2 063 015	2,4%	94,0%
5. Other assets	887 916	1,0%	859 498	1,0%	103,3%
Total assets	**87 931 792**	**100,0%**	**84 428 339**	**100,0%**	**104,1%**

Total receivables

As at 31 December 2004, total net receivables amounted to PLN 54,986.7 million and were comprised of amounts due from the financial sector, the non-financial sector and the public sector. As at the end of 2003 total net receivables amounted to PLN 47,117.0 million, of which 99.4% were receivables from the sectors and the remaining 0.6% - debt securities with repurchase obligation.

Table 2: Net receivables by sector

Receivables	As at 31.12.2004	As at 31.12.2003	Change in pp.	Dynamics
1	*2*	*3*	*4*	*5*
1. Amounts due from the financial sector	25,1%	18,3%	6,8	161,0%
2. Amounts due from the non-financial sector	62,5%	66,2%	-3,7	110,7%
3. Amounts due from the public sector	12,5%	15,5%	-3,0	94,6%
Total receivables	**100,0%**	**100,0%**		**117,4%**

As at the end of 2004, the balance of gross receivables from the sectors was PLN 57,433.3 million. Major items in the gross balance were loans and credits granted (71.4%) and current accounts and placements with other banks (22.6%). Compared to the balance as at the end of 2003, loans and credits share in total assets decreased by 6.7 percentage points; mainly in favour of current accounts and placements in other banks.

Table 3: Receivables by type (In PLN thousand)

Specification	As at 31.12.2004		As at 31.12.2003		Dynamics
	PLN thousand	structure	PLN thousand	structure	
1	*2*	*3*	*4*	*5*	*6*
1. Current accounts and placements with other banks and other financial institutions	13 008 538	22,6%	7 884 783	16,0%	165,0%
2. Loans and credits	41 006 067	71,4%	38 591 321	78,1%	106,3%
3. Other receivables	166 601	0,3%	172 742	0,3%	96,4%
4. Interest	3 252 115	5,7%	2 761 367	5,6%	117,8%
Total (gross) receivables	**57 433 321**	**100,0%**	**49 410 213**	**100,0%**	**116,2%**
Provisions for receivables	(2 446 600)	-4,3%	(2 576 889)	-5,2%	94,9%
Total (net) receivables	**54 986 721**	**95,7%**	**46 833 324**	**94,8%**	**117,4%**

As at the end of 2004, the structure of gross receivables from the sectors was as follows: 82.6% - term receivables; 11.7% - receivables in current account; 5.7% - interest accrued; in comparison with the balance as at the end of 2003, no significant changes in the gross receivables structure were observed. In the structure of term receivables there was a trend towards transfers to shorter maturity ranges; increases in 1-month maturity receivables (increase from 7.3% to 9.7%) and from 1 to 3-month maturity (increase from 6.4% to 8.5%); decreases in over 1-5-year maturity (decrease from 25.2% to 23.5%) and overdue receivables (decrease from 7.2% to 4.3%).

Table 4: Net receivables by maturity

Receivables	**As at: 31.12.2004**	**As at: 31.12.2003**	**Change in pp.**	**Dynamics**
1	*2*	*3*	*4*	*5*
a) in current account	**11,7%**	**11,6%**	**0,1**	**117,3%**
b) term receivables of maturity:	**82,6%**	**82,8%**	**-0,2**	**116,0%**
up to 1 month	9,7%	7,3%	2,4	154,1%
1-3 months	8,5%	6,4%	2,1	154,8%
3 months - 1 year	15,4%	15,0%	0,4	119,4%
1-5 years	23,5%	25,2%	-1,8	108,1%
over 5 years	21,3%	21,7%	-0,4	114,0%
overdue	4,3%	7,2%	-2,9	69,5%
c) interest	**5,7%**	**5,6%**	**0,1**	**117,8%**
- not due	5,5%	5,3%	0,1	119,4%
- due	0,2%	0,3%	-0,1	83,7%
Total gross receivables from sectors	**100,0%**	**100,0%**		**116,2%**

Amounts due from clients

During the period from 31 December 2003 to 31 December 2004, the balance of gross receivables due from the Bank's clients, i.e. from the non-financial sector and the public sector, increased by PLN 2,804.0 million (i.e. by 6.9%) to PLN 43,588.0 million at the end of 2004, of which PLN 5,089.6 million was represented by interest receivable (including capitalized interest).

Table 5: Gross amounts due from non-financial and public sectors (in PLN thousand)

Title	**As at 31.12.2004**		**As at 31.12.2003**		**Dynamics**
	PLN thousand	**structure**	**PLN thousand**	**structure**	
1	*2*	*3*	*4*	*5*	*6*
1. "Old" portfolio housing loans	1 155 633	2,7%	1 333 475	3,3%	86,7%
2. "New" portfolio housing loans	11 967 340	27,5%	10 375 299	25,4%	115,3%
3. Retail loans	10 767 636	24,7%	8 682 536	21,3%	124,0%
4. Corporate loans	7 807 064	17,9%	8 308 846	20,4%	94,0%
5. Amounts due from the public sector	6 800 629	15,6%	7 217 250	17,7%	94,2%
Total items 1-5	**38 498 302**	**88,3%**	**35 917 406**	**88,1%**	**107,2%**
6. Interest	5 089 559	11,7%	4 866 536	11,9%	104,6%
7. Other receivables	118	0,0%	25	0,0%	472,0%
Total gross receivables	**43 587 979**	**100,0%**	**40 783 967**	**100,0%**	**106,9%**

As at the end of 2004, the balance of receivables due from clients (net of interest) was PLN 38,498.3 million and, compared to the previous year, increased by 7.2% (i.e. PLN 2,580.9 million). The highest growth in the Bank's exposure related to retail loans (+PLN 2,085.1 million) and "new" portfolio housing loans (+ PLN 1,592.0 million). At the same time, the Bank recorded a decrease in the balance of loans to the public sector (by PLN 416.6 million), corporate loans (by PLN 501.8 million) and naturally expiring "old" portfolio housing loans (by PLN 177.8 million).

In 2004 the quality of client loan portfolios improved. At the end of 2004, irregular receivables accounted for 8.9% of the total value of gross amounts due from the non-financial sector and the

public sector (without interest due and not due). Compared to the balance in previous years, the ratio decreased by 3.3 percentage points.
The decrease in irregular loans was, on the one side, the effect of an improvement in loan portfolio quality and, on the other, the new rules on exposure classification and creation of specific provisions (in accordance with the Decree of the Ministry of Finance dated 10 December 2003 on the creation of provisions for risk relating to banking activity. The most important changes consisted in:
- periods of delay in repayment which do not require reclassification of loan exposure to higher risk category have been extended,
assessment of the financial standing of the borrower will no longer be taken into account when classifying loan exposure in relation to housing loans of private persons. As regards retail loans, the categories "substandard" and "doubtful" have been eliminated,
- the possibility of considering the best available collaterals was introduced at the stage of classifying exposure.

The implementation of the above mentioned regulations resulted in a decrease in the irregular loans ratio of 0.7 percentage points.

Table 6: Structure of gross amounts due from non-financial sector and public sector by financial standing (without interest due and not due)

Title	As at 31.12.2004	As at 31.12.2003	Change in pp.	Dynamics
1	*2*	*3*	*4*	*5*
1. Normal	84,5%	84,4%	0,1	106,4%
2. Watch	6,6%	3,4%	3,2	204,8%
3. Irregular, of which:	**8,9%**	**12,2%**	**-3,3**	**77,8%**
- sub-standard	1,2%	2,1%	-0,9	62,2%
- doubtful	0,9%	1,8%	-0,9	53,6%
- lost	6,8%	8,3%	-1,5	87,1%
Total gross receivables	**100,0%**	**100,0%**		**106,3%**

<u>Debt securities, stocks and shares</u>

As at the end of 2004 the Bank's exposure to debt securities, stocks and shares was PLN 26,627.6 million and was PLN 3,953.7 million (-12.9%) lower than the balance in the previous year. This resulted from the shift of funds towards interbank deposits as, during this period, the balance of net amounts due from the financial sector increased by PLN 5,220.8 million.

Table 7: Debt securities and shares (PLN thousand)

Specification	As at 31.12.2004		As at 31.12.2003		Dynamics
	PLN thousand	structure	PLN thousand	structure	
1	*2*	*3*	*4*	*5*	*6*
1. Debt securities, including:	24 139 519	90,7%	29 587 425	96,8%	81,6%
- issued by the Central Bank	*3 768 909*	14,2%	*2 826 890*	9,2%	133,3%
- issued by the State Treasury and local authorities	*19 748 756*	74,2%	*25 916 366*	84,7%	76,2%
- issued by other entities	*621 854*	2,3%	*844 169*	2,8%	73,7%
2. Stocks and shares in subsidiaries, jointly-controlled entities and associates	658 170	2,5%	345 712	1,1%	190,4%
3. Stocks and shares in other entities	464 489	1,7%	386 712	1,3%	120,1%
4. Other securities and other financial assets	1 365 456	5,1%	261 453	0,9%	522,3%
Total	**26 627 634**	**100,0%**	**30 581 302**	**100,0%**	**87,1%**

Liabilities and Equity

As at the end of 2004, the main items of Liabilities and Equity were "Liabilities", which accounted for 84.4% of the total balance, and "Equity" which accounted for 9.2% of the total liabilities and equity balance. Compared to the balance as at the end of 2003, liabilities increased by PLN 1,292.7 million, which, taking into account higher dynamics of other items, resulted in a decrease of 1.9 pp in liabilities' share in the total balance of liabilities and equity. Equity share increased by 1.6 pp.

Table 8: Main items of liabilities and equity (in PLN thousand)

Title	As at 31.12.2004		As at 31.12.2003		Dynamics
	PLN thousand	structure	PLN thousand	structure	
1	*2*	*3*	*4*	*5*	*6*
1. Liabilities *- from financial, non-financial and public sectors*	74 170 558 *73 376 675*	84,4% *83,4%*	72 877 875 *72 651 468*	86,3% *86,1%*	101,8% *101,0%*
2. Special funds and other liabilities	1 012 943	1,2%	879 804	1,0%	115,1%
3. Accruals and deferred income	3 274 936	3,7%	2 968 367	3,5%	110,3%
4. Provisions	1 402 821	1,6%	1 303 158	1,5%	107,6%
5. Equity (including profit)	8 070 534	9,2%	6 399 135	7,6%	126,1%
Total	**87 931 792**	**100,0%**	**84 428 339**	**100,0%**	**104,1%**

Liabilities

As at 31 December 2004, total Bank liabilities amounted to PLN 74,170.6 million. Total amounts due to the financial, non-financial and public sectors were PLN 73,376.7 million, and the remaining PLN 793.9 million represented liabilities arising from financial instruments and amounts due to the Central Bank. In comparison with the previous year, the Bank's liabilities increased by 1.8%.

The table below presents the Bank's liabilities towards the sectors.

Table 9. Liabilities by sector (in PLN thousand)

Title	As at 31.12.2004	As at 31.12.2003	Change in pp.	Dynamics
1	*2*	*3*	*4*	*5*
1. Amounts due to the financial sector	1,2%	1,5%	-0,3	82,9%
2. Amounts due to the non-financial sector	91,4%	94,1%	-2,7	98,1%
3. Amounts due to the public sector	7,3%	4,4%	2,9	168,9%
Total	**100,0%**	**100,0%**		**101,0%**

As at the end of 2004, the main item of liabilities (95.9%) consisted of funds on accounts and clients' deposits amounting to PLN 70.358,9 million. They increased by 1.5%, when compared the level as at the end of the prior financial year.

Table 10. Liabilities to sectors by type (in PLN thousand)

Specification	As at 31.12.2004		As at 31.12.2003		Dynamics
	PLN thousand	Structure	PLN thousand	Structure	
1	*2*	*3*	*4*	*5*	*6*
1. A vista accounts and clients' deposits	70 358 884	95,9%	69 340 528	95,4%	101,5%
2. Placements by banks and other financial institutions	748 644	1,0%	1 022 269	1,4%	73,2%
3. Loans and credits obtained	131 892	0,2%	59 746	0,1%	220,8%
4. Other liabilities	272 800	0,4%	302 937	0,4%	90,1%
5. Interest	1 864 455	2,5%	1 925 988	2,7%	96,8%
Total liabilities	**73 376 675**	**100,0%**	**72 651 468**	**100,0%**	**101,0%**

Compared to the prior year, there were changes in the liabilities maturity structure, where the share of current liabilities in the total balance of liabilities increased (from 32.7% to 34.2%) and term liabilities decreased. As regards the maturity structure, liabilities moved towards the range of maturity between 3 months and 1 year (increase in share in total liabilities from 24.8% to 25.9%) from maturity up to 1 month (decrease in share from 21.9% to 20.3%) and between 1 and 3 months (decrease in share from 18.1% to 17.0%).

Off-balance sheet items

As at the end of 2004 off-balance sheet items amounted to PLN 194,748.8 million and in comparison to the balance as at the end o 2003 increased by 110.8%. The main position in this amount (87.3%) were liabilities related to purchase/sale operations, connected mainly with forward exchange operations and operations with financial instruments, performed to manage the Bank's liquidity, to speculate and to arbitrage between financial markets. Compared to the previous year's balance these liabilities more than doubled, chiefly due to the increase in balances of transactions with derivative instruments.

Contingent liabilities granted and received amounted to PLN 12,292.3 million and comparied to the balance as at the end of 2003 decreased by 36%, mainly due to the 64.8% drop (from PLN 13,038.4 million to 4,582.2 million) in liabilities relating to credit lines.

Table 11. Off-balance sheet items (in PLN thousand)

Title	As at 31.12.2004		As at 31.12.2003		Dynamics
	PLN thousand	Structure	PLN thousand	Structure	
1	*2*	*3*	*4*	*5*	*6*
I. Contingent liabilities	**12 292 273**	**6,3%**	**19 206 832**	**20,8%**	**64,0%**
1. Contingent liabilities granted:	7 148 458	3,7%	14 317 584	15,5%	49,9%
a) financial	6 290 493	3,2%	13 926 208	15,1%	45,2%
b) guarantees	857 965	0,4%	391 376	0,4%	219,2%
2. Contingent liabilities received:	5 143 815	2,6%	4 889 248	5,3%	105,2%
a) financial	714 887	0,4%	84 906	0,1%	842,0%
b) guarantees	4 428 928	2,3%	4 804 342	5,2%	92,2%
II. Liabilities arising from purchase/sale transactions	**170 088 351**	**87,3%**	**70 103 906**	**75,9%**	**242,6%**
III. Other	**12 368 143**	6,4%	**3 077 641**	3,3%	**401,9%**
- irrevocable liabilities	9 504 544	4,9%	97 355	0,1%	9762,8%
- collaterals received	2 863 599	1,5%	2 980 286	3,2%	96,1%
Total off-balance sheet items	**194 748 767**	**100,0%**	**92 388 379**	**100,0%**	**210,8%**

4.3. Profit and loss account

In 2004 PKO BP SA recorded a gross profit of PLN 1,802.9 million, which is PLN 143.0 million (i.e. 8.6%) higher than in 2003. Obligatory tax charges amounted to PLN 350.3 million, and the share in the net profit of entities valued using the equity method amounted to PLN 58.4 million. Taking into account these items, PKO BP SA's net profit was PLN 1,511.1 million, which was PLN 318.4 million (i.e. 26.7%) higher than in 2003.

Table 12. Main Profit and loss account items (in PLN thousand)

Title	2004	2003	Change	Dynamics
1	*2*	*3*	*4*	*5*
1. Result from banking activity, of which:	5 424 328	5 403 923	20 405	100,4%
1.1. Net interest result	*3 590 306*	*3 432 371*	*157 935*	*104,6%*
1.2. Net fees and commission income	*1 581 055*	*1 375 090*	*205 965*	*115,0%*
1.3. Income from stocks and shares	*3 396*	*4 401*	*-1 005*	*77,2%*
1.4. Result on financial operations	*-185 363*	*59 897*	*-245 260*	*x*
1.5 Foreign exchange result	*434 934*	*532 164*	*-97 230*	*81,7%*
2. Other operating income and other operating expenses	97 808	102 389	-4 581	95,5%
3. General activity expenses	-3 173 840	-3 098 482	-75 358	102,4%
4. Depreciation and amortization of tangible and intangible assets	-471 396	-468 448	-2 948	100,6%
5. Change in provisions value revaluation	-74 180	-279 797	205 617	26,5%
6. Operating profit	1 802 720	1 659 585	143 135	108,6%
7. Extraordinary gains (-losses)	229	401	-172	57,1%
8. Gross profit	**1 802 949**	**1 659 986**	**142 963**	**108,6%**
9. Corporate income tax	-350 330	-416 180	65 850	84,2%
10. Share in the net profit/loss of entities valued using the equity method	58 446	-51 100	109 546	x
11. Net profit	**1 511 065**	**1 192 706**	**318 359**	**126,7%**

The result from banking activity for 2004 was PLN 5,424.3 million and was 0.4% higher than the result for 2003.

Net interest income

In 2004, the Bank earned net interest of PLN 3,590.3 million (which is 4.6% higher than the result for 2003). The above result consists of interest income of PLN 5,245.0 million decreased by interest expenses of PLN 1.654,7 million. Compared to 2003, interest income increased by 2.9% and interest expense decreased by 0.8%.

The most significant item contributing to the Bank's interest income in 2004 was income from clients (the non-financial and the public sector), amounting to 56.8% of the income and interest income on bonds and Treasury bills, i.e. fixed income debt securities (33.4%).

In the structure of interest costs in 2004 the most significant item were costs related to deposits of the non-financial and the public sectors (87.1% and 9.6%, respectively). Compared to 2003, the share of interest paid to the public sector increased by 3.6 percentage points, due to the considerable increase in the balance of funds deposited in the Bank by public entities.

Table 13. Structure and dynamics of interest income and costs

Title	Structure 2004	Structure 2003	Change in pp.	Dynamics
1	*2*	*3*	*4*	*5*
Interest income from:	**100,0%**	**100,0%**		**102,9%**
a) the financial sector	9,8%	9,7%	0,1	104,1%
b) the non-financial sector	43,7%	39,3%	4,4	114,4%
c) the public sector	13,1%	12,0%	1,1	112,2%
d) fixed income debt securities	33,4%	39,0%	-5,6	88,1%
Interest costs from:	**100,0%**	**100,0%**		**99,2%**
a) the financial sector	3,4%	3,1%	0,2	107,2%
b) the non-financial sector	87,1%	90,9%	-3,9	95,0%
c) the public sector	9,6%	5,9%	3,6	159,6%

In 2004 the average interest rate on assets bearing interest was 6.8% which was 0.1 percentage points lower than in the previous year, while the average interest rate on liabilities was 2.5% and remained unchanged compared to 2003. Interest margin in 2004 was 4.3% which was 0.1 percentage points lower than in 2003.

Fees and commission income

Net fees and commission income for 2004 amounted to PLN 1,581.1 million and was 15% higher compared to the previous year's balance. The result consisted in fees and commission income of PLN 1,865.2 million and fees and commission expenses of PLN 284.2 million. The dynamics of fees and commission income and fees and commission expenses was 116.1% and 122.9%, respectively.

Fees and commission income from non-lending activities, such as cash payments, servicing of bank cards and fees for running accounts, accounted for the majority (71.4%) of total fees and commission income. The remaining 26.4% of fees and commission revenue related to the Bank's lending activity and 2.2% related to brokerage activity.

Fees and commission income for 2004 was PLN 258.9 million higher, i.e. 16.1%, mainly due to:

- new products and services introduced in the Bank's offer,
- more bank accounts and issued bank cards
- activities aimed at boosting sales of loans (seasonal consumer loans, housing loans)
- changes in the Bank's commission and fees, binding from 1 January 2004

Table 14. Structure and dynamics of fees and commission income

Title	Structure 2004	Structure 2003	Change in percentage points	Dynamics
1	*2*	*3*	*4*	*5*
a) fees and commission income from banking activity	97.8%	98.8%	-1.0	114.9%
- fees and commissions on loan related activities	26.4%	23.7%	2.7	129.3%
- fees and commissions from non-credit activities	71.4%	75.1%	-3.7	110.4%
b) fees and commissions from brokerage activities	2.2%	1.2%	1.0	216.2%
Total fees and commission income	**100.0%**	**100.0%**		**116.1%**

The most significant fees and commission expense items, constituting more than 80% of costs incurred in 2004, included fees for servicing bank cards and fees paid to agents. Compared to 2003 the share of these items in total fees and commission expense decreased by 2.3 percentage points.

Result of financial operations, foreign exchange result and income from shares

In 2004 financial operations, foreign exchange operations and income from shares totalled PLN 253.0 million, which included a foreign exchange result of PLN 434.9 million, income from shares of PLN 3.4 million and loss from financial operations of PLN 185.4 million.

The positive foreign exchange result was due to the results of foreign currency swap and forward operations, CIRS contracts *(Currency Interest Rate Swap)*, and the valuation of assets and liabilities denominated in foreign currency.

The result from financial operations was due to the loss on securities and derivatives operations. The result of derivative operations includes realized gains on IRS contracts (*Interest Rate Swap*) and FRA contracts *(Forward Rate Agreement*) which hedge the result of financial assets classified as available for sale (AFS portfolio).

During the reporting period the Bank did not use hedge accounting. In its interest rate risk management strategy the Bank used balance-sheet hedging of financial assets classified in the ASF portfolio by means of IRS and FRA contracts, classified as financial instruments for trading.

The financial instruments from the Trading portfolio and those from the AFS portfolio are valued at fair value; however, the revaluation effects are included in the income statement in the case of hedging instruments from the Trading portfolio and in the revaluation reserve, i.e. balance sheet item, in the case of securities from the AFS portfolio.

Due to the fact that instruments being hedged and hedging instruments are classified in different accounting portfolios, at a time of higher interest rate volatility the balance sheet hedging results, on the one hand, in fluctuations in the revaluation reserve caused by the revaluation of securities in the AFS portfolio and, on the other, fluctuations in the result of financial operations in the opposite direction to the changes in the revaluation reserve which is caused by valuation changes in derivative instruments.

In 2004 the loss of PLN 70.1 million on IRS and FRA transactions does not represent an economic loss for the Bank, as it was compensated by a valuation surplus of PLN 212.4 million of securities classified in the AFS portfolio, which was presented in the revaluation reserve.

According to binding accounting regulations the classification of debt securities to the AFS portfolio leads to the revaluation to fair value of securities in this portfolio being presented in the revaluation reserve which can be charged to the profit and loss account at the time of sale or maturity of the securities.

General banking expenses

In 2004 general expenses, which include both activity expenses and depreciation/amortization, amounted to PLN 3,645.2 million, which translates into a PLN 78.3 million growth, i.e. 2.2% compared to the previous year, which included an increase in activity expenses of PLN 75.4 million (+2.4%) and in depreciation/amortization expense growth of PLN 2.9 million (+0.6%).

Table 15. General banking expenses by type (in PLN thousand)

Title	2004		2003		Dynamics
	in PLN thousand	structure	in PLN thousand	structure	
1	*2*	*3*	*4*	*5*	*6*
I. General banking expenses, of which:	**3 173 840**	**87,1%**	**3 098 482**	**86,9%**	**102,4%**
a) Salaries and wages	1 568 343	43,0%	1 534 982	43,0%	102,2%
b) Statutory employment costs	317 569	8,7%	306 178	8,6%	103,7%
c) Non-personnel costs	653 529	17,9%	636 293	17,8%	102,7%
d) Taxes and charges	49 142	1,3%	50 213	1,4%	97,9%
e) Contributions and payments to Bank Guarantee Fund	11 769	0,3%	14 575	0,4%	80,7%
f) Other	573 488	15,7%	556 241	15,6%	103,1%
II. Depreciation/amortization	**471 396**	**12,9%**	**468 448**	**13,1%**	**100,6%**
Total General banking activity expenses	**3 645 236**	**100,0%**	**3 566 930**	**100,0%**	**102,2%**

- In 2004 costs of salaries and wages increased by PLN 33.4 million, i.e. by 2.2%. The main reason for the increase was a change in the salary level in the Bank. The employment level in the Bank at the end of 2004 was 35,386 employees and decreased by 1,161 employees, compared to 31 December 2003. The average salary in 2004 grew by 5.7%. The increase in the costs of salaries was the result of the Bank's strategy aimed at adjusting the salary level in the Bank to the average salary level in the banking sector in Poland.
- Costs of insurance and other benefits reached the level of PLN 317.6 million in 2004, which was an increase of 3.7%. The main item in these costs was salary-related benefits.
- Non-personnel costs in 2004 amounted to PLN 653.5 million and increased in 2004 by PLN 17.2 million, i.e. by 2.7%. They mainly consisted in costs of materials and energy, costs of material services, mostly telecommunication costs, mail, transport and renovation, maintenance and service costs.
- Taxes and charges in 2004 reached the level of PLN 49.1 million and as a result decreased by 2.1% comparing to the previous year.
- Contributions and payments to the Bank Guarantee Fund are calculated separately each year as a percentage of risk weighted assets. In 2004 the contribution was PLN 11.8 million, a decreased of PLN 2.8 million, i.e. 19.3%, compared to the previous year.

- Other costs of the Bank's activity include costs of rental, security, IT, cleaning, software license fees and other related charges, personal and material insurance fees, medical costs and other costs and amounted to PLN 573.5 million in 2004, compared to 2003, an increase of PLN 17.2 million, i.e. 3.1%. The rise in other Bank costs was mainly caused by the increase in IT costs concerning outsourced services, advertising, security and property insurance.
- General banking expenses comprise PKO BP privatization that reached PLN 44.7 million. costs
- Depreciation of fixed assets and amortization of intangibles amounted to PLN 471.4 million in 2004, an increase of PLN 2.9 million from 2003, i.e. 0.6%.

Net specific provisions and revaluations

In 2004, the balance of specific provisions and revaluations decreased the Bank's gross result by PLN 74.2 million. In comparison to 2003 net specific provisions and revaluations were PLN 205.6 million higher. The improvement of the result of specific provisions and revaluations was, on the one hand, the effect of an improvement in loan portfolio quality and, on the other, the effect of new rules for the classification of loan exposure and creation of specific provisions (in accordance with the Minister of Finance Decree of 10 December 2003 on the creation of provisions for risk relating to banking activity).

Table 16. Net specific provisions and revaluations (in PLN thousand)

Title	2004	2003	Change	Dynamics
1. Creation of provisions and revaluation, of which:	**(1 023 983)**	**(1 372 427)**	**348 444**	**74,6%**
- increase in the balance of specific provisions and general banking risk reserve	(1 022 973)	(1 369 971)	346 998	74,7%
- revaluation of financial assets	(1 010)	(2 456)	1 446	41,1%
2. Release of provisions and revaluation, of which:	**949 803**	**1 092 630**	**(142 827)**	**86,9%**
- release of specific provisions and general banking risk reserve	949 155	1 088 882	(139 727)	87,2%
- revaluation of financial fixed assets	648	3 748	(3 100)	17,3%
Net specific provisions and revaluations	**(74 180)**	**(279 797)**	**205 617**	**26,5%**

4.4. Key financial ratios

PKO BP SA's financial results for 2004 (when compared with the results for 2003) resulted in the following changes in the **key efficiency ratios:**

- return on assets (ROA) increased by 0.32 percentage points,
- return on equity (ROE) increased by 0.81 percentage points,
- increase in the Bank's general expenses to banking activity result ratio (C/I) of 1.19 percentage points and after adjustment for one-off privatization costs – increase of 0.37 percentage points,
- increase of 5.44 percentage points in the coverage of operating expenses by fees and commission income as a result of its high dynamics

Table 17. Key efficiency ratios

Ratios	2004	2003
1	*2*	*3*
1. Net profit (loss)/ average asset **(ROA $_{net}$)***	**1,75%**	**1,43%**
2. Net profit (loss) /average equity **(ROE $_{net}$)****	**20,89%**	**20,08%**
3. General activity expenses + depreciation/ amortization to Result from banking activity **(C/I)**	**67,20%**	**66,01%**
3. General banking expenses + depreciation/ amortization Result from banking activity **(C/I)** *(excluding one-off privatization costs in 2004)*	**66,38%**	**66,01%**
4. Net fees and commission income to operating expenses	**49,82%**	**44,38%**

**) ROA net computed as relation of net profit (loss) to assets' arithmetic average at the beginning and end of the reporting period*

***) ROE net computed as relation of net profit (loss) to equity' s arithmetic average (including profit brought forward and profit for the year) at the beginning and end of the reporting period*

4.5. Equity and Capital Adequacy Ratio

As at 31 December 2004, the share capital of PKO BP SA comprised PLN 1,000,000,000 ordinary bearer shares with a nominal value of 1 PLN each, including: 510,000,000 series A shares, 105,000,000 series B shares and 385,000,000 series C shares. On 31 August 2004 the Polish Securities and Exchange Commission gave its consent to PKO BP shares being admitted to public trading.

As at 31 December 2004, the Bank's equity amounted to PLN 8,070.5 million, of which PLN 6,553 million (81.2%) was share capital and PLN 1,517.5 million (18.8%) – retained earnings from previous year and net profit for the year.

Compared to the end of 2003, Bank's equity increased by PLN 1,671.4 million (26.1%) mostly as a result of the appropriation of the 2003 net profit.

Table 18. Equity (in PLN thousand)

Title	2004		2003		
	in PLN thousand	**structure**	**in PLN thousand**	**structure**	**Dynamics**
1. Share capital	1 000 000	12,4%	1 000 000	15,6%	100,0%
2. Reserve capital	2 804 731	34,8%	1 783 827	27,9%	157,2%
3. Revaluation reserve	378 288	4,7%	220 664	3,4%	171,4%
4. Other reserves	2 370 000	29,4%	2 160 000	33,8%	109,7%
Shareholders' funds	**6 553 019**	**81,2%**	**5 164 491**	**80,7%**	**126,9%**
5. Retained earnings from previous years	6 450	0,1%	41 938	0,7%	15,4%
6. Net profit for the period	1 511 065	18,7%	1 192 706	18,6%	126,7%
Total equity	**8 070 534**	**100,0%**	**6 399 135**	**100,0%**	**126,1%**

Capital adequacy ratio as at 31 December 2004 was 16.77% and was 0.26 percentage points higher than the ratio in 2003 (16.51%).

5. KEY BUSINESS AREAS

5.1. Retail Banking

The Bank's activities in the area of Retail Banking were conducted to maintain the leading position on the market. In 2004 the Bank focused on increasing the attractiveness of products offered by the Bank, enhancing service quality and sale effectiveness through the realization of the following tasks:

1) centralization of banking services with respect to savings accounts (ROR),
2) introducing global call centre and Internet access to Superkonto account,
3) extending the Bank's offer by new, non-standard deposit products such as:
   – two-year structural deposit "WYSPA SKARBÓW", combining guaranteed fixed interest with the possibility of gaining additional profit due to USD/PLN exchange rate,
   – SAN REMO, LOKATA FRANCUSKA and LOKATA SZWEDZKA – deposits bearing fixed interest, offered by subscription,
   – deposit account IKE (Individual Pension Fund), an account with an attractive interest rate and no fees for opening and maintaining the account,
   – twelve-month deposit offered in two subscriptions with higher than standard interest,
4) enhancing the offer of consumer loans by promotional sale of loans and introduction of special credit products for private banking customers,
5) launching promotional campaign for credit cards,
6) product modification such as:
   – modification of term deposits in foreign currency assuring the same service for those products and standard deposits in Polish currency,
   – modification of functionality of loans for purchase of securities on secondary market,
   – modification of student loans with preferential terms by expanding the group of potential creditors to PhD students and extending the repayment period to two years after the graduation date,
7) introducing new Fee and Commission Tariff as of 1 January,
8) implementing a comprehensive sale management system, including estimating and monitoring product sales to individual clients on a regular basis,
9) training for sales force employees in order to improve their efficiency.

In addition, during the privatization process the Bank prepared a privatization deposit that allowed PKO BP shares to be purchased without a reduction in orders (maximum value of the deposit was set at PLN 20 thousand).

At the end of 2004 the Bank maintained 5,148 thousand savings-giro accounts and 364 thousand Inteligo Internet current accounts. Compared to the balance as at the end of 2003 the total amount of accounts increased by 396 thousand, including: the amount of savings-giro individual clients by 252 thousand (5.1%) and Inteligo accounts for individual clients by 144 thousands (65.5%). The amount of ZLOTE and PLATYNOWE ACCOUNTS in 2004 grew by 29.5 thousands (44.4%).

As at the end of 2004, **retail deposit volume** totalled PLN 53.4 billion. In 2004 there was a change in customer preferences consisting in a shift away from saving at banks to alternative forms of savings, such as investment in State Treasury bonds and fund participation units. The value of the State Treasury bonds sold by the Bank in 2004 was PLN 6.9 billion, i.e. PLN 3.5 billion higher than in 2003.

Despite strong competition, the Bank maintained its leading position in the Polish retail banking sector and its share in the market of retail customer deposits accounted for 29.1%.

The balance of consumer loans as at the end of 2004 was PLN 9.5 billion (without mortgages included in the "new portfolio" housing loans), and – compared to the balance as at the end of

December 2003 – increased by PLN 1.7 billion (21.2%). Consequently, the Bank gained a 19.7% share in the lending market. During the year the share in the lending market grew by 1.3%.

Small and Medium Enterprises (SMEs)

As part of Bank's services to small and medium enterprises, the Bank offered PARTNER accounts, including the following packages addressed to specific customer groups: BIZNES PARTNER, AGRO PARTNER and MEDYK PARTNER.

PARTNER account holders were offered improved products, such as:

- PKO Euro Biznes credit card – the first credit card on the Polish market offered to SME customers,
- possibility to access accounts and carry out transactions by means of PKO Inteligo e-service (Internet, call service),
- financing investment loans with attractive terms for enterprises relating to real estate,
- Package "Wspólny Cel" addressed to non-commercial organizations.

In 2004, the Bank continued to grant preference loans with additional payments to bank interest on the basis of cooperation with the Agency for the Restructuring and Modernization of Agriculture.
As at the end of 2004, the Bank operated 267.8 thousand PARTNER current accounts, i.e. 3.7% more than in 2003.

Other products and services

1) PKO BP SA cards for retail customers

As at the end of 2004, the Bank expanded its offer by issuing credit cards to:

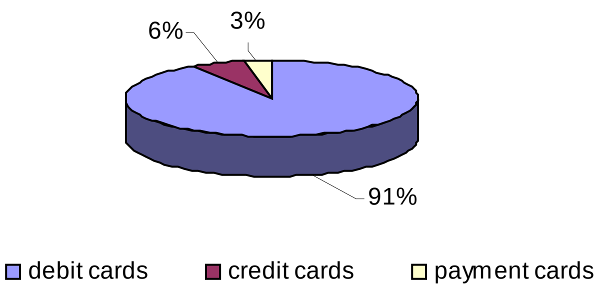
- students - PKO Visa Electron STUDENT with the same interest rate as for holders of savings-giro accounts, with no initial fee from the product launch date till the end of the year,
- small and medium enterprises – the first in Poland PKO Euro Biznes credit cards.

Furthermore, the Bank issued PKO Ekspres cards with new visualization - Aurum and Platinium for private banking clients.

At the end of 2004, PKO BP offered 22 types of cards to its retail customers. Total amount of cards issued exceeded 5.39 million, including approximately 356 thousand Inteligo cards and 136 thousand debit cards and 13 thousand cards issued to small and medium enterprises. As compared to 2003, the total number of credit cards increased by 13%.

In 2004 the Bank maintained its leading positions in the credit card market, achieving a 34% market share (the same as in 2003).

The card structure of PKO BP SA in 2004



The number of transactions executed using cards of this segment was 218 million (an increase of 21%), whereas their value reached almost the level of PLN 44 billion. The average number of transactions executed by one card increased in 2004 from 40 to 43. The share of non-cash transactions grew by 3 percentage points, i.e. from 20% to 23% of the total amount of transactions.

In addition the dynamics of this growth was higher than the dynamics of cash transactions and reached the level of 34%.

2) Compensation payment

Compensation is paid to public sector employees whose salaries were not revalued in the second half of 1991 or in the first half of 1992, and to pensioners who in 1991 lost pension increases or additional payments to pensions for working in specific conditions or doing work of a specific nature.

In 2004, the Ministry of the State Treasury transferred to the Bank approximately PLN 1,385.7 million for such payments. Out of this amount and the amount transferred to the Bank in 2003, compensation of PLN 1,416.9 million was paid out to approximately 546.5 thousand entitled persons.

3) Benefit payments

In 2004, "Polsko-Niemieckie POJEDNANIE" Foundation transferred to the Bank approximately PLN 1,022.7 million, of which PLN 925.8 million was paid out to approximately 556.7 thousand entitled persons.

On 25 May 2004, a new agreement was signed between Powszechna Kasa Oszczędności Bank Polski and "Polsko-Niemieckie Pojednanie" Foundation for handling benefits paid out of human aid funds. On the basis of this agreement, the term of the benefit program was extended until 31 December 2006.

5.2. Corporate Banking

In 2004, the Bank concentrated on maintaining its position of leading service provider to enterprises and local government. In order to accomplish this goal the Bank:

- separated the network dedicated to corporate clients,
- assigned portfolios to regional corporate branches, teams of advisors and advisors in order to individualize the service of corporate clients,
- implemented a training program for employees dealing with corporate customers, including corporate customer advisor, to improve their efficiency.

Furthermore, the Bank focused its efforts on attracting new customers and broadening the scope of its cooperation with current clients, particularly by transaction service and "cash management" services.

The most crucial sectors with which the Bank cooperated in 2004, apart from state and local public sector customers, were the following: power production and distribution, production and distribution of petroleum products, telecommunications, wholesale and production of pharmaceuticals, machinery and equipment rental.

At the end of 2004 **the volume of corporate client deposits**, including small and medium enterprises, amounted to PLN 12.1 billion, i.e. an increase ofy 32.7%, as compared to the previous year. The share in the deposit market was 8.6%, an increase of 0.6% compared to 2003.

The volume of loans offered to corporate clients, including small and medium enterprises, at the end of 2004 amounted to PLN 15.2 billion, thus a drop of 5.9% as compared to 2003. The share in the lending market was 9.0%.

Furthermore, in the area of corporate banking the Bank:

1) prepared the product offer ("Program Europejski") for potential beneficiaries of European aid following Poland's accession to the EU

   The offer is of a comprehensive nature, accompanied by the support of the EU. The program is addressed not only to entities undertaking enterprises and applying for EU funds, but lso to entities preparing projects and service providers. The offer is a comprehensive response to their needs, giving both access to financial resources and settlement and advisory services.

   In 2004 350 loan agreements were signed concerning enterprises co-financed with EU aid funds for a total amount of PLN 192.9 million (as far as corporate clients and small and medium enterprises are concerned).

2) actively participated in financing investment activities and cash shortages of local public sector organizations and assisted in obtaining financing from pre-accession aid funds, as well as in preparing the public sector to effectively utilize structural funds.

   At the end of 2004 the Bank's involvement with state and local organizations fell by almost PLN 0.42 billion, i.e. 5.8%, as compared to 2003. Loans granted to local government organizations represented 38.2% of total public sector exposure. Deposits of state and local government organizations grew by PLN 2.3 billion, i.e. by 77.7%, as compared to 2003.

3) cooperated with domestic financial institutions, contributing to the increase of activity on the debt securities market

4) increased activity concerning bank cards

   As a result of that approach, at the end of 2004, the Bank serviced almost 49 thousand cards issued to corporate clients as well as small and medium enterprises, 13% more than in December 2003. In 2004 there was an increase of 5.8 thousand cards. The biggest share in card at the end of 2004 had PKO Visa Business Electron debit cards – 80%. To compare, PKO MC Business Srebrne charge cards gained 13%, while Złote - 7%.

   Card sale dynamics had an impact on the substantial growth in the amount of transactions executed with these cards. In 2004 the total number of transactions executed with PKO BP SA business cards reached the level of approximately 2 million, the value of which exceeded PLN 1.9 billion. It represents growth of 61% and 56%, respectively.

5.3. Financing real estate

In 2004 the Bank focused its activity in the area of real estate financing on maintaining its leading market position.
Since 1987 the Bank has taken over certain tasks concerning housing loans granted to building cooperatives and natural persons. The so-called loans supported by the State budget or "old portfolio" housing loans were granted until 31 March 1996.
The "new portfolio" housing loans include loans not supported by the State budget.
Detailed information concerning "old" and "new" housing portfolio loans was given in the Additional Notes and Explanations to the Bank's financial statements.

New housing loans portfolio

As at 31 December 2004 total new housing loans portfolio amounted to PLN 13.3 billion. Compared to the end of 2003 it increased by PLN 2 billion.

A predominant role in the portfolio was played by a loan called WŁASNY KĄT. The debt balance resulting from this product as at the of December 2004 was PLN 10.8 billion, which accounted for 81.1% of the total new housing loans portfolio.

During the whole year the sales of loans and credits from new housing loans portfolio reached the highest level ever and amounted to PLN 5.3 billion which means that it was 20.5% higher than in 2003. The highest sales levels were recorded in April and December, PLN 545 million and PLN 590 million respectively.

In 2004 the sales structure was dominated by the sale of WŁASNY KĄT loans which accounted for 83% of total sales. In the last months of 2004 a greater role was played by mortgage collateralized housing loans – consolidation loans and mortgages. In 2004 the share of loans and credits denominated in convertible currencies (mainly in Swiss francs) in the new housing loans portfolio increased from 17.5% in 2003 to 39.1% in 2004.

In order to make the offer more attractive and better customized for clients the following measures were taken:

- depending on the purpose of the loan the following subproducts were originated from WŁASNY KĄT loan: WŁASNY KĄT - Mortgage, WŁASNY KĄT - Business and WŁASNY KĄT – Tenancy Loan,

- changes in loan terms were introduced. They mainly included the extension of the loan repayment period to 30 years, the introduction of an annuity repayment schedule for housing loans and mortgage loans denominated in convertible currencies and the creation of the possibility of crediting most of the fees related to housing agreement,
- introduction of consolidation loans enabling the repayment of other client liabilities, for example overdrafts, consumer loans,
- introduction of changes in the price structure. New schedule of margins for loans denominated in Polish currency as well as in convertible currencies made the offered margin dependant on the financial contribution of the borrower and the level of the loan, as a result of which the margin on new loans granted increased,
- from the structure of the NOWY DOM product the following subproducts originated: NOWY DOM – sale, NOWY DOM – lease, NOWY DOM – purchase, NOWY DOM – reconstruction depending on the purpose of the loan,
- the restructuring of loans with deferred repayment of part of the receivable was prepared, it enabled these loans to be converted to WŁASNY KĄT loans, which has an impact on the recoverability of this portfolio,
- two promotional campaigns for WŁASNY KĄT – mortgage loans were run, which resulted in best ever sales results in April and December.

Housing loans covered by state assistance (old housing loans)

The total balance of housing loans covered by state assistance as at the end of 2004 together with capitalized interest amounted to about PLN 3.1 billion and compared to the level as at the end of 2003 it decreased by PLN 323 million, i.e. 9.5%.

The loans subject to temporary redemption of interest repaid according to "normative" and "income" formula accounted for about 95% of the old housing loans portfolio.

The Bank's main goal concerning housing loans covered by state assistance was to maintain a high level of recoverability (about 99%)

Activities relating to deposits held on housing plan passbooks

As at the end of 2004 PKO BP SA maintained about 2.1 million accounts for housing plan passbooks, with total savings of PLN 5.1 billion.

In 2004 there was an increase of 131.1 thousand in the number of passbooks without the right to a guarantee premium and an increase of 8.1 thousand in the number of activated passbooks which resulted in a growth of deposits by more than PLN 1.0 billion. As a result of the above changes the volume structure of deposits held on housing plan passbooks changed compared to the end of 2003 – housing deposits with the right to a guarantee premium account for 45% of total deposits (decrease by 13.5%) and passbooks without the right to guarantee premium account for 55%.

In order to make this form of saving money for housing purposes more attractive, the Bank extended its offer to include a new 1-year term of regular saving.

Activities relating to corporate clients on the housing market

Corporate clients on the housing market (i.e. housing cooperatives and communities as well as developers) are covered by a special type of comprehensive service. The Bank's offer for these clients includes a comprehensive package of services provided to corporate clients, their managements and to members of housing cooperatives.

In 2004 the continuous modification and adjustment of the banking offer to the requirements of housing market customers included:

- introduction of the "Nasza Wspólnota" servicing package for housing communities into the Bank's offer,
- origination of a new subproduct called NOWY DOM reconstruction from NOWY DOM loan.

Sales intensification resulted in:

- an increase in deposits of such clients of 27.4%,
- growth of six times the number of concluded agreements related to the system of virtual accounts in 2004.

5.4. Treasury activities

The Bank's activity on the money market in 2004 focused mainly on:

- adapting the current investment policy to market trends. In times of higher interest rates, risk investment policy was to take position in short-term instruments and more extensive hedging (the value of open net positions in IRS contracts increased at the end of September to almost PLN 12 billion); in the last quarter of the year vulnerability to interest rate risk was increased mainly due to the purchase of instruments with longer duration (5 and 10 year securities) and in addition fewer hedging transactions were concluded.
- diversification of treasury debt securities through the purchase of treasury and commercial securities denominated in foreign currencies,
- assuring long-term financing in CHF through an increase in structural exposure in this currency by CHF 0.6 billion to CHF 1 billion,
- development of transactions with non-bank clients; in 2004 the product offer relating to debt securities and derivatives was enriched, the dynamics of turnover with non-bank clients was 110%,
- taking measures to enable the sale of complex financial instruments with embedded currency options.
- introduction of technological and restructuring changes – in all the Bank's branches the implementation of autodealing on line system was finalized which enabled the direct connection of branches' network with the Treasury Department.

5.5. Brokerage activities

In 2004 Bankowy Dom Maklerski PKO BP SA strengthened its position on the capital market. It was accompanied by a revival on this market – the main indices increased on average by 26.3% and yearly turnover increased by 17% to the level of PLN 136 billion.

BDM PKO BP SA improved its position among the leading brokerage houses and its share in the secondary market of all instruments types increased throughout the year:

- increase in the share in stock market turnover to 6.1% which accounts for growth of 2.6 percentage points compared to 2003,
- increase in the share in bond market turnover to 28.8% which accounts for growth of 16.3 percentage points compared to 2003,
- increase in the share in forward market turnover to 5.1% which accounts for growth of 0.2 percentage points compared to 2003,
- increase in the share in turnover on the market of option for indices to 6.0% which accounts for growth of 0.6 percentage points compared to 2003,

The measures taken in 2004 contributed to attaining gross profit of PLN 57.0 million, i.e. more than double the result for 2003.

In 2004 the Bank incurred costs of PLN 14.8 million in connection with promotion and advertising of Treasury Bonds according to the agreement based on which PKO BP acts as an agent in Treasury bond issues.

At the end of 2004, the number of accounts (both investment and registration accounts) kept by BDM PKO BP was approximately 362 thousand. When compared to the end of December 2003, the number of accounts increased by approximately 112 thousand.

The value of assets held by customers on investment and registration accounts was PLN 13.5 billion at the end of 2004, which translates to a 167% increase compared to 2003.

The following factors significantly contributed to the improvement of the position of BDM PKO BP on the capital market (except for the increase in its share in stock exchange turnover and activities related to the issue of Treasury bonds):

- organization of issues on the primary market,
- increase in the activities of the market animator and the issuer's animator and the restructuring of the animator's portfolio,
- top position on the market in terms of the number of issued recommendations.

5.6. International cooperation

European Bank for Reconstruction and Development

PKO BP SA participates in the "Loan Window" programme being a part of the "UE/EBRD SME Finance Facility" (on the basis of the Credit Facility Agreement of 21 February 2003 concluded by PKO BP SA and the European Bank for Reconstruction and Development for the financing of small and medium-sized enterprises, PKO BP SA customers, with investment and working-capital loans). As at 31 December 2004 the Bank has signed 1,368 loan agreements for a total amount of EUR 24.7 million. Out of this number, the Bank advanced 1,340 loans amounting to EUR 24.4 million, while the balance of active loans (1,262 loans) was EUR 19.4 million.

In addition to the granting of loans from funds provided by EBRD, cooperation under this programme also includes activities aimed at improving the process of financing SME by PKO BP SA.

European Investment Bank

On 29 April 2004 an agreement was signed between the Bank as the borrower and the European Investment Bank (EIB) as the lender. This agreement was concluded based on a framework agreement dated 1 December 1997 between EIB and the Republic of Poland relating to the activities conducted by EIB on the territory of Poland. The agreement stipulates that EIB will grant a loan of EUR 100 million to the Bank in any currency. The loan is to be used by the Bank to further its operations in respect of financing small and medium investment projects relating to energy, health and environmental protection, infrastructure and industry development.

Cooperation with rating agencies

PKO BP SA cooperates with four rating agencies: Moody's, Standard & Poor's, Capital Intelligence and Fitch Ratings. These ratings are granted free of charge on the basis of available published information, in particular annual reports and information obtained by the agencies during direct contacts with the Bank.

In 2004 the following ratings of PKO BP SA changed:

- Moody's – on 16 April 2004 increased its financial strength rating from D to D+,
- Standard & Poor's – on 25 August 2004 increased its long-term rating from BBpi to BBBpi.

The increase in the Bank's ratings is limited by Poland's country ceiling, i.e. the level of ratings assigned by the agencies to the Polish economy.

Table 19. PKO BP SA ratings as at 31.12.2004

FITCH RATINGS	
Support rating	2
STANDARD AND POOR'S	
Long-term domestic currency liabilities rating	BBBpi
MOODY'S INVESTORS SERVICE LTD.	
Long-term deposit rating	A2 stable outlook
Short-term deposit rating	Prime-1 stable outlook
Financial strength	D+ positive outlook
CAPITAL INTELLIGENCE	
Long-term foreign currency liabilities rating	BBB +
Short-term foreign currency liabilities rating	A2
Domestic strength	BB +
Support rating	1
Outlook	stable

Cooperation with other foreign institutions

PKO BP SA concluded four framework agreements with foreign banks and amended two previously concluded ISDA agreements and one support agreement – Credit Support Annex – for ISDA agreement with a foreign bank.

In its cooperation with foreign banks, PKO BP SA maintains 29 nostro accounts at correspondent banks, denominated in 12 foreign currencies, and maintains 30 loro accounts in its books in three currencies on behalf of foreign banks.

In order to support the offer of PKO BP SA's payment cards, the Bank cooperates with the international Visa and MasterCard organizations. The cooperation includes the issuance, authorization and settlement of cards, sale of products, as well as actions aimed at enhancing the security of card transactions. In addition, in cooperation with the Diners Club organization, the Bank issues prestigious cards for top-segment customers.

6. ORGANIZATIONAL AND CAPITAL RELATIONS

6.1. Investment activity

In 2004 the main changes in the capital and organizational relations within the group of related entities were:

- the acquisition of 66.651% shares in Kredyt Bank (Ukraina) S.A.,
- the acquisition of 100% shares in Dom Maklerski BROKER S.A.,
- the acquisition of 25.0001% shares in Bank Pocztowy S.A.,
- contributions to PKO Towarzystwo Finansowe Sp. z o.o. equity assigned for covering entity liquidation costs and to PKO Inwestycje Sp. z o.o. equity assigned for realization of Miasteczko Wilanów project,
- registration of increase in the capital of Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. The percentage of share capital held by the Bank and the percentage of votes at the Shareholders' Meeting decreased from 75% to 33.33%,

- registration of increase in the capital of Kolej Gondolowa Jaworzyna Krynicka S.A. The percentage of share capital held by the Bank decreased from 38.64% to 38.23%, and the percentage of votes at the General Shareholders' Meeting decreased from 37.22% to 37.03%
- registration of Wilanów Investments Sp. z o.o. – a subsidiary of PKO Inwestycje Sp. z o.o., which holds 51% of the company's share capital and votes at the Shareholders' Meeting,
- the end of the liquidation of the Bank's associated company - Wrocławskie Zintegrowane Centrum Logistyczne S.A. On 25 November 2004 the company was deleted from the National Court Register,
- sale of Inteligo Technologies Sp. z o.o. shares (subsidiary of Inteligo Financial Services S.A.),
- resolution of the Shareholders' Meeting of Sonet Hungary Kft (subsidiary of Inteligo Financial Services S.A.) on the liquidation of the company and appointment of a liquidator,
- Registration of change in the company's name from PKO/Handlowy Powszechne Towarzystwo Emerytalne S.A. to Powszechne Towarzystwo Emerytalne BANKOWY S.A..

The Bank estimates that the investment plans, including capital investments, are feasible and adequate in relation to the funds at the Bank's disposal.

<u>Information on changes in capital relations between the Bank and other entities</u>

In 2004:

- the company InfoMonitor Biuro Informacji Gospodarczej S.A. with share capital of PLN 8 million was registered. The Bank's share in the share capital of the Company and in the votes at the General Shareholders Meeting accounts for 12.5%,
- share capital increase in the company MTS – CETO S.A. (ex CETO S.A.). The Bank's share in theshare capital of the Company and in the votes at the Shareholders Meeting decreased from 2.91% to 2.18%,
- in connection with the disposal of part of the shares held in KGHM Polska Miedź S.A. on 19 November 2004, the Bank decreased its capital involvement in shares of this Company to an amount not exceeding 5% share in share capital and in votes at the General Shareholders' Meeting,
- the Bank sold minority shares in Zakłady Przemysłu Wełnianego „TOMTEX" S.A.
- in connection with the separation from Visa International an independent legal entity – Visa Europe, PKO BP SA took up one share (so-called "certificate") in Visa Europe Limited.

6.2. Related party transactions

<u>Transactions involving amounts not exceeding or equal to EUR 500 thousand</u>

In 2004 PKO BP SA concluded transactions with PKO BP SA Capital Group entities relating to:

- running of bank accounts,
- accepting deposits,
- granting loans, including for leasing activity,
- issuing debt securities,
- covering costs of remuneration for activities and services performed for the Bank in relation to the maintenance of Inteligo accounts,
- rental of office and service space,
- granting a bank guarantee to Dom Maklerski BROKER S.A. in favour of the National Securities Depository as collateral for payments to be made to Fundusz Gwarantowania Rozliczeń Transakcji Giełdowych.

All transactions were made on an arm's length basis.

All significant PKO BP SA transactions with PKO BP SA Group entities, including debts due to the Bank from the companies, as at 31 December 2004 was presented in the Additional Notes and Explanations to the financial statements of PKO BP SA in point "Related party transactions".

<u>Granted off-balance sheet liabilities</u>

Off-balance sheet liabilities of a financial and guarantee nature granted to related entities as at the end of 2004 amounted to PLN 710.5 million, an increased of PLN 604.0 million in comparison to the end of 2003. Out of total liabilities, PLN 599.8 million comprise liabilities granted to Bankowy Fundusz

Leasingowy S.A. relating mainly to open credit lines, while PLN 105 million represents the bank guarantee granted to Dom Maklerski BROKER S.A. in favour of the National Securities Depository.

7. REGULATION OF RISK MANAGEMENT IN PKO BP SA

7.1. Credit risk

The Bank's activity on the markets of retail services, housing services, small and medium companies and corporate clients leads to rising credit, market and operational risk. That is why credit risk management is a crucial sub-process of management that has a significant impact on the Bank's competitiveness and position on the market.

The risk management system in PKO BP SA is the subject of ongoing improvement and adaptation to new sources and banking risk factors.

In the process of credit risk management the Bank follows the following principles:

- each loan transaction is subject to comprehensive credit risk assessment which is measured by internal rating or credit scoring,
- credit risk relating to potential or concluded loan transactions is measured on a regular basis taking into account changing external conditions and changes in the financial situation of the borrowers,
- credit risk assessment is subject to additional verification by independent units responsible for credit risk assessment,
- in PKO BP SA credit risk is diversified geographically, by industry, by product and by clients.

<u>Monitoring and classification of loan exposures</u>

Ongoing monitoring and diversification of loan exposures are crucial to the credit risk management process. Monitoring is performed in accordance with external regulations on the basis of criteria such as: timeliness of repayment, clients' financial situation and quality of collateral. The Bank creates specific provisions for individual loan exposures, taking into account the value of collaterals that diminish the basis for creation of specific provisions.

Considering the significance of rating systems used for capital adequacy assessment, the Bank develops its own rating systems aiming at full compliance with the advanced methods of the New Capital Accord.

In 2004 the methodology of credit risk assessment of corporate clients was changed in accordance with the New Capital Accord, and for retail clients a scoring system was gradually implemented.

<u>Portfolio credit risk management methods</u>

In 2004 the Bank continued work aimed at fully implementing the solutions set out in the draft of the New Capital Accord and in the European Union Directive. In accordance with the assumption of gradual convergence to fulfil the requirements for capital adequacy measurement, the Bank is continuing work on developing portfolio credit risk measurement methods and widening estimated portfolio credit risk indicators. The Bank is starting to estimate recoverability rates for consumer loans in default.

The methods for measuring portfolio credit risk enable amongst other things: credit risk to be taken into consideration in the price of services, profitability assessment adjusted by risk factor, collateral management policy and calculation of the level of specific provisions based on internal models.

In addition, in 2004 work was started on ensuring portfolio credit risk monitoring throughout the Group.

<u>IT systems supporting credit risk assessment</u>

In 2004 the IT system supporting corporate clients' credit risk assessment was modified to adjust it to the updated rating system that provides for individual client risk assessment and transaction risk assessment. A standard loan report template used by loan decision makers was also implemented into the system.

In 2004 the Bank continued to modify the IT branch system concerning collaterals catalogue and adjustment to amended rules for the creation of specific provisions.

7.2. Financial risk

In 2004 the rules and procedures concerning financial risk management were updated. The amendments of internal regulations were the result of changes in the Bank's activities, macroeconomic and legislative environment and of the development of the risk assessment methodology and the results of performed analyses.

The rules concerning financial risk management adjusted the scope of duties and competences of the Bank's divisions and units dealing with risk management to the reorganization and modernization processes in the Bank.

In 2004 the process of implementing a specialist IT system supporting financial risk management continued. The implementation of the system will improve the operating efficiency and IT safety of the market risk management process; it will also increase the level of automation of computations and will allow for their centralization.

Financial risk profile of the Bank in 2004

In 2004, as in previous periods, the Bank sustained high PLN solvency, which throughout the year considerably exceeded the thresholds in all time horizons.

Interest rate risk measures did not exceed the binding limits.

The Bank used derivatives for investment and balance sheet security purposes; it also held speculative positions on interest rates and foreign currency.

In 2004 the Bank verified the standing of financial institutions on a regular basis – through verification of granted credit and settlement limits.

7.3. Operational Risk

In order to limit operational risk at the beginning of 2004 the Bank accepted operational risk management standards in PKO BP SA, which set the elements of the operational risk management process, separated the entities and units responsible for comprehensive and current operational risk management and set their objectives; furthermore these standards introduced the instruments for managing this risk.
The Bank defined categories of operating events according to the Basel Banking Supervision Committee. They are used to determine the operating risk factors relating to the introduction of new internal regulations.

New regulations were introduced to identify operational risks when drawing up and reviewing the Bank's internal regulation. These regulations will reduce the probability, scale and outcomes of operating events and enable the assessment of operating risk materiality levels. The applied methodologies are compliant with the requirements of the New Capital Accord and Recommendation "M" of the Banking Supervisory Board.

8. DISTRIBUTION NETWORK

Branches

As at 31 December 2004 PKO BP SA had 1,266 branches, of which:

- 1,183 units act on the retail market, including: 12 regional retail branches, 537 independent branches and 634 branches; compared to the previous year the number of retail branches decreased by 55,
- 83 units act on corporate market, including: 13 regional corporate branches, 13 corporate client teams and 57 corporate centres.

In 2004 the total number of branches increased by 28.

Agencies

In 2004 the Bank adjusted the rules of cooperation with agencies in line with the updated Banking Law. The introduction of a new provision concerning outsourcing of banking and actual activities of the Bank on the basis of an agency agreement concluded with an entrepreneur obliged the Bank to withdraw from agreements signed with old-type agencies and agencies acting as partnerships. Taking the above into consideration, and due to the liquidation of ineffective agencies, the number of agencies has decreased by 849 compared to the previous year. As at 31 December 2004 2,725 agencies cooperated with the Bank.

There is a possibility of cash withdrawals with payment cards using POS terminals in agencies providing cash operation services.

E-banking

In November 2004 the Bank finished a project to implement e-banking services. Using a new trademark – PKO Inteligo – the Bank enabled on-line access to *Partner* type bank savings accounts and current accounts to its customers. The following on-line services are available: Internet and phone services in the area of transactions and information. Account holders can manage cash on their accounts remotely from any place in the world round the clock (24/7/365). A services catalogue offers, among other things, bank transfers, bank transfers on defined accounts, bank transfers to the Social Security Institution and Tax Offices, defining banks orders, placing term deposits, making payment requests and access to account history.

The Bank gives access to e-banking services after signing the appropriate agreement concerning this type of service. Between 15 November and 31 December 2004, the Bank's clients concluded about 90 thousand agreements.

The Internet Inteligo account is still being dynamically developed. At the year end 380 thousand customers used this type of account. In 2004 Inteligo users were offered credit products, such as a debit limit and Inteligo credit. They were able to buy bonds, investment funds, insurance policies on the Internet.

Self-service terminals and personnel support equipment

At the year end the Bank operated 1,785 ATMs available for clients. PKO BP SA has the biggest ATM network has and has a 23% market share. During the year customers carried out over 165 million transactions through PKO BP SA ATMs, at a value of almost PLN 40 billion (an increase of 15% and 21% accordingly). The share of operations executed with cards of other issuers in PKOBP SA ATMs accounted for 5% (an increase of 2 percentage points from the previous year). In 2004 in 830 PKO BP SA ATMs with a deposit function almost 150 thousand deposit envelopes were placed (12% more than in 2003). 230 thousand pre-paid Simplus mobile phone cards were sold via PKO BP SA's ATM network.

In 2004 the number of self-service terminals increased by 39 and at the year end amounted to 216.

Other services

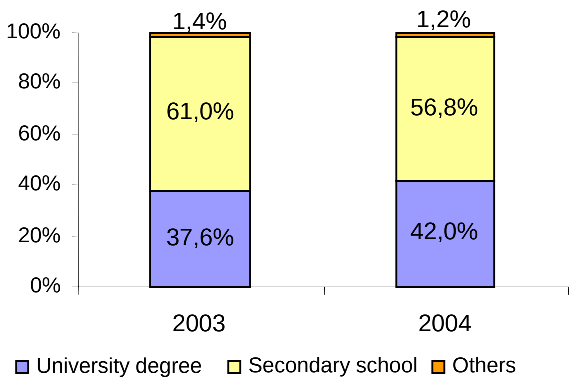
In 2004 a stable increase showed the sale of the following services: information about changes in account balances by SMS and information about changes in account balances sent to email boxes.

In 2004 125 thousand agreements were signed on sending information about changes in account balances by SMS, which represents a 22% increase in relation to the number of customers at the end of 2003. 24 thousand agreements were signed on sending information about balance changes to email boxes, which is 23% higher than at the end of 2003.

9. HUMAN RESOURCES

The number of PKO BP SA employees as at 31 December 2004 was 35,386 (in terms of full-time equivalent) and was 1,161 lower, i.e. 3.2%, than at the end of 2003. The annual average employment level (in terms of full-time equivalent) in 2004 was 35,386 and was 1,206 lower than the 2003 average.

PKO BP SA employees by educational background



In the year 2004 the Bank put special emphasis on the proper utilization of potential and qualifications of its employees who were reallocated to new areas of business activity and to specialist Bank entities supporting this activity.

The activities undertaken were aimed at developing professional personnel to provide clients with top quality services, face competition and market challenges and build up firm relations with Bank's clients.

Remuneration system

The Bank's remuneration system is based on the Collective Labour Agreement dated 28 March 1994 (together with subsequent amendments) and the related regulations agreed with the trade unions.

In the year 2004 steps were taken to improve competitiveness of the Bank's remuneration level in comparison to the rest of the banking sector. The emphasis was put on creating a link between individual efficiency of an employee and his/her salary. This was achieved by adjusting the motivation system to the new organizational structure of the Bank. The solutions introduced should strengthen the motivating role of remuneration on business activities, achieving positive economic results and employer efficiency.

Training

In the year 2004, 111 thousand participants were involved in group and individual training, including 98 thousand who participated in internal training sessions run by internal lecturers.

The major areas of training activities were:

1. development of knowledge, qualifications and skills of employees in different areas of the Bank's activities in order to utilize efficiently employees' qualifications in operational activities within the new organizational structure of the Bank and to help them undertake new responsibilities related to the modernized organizational structure.
2. development of sales skills and proper attitude towards Bank's clients.

The training activities in 2004 were focused on preparing employees for their new roles in the organization and involving them in the process of knowledge sharing by intensive internal training run by trainers - Bank employees.

10. SERVICES PROMOTION AND IMAGE BUILDING

10.1. Promotional activities

Promotional activities of the Bank in the year 2004 concentrated mainly upon the following:

- maintaining the leading position of the Bank on the retail market,

  As part of the retail products and services campaign the Bank undertook (among others):

  - a multimedia campaign – the great Olympic promotion of PKO BP SA credit cards **"Wygraj Olympiadę z kartą kredytową" (**Win the Olympic Games with a credit card**)**,
  - promotional campaign of the housing loan „Własny Kąt" **(Own flat)**,
  - promotional campaign of the cash loan „Wiosna z PKO BP" (Spring with PKO BP),
  - promotional campaign of the Agro Partner account **"Jeśli chcesz skorzystać z dopłat Unii Europejskiej – załóż rachunek w PKO BP" (**If you want to benefit from EU subsidies – open an account with PKO BP**)**,
  - promotional campaign of the deposit „Wyspa Skarbów" (Treasure Island) based on a promotional competition and the promotional sale of a PKO BP credit card,
  - an advertising campaign supported by PR activities on a launch of the new credit card PKO Euro Biznes aimed at small and medium-sized enterprises,
  - promotion of credit card PKO STUDENT in a student competition,
  - competitions for clients supporting the sale of subscribed deposits: WŁOSKA, FRANCUSKA, SZWEDZKA and HISZPAŃSKA (Italian, French, Swedish and Spanish),
  - a media campaign of BARDZO DOBRY KREDYT GOTÓWKOWY and GWIAZDKOWY KREDYT GOTÓWKOWY (a very good cash loan and a Christmas cash loan),
  - promotion of a sale of 3 month and 6 month standard deposits,
  - informational campaign SUPER-IKE,
  - informational campaign of a new e-banking offer PKO Inteligo.

- strengthening the Bank's position in the corporate market area,

  As part of the promotional activities a multimedia campaign for European Program and an offer of municipal bonds was carried out.

- realization of a marketing strategy for T-bonds,

  As part of the promotional activities a multimedia campaign for T-bonds "Jak prosto oszczędzać" (How to save easily) and a campaign for the new product IKE Obligacje were run.

- realization of a marketing campaign related to the Bank's privatization.

  The action was aimed at creating a positive environment for the Bank's privatization and attracting investors to participate in the public offering. As part of the marketing campaign a multimedia image campaign was launched to create a new position of the Bank. Additionally, informational actions supporting the sale of LOKATA PRYWATYZACYJNA (privatization deposit) and the sale of shares within the public offer were performed.

The Bank's sponsorship and charity activities were aimed at supporting culture, sport, life-saving and health care. The long-term program "PKO BP for the National Culture" was continued and resulted in sponsoring the National Museum of Warsaw, the National Theatre, the National Library, the National Concert Hall and the Opera Foundation. The Bank also acted as a sponsor of the Music Festival PR "Paryżanie", the Festival of Actors' Song and the albums and concerts of Maryla Rodowicz, Vadim Brodski and the TSA band.

In the year 2004 PKO BP gave its patronage to the celebration of 100 year anniversary of the Warsaw Academy of Arts. The key moments of the celebrations were the three exhibitions presenting the art of Academy students and professors.

The Bank participated in the purchase of an autographed original of the 4th Etude op. 10 by Frederic Chopin which was auctioned at Sotheby's Auction House. The purchased work of art was given to the Frederic Chopin Museum in Warsaw.

As part of the program "PKO BP for the Olympic representation" the Bank continued activities related to sponsoring the Polish Olympic association in the years 2002-2006 and the women's fencing team . The Bank was a sponsor of the "Olympic Summer with the Radio" and the sports contest on the III Program of Polish Radio "There can only be one winner".

In the area of life saving and health PKO BP financed the Foundation for Cardio surgery Development which supports a program for the development of Polish Artificial Heart, the purchase of medical equipment for many hospitals and clinics and many foundations for science, heart care and culture.

10.2. Awards and Distinctions

In 2004 PKO BP SA won many awards. The most important are listed below:

- SPORT PATRON –honourable title awarded for the Bank's activities in the area of sport's sponsorship,
- FRIENDLY BANK FOR ENTERPRENURS –promotion emblem in *commercial banks* category awarded for consequent development of methodology of building an offer for small and medium enterprises,
- ALICJA –"Twój Styl" monthly magazine award for Card INTELIGO VISA ELECTRON Z SERCEM,
- ROCK AWARD 2003 – two silver prizes awarded by Master Card International for the biggest achievements in developing credit cards and new card products,
- Employer of the year 2003,
- Banking Manager of the year 2003 –prize awarded to the President of the Management Board of the Bank in the "Gazeta Bankowa" contest,
- European medal –title awarded for the service "Arrangement of the municipal bonds issue",
- European program –award in the category "best finance product of the year" in Portfolio 2004 competition organized by BusinessWeek,
- EUROPRODUCT –title awarded in the *service* category for multi-currency loan and in the *product* category for: card INTELIGO Visa Electron with heart, Supercredit, Blue credit card, Partnership credit card PKO VITAY and combination of products for non profit organizations "Wspólny cel",
- DIAMOND for Golden Statue of the Polish Business Leader awarded for maintaining high market position in a subsequent year of activities; PKO Bank Polski received the Diamond for the second time,
- Economic Prize of the President of Poland in the category "Financial institution" awarded for the financial results for 2003, which sets the Bank as a leader of the Polish banking sector, and also for the Bank's sponsoring and charitable activities and positive opinions of National Work Inspection (Państwowa Inspekcja Pracy),
- First place in Gazeta Bankowa ranking "2004 Best Banks" in the big bank group – the jury highly appreciated the Bank's financial results achieved in the past few years, setting PKO BP SA on the position of unquestioned leader of the Polish banking sector,
- STUDENTS' BANK OF THE YEAR – for a subsequent time the Bank won the competition in the students' bank category in a contest organized by Media Platform POINT GROUP,
- Distinction in the IV Banking Services Olympics, organized by PENTOR Opinion Pool, finalist of the 10th Polish Capital-Finance Forum TWOJE PIENIĄDZE, including third place for SUPERKONTO in category "ROR account for Mr. Andrzej" and the second place for Inteligo Account in the category "ROR account for Mr. Krzysztof",
- BEST BANK –title awarded by readers of Gazeta Prawna "The best in the last 15 years 1989-2004",

- Patron of the National Library –title awarded in recognition of the Bank's initiatives to support national culture,
- Crystal Butterfly (Kryształowy Motyl) - title awarded by the Foundation "Porozumienie bez Barier",
- Grand Prix for PKO Visa Electron STUDENT credit card (the first transparent card on the market) and the title of the best banking card issuer of fairs "Card 2004",
- The prize for PKO Euro Biznes Card for small and medium companies awarded by the President of the Banking Card Issuers Council

Moreover, Bankowy Dom Maklerski PKO BP (Brokerage House) was awarded the Prize of the Chairman of the Management Board of the Stock Exchange for launching the biggest number of new companies on the stock exchange and for the highest activity as a market maker on the market of small companies.

11. IMPORTANT AGREEMENTS AND SIGNIFICANT AGREEMENTS SIGNED BY PKO BP SA WITH THE CENTRAL BANK OR SUPERVISORY BODIES

In 2004 the Bank concluded four syndicate loan agreements with one borrower (Ministry of the Economy, Labour and Social Policy). The Bank's share in these agreements amounts to PLN 700 million.

In 2004 the Bank did not sign any significant agreements with the Central Bank and supervisory bodies.

On the date of submitting this Report the Management Board of the Bank is not aware of any agreements, as a result of which the shareholding structure in relation to present shareholders might change.

12. OBTAINED LOANS AND CREDITS, GUARANTEES AND SURETIES NOT RELATING TO BANK'S OPERATING ACTIVITY

In 2004 the Bank did not take out any loans or credits, neither did it receive any guarantees and pledges not relating to the operating activity of the Bank.

13. ENFORCEABLE TITLES ISSUED

In 2004 Bank PKO BP SA issued 29,143 banking enforceable titles which amounted to PLN 816 million.

14. MANAGEMENT BOARD AND SUPERVISORY BOARD OF THE BANK

PKO BP SA Management Board term of office

According to § 19 of the PKO BP Statute the term of office of the Bank's Management Board is three years.

Management Board in the period covered by the financial statements:

No	Name	Function	Date of appointment	Date of dismissal
1.	Andrzej Podsiadło	President of Management Board	20.06.2002	
2.	Kazimierz Małecki	First Deputy President	04.07.2002	
3.	Danuta Demianiuk	Deputy President	02.01.2003	
4.	Jerzy Gapiński	Member	20.06.2002	13.05.2004
5.	Jacek Obłękowski	Member	20.06.2002	
6.	Piotr Kamiński	Member	10.03.2003	

7.	Krystyna Szewczyk	Member	14.05.2004	

Other positions held by Bank's Board Members in the period covered by the financial statements:

No	Name	Function on Assets and Capital & Liabilities Management Committee (KZAP)	Function on Bank's Credit Committee (KKB)	Function on Ruling Committee for Integrated Information System (ZSI)
1.	Kazimierz Małecki	President of KZAP		President of ZSI Committee
2.	Danuta Demianiuk	Deputy President	President of KKB since 1.07.2004	Member of ZSI Committee
3.	Jerzy Gapiński			Deputy President of ZSI Committee till 13.05.2004
4.	Piotr Kamiński		Deputy President of KKB	
5.	Jacek Obłękowski		President of KKB till 30.06.2004	Deputy President of ZSI Committee
6.	Krystyna Szewczyk	KZAP Member since 21.05.2004		Deputy President of ZSI Committee since 08.07.2004

As at 31 December 2004 members of the Supervisory Board of PKO BP SA were:

	Name	**Function**
1.	Bazyl Samojlik	Chairman
2.	Ryszard Kokoszczyński	Vice-chairman
3.	Arkadiusz Kamiński	Secretary
4.	Andrzej Giryn	Member
5.	Stanisław Kasiewicz	Member
6.	Władysław Szymański	Member
7.	Jerzy Osiatyński	Member

In the reporting period there were no changes in the Supervisory Board of PKO BP SA.

Bank's shares held by members of Bank's management

As at 31 December 2004 the members of the Management Board owned 3,419 PKO BP SA shares, including: Kazimierz Małecki – 2,502 shares, Jacek Obłękowski – 488 shares and Andrzej Podsiadło – 429 shares.

Among the members of the Supervisory Board as at 31 December 2004 only Stanisław Jasiewicz owned 101 PKO BP SA shares.

Holders of commercial powers of attorney, Board Meetings and execution of resolutions of Shareholders' Meetings and recommendations of the Ministry of the State Treasury

1. As of 1 January 2004 there were 18 holders of commercial powers of attorney, and at the year end there were 17 holders. During the year 2004 the Management Board dismissed four and appointed three holders of commercial powers of attorney .

2. In 2004 56 minuted Management Board Meetings took place and 413 resolutions were passed.

3. In 2004 the following took place:

- PKO BP SA Annual General Meeting on 27 May 2004,
- Five Extraordinary General Meetings on: 1 April 2004, 21 July 2004, 30 July 2004, 12 August 2004, 10 September 2004.

The resolutions passed during the Annual General Meeting were realized by PKO BP SA

The most important activities and decisions taken by the Management Board, which have an influence on the economic and financial position and activity of the Bank have been presented in the relevant parts of the Director's Report.

15. SIGNIFICANT POST BALANCE SHEET EVENTS

1. On 4 January 2005 the Bank's Management Board passed a resolution approving the acquisition by the Bank of shares in Centrum Obsługi Biznesu Sp z o.o. located in Poznań. On 6 January 2005 the Bank made a statement about the acquisition of 34,992 shares in Centrum Obsługi Biznesu Sp. z o.o. and on 11 January 2005 the Bank transferred funds of PLN 17,496 thousand for the acquired shares. The main business of the company is construction and maintenance of a hotel located in Poznań. The hotel will be managed by the international chain operator Sheraton.
2. On 12 January 2005 the Bank made an equity contribution to the company PKO Inwestycje Sp. z o.o of PLN 1,020 thousand assigned for the realization of the investment project "Miasteczko Wilanów".
3. On 13 January 2005 the rating agency Moody's raised the rate of financial strength of PKO BP SA from D^+ to C^-.
4. On 31 January 2005 the PLN 105 million guarantee granted by PKO BP SA to subsidiary company Dom Maklerski BROKER S.A in favour of the National Securities Depository expired. The guarantee secured the payments to the Fundusz Gwarantowania Rozliczeń Transakcji Giełdowych (Stock Exchange Transaction Settlement Guarantee Fund).
5. On 1 February 2005 the Bank obtained a report from the rating agency Capital Intelligence of December 2004 regarding PKO BP SA. In this report the rate of support of PKO BP SA was decreased from 1 to 2 (other rates did not change). The change of rate was explained by the decrease in the State Treasury's share in the Bank's share capital
6. On 15 February 2005 the Securities and Exchanges Commission issued a decision on withdrawing Dom Maklerski BROKER S.A.'s permit to perform brokerage activities due to a change in the Company's core activity.
7. The process of liquidating the Bank's subsidiary company – PKO Towarzystwo Finansowe Sp. z o.o. has ended. On 22 February 2005 the Company was deleted from the National Court Register.

The Management Report of PKO BP SA Capital Group for 2004 consists of 37 consecutively numbered pages.

_ _
President of the Board
Andrzej Podsiadło

_ _
Vice-President of the Board
First Deputy President of the Board
Kazimierz Małecki

_ _
Vice-President of the Board
Danuta Demianiuk

_ _
Board Member
Piotr Kamiński

_ _
Board Member
Jacek Obłękowski

_ _
Board Member
Krystyna Szewczyk