SECURITIES AND EXCHANGE COMMISSION

00 – 950 WARSAW POWSTAŃCÓW WARSZAWY 1 SQUARE

Annual report SAB-RS 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
- ☒ Annual consolidated financial statements:
  - ☒ Introduction
  - ☒ Consolidated balance sheet
  - ☒ Consolidated profit and loss account
  - ☒ Statement of changes in consolidated shareholders' equity
  - ☒ Consolidated cash flow statement
  - ☒ Additional explanatory notes
- ☒ Report of the Management Board (report on the activities of the Capital Group– "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	5 311 743	5 134 109	1 175 633	1 154 407
II. Fees and commission income	1 869 054	1 567 272	413 672	352 402
III. Result from banking activities	5 513 653	5 397 341	1 220 321	1 213 595
IV. Operating result	1 890 950	1 635 188	418 518	367 673
V. Gross profit (loss)	1 854 353	1 626 060	410 419	365 620
VI. Net profit (loss)	1 511 065	1 192 706	334 440	268 181
VII. Net cash flow from operating activities	(1 063 400)	(6 428 000)	(235 359)	(1 445 339)
VIII. Net cash flow from investing activities	1 601 682	5 747 339	354 496	1 292 292
IX. Net cash flow from financing activities	81 713	(398 766)	18 085	(89 663)
X. Total net cash flow	619 995	(1 079 427)	137 222	(242 710)
XI. Total assets	88 762 708	84 568 065	21 760 899	17 928 358
XII. Amounts due to the Central Bank	144	-	35	-
XIII. Amounts due to the financial sector	1 108 893	1 202 120	271 854	254 848
XIV. Amounts due to the non-financial and budget sector	72 975 344	71 500 460	17 890 499	15 158 037
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	16.67	16.36	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 consolidated financial statements for the year ended 31 December 2004 (format SAB-RS) of the Powszechna Kasa Oszczedności Bank Polski Spółka Akcyjna Group (the "Group"), with the holding company being Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the "Bank", the "holding company") located at Warsaw, Puławska 15 Street, including:
   - the introduction to the consolidated financial statements,
   - the consolidated balance sheet as at 31 December 2004 with total assets amounting to 88,762,708 thousand zlotys,
   - capital adequacy ratio,
   - consolidated off-balance sheet items as at 31 December 2004 amounting to 195,924,564 thousand zlotys,
   - the consolidated 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 consolidated 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 consolidated cash flow statement for the period from 1 January 2004 to 31 December 2004 with a net cash inflow amounting to 619,995 thousand zlotys, and
   - the additional notes and explanations.

   The format of the attached consolidated financial statements for the year ended 31 December 2004 ("the attached consolidated financial statements") is prescribed by the Decree of the Council of Ministers of 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 consolidated financial statements and the truth of consolidation documentation are the responsibility of the Management Board of the holding company. Our responsibility was to audit the attached consolidated financial statements and to express an opinion whether, based on our audit, these consolidated financial statements, in all material respects, present truly and fairly the financial position and the results of the Group's operations.

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

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

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

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

   - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 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 that affect their content.

5. We have read the Report by the Management Board on the Group'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 consolidated financial statements reconciles with the consolidated 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

THE GROUP OF 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

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

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.

The list of the affiliated entities was presented in the Note 7 of the Introduction to the audited consolidated financial statements for the year ended 31 December 2004.

The holding company business activities include:

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

Additionally, the Bank's scope of activities includes:

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

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.

Types of activities of the affiliated companies were presented in Note 7 of the Introduction to the audited consolidated financial statements.

(in thousand zlotys)

As of 31 December 2004 Bank's share capital amounted to 1,000,000 thousand zlotys and it comprised of 510,000,000 registered shares of the seriebs 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.

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 share holders	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 the holding company. As a result of the resolution number of shares was changed from 100,000,000 to 1,000,000,000 and the sbbbbbbhare 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.

(in thousand zlotys)

2. Group Structure

As at 31 December 2004, the PKO BP Group consisted of the following subsidiaries, which were consolidated using the full method or valued under equity accounting method:

Name	Consolidation /valuation method	Type of opinion	Name of authorised entity that audited financial statements	Balance sheet date
Bankowy Fundusz Leasingowy S.A.	full	audit in progress	Ernst & Young Audit Sp. z o.o.	31-12-2004
Powszechne Towarzystwo Emerytalne BANKOWY SA	full	qualified, with an emphasis of matter	Ernst & Young Audit Sp. z o.o.	31-12-2004
Dom Maklerski Broker S.A.	full	audit in progress	Ernst & Young Audit Sp. z o.o.	31-12-2004
Kredyt Bank (Ukraine) S.A.	full	audit in progress	Ernst & Young (Ukraine)	31-12-2004
Centrum Finansowe Puławska Sp. z o.o.	full	audit in progress	Ernst & Young Audit Sp. z o.o.	31-12-2004
Centrum Elektronicznych Usług Płatniczych „eService" S.A.	full	audit in progress	Ernst & Young Audit Sp. z o.o.	31-12-2004
Inteligo Financial Services S.A	full	audit in progress	Ernst & Young Audit Sp. z o.o.	31-12-2004
PKO Inwestycje Sp. z o.o.	equity pick-up	audit in progress	Ernst & Young Audit Sp. z o.o.	31-12-2004
PKO Towarzystwo Finansowe Sp. z o.o. (in liquidation)	equity pick-up	unqualified	MORE STEPHENS Trzemżalski, Krynicki i Partnerzy Kancelarie Biegłych Rewidentów Sp. z o.o.	20-12-2004

Listing of the affiliated entities which form the Group, consolidation methods used and the activities of the affiliated companies and changes to prior year regarding the consolidated companies were described in Notes 7, 8 and 9 of the Introduction to the audited consolidated financial statements.

3. Consolidated Financial Statements

3.1. Auditor's opinion and audit of consolidated financial statements

Ernst & Young Audit Sp. z o.o. with its registered office in Warsaw, 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 Group's consolidated 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) ("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 consolidated financial statements based on our audit. The auditing procedures applied to the consolidated financial statements were designed to enable us to express an opinion on the consolidated financial statements taken as a whole.

Our procedures did not extend to supplementary information that does not have an impact on the consolidated financial statements taken as a whole.

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

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

1. We have audited the attached consolidated financial statements for the year ended 31 December 2004 (format SAB-RS) of the Powszechna Kasa Oszczednośći Bank Polski Spółka Akcyjna Group (the "Group"), with the holding company being Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the "Bank", the "holding company") located at Warsaw, Puławska 15 Street, including:
   - the introduction to the consolidated financial statements,
   - the consolidated balance sheet as at 31 December 2004 with total assets amounting to 88,762,708 thousand zlotys,
   - capital adequacy ratio,
   - consolidated off-balance sheet items as at 31 December 2004 amounting to 195,924,564 thousand zlotys,
   - the consolidated 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 consolidated 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 consolidated cash flow statement for the period from 1 January 2004 to 31 December 2004 with a net cash inflow amounting to 619,995 thousand zlotys, and
- the additional notes and explanations.

The format of the attached consolidated financial statements for the year ended 31 December 2004 ("the attached consolidated financial statements") is prescribed by the Decree of the Council of Ministers of 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 consolidated financial statements and the truth of consolidation documentation are the responsibility of the Management Board of the holding company. Our responsibility was to audit the attached consolidated financial statements and to express an opinion whether, based on our audit, these consolidated financial statements, in all material respects, present truly and fairly the financial position and the results of the Group's operations.
3. We conducted our audit of the consolidated financial statements in accordance with the following regulations being in force in Poland:
   - chapter 7 of the Accounting Act, dated 29 September 1994 (the "Accounting Act"),
   - the auditing standards issued by the National Chamber of Auditors,

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

4. In our opinion, the attached consolidated financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 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 that affect their content.

5. We have read the Report by the Management Board on the Group'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 consolidated financial statements reconciles with the consolidated 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.

3.2. Representations provided and availability of data

The Management Board of the holding company confirmed its responsibility for the truth and fairness of the consolidated financial statements and has stated that it has provided us with all financial statements of affiliated companies, consolidation documentation and other required documents as well as all necessary explanations. The Management Board of the holding company has also provided a written representation confirming that:

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

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

3.3. Materiality level

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

3.4. Consolidated financial statements for prior financial year

The Group's consolidated financial statements 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.

The Group's consolidated financial statements for the year ended 31 December 2003 were approved by the General Shareholders' Meeting on 27 May 2004.

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

The consolidated financial statements 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.

(in thousand zlotys)

4. Analytical Review

4.1. Basic data and financial ratios

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

Consolidated comparable data for the year ended 31 December 2003 were restated in a way like in 2003 the holding company's Management Board would apply uniform accounting policies used to prepare consolidated 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	1,854,353	1,626,060
Net profit	1,511,065	1,192,706
Shareholders' funds	8,070,534	6,399,135
Total assets	88,762,708	84,568,065
Capital adequacy ratio of Bank in accordance with NBP methodology	16.67%	16.36%
Profitability ratio (profit before tax/overhead costs + depreciation)	49.53%	44.02%
The costs to income ratio (overhead costs + depreciation / result on banking activities)	67.90%	68.44%
Return on Equity (ROE) (net profit/average shareholders' funds)	20.89%	20.08%
Return on Assets (ROA) (net profit/average assets)	1.74%	1.43%
Rate of inflation		
Yearly average	3.5%	0.8%
December to December	4.4%	1.7%

4.2 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 Group's consolidated financial statements for year ended 31 December 2004) ,
- There was an increase of the total assets. The total assets as at 31 December 2004 amounted to 88,762,708 thousand zlotys.
- Cost level ratio decreased to 67.90% comparing with 68.44% in 2003,
- The profitability ratios in the described period are:
  - Return of Equity increased from 20.08% in 2003 to 20.89% in 2004.
  - Profitability ratio increased from 44.02% in 2003 to 49.53% in 2004.
  - Return on assets increased from 1.43% in 2003 to 1.74% in 2004.
- The Bank' capital adequacy ratio amounted to 16.67% as at 31 December 2004 comparing with 16.36% as at the end of 2003.

4.3 Going concern

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

In Note 5 of the Introduction to the Group's audited consolidated financial statements for the year ended 31 December 2004, the holding company's Management Board has stated that the financial statements were prepared on the assumption that the holding company and subsidiaries will continue as a going concern for a period of at least twelve months subsequent to 31 December 2004 and that there are no circumstances that would indicate a threat to its continued activity.

4.4. Application by the holding company 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.

4.5. 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. Completeness and accuracy of consolidation documentation

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

2. Accounting policies for the valuation of assets and liabilities

Changes of the Group's accounting policies and rules for the presentation of data are detailed in Note 10 of the Introduction and Notes 33 and 34 of the Explanatory Notes to the Group's consolidated financial statements for the year ended 31 December 2004.

3. Structure of consolidated assets, liabilities and equity

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2004. The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

3.1 Goodwill on consolidation and amortisation

The method of determining goodwill / negative goodwill on consolidation was presented in Note 12 of the Introduction to the audited consolidated financial statements and Note 15 of the Explanatory Notes to the consolidated financial statements.

3.2. Shareholders' funds

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation.

Information on shareholders' funds has been presented in the consolidated statement of changes in shareholders' equity and Notes 32, 33, 34, 35 and 36 of the Explanatory Notes to the audited consolidated financial statements.

3.3. Minority shareholders' interest

As at 31 December 2004 the minority shareholders' interest was presented in the audited consolidated financial statements in the line item Minority capital on the liabilities side of the Group's consolidated balance sheet.

3.4. Financial year

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2004 and include the financial data for the period from 1 January 2004 to 31 December 2004, except for PKO Towarzystwo Finansowe (in liquidation), of which financial statements were prepared for the period from 1 January 2004 to 20 December 2004.

4. Consolidation adjustments

4.1. Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities

All eliminations of inter-company balances and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

4.2. Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

5. Disposal of all or part of shares in a subsidiaries, joint-ventures and associates

During the financial year the Group did not sell any significant shares in subsidiaries, joint-ventures and associates.

6. Items which have an impact on the group's result for the year

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2004.

7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in the accounting act and the regulations issued based thereon

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting that would have resulted in the modifications in the auditors' opinion.

8. 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

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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 consolidated financial statements of the Capital Group of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna for the year ended 31 December 2004

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

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

On 12 April 2000 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.

The holding company and the other Group companies have an unlimited period of operating.

1. Business activities of PKO BP SA as the holding company

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

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

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 keep 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 main Bank's activities include:

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

Furthermore, the Bank can:

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

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

2. Reporting periods covered by these consolidated financial statements

The consolidated financial statements of the Bank are presented for the period from 1 January 2004 to 31 December 2004, including the consolidated 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 Capital Group SAB-RS 31 December 2004 PLN thousand

3. Information on the members of the Management and Supervisory Boards of the Group's holding company

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

4. Internal organisational units of the PKO BP SA Group

The consolidated financial statements of the PKO BP SA Group, comprising financial data for the year ended 31 December 2004 and consolidated comparative financial data, were prepared on the basis of the financial data submitted by all organisational units of the Bank through which it performs its activities. As at 31 December 2004 these organizational units included: the Bank's Head Office in Warsaw, BDM - Bankowy Dom Maklerski, COK - Centrum Operacji Kartowych, CBE - Centrum Bankowości Elektronicznej Inteligo, 6 specialized units, 12 regional retail braches, 13 regional corporate branches, 537 independent branches, 634 offices, 13 corporate client teams, 57 corporate centres and 2,725 agencies. Except for BDM, none of these organizational units listed above prepares separate financial statements. The subsidiaries included in the consolidated financial statements do not have any organizational units which prepare separate financial statements.

5. Going concern of the PKO BP SA Group

The consolidated financial statements of the PKO BP SA Group have been prepared on the basis that the Bank and the significant entities from the PKO BP SA Group will be a going concern during a period of 12 months from the balance sheet date, i.e. 31 December 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 continued activity of the Bank or the entities from the PKO BP SA Group in the twelve months following the balance sheet date due to an intended or compulsory withdrawal or limitation of their activities, except for certain entities which are under the process of liquidation and are immaterial for the Group.

6. Organisational structure of the PKO BP SA Group and types of relationships within the Group

BANK PKO BP SA

Subsidiaries

- 100.00% Bankowy Fundusz Leasingowy S.A.
- 100.00% Centrum Elektronicznych Usług Płatniczych eService S.A.
- 100.00% Centrum Finansowe Puławska Sp. z o.o.
- 100.00% Dom Maklerski BROKER S.A.
- 66.651% Kredyt Bank (Ukraina) S.A.
- 100.00% PKO Towarzystwo Finansowe Sp. z o.o. (under liquidation)
- 100.00% Przedsiębiorstwo Informatyki Bankowej „Elbank” (under liquidation)
- 65.00% International Trade Center Sp. z o.o. (under liquidation)
- 100.00% PKO Inwestycje Sp. z o.o.
- 100.00% Inteligo Financial Services S.A.
- 100.00% Powszechne Towarzystwo Emerytalne BANKOWY S.A.

Jointly controlled entities

- 50.00% PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.
- 35.40% Wawel Hotel Development Sp. z o.o.

Associates

- 37.03% Kolej Gondolowa Jaworzyna Krynicka Sp. z o.o.
- 33.33% Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.
- 32.50% Hotel Jan III Sobieski Sp. z o.o.
- 25.0001% Bank Pocztowy S.A.
- 23.52% EKOGIPS S.A. (in bankruptcy)
- 22.31% Agencja Inwestycyjna CORP S.A.

- 51.00% Fort Mokotów Sp. z o.o.
- 100.00% Finanse Agent Transferowy Sp. z o.o.
- 80.00% Sonet Hungary Kft (under liquidation)
- 51.00% Wilanów Investments Sp. z o.o.

% - percentage of votes held by the Bank at the General Shareholders' Meeting

PKO BP SA Capital Group SAB-RS 31 December 2004 PLN thousand

7. Affiliated entities of Bank PKO SA

a) Listing of affiliated entities of PKO BP SA consolidated using the full method.

No.	Name of the entity and legal form	Registered office	Activity	Court or other authority keeping the entity's register	Percentage of share capital held by the Bank (%)	Percentage of votes held by the Bank (%)
Subsidiaries						
1.	Bankowy Fundusz Leasingowy S.A.	Łódź	Leasing	District Court for the city of Łódź-Śródmieście, XX Commercial Department of the National Court Register	100.00	100.00
2.	Powszechne Towarzystwo Emerytalne BANKOWY S.A.	Warsaw	Pension fund management	District Court for the capital city of Warsaw, XIX Commercial Department of the National Court Register	100.00	100.00
3.	Dom Maklerski BROKER S.A.	Warsaw	Broker services	District Court for the capital city of Warsaw, XIX Commercial Department of the National Court Register	100.00	100.00
4.	Kredyt Bank (Ukraina) S.A.	Lwów	Financial services	National Statistic Committee of Ukraine, Uniform National Country Registry of Companies and Organizations of Ukraine, number 09807862	66.651	66.651
5.	Centrum Finansowe Puławska Sp. z o.o.	Warsaw	Construction and use of business premises	District Court for the capital city of Warsaw, XIX Commercial Department of the National Court Register	100.00	100.00
6.	Centrum Elektronicznych Usług Płatniczych „eService" S.A.	Warsaw	Monetary agency services	District Court for the capital city of Warsaw, XX Commercial Department of the National Court Register	100.00	100.00
7.	Inteligo Financial Services S.A.	Warsaw	Financial services	District Court for the capital city of Warsaw, XIX Commercial Department of the National Court Register	100.00	100.00

b) Listing of affiliated entities of PKO BP SA accounted for using the equity method.

No.	Name of the entity and legal form	Registered office	Activity	Court or other authority keeping the entity's register	Percentage of share capital held by the Bank (%)	Percentage of votes held by the Bank (%)
Subsidiaries						
1.	PKO Inwestycje Sp. z o.o.	Warsaw	Trading in real estate	District Court for the capital city of Warsaw, XIX Commercial Department of the National Court Register	100.00	100.00
2.	PKO Towarzystwo Finansowe Sp. z o.o. (under liquidation)	Gdańsk	Financial services	District Court in Gdańsk, XII Commercial Department of the National Court Register	100.00	100.00
3.	International Trade Center Sp. z o.o. (under liquidation)	Warsaw	Construction of shopping and business centres	District Court for the capital city of Warsaw, XVI Commercial Department of the National Court Register	65.00	65.00
4.	Przedsiębiorstwo Informatyki Bankowej „Elbank" Sp. z o.o. (under liquidation)	Warsaw	Development and operation of banking card system	District Court for the capital city of Warsaw, XVI Commercial Department of the National Court Register	100.00	100.00

PKO BP SA Capital Group SAB-RS 31 December 2004 PLN thousand

No.	Name of the entity and legal form	Registered office	Activity	Court or other authority keeping the entity's register	Percentage of share capital held by the Bank (%)	Percentage of votes held by the Bank (%)
Jointly controlled entities						
5.	PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.	Warsaw	Investment funds management	District Court for the capital city of Warsaw, XIX Commercial Department of the National Court Register	50.00	50.00
6.	Wawel Hotel Development Sp. z o.o.	Kraków	Hotel services	District Court for the city of Kraków-Śródmieście, XI Commercial Department of the National Court Register	35.40	35.40
Associates						
7.	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Poznań	Sureties in accordance with civil law and bill of exchange law	District Court for the city of Poznań, XXI Commercial Department of the National Court Register	33.33	33.33
8.	Bank Pocztowy S.A.	Bydgoszcz	Financial services	District Court for the city of Bydgoszcz, XIII Commercial Department of the National Court Register	25.0001	25.0001
9.	Agencja Inwestycyjna „CORP" S.A.	Warsaw	Production on the market of construction projects	District Court for the capital city of Warsaw, XIX Commercial Department of the National Court Register	22.31	22.31
10.	Ekogips S.A. (in bankruptcy)	Warsaw	Production of construction elements	District Court for the capital city of Warsaw, XVI Commercial Department of the National Court Register (documents are in XVII Commercial Department for Bankruptcy and Rehabilitation)	60.26	23.52
11.	Hotel Jan III Sobieski Sp. z o.o.	Warsaw	Construction and operation of Jan III Sobieski Hotel	District Court for the capital city of Warsaw, XIX Commercial Department of the National Court Register	32.50	32.50
12.	Kolej Gondolowa Jaworzyna Krynicka S.A.	Krynica	Construction and operation of cable railway	District Court for the city of Kraków-Śródmieście, XII Commercial Department of the National Court Register	38.23	37.03

c) Listing of entities indirectly affiliated with PKO BP SA

No.	Name of the entity and legal form	Registered office	Activity	Court or other authority keeping the entity's register	Percentage of share capital held by the Bank (%)	Percentage of votes held by the Bank (%)
Entity indirectly controlled by the Bank – subsidiary of Inteligo Financial Services S.A.						
1.	Sonet Hungary Kft (in liquidation)	Budapest	Commercial services	Local Court in Budapest	80.00	80.00
Entity indirectly controlled by the Bank – subsidiary of Powszechne Towarzystwo Emerytalne BANKOWY S.A.						
2.	Finanse Agent Transferowy Sp. z o.o. *	Warsaw	Financial intermediation services	District Court for the capital city of Warsaw, XIX Commercial Department of the National Court Register	100.00	100.00
Entities indirectly controlled by the Bank – subsidiaries of PKO Inwestycje Sp. z o.o.						
3.	Fort Mokotów Sp. z o.o.	Warsaw	General construction services	District Court for the capital city of Warsaw, XIX Commercial Department of the National Court Register	51.00	51.00
4.	Wilanów Investments Sp. z o.o.	Warsaw	General construction services	District Court for the capital city of Warsaw, XIX Commercial Department of the National Court Register	51.00	51.00

* The financial statements of the company consolidated using the full method in the consolidated financial statements of the Capital Group of Powszechne Towarzystwo Emerytalne BANKOWY S.A.

8. Subsidiaries of PKO BP SA excluded from the consolidated financial statements of the Group

In accordance with the Decree of the Minister of Finance dated 12 December 2001 on the principles for preparation of banks' consolidated financial statements and consolidated financial statements of a financial holding (Journal of Laws No. 152, item 1728) and in accordance with Art. 57 and Art. 58 of the Accounting Act (Journal of Laws of 2002, No. 76, item 694, together with subsequent amendments), investments in the following subsidiaries were not subject to consolidation:

a) Listing of subsidiaries excluded from consolidation

- Sonet Hungary Kft (under liquidation) (indirectly controlled entity) – the company did not conduct operations in 2004.
- Przedsiębiorstwo Informatyki Bankowej „Elbank" Sp. z o.o. (under liquidation) and International Trade Center Sp. z o.o. (under liquidation) – due to insignificant amounts.

b) Listing of subsidiaries accounted for under the equity method:

- PKO Inwestycje Sp. z o.o. – due to dissimilar activities,
- PKO Towarzystwo Finansowe Sp. z o.o. (under liquidation) - due to insignificant amounts,
- Fort Mokotów Sp. z o.o. (indirectly controlled entity) – due to dissimilar activities,
- Wilanów Investments Sp. z o.o. (indirectly controlled entity) – due to dissimilar activities.

The main financial data derived from the financial statements of the above entities for the year 2004 are presented below.

No.		PKO Inwestycje Sp. z o.o.	Fort Mokotów Sp. z o.o.	Wilanów Investments Sp. z o. o.	PKO Towarzystwo Finansowe Sp. z o.o. (under liquidation)
1.	Net revenue from sales of finished goods and goods for resale and from financial operations (PLN thousand)	11,388	140,964	102,126	-
2.	Profit/loss (PLN thousand)	1,041	12,595	(3,863)	(813)
3.	Total assets (PLN thousand)	55,889	165,912	105,795	779

9. Changes in the structure of entities affiliated with the Bank

The following changes took place in the structure of entities affiliated with the Bank in the year 2004:

- Purchase and transfer of ownership to the Bank of 25% plus one of shares in Bank Pocztowy S.A.,
- Purchase and transfer of ownership to the Bank of 66.651% of shares in Kredyt Bank (Ukraina) S.A,
- Purchase and transfer of ownership to the Bank of 100% of shares in Dom Maklerski BROKER S.A,
- Contributions to PKO Towarzystwo Finansowe Sp. z o.o. equity assigned for covering entity liquidation cost and to PKO Inwestycje Sp. z o.o. equity (dopłata) 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,
- Completion of liquidation proceeding of the Bank's associate - Wrocławskie Zintegrowane Centrum Logistyczne S.A. On 25 November 2004 the company was removed from the National Court Register,

- Sale of Inteligo Technologies Sp. z o.o. shares (a subsidiary of Inteligo Financial Services S.A.),
- Resolution of the Shareholders' Meeting of Sonet Hungary Kft (a subsidiary of Inteligo Financial Services S.A.) on the liquidation of the company and appointment of a liquidator,
- Registration of company's name change PKO/Handlowy Powszechne Towarzystwo Emerytalne S.A. to Powszechne Towarzystwo Emerytalne BANKOWY S.A.,
- PKO Inwestycje Sp. z o.o. took up shares in the new established Towarzystwo Ubezpieczeń Wzajemnych Bezpieczny Dom in the amount of PLN 100 thousand. The company holds 5% of shares in the company's share capital and 5% of votes at its General Shareholders' Meeting.
- Fort Mokotów Sp. z o.o. (a subsidiary of PKO Inwestycje Sp. z o.o.) took up shares in the new established Towarzystwo Ubezpieczeń Wzajemnych Bezpieczny Dom in the amount of PLN 100 thousand. The company holds 5% of shares in the company's share capital and 5% of votes at its General Shareholders' Meeting.

10. Consolidated comparative financial data

Consolidated comparative financial data for the year ended 31 December 2003 were prepared using the uniform accounting policies applied to the financial statements prepared for the year ended 31 December 2004.

The presented consolidated comparative financial 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 consolidated financial statements of the Group for the year ended 31 December 2003 resulting from the above changes in regulations were presented in Note 33 and Note 34 of the Additional Notes and Explanations to these consolidated financial statements.

11. Auditor's opinion

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

12. Accounting policies

Basis for financial statements' preparation:

- 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 Decree of the Minister of Finance dated 12 December 2001 on preparation of banks' consolidated financial statements and consolidated financial statements of a financial holding (Journal of Laws No. 152, item 1728);

- 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 methods used by the PKO BP SA Group

The consolidated 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).

The principal accounting policies and methods used by the PKO BP SA Group during the period from 1 January to 31 December 2004.

a) Basis for preparation of consolidated financial statements

As at 31 December 2004, the holding company of the PKO BP SA Group held investments in subsidiaries and associates listed in Note 7 of the Introduction to the consolidated financial statements. The Management Board of PKO BP SA consolidated the financial statements of these entities in accordance with the Accounting Act dated 29 September 1994 (Journal of Laws of 2002, No 76, item 694, together with subsequent amendments) and the Decree of the Minister of Finance dated 12 December 2001 on the preparation of bank's consolidated financial statements and consolidated financial statements of a financial holding (Journal of Laws No 152, item 1728).

The consolidated comparative financial data of the Group for the year ended 31 December 2003 were prepared on the basis of the financial data of the holding company and subsidiaries and associates for the year ended 31 December 2003, using uniform accounting policies with those that were applied to the financial statements prepared for the period ended 31 December 2004.

b) Method of consolidation and valuation of subsidiaries

Consolidation using the full method

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

- for the year ended 31 December 2004:
  - Bankowy Fundusz Leasingowy S.A.,
  - Powszechne Towarzystwo Emerytalne BANKOWY S.A.,
  - Centrum Finansowe Puławska Sp. z o.o.,
  - Centrum Elektronicznych Usług Płatniczych „eService” S.A.,
  - Inteligo Financial Services S.A.,
  - Kredyt Bank (Ukraina) S.A.,
  - Dom Maklerski BROKER S.A.
- for the year ended 31 December 2003:
  - Bankowy Fundusz Leasingowy S.A.,
  - Powszechne Towarzystwo Emerytalne BANKOWY S.A.,
  - Centrum Finansowe Puławska Sp. z o.o.,
  - Centrum Elektronicznych Usług Płatniczych „eService” S.A.,
  - Inteligo Financial Services S.A.,
  - Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.

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

The following items are eliminated in full at consolidation:

- inter-company receivables and payables, and any other settlements of a similar nature, between the consolidated entities,
- revenue and costs of business transactions conducted between the consolidated entities,

- gains or losses which arose from business transactions conducted between consolidated entities, included in the value of the assets of the consolidated entities, except for losses that indicate permanent diminution of value,

- dividends calculated or paid by the subsidiaries to the holding company and to other consolidated entities,

- inter-company cash flows in the cash flow statement.

Goodwill on consolidation is presented as a separate item in the consolidated balance sheet and is amortised over a period of economic useful life and reviewed for impairment at each balance sheet date.

Negative goodwill on consolidation is presented as a separate item in the consolidated balance sheet and is accounted for in accordance with the Accounting Act dated 29 September 1994 (Journal of Laws of 2002, No. 176, item 694, together with subsequent amendments)

Accounting under the equity method

Subsidiaries other than banks, lending or financial institutions and banks' auxiliary enterprises, as well as entities which are immaterial for the Group are accounted for under the equity method.
The equity method involves valuation of interests in other entities at the amount of the share in the net assets of a given subsidiary, taking into account goodwill or negative goodwill determined at the date of acquiring control.

Interests in subsidiaries accounted for under the equity method are reported at acquisition cost adjusted for the difference between the acquisition cost and the share in the equity of these entities at the date of 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, including decreases relating to settlements with the shareholders of the subsidiary.
Goodwill arising on valuation using the equity method is reported in the consolidated financial statements in the same manner as in the case of consolidation using the full method.

c) Accounting basis

The value of assets and liabilities and the financial results are determined and reported based on accounting records and consolidation documents, in order to give a true and fair view of the financial position of the Group.

Assets and liabilities are valued at cost actually incurred, taking into account movements occurring in individual items.

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

The PKO BP SA Group translated assets and liabilities, being the balance sheet and off-balance sheet positions in foreign currency into Polish zlotys using the average NBP rate prevailing for a given currency as at the balance sheet date. Specific provisions, which are created in Polish zlotys, for loan exposures and impairment write-downs against other receivables denominated in foreign currencies are updated in line with the change in the currency revaluation of the assets for which these provisions are created. Realised and unrealised foreign exchange differences are recorded in the profit and loss account.

e) 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".

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.

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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, the holding company 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).

f) 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, the holding company 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.

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:

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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.

g) 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.

h) 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 yield curve based on 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:
   1) reference asset value method,
   2) method using yield curve based on market interest rates, or
   3) 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.

i) 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).

j) 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 value, 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 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 associates and joint ventures are valued using the equity method described in detail in point 12.b) above.

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

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.

k) Effective interest rate

The Group 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 Group 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.

l) Intangible assets

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

m) Tangible fixed assets

Tangible fixed assets of the PKO BP SA Group 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.

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

Tangible and intangible fixed assets in the PKO BP SA Group 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, except for vehicles, machines and equipment in Bankowy Fundusz Leasingowy S.A. which are depreciated using "reducing balance" method. 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.

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

Tangible fixed assets	**Rates**
Buildings, premises, cooperative right to premises	1.5%; 2.5%; 10%
Leasehold improvements	10%*
Plant and machinery	4% - 66.7% **
Computer hardware	20% - 60% **
Motor vehicles	14% - 25%

* 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 Group are as follows:

Intangible assets	**Rates**
Licences for computer software	16.7% - 50%
Copyright	20% - 50%
Goodwill, other intangible assets	20% - 50%

An assessment is made at each balance sheet date by the Group's entities 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 of tangible and intangible fixed assets are recorded under other operating expenses.

o) 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.

p) 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, before receviables write offs specific provision are raised in the value of difference between receivables and created specific provision. In the case of other receivables that were not fully covered by provisions, the difference is also charged directly to expenses

q) Financial result

The PKO BP SA Group 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 forward, FX swap, CIRS).

- Other operating income and expense

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

r) 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 under “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 loans classified as irregular 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”

s) 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).

t) 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 28 March 2003 on the extension of deadlines for payments of advances and corporate income tax for banks granting housing loans from Mortgage Fund (Journal of Laws No. 58, item 511).

u) 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 liabilities. Deferred tax liability and deferred tax asset of each of the Group entities are aggregated and presented net in the balance sheet under assets or liabilities, as appropriate. 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 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 the 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 on 15 June 2004, as currently the Bank does not have the data necessary to estimate the resulting deferred tax asset.

v) 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).

w) 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 holding company 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.

x) Provision for future liabilities to employees

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

y) Holiday accrual

The Group creates an accrual for the future liabilities of the Group relating to unused annual leave, taking into account all remaining unused holiday days. The holiday accrual is within “Accruals”.

z) Prepayments and accruals

The Group 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.

aa) 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 the PKO BP SA Group consists of the share capital of the holding company and 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.

bb) 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 preceding balance sheet date (for transactions concluded in the reporting period – acquisition cost or the sale price of the instrument), the difference is charged respectively to 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.

cc) Embedded derivative instruments

PKO BP SA Group, 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 Note 33 and 34 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, is 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.

dd) 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.

ee) Hedge accounting

According to the binding regulations, the Group may apply hedge accounting policies if and only if certain conditions are fulfilled, and especially if formalised documentation of hedging relationship prepared upon establishing the hedge in which the PKO BP SA Group sets forth the Group's 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 risk being hedged. In the periods covered by these consolidated financial statements the PKO BP SA Group did not use hedge accounting.

13. Differences between the accounting policies applied by the PKO BP SA Group 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 S.A. ("the Group"), 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.

At present, the process of conversion of Group's accounting and reporting systems is underway. The conversion aims at enabling the preparation of the financial statements in accordance with IFRS. The completion of the conversion is planned for the end of the first quarter of 2005.

The Bank conducts works in order to get ready to prepare the consolidated financial statements in accordance with the International Financial Reporting Standards starting from 1 January 2005. At this stage, the works are focused on the implementation of IT solutions which will assure current valuation of certain financial instruments at amortized cost using the effective interest rate and verification of applied methodological assumptions relating to the measurement of impairment of loans.

The Group, in spite of exercising due care, was not able to reliably determine the value of certain differences. The reason for this is that on the date of submitting these consolidated financial statements all necessary data was not collected, as well as the verification of correct functioning of the new IT systems was not finished. Pursuant to § 18.2 of the Decree of the Council of Ministers dated 11 August 2004 on specific conditions that should be met by the issue prospectuses and short-form prospectuses the Group presents these differences below.

Valuation of financial assets and liabilities

IFRS

International Accounting Standard (IAS) 39 require 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.

The Group 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 a financial asset 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 using current interest rate for 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. Similar classification to the risk categories is applied by the leasing company, which is a part of the Group. Specific provisions for loan exposure and leasing receivables are created at least at the level required for particular risk groups (from 1.5% to 100% of the basis 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 regulations 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 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 and leasing receivables 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 Group 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, significant non-monetary items include 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. The Group 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 the Group did not apply general price indexes and did not revalue the tangible fixed assets as at 31 December 1996.

Application of IFRS 3 – acquisition and merger of companies ("Business combinations")

IFRS

According to IFRS 3 as at the date of business combination company all intangible fixed assets which comply with the definition of intangible fixed assets set forth by IAS 38 and value of which can be reliably estimated, should be recognized.

According to IFRS 3, the goodwill is not subject to amortisation. Instead, goodwill is tested for impairment annually or more frequently, if events or changes in circumstances indicate that goodwill may be impaired according to IAS 36.

PAS

According to PAS, in business combination the Group recognized only these intangible fixed assets, which complied with conditions stated in PAS. As a result, goodwill calculated on acquisition transactions presented in these consolidated financial statements may differ from the goodwill calculated according to IFRS 3.

According to PAS, the goodwill is subject to amortization during the period no longer than 5 years and in justified cases the above period may be extended to 20 years. As at each balance sheet date, the impairment test is performed.

In the Group's consolidated profit and loss account for 2004 the following goodwill amortisation balances were recognized:

- PLN 18,368 thousand for entities acquired prior 31 March 2004,
- PLN 18,545 thousand for entities acquired after 31 March 2004.

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.

Scope of consolidation

IFRS

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

PAS

According to PAS, consolidated financial statements should include the financial statements of all significant subsidiaries and jointly controlled entities that are not commercial companies; the financial statements of subsidiaries other than banks, credit or financial institutions, including banks' auxiliary enterprises, are included in the consolidated financial statements using the equity method. In addition, if shares in a given company were acquired exclusively with a view to their subsequent disposal, or if the company will be controlled by the holding company for less than one year, then the financial statements of such company are not required to be consolidated.

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. The holding company of the Group 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:

- 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.

Quantification of differences

According to the holding company, significant differences between the main items of financial statements prepared according to PAS and IFRS (shareholders’ equity and financial result) relate to the following:

- valuation of financial assets and liabilities at amortised cost using the effective interest rate,
- assessment of impairment of assets, and
- application of IFRS 1.

At this stage, in spite of exercising due care, the holding company is unable to present the values of these differences as at 31 December 2004, and the progress made by the holding company in determining these differences is presented below.

- Valuation at amortised cost using the effective interest rate

The Bank is in the course of verifying the databases required to perform appropriate calculations and collecting the data for the valuation of amortised cost using the effective interest rate. It also continues to the process of implementing changes in the Bank’s accounting system. The progress of this work allows to assume that the Bank will implement the procedures and IT tools required for IFRS reporting in this area starting from 1 January 2005.

- Impairment of assets

The holding company is preparing for the implementation of valuation of financial assets in accordance with IFRS. The work relating to identification of the data required for calculation of impairment according to IFRS is in progress. The holding company is in the course of preparing a methodology based on requirements set by IAS 39.

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As described above, the Bank expects to use several exemptions allowed by IFRS 1, in particular with respect to valuation of tangible fixed assets and intangible assets, including perpetual usufruct of land. Currently the Bank is analysing and collecting the data which will allow it to use the above exemptions and to report in accordance with IFRS for the period commencing on 1 January 2005.

As at the date of these financial statements, the Bank concludes that it is impossible to reliably determine the amounts of differences in the above-mentioned areas as at 31 December 2004, and that any current estimates of these amounts may significantly differ from the final amounts calculated in accordance with IFRS.

The Group is preparing for reporting in accordance with IFRS starting from 1 January 2005.

14. 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 Group 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.

15. 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 14 of the Introduction to the consolidated financial statements

	in thousand zloty		in thousand euro	
	2004	2003	2004	2003
I. Interest income	5 311 743	5 134 109	1 175 633	1 154 407
II. Fees and commission income	1 869 054	1 567 272	413 672	352 402
III. Result from banking activities	5 513 653	5 397 341	1 220 321	1 213 595
IV. Operating result	1 890 950	1 635 188	418 518	367 673
V. Gross profit (loss)	1 854 353	1 626 060	410 419	365 620
VI. Net profit (loss)	1 511 065	1 192 706	334 440	268 181
VII. Net cash flow from operating activities	(1 063 400)	(6 428 000)	(235 359)	(1 445 339)
VIII. Net cash flow from investing activities	1 601 682	5 747 339	354 496	1 292 292
IX. Net cash flow from financing activities	81 713	(398 766)	18 085	(89 663)
X. Total net cash flow	619 995	(1 079 427)	137 222	(242 710)
XI. Total assets	88 762 708	84 568 065	21 760 899	17 928 358
XII. Amounts due to the Central Bank	144	-	35	-
XIII. Amounts due to the financial sector	1 108 893	1 202 120	271 854	254 848
XIV. Amounts due to the non-financial and budget sector	72 975 344	71 500 460	17 890 499	15 158 037
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	16.67	16.36	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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CONSOLIDATED BALANCE SHEET	Note	31.12.2004	31.12.2003
ASSETS			
I. Cash and balances with the Central Bank	1	**3 525 323**	**3 807 529**
II. Debt securities eligible for rediscounting in the Central Bank		-	-
III. Amounts due from the financial sector	2	**13 517 724**	**8 259 572**
1. Short-term		13 410 116	8 040 528
a) current		1 809 904	907 703
b) other		11 600 212	7 132 825
2. Long-term		107 608	219 044
IV. Amounts due from the non-financial sector	3	**35 101 925**	**31 151 081**
1. Short-term		15 999 128	11 767 804
a) current		5 794 309	5 562 220
b) other		10 204 819	6 205 584
2. Long-term		19 102 797	19 383 277
V. Amounts due from the public sector	4	**6 852 229**	**7 243 182**
1. Short-term		2 260 486	1 962 181
a) current		19 811	24 413
b) other		2 240 675	1 937 768
2. Long-term		4 591 743	5 281 001
VI. Reverse repo transactions	5	-	**283 713**
VII. Debt securities	6	**24 121 054**	**29 524 320**
VIII. Amounts due from entities valued under the equity pick-up method	2, 3, 17	**166 755**	**135 105**
1. Subsidiaries		211	7 056
2. Joint-ventures		120 638	70 886
3. Associates		45 906	57 163
IX. Investments in subsidiaries valued under the equity pick-up method	7, 10	**36 450**	**28 156**
X. Investments in joint-ventures valued under the equity pick-up method	8, 10	**43 040**	**44 119**
XI. Investments in associates valued under the equity pick-up method	9, 10	**40 247**	**214**
XII. Investments in other entities	11	**465 068**	**386 716**
XIII. Other securities and other financial assets	12	**1 366 358**	**261 854**
XIV. Intangible assets, including:	14	**393 808**	**274 406**
- goodwill		-	-
XV. Goodwill of subsidiaries and associates	15	**180 268**	**58 942**
XVI. Tangible fixed assets	16	**2 366 154**	**2 449 915**
XVII. Other assets	17	**526 460**	**604 034**
1. Assets acquired for sale		6 460	125
2. Inventory		21 654	22 245
3. Other		498 346	581 664
XVIII. Prepayments and accrued income	18	**59 845**	**55 207**
1. Deferred tax asset		22 482	20 738
2. Other prepayments and accrued income		37 363	34 469
TOTAL ASSETS		**88 762 708**	**84 568 065**

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CONSOLIDATED BALANCE SHEET	Note	31.12.2004	31.12.2003
LIABILITIES AND EQUITY			
		31.12.2004	**31.12.2003**
I. Amounts due to the Central Bank		**144**	**-**
II. Amounts due to the financial sector	21	**1 108 893**	**1 202 120**
1. Short-term		885 764	1 085 099
a) current		377 763	32 917
b) other		508 001	1 052 182
2. Long-term		223 129	117 021
III. Amounts due to the non-financial sector	22	**67 605 805**	**68 321 670**
1. Short-term		66 022 757	66 732 521
a) current, including:		21 737 054	21 268 902
- saving accounts		2 153 913	2 528 782
b) other, including:		44 285 703	45 463 619
- saving accounts		22 993 374	25 742 075
2. Long-term, including:		1 583 048	1 589 149
- saving accounts		935 782	1 257 017
IV. Amounts due to the public sector	23	**5 369 539**	**3 178 790**
1. Short-term		5 369 355	3 174 896
a) current		2 501 028	1 772 258
b) other		2 868 327	1 402 638
2. Long-term		184	3 894
V. Repo transactions	24	**-**	**-**
VI. Liabilities arising from securities issued	25	**21 076**	**2 900**
1. Short-term		21 076	2 900
2. Long-term		-	-
VII. Other liabilities arising from financial instruments		**793 739**	**226 413**
VIII. Amounts due to entities valued under the equity pick-up method	21, 22, 26	**10 625**	**33 017**
1. Subsidiaries		279	5 231
2. Joint-ventures		7 559	1 737
3. Associates		2 787	26 049
IX. Special funds and other liabilities	26	**1 073 518**	**929 054**
X. Accruals and deferred income	27	**3 282 999**	**2 972 972**
1. Accruals		159 426	114 961
2. Negative goodwill		16	18
3. Other deferred and suspended income		3 123 557	2 857 993
XI. Negative goodwill of subsidiaries and associates	28	**-**	**-**
XII. Provisions	29	**1 400 672**	**1 301 491**
1. Deferred tax liability		530 302	443 597
2. Other provisions		870 370	857 894
a) short-term		23 069	22 613
b) long-term		847 301	835 281
XIII. Subordinated liabilities	30	**-**	**-**
XIV. Minority capital	31	**25 164**	**503**
XV. Share capital	32	**1 000 000**	**1 000 000**
XVI. Unpaid share capital (negative value)		**-**	**-**
XVII. Own shares (negative value)	33	**-**	**-**
XVIII. Reserve capital	34	**2 804 731**	**1 783 827**
XIX. Revaluation reserve	35	**389 760**	**220 664**
XX. Other reserve capital	36	**2 370 000**	**2 160 000**
XXI. Foreign exchange differences on subsidiaries and associates		**(11 472)**	**-**
1. Positive foreign exchange differences		-	-
2. Negative foreign exchange differences		**(11 472)**	**-**
XXII. Retained earnings (loss) from previous years		**6 450**	**41 938**
XXIII. Net profit (loss)		**1 511 065**	**1 192 706**
TOTAL LIABILITIES AND EQUITY		**88 762 708**	**84 568 065**

Capital adequacy ratio (in %)	37	**16.67**	**16.36**

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)	38	**8.07**	**8.07**

Diluted number of shares		**1 000 000 000**	**1 000 000 000**
Diluted net book value per share (in PLN)	38	**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		**11 835 988**	**19 184 954**
1. Contingent liabilities granted:	39	6 477 067	14 295 706
a) financial		5 738 590	13 913 213
b) guarantees		738 477	382 493
2. Contingent liabilities received:	40	5 358 921	4 889 248
a) financial		758 291	84 906
b) guarantees		4 600 630	4 804 342
II. Liabilities arising from purchase/sale transactions		**170 084 928**	**70 136 929**
III. Other		**14 003 648**	**3 077 641**
a) irrevocable libilities		9 504 544	97 355
b) collaterals received		4 499 104	2 980 286
TOTAL OFF-BALANCE SHEET ITEMS		**195 924 564**	**92 399 524**

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COSOLIDATED PROFIT AND LOSS ACCOUNT	Note	1.01.-31.12.2004	1.01.-31.12.2003
I. Interest income	41	5 311 743	5 134 109
II. Interest expense	42	(1 679 909)	(1 672 179)
III. Net interest income (I-II)		**3 631 834**	**3 461 930**
IV. Fees and commission income	43	1 869 054	1 567 272
V. Fees and commission expense		(278 378)	(233 746)
VI. Net fees and commission income (IV-V)		**1 590 676**	**1 333 526**
VII. Sales of finished goods, goods for resale and materials		93 842	149 673
VIII. Cost of finished goods, goods for resale and materials sold		(14 349)	(14 602)
IX. Selling expenses		-	-
X. Profit from sales (VII-VIII-IX)		**79 493**	**135 071**
XI. Income from shares and other variable income securities and financial instruments	44	**3 396**	**4 406**
1. From subsidiaries		-	-
2. From joint-ventures		-	-
3. From associates		-	-
4. From other companies		3 396	4 406
XII. Result from financial operations	45	**(185 688)**	**62 006**
XIII. Foreign exchange result		**473 435**	**535 473**
XIV. Result from banking activities		**5 513 653**	**5 397 341**
XV. Other operating income	46	**309 663**	**262 014**
XVI. Other operating expense	47	**(181 704)**	**(168 366)**
XVII. Overhead costs	48	**(3 223 711)**	**(3 177 819)**
XVIII. Depreciation of tangible assets and amortization of intangible assets		**(520 039)**	**(515 980)**
XIX. Provisions created and revaluation	49	**(1 058 678)**	**(1 409 479)**
1. Creation of specific provisions and provisions for general banking risk		(1 057 493)	(1 406 919)
2. Revaluation of financial assets		(1 185)	(2 560)
XX. Provisions released and revaluation	50	**972 273**	**1 112 406**
1. Release of specific provisions and provisions for general banking risk		971 581	1 108 658
2. Revaluation of financial assets		692	3 748
XXI. Change in provisions value and revaluation (XIX- XX)		**(86 405)**	**(297 073)**
XXII. Operating result		**1 890 950**	**1 635 188**
XXIII. Net extraordinary gains (losses)		**229**	**401**
1. Extraordinary gains	52	902	739
2. Extraordinary losses	53	(673)	(338)
XXIV. Amortization of goodwill of subsidiaries and associates	54	**(36 914)**	**(13 441)**
XXV. Amortization of negative goodwill of subsidiaries and associates	55	**88**	**3 912**
XXVI. Gross profit (loss)		**1 854 353**	**1 626 060**
XXVII. Taxation	56	**(363 960)**	**(433 137)**
1. Current		(313 873)	(571 767)
2. Deferred		(50 087)	138 630
XXVIII. Other obligatory charges against profit	57	-	-
XXIX. Share in net profit (loss) of companies valued under the equity pick-up method		**20 720**	**(273)**
XXX. (Profit) loss attributable to minority shareholders		**(48)**	**56**
XXXI. Net profit (loss)	58	**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)	59	**1.51**	**1.19**

Weighted average diluted number of ordinary shares		**1 000 000 000**	**1 000 000 000**
Diluted profit (loss) per ordinary share (in PLN)	59	**1.51**	**1.19**

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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	1.01.-31.12.2004	1.01.-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
- including data concerning subsidiaries, joint ventures and associates	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)	-	-
b) decrease (by title)	-	-
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
- share premium	-	-
- 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	169 096	(318 383)
a) increase (by title)	172 006	-
- revaluation charged to revaluation reserve	172 006	-
b) decrease (by title)	(2 910)	(318 383)
- sales, liquidation of fixed assets	(2 910)	(2 455)
- revaluation charged to revaluation reserve	-	(315 928)
5.2. Revaluation reserve at the end of the period	**389 760**	**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 profit to general banking risk fund	200 000	203 000
b) decrease (by title)	-	-
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
b) decrease (by title)	-	-
7.2 . Other reserve capital at the end of the period	**1 370 000**	**1 360 000**

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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	Note	1.01.-31.12.2004	1.01.-31.12.2003
8. Foreign exchange differences on subsidiaries and associates		**(11 472)**	-
9. Retained earnings (loss) from previous years at the beginning of the period		**1 228 194**	**1 187 793**
9.1. 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
- subsidiaries, joint ventures and associates		1 724	-
b) adjustments due to fundamental errors		-	-
9.2. Adjusted retained earnings from previous years at the beginning of the period		**1 234 644**	**1 229 731**
9.3. 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 revaluation reserve		(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 Company Social Fund		(200)	-
9.4. Retained earnings from previous years at the end of the period		**6 450**	**41 938**
9.5. 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		-	-
9.6. Adjusted retained loss from previous years at the beginning of the period		-	-
9.7. Change in retained loss		-	-
a) increase (by title)		-	-
- transfer of retained loss from previous years		-	-
b) decrease (by title)		-	-
9.8. Retained loss from previous years at the end of the period		-	-
9.9. Retained earnings (loss) from previous years at the end of the period		**6 450**	**41 938**
10. 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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CONSOLIDATED STATEMENT OF CASH FLOW - indirect method	Note	1.01.-31.12.2004	1.01.-31.12.2003
A. Cash flow from operating activities			
I. Net profit (loss)		**1 511 065**	**1 192 706**
II. Total adjustments:		**(2 574 465)**	**(7 620 706)**
1. Minority shareholders		48	(56)
2. Share in profit (loss) of entities valued under the equity pick-up method		(20 720)	273
3. Depreciation and amortization, including:		556 865	525 509
- amortization of goodwill and negative goodwill on consolidation of subsidiaries and associates		36 826	9 529
4. Foreign exchange differences		-	2
5. Interest and share in profits (dividends paid and received)		(453 909)	(446 217)
6. Profit/loss from investing activities		41 503	(19 075)
7. Change in provisions		(29 971)	53 351
8. Change in inventories		591	(1 018)
9. Change in debt securities		3 231 282	(8 645 588)
10. Change in amounts due from the financial sector		(4 353 841)	2 952 236
11. Change in amounts due from the non-financial and the public sector		(3 504 633)	(5 598 433)
12. Change in receivables from reverse repo transactions		283 713	263 531
13. Change in shares, other securities and other financial assets		(1 078 932)	257 251
14. Change in amounts due to the financial sector		(175 315)	(34 096)
15. Change in amounts due to the non-financial and the public sector		1 451 926	1 425 232
16. Change in liabilities arising from repo transactions		-	-
17. Change in liabilities arising from securities issued		-	-
18. Change in other liabilities		137 644	59 176
19. Change in prepayments and accruals		39 825	(1 497)
20. Change in deferred and suspended income		265 564	418 053
21. Other adjustments	62	1 033 895	1 170 660
III. Net cash flow from operating activities (I+/-II)		**(1 063 400)**	**(6 428 000)**
B. Cash flow from investing activities		-	
I. Inflows		**2 498 908**	**6 541 211**
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		2 017 549	5 884 730
5. Sale of intangible and tangible fixed assets		26 151	209 244
6. Sale of real estate and intangible assets investments		-	-
7. Other investment inflows	63	455 008	447 237
II. Outflows		**(897 226)**	**(793 872)**
1. Purchase of investments in subsidiaries		(137 589)	(114 004)
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		(1 621)	(234)
5. Purchase of intangible and tangible fixed assets		(611 516)	(675 034)
6. Investments in real estate and intangible assets		-	-
7. Other investment outflows		-	-
III. Net cash flow from investing activities (I-II)		**1 601 682**	**5 747 339**

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CONSOLIDATED STATEMENT OF CASH FLOW	**Note**	**1.01.-31.12.2004**	**1.01.-31.12.2003**
C. Cash flow from financing activities			
I. Inflows		**119 636**	**69 158**
1. Long-term loans received from other banks		119 108	18 846
2. Long-term loans received from institutions in the financial sector other than banks		528	50 312
3. Issuance of debt securities		-	-
4. Increase in subordinated liabilities		-	-
5. Proceeds from share issuance and contributions to capital		-	-
6. Other financial inflows		-	-
II. Outflows		**(37 923)**	**(467 924)**
1. Repayments of long-term loans from other banks		(30 430)	-
2. Repayments of long-term loans from institutions in the financial sector other than banks		(1 245)	(458 730)
3. Redemption of debt securities		-	-
4. Repayment of other financial liabilities		-	-
5. Repayment of liabilities under finance lease agreements		(5 149)	(7 544)
6. Decrease in subordinated liabilities		-	-
7. Dividends and other amounts paid to shareholders		-	-
8. Dividends and other share in profit paid to minority shareholders		-	-
9. Outflows from profit appropriation other than payments to shareholders		-	-
10. Purchase of own shares		-	-
11. Other financial outflows	64	(1 099)	(1 650)
III. Net cash flow from financing activities (I + II)		**81 713**	**(398 766)**
D. Total net cash flow (A.III+B.III+C.III)		**619 995**	**(1 079 427)**
E. Balance sheet net change in cash and cash equivalents, including:		**619 995**	**(1 079 427)**
- change due to foreign exchange differences		-	-
F. Cash and cash equivalents at the beginning of the period		**4 715 232**	**5 794 659**
G. Cash and cash equivalents at the end of the period (F+ D), including:		**5 335 227**	**4 715 232**
- of limited transferability		-	-

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ADDITIONAL INFORMATION AND EXPLANATORY NOTES TO THE CONSOLIDATED BALANCE SHEET

Note 1

1.1. CASH AND BALANCES WITH THE CENTRAL BANK	**31.12.2004**	**31.12.2003**
a) current accounts	3 525 323	3 807 529
b) obligatory reserve	-	-
c) Bank Guarantee Fund	-	-
d) other	-	-
Total cash and balances with the Central Bank	**3 525 323**	**3 807 529**

1.2. CASH AND BALANCES WITH THE CENTRAL BANK (BY CURRENCY)	**31.12.2004**	**31.12.2003**
a) in PLN	3 281 318	3 496 247
b) in foreign currencies (by currency and PLN equivalent)	244 005	311 282
b1. Unit/currency 787/USD ths	23 447	28 500
PLN ths	70 115	106 604
b2. Unit/currency 789/GBP ths	5 651	3 310
PLN ths	32 603	22 073
b3. Unit/currency 797/CHF ths	2 985	3 548
PLN ths	7 887	10 744
b4. Unit/currency 978/EUR ths	27 784	35 748
PLN ths	113 333	168 623
b5. Other currencies (PLN ths)	20 067	3 238
Total cash and balances with the Central Bank	**3 525 323**	**3 807 529**

Note 2

2.1. AMOUNTS DUE FROM THE FINANCIAL SECTOR (BY TYPE)	**31.12.2004**	**31.12.2003**
a) current accounts	1 810 039	907 830
b) loans and deposits, including:	11 538 839	7 283 466
- deposits in other banks and financial institutions	11 274 548	6 973 256
c) purchased receivables	9 969	10 642
d) realized guarantees and sureties	-	-
e) other receivables (by title)	37 109	22 130
- other receivables from the financial sector	37 109	22 019
- leasing receivables	-	111
f) interest:	192 244	108 090
- accrued	186 716	100 779
- due, not received	5 528	7 311
Total gross amounts due from the financial sector	**13 588 200**	**8 332 158**
g) provisions for irregular amounts from the financial sector (negative value)	(70 476)	(71 386)
Total net amount due from the financial sector	**13 517 724**	**8 260 772**

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.

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2.2. AMOUNTS DUE FROM THE FINANCIAL SECTOR (BY MATURITY)	**31.12.2004**	**31.12.2003**
a) current accounts	1 808 758	907 273
b) term (by period remaining to maturity):	11 587 198	7 316 795
- within 1 month	4 896 636	3 032 514
- from 1 month to 3 months	3 677 453	2 057 387
- from 3 months to 1 year	2 778 088	1 945 871
- from 1 year to 5 years	167 869	198 664
- over 5 years	8 128	-
- amounts due but not received	59 024	82 359
c) interest	192 244	108 090
- accrued	186 716	100 779
- due, not received	5 528	7 311
Total gross amounts due from the financial sector	**13 588 200**	**8 332 158**

2.3. GROSS AMOUNTS DUE FROM THE FINANCIAL SECTOR (BY ORIGINAL MATURITY)	**31.12.2004**	**31.12.2003**
a) current accounts	1 808 758	907 273
b) term (by original maturity):	11 587 198	7 316 795
- within 1 month	2 615 732	3 409 361
- from 1 month to 3 months	4 113 467	592 022
- from 3 months to 1 year	4 147 019	2 994 740
- from 1 year to 5 years	653 125	299 952
- over 5 years	57 855	20 720
c) interest	192 244	108 090
- accrued	186 716	100 779
- due, not received	5 528	7 311
Total gross amounts due from the financial sector	**13 588 200**	**8 332 158**

2.4. GROSS AMOUNTS DUE FROM THE FINANCIAL SECTOR (BY CURRENCY)	**31.12.2004**	**31.12.2003**
a) in PLN	4 865 623	4 905 108
b) in foreign currencies (by currency and PLN equivalent)	8 722 577	3 427 050
b1. Unit/currency 787/USD ths	2 620 088	666 167
PLN ths	7 835 114	2 491 798
b2. Unit/currency 789/GBP ths	39 909	29 385
PLN ths	230 269	195 957
b3. Unit/currency 797/CHF ths	71 544	2 569
PLN ths	189 026	7 779
b4. Unit/currency 978/EUR ths	98 828	152 992
PLN ths	403 118	721 663
b5. other currencies (PLN ths)	65 050	9 853
Total gross amounts due from the financial sector	**13 588 200**	**8 332 158**

2.5. GROSS AMOUNTS DUE FROM THE FINANCIAL SECTOR	**31.12.2004**	**31.12.2003**
1. Amounts classified as normal	13 290 419	7 902 735
2. Amounts classified as watch	23 029	223 036
3. Irregular amounts, including:	82 508	98 297
a) substandard	22	135
b) doubtful	9 186	19 329
c) lost	73 300	78 833
4. Interest:	192 244	108 090
a) accrued	186 716	100 779
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	**13 588 200**	**8 332 158**

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2.6. VALUE OF COLLATERAL LOWERING AMOUNTS DUE FROM THE FINANCIAL SECTOR USED FOR CALCULATION OF SPECIFIC PROVISIONS	**31.12.2004**	**31.12.2003**
a) watch	41 648	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	**52 067**	**38 223**

2.7. PROVISIONS FOR AMOUNTS DUE FROM THE FINANCIAL SECTOR	**31.12.2004**	**31.12.2003**
a) watch	265	-
b) irregular	70 211	71 386
- substandard	4	18
- doubtful	1 538	3 642
- lost	68 669	67 726
Total provisions for amounts due from the financial sector	**70 476**	**71 386**

2.8. CHANGE IN PROVISIONS FOR AMOUNTS DUE FROM THE FINANCIAL SECTOR	**1.01.-31.12.2004**	**1.01.-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)	19 239	22 561
- creation of specific provisions against the profit and loss account	16 304	22 561
- including subsidiaries in consolidation	2 742	-
- other	193	-
b) realization (by title)	(4 976)	(2 877)
- coverage with provision	(4 976)	(2 877)
c) release (by title)	(15 173)	(25 557)
- release of provisions	(15 026)	(25 557)
- other	(147)	-
2. Provisions for amounts due from the financial sector at the end of the period	**70 476**	**71 386**
3. Required upon regulations level of provisions for amounts due from the financial sector at the end of the period.	70 476	71 386

2.9. GROSS AMOUNTS DUE FROM THE FINANCIAL SECTOR	**31.12.2004**	**31.12.2003**
a) from companies consolidated under the equity pick-up method	-	1 200
b) from other entities	13 588 200	8 330 958
Total gross amounts due from the financial sector	**13 588 200**	**8 332 158**

Note 3

3.1. AMOUNTS DUE FROM THE NON-FINANCIAL SECTOR (BY TYPE)	**31.12.2004**	**31.12.2003**
a) loans	34 576 263	31 046 324
b) purchased receivables	104 596	123 940
c) realized guarantees and sureties	7 741	9 932
d) other amounts due, including:	21 823	20 415
- leasing receivables	21 823	20 415
e) interest	3 000 024	2 618 533
- accrued	2 894 059	2 496 948
- due, not received	105 965	121 585
Total gross amounts due from the non-financial sector	**37 710 447**	**33 819 144**
f) provisions for amounts due from the non-financial sector (negative value)	(2 442 181)	(2 534 359)
Total net amounts due from the non-financial sector	**35 268 266**	**31 284 785**

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3.2. GROSS AMOUNTS DUE FROM THE NON-FINANCIAL SECTOR (BY MATURITY)	31.12.2004	31.12.2003
a) current accounts	4 997 701	4 808 417
b) term (by period remaining to maturity):	29 712 722	26 392 194
- within 1 month	682 376	528 932
- from 1 month to 3 months	1 190 406	1 051 100
- from 3 months to 1 year	4 364 947	3 356 619
- from 1 year to 5 years	9 871 969	8 389 998
- over 5 years	11 176 073	9 609 144
- amounts due but not received	2 426 951	3 456 401
c) interest	3 000 024	2 618 533
- accrued	2 894 059	2 496 948
- due, not received	105 965	121 585
Total gross amounts due from the non-financial sector	**37 710 447**	**33 819 144**

3.3. GROSS AMOUNTS DUE FROM THE NON-FINANCIAL SECTOR (BY ORIGINAL MATURITY)	31.12.2004	31.12.2003
a) current accounts	4 997 701	4 808 417
b) term (by original maturity):	29 712 722	26 392 194
- within 1 month	372 994	425 751
- from 1 month to 3 months	52 747	49 042
- from 3 months to 1 year	2 150 415	1 941 871
- from 1 year to 5 years	8 977 499	7 438 555
- over 5 years	18 159 067	16 536 975
c) interest	3 000 024	2 618 533
- accrued	2 894 059	2 496 948
- due, not received	105 965	121 585
Total gross amounts due from the non-financial sector	**37 710 447**	**33 819 144**

3.4. GROSS AMOUNTS DUE FROM THE NON-FINANCIAL SECTOR (BY CURRENCY)	31.12.2004	31.12.2003
a) in PLN	30 646 118	26 674 586
b) in foreign currencies (by currency and PLN equivalent)	7 064 329	7 144 558
b1. Unit/currency 787/USD ths	320 917	356 440
PLN ths	959 670	1 333 264
b2. Unit/currency 789/GBP ths	-	-
PLN ths	-	-
b3. Unit/currency 797/CHF ths	1 176 186	658 498
PLN ths	3 107 602	1 993 998
b4. Unit/currency 978/EUR ths	660 604	809 263
PLN ths	2 694 602	3 817 294
b5. other currencies (PLN ths)	302 455	2
Total gross amounts due from the non-financial sector	**37 710 447**	**33 819 144**

3.5. GROSS AMOUNTS DUE FROM THE NON-FINANCIAL SECTOR	31.12.2004	31.12.2003
1. Amounts classified as normal	28 206 517	25 121 377
2. Amounts classified as watch	2 740 299	1 296 263
3. Irregular amounts:	3 763 607	4 782 971
a) substandard	550 405	859 615
b) doubtful	398 819	723 803
c) lost	2 814 383	3 199 553
4. Interest:	3 000 024	2 618 533
a) accrued	2 894 059	2 496 948
b) due, not received	105 965	121 585
- on amounts classified as normal and watch	9 670	8 136
- on amounts classified as irregular	96 295	113 449
Total gross amounts due from the non-financial sector	**37 710 447**	**33 819 144**

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3.6. 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	430 347	313 987
b) watch	778 276	546 653
c) irregular	872 320	1 560 740
- substandard	280 086	401 882
- doubtful	201 027	466 644
- lost	391 207	692 214
Total value of collateral lowering amounts due from the non-financial sector used for calculation of specific provisions	**2 080 943**	**2 421 380**

3.7. PROVISIONS FOR AMOUNTS DUE FROM THE NON-FINANCIAL SECTOR	**31.12.2004**	**31.12.2003**
a) normal	1 095	-
b) watch	16 400	9 724
c) irregular	2 424 686	2 524 635
- substandard	39 264	64 463
- doubtful	93 019	116 472
- lost	2 292 403	2 343 700
Total provisions for amounts due from the non-financial sector	**2 442 181**	**2 534 359**

3.8. CHANGE IN PROVISIONS FOR AMOUNTS DUE FROM THE NON-FINANCIAL SECTOR	**1.01.-31.12.2004**	**1.01.-31.12.2003**
1. Provisions for amounts due from the non-financial sector at the beginning of the period	2 534 359	2 458 176
a) increase (by title)	1 051 374	1 160 140
- creation of specific provisions against the profit and loss account	1 015 825	1 160 140
- including subsidiaries in consolidation	35 443	-
- foreign exchange differences	106	-
b) realization (by title)	(222 038)	(81 349)
- coverage with provision	(222 038)	(81 349)
c) release (by title)	(921 514)	(1 002 608)
- release of provisions against the profit and loss account	(921 424)	(1 002 608)
- foreign exchange differences	(90)	-
2. Provisions for amounts due from the non-financial sector at the end of the period	**2 442 181**	**2 534 359**
3. Required upon regulations level of provisions for amounts due from the non-financial sector at the end of the period	2 425 843	2 534 359

3.9. GROSS AMOUNTS DUE FROM THE NON-FINANCIAL SECTOR	**31.12.2004**	**31.12.2003**
a) from companies consolidated under the equity pick-up method	208 238	187 059
b) from other entities	37 502 209	33 632 085
Total gross amounts due from the non-financial sector	**37 710 447**	**33 819 144**

Note 4

4.1. 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	-	-
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**

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4.2. 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**

4.3. 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
- due, not received	259	206
Total gross amounts due from the public sector	**6 865 263**	**7 251 933**

4.4. 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**

4.5. 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**

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4.6. 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**

4.7. 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**

4.8. CHANGE IN PROVISIONS FOR AMOUNTS DUE FROM THE PUBLIC SECTOR	**1.01.-31.12.2004**	**1.01.-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)	-
	(799)	-
c) release (by title)	(8 194)	(4 504)
- release of provisions against profit and loss account	(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**

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Note 6

6.1. 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:	-	62
- in foreign currencies	-	-
d) issued by non-financial institutions, including:	449 791	754 813
- in foreign currencies	3 832	-
e) issued by State Treasury, including:	19 121 551	25 111 539
- in foreign currencies	652 501	44 350
f) issued by local authorities, including:	675 696	831 016
- in foreign currencies	-	-
g) repurchased own debt securities	-	-
Total debt securities	**24 121 054**	**29 524 320**

6.2. DEBT SECURITIES (BY TYPE)	**31.12.2004**	**31.12.2003**
1. Issued by State Treasury, including:	19 121 551	25 111 539
a) bonds	16 760 934	20 056 962
b) Treasury bills	2 360 617	5 054 577
c) other (by type):	-	-
2. Issued by the dominating 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:	-	-
a) bonds	-	-
b) other (by type):	-	-
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:	4 999 503	4 412 781
a) bonds	1 088 684	991 469
b) other (by type):	3 910 819	3 421 312
- money-market bills	1 127 839	180 443
- bills of exchange	141 788	594 422
- basic bills of exchange	122	-
- NBP bonds	2 641 070	2 646 447
Total debt securities	**24 121 054**	**29 524 320**

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6.3. CHANGE IN DEBT SECURITIES	**1.01.-31.12.2004**	**1.01.-31.12.2003**
Balance at the beginning of the period	29 524 320	28 040 184
a) increase (by title)	122 879 619	96 348 049
- purchase	116 839 039	92 903 073
- take-over	4 182 734	12 532
- accrued interest	927 692	562 718
- amortization of discount	801 707	629 187
- foreign exchange differences	1 153	188
- reclassification	-	2 212 058
- revaluation	103 914	1 488
- including subsidiaries in consolidation	13 724	26 695
- other increase	9 656	110
b) decrease (by title)	(128 282 885)	(94 863 913)
- sale	(102 624 566)	(59 400 854)
- redemption	(25 391 210)	(32 711 501)
- foreign exchange differences	(60 923)	(836)
- amortization of premium	(112 052)	(51 777)
- revaluation	(37 591)	(412 073)
- interest due	(56 506)	(63 784)
- reclassification	-	(2 221 857)
- other decrease	(37)	(1 231)
Debt securities at the end of the period	**24 121 054**	**29 524 320**

Note 7

7.1. INVESTMENTS IN SUBSIDIARIES VALUED UNDER THE EQUITY PICK-UP METHOD	**31.12.2004**	**31.12.2003**
a) banks	-	-
b) other financial institutions	-	-
c) non-financial institutions	36 450	28 156
Total investments in subsidiaries valued under the equity pick-up method	**36 450**	**28 156**

7.2. CHANGE IN INVESTMENTS IN SUBSIDIARIES VALUED UNDER THE EQUITY PICK-UP METHOD	**1.01.-31.12.2004**	**1.01.-31.12.2003**
Balance at the beginning of the period	28 156	7 106
a) increases (by title)	9 494	35 590
- contribution to capital	9 470	-
- increase of assets' value	-	35 590
- other	24	-
b) decreases (by title):	(1 200)	(14 540)
- decrease of assets' value	(1 200)	-
- decrease due to share in company's loss	-	(14 540)
Total investments in subsidiaries valued under the equity pick-up method at the end of the period	**36 450**	**28 156**

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Note 8

8.1. INVESTMENTS IN JOINT-VENTURES VALUED UNDER THE EQUITY PICK-UP METHOD	31.12.2004	31.12.2003
a) banks	-	-
b) other financial institutions	24 960	30 379
c) non-financial institutions	18 080	13 740
Total investments in joint-ventures valued under the equity pick-up method	**43 040**	**44 119**

8.2. CHANGE IN INVESTMENTS IN JOINT-VENTURES VALUED UNDER THE EQUITY PICK-UP METHOD	1.01.-31.12.2004	1.01.-31.12.2003
Balance at the beginning of the period	44 119	47 571
a) increase (by title)	4 339	13 325
- increase due to Bank's share in net profit of a company	4 339	13 325
- other	-	-
b) decrease (by title)	(5 418)	(16 777)
- decrease due to Bank's share in net loss of a company	(5 418)	(403)
- purchase of additional shares and including in full consolidation	-	(16 374)
Total investments in joint-ventures valued under the equity pick-up method at the end of the period	**43 040**	**44 119**

Note 9

9.1. INVESTMENTS IN ASSOCIATES VALUED UNDER THE EQUITY PICK-UP METHOD	31.12.2004	31.12.2003
a) banks	38 472	-
b) other financial institutions	1 532	-
c) non-financial institutions	243	214
Total investments in associates valued under the equity pick-up method	**40 247**	**214**

9.2. CHANGE IN INVESTMENTS IN JOINT-VENTURES VALUED UNDER THE EQUITY PICK-UP METHOD	1.01.-31.12.2004	1.01.-31.12.2003
Balance at the beginning of the period	214	327
a) increase (by title)	40 081	4 600
- take up of shares in the increased share capital	-	4 600
- purchase of shares	35 774	-
- increase due to Bank's share in net profit of a company	2 844	-
- other	1 463	-
b) decrease (by title)	(48)	(4 713)
- decrease in assets value	(19)	(4 691)
- decrease due to Bank’s share in net loss of a company	-	(22)
- settlement of goodwill	-	-
- other	(29)	-
Total investments in joint-ventures valued under the equity pick-up method at the end of the period	**40 247**	**214**

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Note 10.1

INVESTMENTS IN SUBSIDIARIES, JOINT-VENTURES AND ASSOCIATES AS AT 31 DECEMBER 2004

	a	b	c	d	e	f	g	h	i	j	k	l
No.	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	Carrying value of shares	Percent of owned share capital	Share in total numbr of votes at General Shareholders Meeting	Indication of other than described in letters j) or k) basis for control / joint-control / significant influence
1	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%	-
2	PKO Towarzystwo Finansowe Sp. z o.o. (in liquidation)	Gdańsk	Financial services	subsidiary	equity pick-up method	year 1998	12 670	(12 670)	-	100.00%	100.00%	-
3	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%	-
4	Przedsiębiorstwo 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%	-
5	PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.	Warsaw	Investment funds management	joint-venture	equity pick-up method	year 1997	14 000	10 960	24 960	50.00%	50.00%	-
6	Wawel Hotel Development Sp. z o.o.	Kraków	Hotels	joint-venture	equity pick-up method	year 2001	13 865	4 215	18 080	35.40%	35.40%	-
7	Bank Pocztowy S.A.*	Bydgoszcz	Banking services	associate	equity pick-up method	year 2004	146 500	(12 680)	133 820	25.00%	25.00%	-
8	Kolej Gondolowa Jaworzyna Krynicka S.A.	Krynica	Construction and utilization of gondola railway	associate	equity pick-up method	year 1995	15 531	(15 531)	-	38.23%	37.03%	-
9	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%	-
10	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Poznań	Granting sureties according to civil law and law relating to bills of exchange	associate	equity pick-up method	year 1989	1 500	31	1 531	33.33%	33.33%	-
11	Hotel Jan III Sobieski Sp. z o.o.	Warsaw	Construction and utilization of "Jan III Sobieski" hotel	associate	equity pick-up method	year 1989	522	(522)	-	32.50%	32.50%	-
12	Agencja Inwestycyjna "CORP" S.A.	Warsaw	Manufacturing activity on real estate investments market	associate	equity pick-up method	year 1996	29	215	244	22.31%	22.31%	-
	TOTAL						**270 459**	**(55 374)**	**215 085**			

* the carrying value includes goodwill in the amount of PLN 95,348 thousand

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Note 10.1a

SHARES OR STOCKS IN ENTITIES INDIRECTLY RELATED AS AT 31 DECEMBER 2004

	a	b	c	d	e	f	g	h	i	j	k	l
No.	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	Carrying value of shares	Percent of owned share capital	Share in total numbr of votes at General Shareholders Meeting	Indication of other than described in letters j) or k) basis for control / joint-control / significant influence
1	Fort Mokotow Sp. z o.o.	Warsaw	General construction	indirect subsidiary	equity pick-up method	31 January 2002	32 130	(502)	31 628*	51.00%	51.00%	-
2	Wilanow Investment Sp. z o.o.	Warsaw	General construction	indirect subsidiary	equity pick-up method	23 March 2004	13 970	(2 082)	11 888*	51.00%	51.00%	-
3	Sonet Hungary Kft (in liquidation)	Warsaw	Trade services	indirect subsidiary	equity pick-up method	1 April 2000	37	(37)	-	80.00%	80.00%	-
	TOTAL						**46 137**	**(2 621)**	**43 516**			

* Valuation of the company is included in the valuation of shares in PKO Inwestycje Sp. z o.o.

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Note 10.2

INVESTMENTS IN SUBSIDIARIES, JOINT-VENTURES AND ASSOCIATES AS AT 31 DECEMBER 2004 - cont.

	a	m								n			o			p	r	s	t
No.	Name of the entity	shareholders equity, including:	Share capital	Unpaid capital (negative value)	Reserve capital	Other equity, including:	Revaluation reserve	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	Sales income**	Unpaid by the issuer value of shares	Received or due dividends / shares in results for the last financial year
1	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	-	-
2	PKO Towarzystwo Finansowe Sp. z o.o. (in liquidation) ***	779	1 592	-	-	(813)	-	-	(813)	-	-	-	-	-	-	779	-	-	-
3	International Trade Center Sp. z o.o. (in liquidation) *	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Przedsiębiorstwo Informatyki Bankowej Elbank Sp. z o.o. (in liquidation) *	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	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
6	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	-	-
7	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	-	-
8	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	-	-
9	Ekogips S.A. (in bankruptcy) *	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Poznanski Fundusz Poręczen Kredytowych Sp. z o.o.	4 595	4 500	-	226	(131)	-	(217)	86	7	7	-	105	105	-	4 627	84	-	-
11	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	-	-
12	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

* For entities in liquidation or bancruptcy - no data available (excluding PKO Towarzystwo Finansowe Sp. z o.o.);

** In Bank Pocztowy - interest income

*** Liabilities, receivables, assets and sales income as at 20 December 2004.

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Note 10.3

INVESTMENTS IN SUBSIDIARIES, JOINT-VENTURES AND ASSOCIATES AS AT 31 DECEMBER 2003

	a	b	c	d	e	f	g	h	i	j	k	l
No.	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	Carrying value of shares	Percent of owned share capital	Share in total numbr of votes at General Shareholders Meeting	Indication of other than described in letters j) or k) basis for control / joint-control / significant influence
1	PKO Towarzystwo Finansowe Sp. z o.o. (in liquidation)	Gdańsk	Financial services	subsidiary	equity pick-up method	year 1998	11 470	(11 470)	-	100.00%	100.00%	-
2	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%	-
3	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%	-
4	Przedsiębiorstwo 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%	-
5	PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.	Warsaw	Investment funds management	joint-venture	equity pick-up method	year 1997	14 000	16 379	30 379	50.00%	50.00%	-
6	Wawel Hotel Development Sp. z o.o.	Kraków	Hotels	joint-venture	equity pick-up method	year 2001	13 865	(125)	13 740	35.40%	35.40%	-
7	Agencja Inwestycyjna "CORP" S.A.	Warsaw	Manufacturing activity on real estate investments market	jednostka stowarzyszona	equity pick-up method	year 1996	29	185	214	22.31%	22.31%	-
8	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%	-
9	Hotel Jan III Sobieski Sp. z o.o.	Warsaw	Construction and utilization of "Jan III Sobieski" hotel	associate	equity pick-up method	year 1989	522	(522)	-	32.50%	32.50%	-
10	Kolej Gondolowa Jaworzyna Krynicka S.A.	Krynica	Construction and utilization of gondola railway	associate	equity pick-up method	year 1995	15 531	(15 531)	-	38.64%	37.22%	-
11	Wrocławskie Zintegrowane Centrum Logistyczne S.A. (in liquidation)	Wrocław	Domestic and international spedition	associate	equity pick-up method	year 2000	200	(200)	-	12.73%	21.65%	-
	TOTAL						**113 189**	**(40 700)**	**72 489**			

Note 10.3a

SHARES OR STOCKS IN ENTITIES INDIRECTLY RELATED AS AT 31 DECEMBER 2003

	a	b	c	d	e	f	g	h	i	j	k	l
No.	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	Carrying value of shares	Percent of owned share capital	Share in total numbr of votes at General Shareholders Meeting	Indication of other than described in letters j) or k) basis for control / joint-control / significant influence
1	Fort Mokotów Sp. z o.o.	Warsaw	General construction	Indirect subsidiary	equity pick-up method	31 January 2002	31 824	(3 285)	28539*	51.00%	51.00%	-
2	Inteligo Technologies S.A.	Warsaw	Data transmission and IT for telecommunication	Indirect subsidiary	equity pick-up method	21 December 2000	4	-	4**	100.00%	100.00%	-
3	Sonet Hungary Kft	Warsaw	Trade services	Indirect subsidiary	equity pick-up method	1 April 2000	37	(37)	-	80.00%	80.00%	-
	TOTAL						**31 865**	**(3 322)**	**28 543**			

* The valuation of the company is included in the valuation of PKO Inwestycje Sp. z o.o.

** The valuation of shares was presented in the balance sheet item "Shares and stocks in other entities"

PKO BP SA Capital Group SAB-RS 31 December 2004 PLN thousand

Note 10.4

INVESTMENTS IN SUBSIDIARIES, JOINT-VENTURES AND ASSOCIATES AS AT 31 DECEMBER 2004 - cont.

	a	m								n			o			p	r	s	t
No.	Name of the entity	shareholders equity, including:	Share capital	Unpaid capital (negative value)	Reserve capital	Other equity, including:	Revaluation reserve	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	Sales income**	Unpaid by the issuer value of shares	Received or due dividends / shares in results for the last financial year
1	PKO Towarzystwo Finansowe Sp. z o.o. (in liquidation)	1 550***	2 850	-	-	(4 375)	-	-	(4 375)**	257	257	-	1 641	1 641	-	2 085	4 286	-	-
2	International Trade Center Sp. z o.o. (in liquidation)*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	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	-	-
4	Przedsiębiorstwo Informatyki Bankowej Elbank Sp. z o.o. (in liquidation)*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.	60 760	18 000	-	1 809	40 951	-	-	40 951	4 883	4 883	-	7 180	6 708	472	66 185	92 990	-	7 151
6	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	-	-
7	Agencja Inwestycyjna "CORP" S.A.	957	501	-	138	318	-	-	312	3 459	3 459	-	1 167	1 082	85	4 893	19 244	-	76
8	Ekogips S.A. (in bankruptcy)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	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	-	-
10	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	-	-
11	Wrocławskie Zintegrowane Centrum Logistyczne S.A. (in liquidation)*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

* For entities in liquidation or bancruptcy - no data available

** The amount includes the financial result of the Company for the period from 1 January 2003 to 31 December 2003

*** Equity includes the financial result for the period from 8 August 2003 to 31 December 2003

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11.1. SHARES IN OTHER ENTITIES	**31.12.2004**	**31.12.2003**
a) in institutions from the financial sector	131 239	90 357
- short-term	91 713	90 356
- long-term	39 526	1
b) in institutions from the non-financial sector	333 829	296 359
- short-term	328 941	294 949
- long-term	4 888	1 410
Total shares in other entities	**465 068**	**386 716**

11.2. CHANGE IN SHARES IN OTHER ENTITIES	**1.01.-31.12.2004**	**1.01.-31.12.2003**
Balance at the beginning of the period	386 716	286 676
a) increase (by title)	117 580	227 594
- including subsidiaries in consolidation	919	-
- purchase of shares	4 045	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	111 253	143 161
- other	363	18 631
b) decrease (by title)	(39 228)	(127 554)
- sale of shares	(30 005)	(43 207)
- decrease in assets value	(1 870)	(84 278)
- creation of provision for permanent diminution of value	-	(37)
- other	(7 353)	(32)
Total shares in other entities at the end of the period	**465 068**	**386 716**

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Note 11.3

SHARES IN OTHER ENTITIES (FINANCIAL INSTITUTIONS) AS AT 31 DECEMBER 2004										
	a	b	c	d	e	f	g		h	i
No.	Name of the entity (with indication of its legal form)	Registered office	Core activity	Book value of shares	Percentage stake in share capital	Share in voting rights at the General Shareholders Meeting	Shareholders equity of the company, including:	- share capital	Unpaid by the issuer value of shares	Received or due dividends for the last financial yea
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	Trade in securities on public regulated market (not on the Stock Exchange)	-	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 Życie 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	Other			359	-	-	-	-	-	-
	TOTAL			**131 239**						**3 389**

Note 11.4

SHARES AND IN OTHER ENTITIES (NON-FINANCIAL INSTITUTIONS) AS AT 31 DECEMBER 2004										
	a	b	c	d	e	f	g		h	i
No.	Name of the entity (with indication of its legal form)	Registered office	Core activity	Book value of shares	Percentage stake in share capital	Share in voting rights at the General Shareholders Meeting	Shareholders equity of the company, including:	- share capital	Unpaid by the issuer value of shares	Received or due dividends for the last financial yea
1	Agro-Technika S.A.	Ząbki	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 S.A.**	Lubin	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	Intermediation in conveying commercial information	-	12.05%	12.05%	4 761	4 000	-	-
6	ATM S.A.**	Warsaw	Wholesale sale of machines and office equipment	28	0.04%	0.04%	56 564	24 526	-	-
7	Other			7 198					-	-
	TOTAL			**333 829**						-

* Equity and share capital as at 30 June 2004

** Equity and share capital as at 30 September 2004

*** The Campany was not classified to subsidiaries, joint ventures or associates because the Bank does not have significant influence on the Company

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Note 11.5

SHARES IN OTHER ENTITIES (FINANCIAL INSTITUTIONS) AS AT 31 DECEMBER 2003

	a	b	c	d	e	f	g		h	i
No.	Name of the entity (with indication of its legal form)	Registered office	Core activity	Book value of shares	Percentage stake in share capital	Share in voting rights at the General Shareholders Meeting	Shareholders equity of the company, including:	- share capital	Unpaid by the issuer value of shares	Received or due dividends for the last financial yea
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	Other			144	-	-	-	-	-	-
	TOTAL			**90 357**						**4 320**

Note 11.6

SHARES AND IN OTHER ENTITIES (NON-FINANCIAL INSTITUTIONS) AS AT 31 DECEMBER 2003

	a	b	c	d	e	f	g		h	i
No.	Name of the entity (with indication of its legal form)	Registered office	Core activity	Book value of shares	Percentage stake in share capital	Share in voting rights at the General Shareholders Meeting	Shareholders equity of the company, including:	- share capital	Unpaid by the issuer value of shares	Received or due dividends for the last financial yea
1	Agro-Technika S.A.	Ząbki	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 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	Śniezka S.A.	Lubzina	Production of paints and lacquers	1 455	0.36%	0.32%	118 342	14 200	-	-
6	Other			4 391					-	5
	TOTAL			**296 359**						5

* The Campany was not classified to subsidiaries, joint ventures or associates because the Bank does not have significant influence on the Company

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Note 12

12.1. OTHER SECURITIES AND OTHER FINANCIAL ASSETS (BY TYPE)	31.12.2004	31.12.2003
a) drawing rights	-	-
b) derivative rights	-	-
c) other (by type)	1 366 358	261 854
- participation units in trust funds	339	327
- investment certificates	563	-
- derivatives valuation	1 363 874	260 532
- fair value of embedded derivatives and other financial assets	1 582	995
Total other securities and other financial assets	**1 366 358**	**261 854**

12.2. OTHER SECURITIES AND OTHER FINANCIAL ASSETS (BY TYPE)	31.12.2004	31.12.2003
a) short-term	925 250	222 019
b) long-term	441 108	39 835
Total other securities and other financial assets	**1 366 358**	**261 854**

12.3. CHANGE IN OTHER SECURITIES AND OTHER FINANCIAL ASSETS	1.01.-31.12.2004	1.01.-31.12.2003
Balance at the beginning of the period	261 854	619 176
a) increase (by type)	1 246 330	123 901
- valuation	1 245 767	122 401
- including subsidiaries in consolidation	-	1 500
- purchase	563	-
b) decrease (by type)	(141 826)	(481 223)
- sale	-	(209 603)
- valuation	(141 826)	(269 525)
- other		(2 095)
Total other securities and other financial assets at the end of the period	**1 366 358**	**261 854**

12.4. OTHER SECURITIES AND OTHER FINANCIAL ASSETS (BY CURRENCY)	31.12.2004	31.12.2003
a. in PLN	646 211	260 908
b. in foreign currencies (by currency and PLN equivalent)	720 147	946
b1. Unit/currency 787/USD ths	224 506	249
PLN ths	671 363	930
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)	575	16
Total other securities and other financial assets	**1 366 358**	**261 854**

Note 13

13.1. FINANCIAL ASSETS	31.12.2004	31.12.2003
a) financial assets held for trading	5 260 296	4 944 096
b) loans granted and own receivables and not held for trading	55 638 633	46 788 940
c) financial assets held to maturity	2 656 457	5 051 053
d) financial assets available for sale	21 561 050	24 268 983
Total financial assets	**85 116 436**	**81 053 072**

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13.2. FINANCIAL ASSETS (BY CURRENCY)	**31.12.2004**	**31.12.2003**
a. in PLN	67 695 997	70 225 826
b. in foreign currencies (by currency and PLN equivalent)	17 420 439	10 827 246
b1. Unit/currency 787/USD ths	3 323 206	1 063 253
PLN ths	9 937 714	3 976 917
b2. Unit/currency 789/GBP ths	45 560	32 695
PLN ths	262 875	218 030
b3. Unit/currency 797/CHF ths	1 259 496	660 649
PLN ths	3 327 715	2 000 512
b4. Unit/currency 978/EUR ths	867 323	979 149
PLN ths	3 537 811	4 618 646
b5. other currencies (PLN ths)	354 324	13 141
Total financial assets	**85 116 436**	**81 053 072**

13.3. 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	3 681 011	4 387 426
a) other by type (book value):	3 681 011	4 387 426
a1) Treasury bills	155 688	579 893
- fair value	155 688	579 893
- market value	155 688	579 893
- purchase cost	154 959	579 134
a2) shares	-	4
- fair value	-	4
- market value	-	4
- purchase cost	-	4
a3) other	3 525 323	3 807 529
- fair value	3 525 323	3 807 529
- market value	3 525 323	3 807 529
- purchase cost	3 525 323	3 807 529
D. Limited transferability (book value)	1 365 456	261 527
a) other by type (book value):	1 365 456	261 527
a1) valuation of derivatives (book value):	1 365 456	261 527
- fair value	1 365 456	261 527
- market value	1 365 456	261 527
- purchase cost	1 365 456	261 527
Total purchase cost	**5 258 835**	**4 939 870**
Total value at the beginning of the period	**4 944 096**	**5 889 395**
Total adjustments to value in the period	**(889)**	**659**
Total book value	**5 260 296**	**4 944 096**

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13.4. 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)	3 876	283 713
a) other by type (book value):	3 876	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) bonds (book value):	3 754	-
- adjustments (in the period)	-	-
- value at the beginning of the period	-	-
- purchase cost	3 691	-
a3) basic bills of exchange (book value)	122	-
- adjustments (in the period)	96	-
- value at the beginning of the period	-	-
- purchase cost	261	-
a4) reverse repo transactions	-	283 713
- adjustments (in the period)	-	-
- value at the beginning of the period	283 713	547 244
- purchase cost	-	283 713
D. Limited transferability (book value)	759 564	936 360
a) other by type (book value):	759 564	936 360
a1) NBP bonds (book value):	-	-
- adjustments (in the period)	-	-
- value at the beginning of the period	-	1 689 568
- purchase cost	-	-
a2) bonds denominated in USD (book value):	-	-
- adjustments (in the period)	-	-
- value at the beginning of the period	-	3 882
- purchase cost	-	-
a3) 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	**2 553 044**	**4 854 271**
Total value at the beginning of the period	**5 051 053**	**11 267 383**
Total adjustments to value in the period	-	-
Total book value	**2 656 457**	**5 051 053**

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13.5. FINANCIAL ASSETS AVAILABLE FOR SALE (BY TRANSFERABILITY)	**31.12.2004**	**31.12.2003**
A. Unlimited transferability, listed on stock exchanges (book value)	14 122 775	15 387 259
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):	13 707 135	15 007 647
- fair value	13 707 135	15 007 649
- market value	13 707 135	15 007 649
- purchase cost	13 269 904	14 582 513
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) corporate 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)	4 935 470	4 386 017
a) shares (book value):	44 365	4 085
- fair value	44 365	4 085
- market value	44 365	4 085
- purchase cost	71 532	70 007
b) other (by type) (book value):	4 891 105	4 381 932
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
- 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	790 246
b4) bills of exchange	141 788	594 422
- fair value	141 788	594 422
- market value	141 788	594 422
- purchase cost	163 789	596 863
b5) corporate bonds	304 171	160 453
- fair value	304 171	160 453
- market value	304 171	160 453
- purchase cost	305 738	183 264
b6) participation units in trust funds	339	327
- fair value	339	327
- market value	339	327
- purchase cost	315	327

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13.5. FINANCIAL ASSETS AVAILABLE FOR SALE (BY TRANSFERABILITY) continued	31.12.2004	31.12.2003
b7) investment certificates	563	-
- fair value	563	-
- market value	563	-
- purchase cost	563	-
D. Limited transferability (book value)	192 769	286 960
a) shares (book value):	49	-
- fair value	49	-
- market value	49	-
- purchase cost	49	-
b) other (by type) (book value):	192 720	286 960
b1) Treasury securities serving as collateral for BFG (book value))	192 720	286 960
- fair value	192 720	286 960
- market value	192 720	286 960
- purchase cost	182 400	274 312
Total purchase cost	**20 951 072**	**23 703 087**
Total value at the beginning of the period	**24 268 983**	**17 088 915**
Total adjustments to value in the period	**221 745**	**(106 532)**
Total book value	**21 561 050**	**24 268 983**

Note 14

14.1. INTANGIBLE ASSETS	31.12.2004	31.12.2003
a) research and development costs	-	-
b) goodwill	-	-
c) concessions, patents, licenses and similar items, including:	133 557	137 511
- computer software	124 838	127 497
d) other intangible assets	9 235	1 579
e) prepayments for intangible assets	251 016	135 316
Total intangible assets	**393 808**	**274 406**

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14.2.1. MOVEMENTS OF INTANGIBLE FIXED ASSETS IN 2004 (by type)

	a	b	c		d	e	
	research and development costs	goodwill	concessions, patents, licenses and other similar items, including:	computer software	other intangible fixed assets	prepayments for intangible fixed assets	**Total intangible fixed assets**
a) gross value of intangible fixed assets at the beginning of the period	-	42	525 990	483 634	4 444	135 316	**665 792**
b) increase (by title):	-	-	142 600	134 490	13 185	262 879	**418 664**
- transfer from investments	-	-	133 018	132 533	9 709	-	**142 727**
- purchase	-	-	6 661	627	904	657	**8 222**
- including subsidiaries in the consolidation using the full method	-	-	2 717	1 137	5	230	**2 952**
- other	-	-	204	193	2 567	261 992	**264 763**
c) decrease (by title):	-	-	(6 064)	(5 325)	(1 046)	(147 179)	**(154 289)**
-sale	-	-	(2 052)	(1 313)	(677)	(878)	**(3 607)**
- other	-	-	(4 012)	(4 012)	(369)	(146 301)	**(150 682)**
d) gross value of intangible fixed assets at the end of the period	-	42	662 526	612 799	16 583	251 016	**930 167**
e) accumulated amortization at the beginning of the period	-	42	388 479	356 137	2 865	-	**391 386**
f) change in accumulated amortization for the period (by title)	-	-	140 435	131 824	4 483	-	**144 918**
-amortization	-	-	142 362	133 592	3 207	-	**145 569**
- sale	-	-	(2 027)	(1 309)	(6)	-	**(2 033)**
- including subsidiaries in the consolidation using the full method	-	-	1 389	831	-	-	**1 389**
- other	-	-	(1 289)	(1 290)	1 282	-	**(7)**
g) accumulated amortization at the end of the period	-	42	528 914	487 961	7 348	-	**536 304**
h) write-offs for permanent diminution in value at the beginning of the period	-	-	-	-	-	-	**-**
- increase	-	-	(55)	-	-	-	**(55)**
- decrease	-	-	-	-	-	-	-
i) write-offs for permanent diminution in value at the end of the period	-	-	(55)	-	-	-	**(55)**
j) net value of intangible fixed assets at the end of the period	**-**	**-**	**133 557**	**124 838**	**9 235**	**251 016**	**393 808**

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14.2.2. MOVEMENTS OF INTANGIBLE FIXED ASSETS IN 2003 (by type)

	a	b	c		d	e	
	research and development costs	goodwill	concessions, patents, licenses and other similar items, including:	computer software	other intangible fixed assets	prepayments for intangible fixed assets	**Total intangible fixed assets**
a) gross value of intangible fixed assets at the beginning of the period	-	42	412 038	376 792	7 799	157 973	**577 852**
b) increase (by title):	-	-	123 592	116 471	816	112 285	**236 693**
- transfer from investments	-	-	110 805	110 805	655	-	**111 460**
- purchase	-	-	2 966	742	32	109 304	**112 302**
- including subsidiaries in the consolidation using the full method	-	-	3 894	2 627	129	-	**4 023**
- other	-	-	5 927	2 297	-	2 981	**8 908**
c) decrease (by title):	-	-	(9 640)	(9 629)	(4 171)	(134 942)	**(148 753)**
-sale	-	-	(2 698)	(2 698)	(196)	(72 963)	**(75 857)**
- other	-	-	(6 942)	(6 931)	(3 975)	(61 979)	**(72 896)**
d) gross value of intangible fixed assets at the end of the period	-	42	525 990	483 634	4 444	135 316	**665 792**
e) accumulated amortization at the beginning of the period	-	42	272 290	252 013	2 678	-	**275 010**
f) change in accumulated amortization for the period (by	-	-	116 189	104 124	187	-	**116 376**
-amortization	-	-	115 954	104 683	1 595	-	**117 549**
- sale	-	-	(2 568)	(2 568)	(175)	-	**(2 743)**
- including subsidiaries in the consolidation using the full method	-	-	3 094	2 298	124	-	**3 218**
- other	-	-	(291)	(289)	(1 357)	-	**(1 648)**
g) accumulated amortization at the end of the period	-	42	388 479	356 137	2 865	-	**391 386**
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	**-**	**-**	**137 511**	**127 497**	**1 579**	**135 316**	**274 406**

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14.3. INTANGIBLE ASSETS (OWNERSHIP STRUCTURE)	31.12.2004	31.12.2003
a) owned	393 737	271 877
b) used under rental or other agreements, including leasing, including:	71	2 529
- leasing agreements	-	-
Total intangible fixed assets	**393 808**	**274 406**

Note 15

15.1. GOODWILL OF SUBSIDIARIES AND ASSOCIATES	31.12.2004	31.12.2003
a) goodwill - subsidiaries	84 920	58 942
b) goodwill - joint-ventures	-	-
c) goodwill - associates	95 348	-
Total goodwill of subsidiaries and associates	**180 268**	**58 942**

15.2. CHANGE IN GOODWILL - SUBSIDIARIES	1.01.-31.12.2004	1.01.-31.12.2003
a) gross goodwill at the beginning of the period	118 100	65 178
b) increases (by title)	47 514	52 922
- purchase	47 514	52 922
c) decreases (by title)	-	-
d) gross goodwill at the end of the period	165 614	118 100
e) accumulated amortization of goodwill at the beginning of the period	59 158	45 717
f) amortization charge of goodwill for the period (by title)	21 536	13 441
- amortization	21 536	13 441
g) accumulated amortization of goodwill at the end of the period	80 694	59 158
h) net goodwill at the end of the period	**84 920**	**58 942**

15.3. CHANGE IN GOODWILL - JOINT-VENTURES	1.01.-31.12.2004	1.01.-31.12.2003
a) gross goodwill at the beginning of the period	-	-
b) increases (by title)	-	-
c) decreases (by title)	-	-
d) gross goodwill at the end of the period	-	-
e) accumulated amortization of goodwill at the beginning of the period	-	-
f) amortization charge of goodwill for the period (by title)	-	-
g) accumulated amortization of goodwill at the end of the period	-	-
h) net goodwill at the end of the period	-	-

15.4. CHANGE IN GOODWILL - ASSOCIATES	1.01.-31.12.2004	1.01.-31.12.2003
a) gross goodwill at the beginning of the period	-	-
b) increases (by title)	110 726	-
- purchase	110 726	-
c) decreases (by title)	-	-
d) gross goodwill at the end of the period	110 726	-
e) accumulated amortization of goodwill at the beginning of the period	-	-
f) amortization charge of goodwill for the period (by title)	15 378	-
g) accumulated amortization of goodwill at the end of the period	15 378	-
h) net goodwill at the end of the period	**95 348**	-

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	Centrum Finansowe Pulawska Sp. z o.o.	Centrum Elektronicznych Usług Platniczych "eService" SA	Kredyt Bank Ukraina S.A.	PTE Bankowy S.A.	Bank Pocztowy S.A.
Net assets as at the date of acquisition	51 207	1 413	92 390	45 686	143 096
% of acquired share	32.26	49.96	66.651	50	25.0001
Bank's share in net assets a the date of acquisition	16 520	706	61 579	22 843	35 774
Acquisition price	74 904	7 500	109 093	75 765	146 500
Gross goodwill at the date of aquisition	58 384	6 794	47 514	52 922	110 726
Accumulated amortization of goodwill as at 31 December 2002	37 950	6 794	x	x	x
Net goodwill as at 31 December 2002	20 434	-	x	x	x
Accumulated amortization of goodwill as at 31 December 2003	50 600	6 794	x	1 764	x
Net goodwill as at 31 December 2003	7 784	-	x	51 158	x
Accumulated amortization of goodwill as at 31 December 2004	58 384	6 794	3 168	12 348	15 378
Net goodwill as at 31 December 2004	**-**	**-**	**44 346**	**40 574**	**95 348**

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Note 16

16.1. TANGIBLE FIXED ASSETS	**31.12.2004**	**31.12.2003**
a) fixed assets, including:	2 105 756	2 235 245
- land (including perpetual leasehold of land)	47 081	46 959
- buildings and premises	1 551 480	1 569 754
- machinery and equipment	399 226	510 632
- means of transport	13 450	16 061
- other fixed assets	94 519	91 839
b) fixed assets under construction	260 398	214 670
Total tangible fixed assets	**2 366 154**	**2 449 915**

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16.2.1. MOVEMENTS OF TANGIBLE FIXED ASSETS IN 2004 (by type)

	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	48 900	1 964 289	2 281 556	45 279	371 984	215 353	**4 927 361**
b) increase (by title)	365	97 035	172 444	6 007	57 198	701 810	**1 034 859**
- recognition of fixed assets	-	2 244	-	-	-	-	**2 244**
- transfer from investments	12	52 679	151 840	1 977	20 612	383 064	**610 184**
- including subsidiaries in the consolidation using the full method	318	37 907	4 707	2 527	20 337	451	**66 247**
- other increase	35	4 205	15 897	1 503	16 249	318 295	**356 184**
c) decrease (by title)	(49)	(10 320)	(76 281)	(2 044)	(27 230)	(656 765)	**(772 689)**
- sale and liquidation	(49)	(7 548)	(70 902)	(1 915)	(15 331)	(8 726)	**(104 471)**
- other decrease	-	(2 772)	(5 379)	(129)	(11 899)	(648 039)	**(668 218)**
d) gross value of tangible fixed assets at the end of the period	49 216	2 051 004	2 377 719	49 242	401 952	260 398	**5 189 531**
e) accumulated depreciation at the beginning of the period	1 941	394 414	1 770 924	29 218	280 137	-	**2 476 634**
f) change in accumulated depreciation for the period (by title)	194	69 889	207 569	6 574	27 296	-	**311 522**
- depreciation	202	69 920	278 030	6 306	20 012	-	**374 470**
- sale and liquidation	(8)	(2 430)	(69 939)	(1 472)	(6 356)	-	**(80 205)**
- including subsidiaries in the consolidation using the full method	-	2 606	1 938	1 663	12 170	-	**18 377**
- other changes	-	(207)	(2 460)	77	1 470	-	**(1 120)**
g) accumulated depreciation at the end of the period	2 135	464 303	1 978 493	35 792	307 433	-	**2 788 156**
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	**47 081**	**1 551 480**	**399 226**	**13 450**	**94 519**	**260 398**	**2 366 154**

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16.2.2. MOVEMENTS OF TANGIBLE FIXED ASSETS IN 2003 (by type)

	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	45 712	1 837 842	2 172 513	46 822	432 016	307 956	**4 842 861**
b) increase (by title)	3 336	156 565	199 834	4 444	31 898	536 890	**932 967**
- transfer from investment to fixed assets	2 577	131 888	180 250	1 441	11 022	-	**327 178**
- recognition of fixed assets	-	161	170	6	240	-	**577**
- including subsidiaries in the consolidation using the full method	-	3 319	4 499	1 078	3 702	-	**12 598**
- other increase	759	21 197	14 915	1 919	16 934	536 890	**592 614**
c) decrease (by title)	(148)	(30 118)	(90 791)	(5 987)	(91 930)	(629 493)	**(848 467)**
- sale and liquidation	(10)	(9 092)	(87 519)	(4 937)	(6 927)	(2)	**(108 487)**
- other decrease	(138)	(21 026)	(3 272)	(1 050)	(85 003)	(629 491)	**(739 980)**
d) gross value of tangible fixed assets at the end of the period	48 900	1 964 289	2 281 556	45 279	371 984	215 353	**4 927 361**
e) accumulated depreciation at the beginning of the period	1 565	332 187	1 543 403	24 788	268 858	-	**2 170 801**
f) change in accumulated depreciation for the period (by title)	376	62 227	227 521	4 430	11 279	-	**305 833**
- depreciation	288	65 253	310 826	7 707	14 357	-	**398 431**
- sale and liquidation	-	(4 977)	(86 477)	(3 638)	(6 702)	-	**(101 794)**
- including subsidiaries in the consolidation using the full method	-	2 235	4 199	542	2 903	-	**9 879**
- other changes	88	(284)	(1 027)	(181)	721	-	**(683)**
g) accumulated depreciation at the end of the period	1 941	394 414	1 770 924	29 218	280 137	-	**2 476 634**
h) write-offs for permanent diminution in value at the beginning of the period	-	-	-	-	(8)	-	**(8)**
- increase	-	(121)	-	-	-	(683)	**(804)**
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	**46 959**	**1 569 754**	**510 632**	**16 061**	**91 839**	**214 670**	**2 449 915**

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16.3. BALANCE SHEET TANGIBLE FIXED ASSETS (OWNERSHIP STRUCTURE)	31.12.2004	31.12.2003
a) owned	2 350 945	2 425 871
b) used under rental or other agreements, including leasing, including	15 209	24 044
- used under leasing agreement	15 209	19 075
- other	-	-
Total tangible fixed assets	**2 366 154**	**2 449 915**

16.4. OFF-BALANCE SHEET TANGIBLE FIXED ASSETS	31.12.2004	31.12.2003
- used under rental or other agreements, including leasing, including	203 643	188 761
- value of perpetual leasehold of land	171 419	167 336
Total off-balance fixed assets	**203 643**	**188 761**

As at 31 December 2004, 31 December 2003 the Capital Group of PKO BP SA did not own fixed tangible assets used on the basis of financial leasing, which are not depreciated.

Note 17

17.1. OTHER ASSETS	31.12.2004	31.12.2003
a) assets acquired for sale	11 131	7 700
b) other, including:	628 013	723 747
- receivables arising from transactions realized with the use of cards	193 419	347 139
- receivables arising from financial activity separated on the Company Social Fund	74 006	74 020
- receivables arising due to shortages and damages	69 623	68 627
- receivables from counterparties	86 898	56 714
- receivables from other banks and points of sale in relation to the distribution of currency	15 923	15 890
- receivables from the State Treasury related to the distribution of currency	16 367	12 489
- legal-public settlements	33 992	29 962
- inter-bank and inter- branch clearing accounts	1 800	4 692
- settlements of securities and financial instruments operations	13 933	6 013
- settlements related to securities dealing	2 645	2 353
- receivables arising from other operations with financial institutions	-	11
- receivables related to Bank's resources management	588	733
- inventories related to maintenance and side activities	17 954	15 752
- inventories acquired for sale	5 275	5 589
- other	95 590	83 763
Total gross other assets	**639 144**	**731 447**
Impairment write-downs for assets acquired for sale	(4 671)	(7 575)
Impairment write-downs for inventories	(1 575)	904
Impairment write-downs for other assets	(106 024)	(120 541)
Total net other assets	**526 874**	**604 235**

In “Other assets” as at 31 December 2004 and 2003 are included PLN 414 thousand and PLN 201 thousand receivables from entities valued under equity pick-up method respectively

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17.2. ASSETS ACQUIRED FOR SALE	**31.12.2004**	**31.12.2003**
a) fixed assets under construction	2 501	-
b) real estate	1 479	-
c) other	2 480	125
Total assets acquired for sale	**6 460**	**125**

17.3. CHANGES IN ASSETS ACQUIRED FOR SALE (BY TITLE)	**1.01.-31.12.2004**	**1.01.-31.12.2003**
Assets acquired for sale at the beginning of the period	125	76 749
a) increase in the period (by title):	25 496	4 966
- assets acquired for debts	19 700	4 966
- purchase	1 430	-
- including subsidiaries in consolidation	1 462	-
- other increases	2 904	-
b) decrease in the period (by title):	(19 161)	(81 590)
- sale and liquidation	(14 461)	(64 843)
- transfer from fixed assets under construction to own assets	(254)	(2 506)
- other decreases	(4 446)	(14 241)
Assets acquired for sale at the end of the period	**6 460**	**125**

17.4. CHANGES IN ASSETS ACQUIRED FOR SALE IN RELATED ENTITIES (BY TITLE)	**1.01.-31.12.2004**	**1.01.-31.12.2003**
Assets acquired for sale at the beginning of the period	125	2 231
a) increase in the period (by title):	20 233	125
- assets acquired for debts	17 341	-
- purchase	1 430	-
- including subsidiaries in consolidation	1 462	-
- other increases	-	125
b) decrease in the period (by title):	(13 898)	(2 231)
- sale and liquidation	(9 481)	(2 231)
- transfer from fixed assets under construction to own assets	-	-
- other decreases	(4 417)	-
Assets acquired for sale in related entities at the end of the period	**6 460**	**125**

Note 18

18.1. PREPAYMENTS AND ACCRUED INCOME	**31.12.2004**	**31.12.2003**
a) long-term	32 231	30 294
- deferred tax asset	22 482	20 738
- other prepayments and accrued income	9 749	9 556
b) short-term	27 614	24 913
- amounts paid in advance	17 376	13 720
- accrued income	10 238	11 193
Total prepayments and accrued income	**59 845**	**55 207**

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18.2. CHANGE IN DEFERRED TAX ASSET	**1.01.-31.12.2004**	**1.01.-31.12.2003**
1. Balance at the beginning of the period, including:	26 841	18 422
a) charged to financial result	26 849	18 422
- arising and reversal of temporary negative differences	26 849	18 422
b) charged to equity	(8)	-
- revaluation charged to revaluation reserve	(8)	-
c) charged to goodwill or negative goodwill	-	-
d) charged to accrued income	-	-
- adjustments due to changes in accounting policies	(610)	(40)
1a. Adjusted deferred tax asset at the beginning of the period, including:	26 231	18 382
a) charged to financial result	26 239	18 382
- arising and reversal of temporary negative differences	26 239	18 382
2. Increase	-	2 364
a) charged to financial result of the period in connection with negative temporary differences	-	2 364
- arising and reversal of temporary negative differences	-	2 364
b) charged to financial result of the period in connection with tax loss (by title)	-	-
c) charged to equity in connection with negative temporary differences	-	-
- revaluation charged to revaluation reserve	-	-
d) charged to equity in connection with tax loss	-	-
e) charged to goodwill or negative goodwill in connection with negative temporary differences	-	-
f) charged to accrued income	-	-
3. Decrease	(3 749)	(8)
a) charged to financial result of the period in connection with negative temporary differences	(3 729)	-
- arising and reversal of temporary negative differences	(3 729)	-
b) charged to financial result of the period in connection with tax loss (by title)	-	(8)
- revaluation charged to revaluation reserve	-	(8)
c) charged to equity in connection with negative temporary differences	(20)	-
d) charged to equity in connection with tax loss	-	-
e) charged to goodwill or negative goodwill in connection with negative temporary differences	-	-
f) charged to accrued income	-	-
g) other	-	-
4. Total deferred tax assets at the end of the period, including:	22 482	20 738
a) charged to financial result	22 510	20 746
- arising and reversal of temporary negative differences	22 510	20 746
b) charged to equity	(28)	(8)
- revaluation charged to revaluation reserve	(28)	(8)
c) charged to goodwill or negative goodwill in connection with negative temporary differences	-	-

For the presentation purposes the balance of the deferred tax asset, at the beginning of the period, includes the value of the deferred tax asset established by Kredyt Bank Ukraine as at 31.08.2004 (day o acquisition of controlling interest)

18.3. OTHER PREPAYMENTS AND ACCRUED INCOME	**31.12.2004**	**31.12.2003**
a) prepayments and accrued income, including:	27 125	23 276
- amounts paid in advance	27 125	23 276
b) other prepayments and accrued income, including:	10 238	11 193
- accrued income	10 238	11 193
Total other prepayments and accrued income	**37 363**	**34 469**

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Note 19

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

Note 20

Information on amounts of write-downs and reversals of permanent diminution of value are presented in Additional explanatory note No 4k.

Note 21

21.1. AMOUNTS DUE TO THE FINANCIAL SECTOR (BY TYPE)	**31.12.2004**	**31.12.2003**
a) current accounts and deposits, of which:	766 746	1 016 554
- deposits of banks and other financial institutions	756 597	1 016 554
b) loans received	310 811	163 994
c) own bills of exchange	-	-
d) securities issued	-	-
e) other liabilities (by title)	26 022	17 691
- cash collaterals	505	525
- other	25 517	17 166
f) interest	7 689	4 218
Total amounts due to the financial sector	**1 111 268**	**1 202 457**

21.2. AMOUNTS DUE TO THE FINANCIAL SECTOR (BY MATURITY)	**31.12.2004**	**31.12.2003**
a) current liabilities	380 114	33 252
b) term (by period remaining to maturity)	723 465	1 164 987
- within 1 month	182 699	129 651
- from 1 month to 3 months	19 683	159 511
- from 3 months to 1 year	297 954	758 804
- from 1 year to 5 years	166 897	117 011
- from 5 years to 10 years	56 232	10
- from 10 years to 20 years	-	-
- over 20 years	-	-
- overdue amounts	-	-
c) interest	7 689	4 218
Total amounts due to the financial sector	**1 111 268**	**1 202 457**

21.3. AMOUNTS DUE TO THE FINANCIAL SECTOR (BY ORIGINAL MATURITY)	**31.12.2004**	**31.12.2003**
a) current liabilities	380 114	33 252
b) term (by original maturity)	723 465	1 164 987
- within 1 month	42 163	143 128
- from 1 month to 3 months	148 941	150 000
- from 3 months to 1 year	245 138	104 795
- from 1 year to 5 years	189 666	767 064
- from 5 years to 10 years	97 557	-
- from 10 years to 20 years	-	-
- over 20 years	-	-
c) interest	7 689	4 218
Total amounts due to the financial sector	**1 111 268**	**1 202 457**

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21.4. AMOUNTS DUE TO THE FINANCIAL SECTOR (BY CURRENCY)	31.12.2004	31.12.2003
a) in PLN	501 426	379 620
b) in foreign currencies (by currency and PLN equivalent)	609 842	822 837
b1. Unit/currency 787/USD ths	107 742	20 623
PLN ths	322 193	77 140
b2.Unit/currency 789/GBP ths	34	5
PLN ths	194	34
b3. Unit/currency 797/CHF ths	12 201	7 841
PLN ths	32 236	23 743
b4. Unit/currency 978/EUR ths	48 878	153 046
PLN ths	199 375	721 918
b5. other currencies (PLN ths)	55 844	2
Total amounts due to the financial sector	**1 111 268**	**1 202 457**

21.5. AMOUNTS DUE TO THE FINANCIAL SECTOR	31.12.2004	31.12.2003
a) amounts due to companies valued under the equity pick-up method	2 375	337
b) amounts due to other entities	1 108 893	1 202 120
Total amounts due to the financial sector	**1 111 268**	**1 202 457**

Note 22

22.1. AMOUNTS DUE TO THE NON-FINANCIAL SECTOR (BY TYPE)	31.12.2004	31.12.2003
a) current accounts and deposits	65 709 599	66 415 334
b) loans received	-	-
c) own bills of exchange	-	-
d) securities issued	-	-
e) other liabilities (by title)	46 982	20 106
- cash collaterals	16 042	19 472
- other	30 940	634
f) interest	1 857 314	1 917 278
Total amounts due to non-financial sector	**67 613 895**	**68 352 718**

22.2. AMOUNTS DUE TO THE NON-FINANCIAL SECTOR - SAVINGS DEPOSITS (BY MATURITY)	31.12.2004	31.12.2003
a) current liabilities	2 153 733	2 528 570
b) term (by period remaining to maturity)	22 311 697	25 308 807
- within 1 month	5 629 558	5 908 163
- from 1 month to 3 months	6 386 584	7 364 513
- from 3 months to 1 year	9 229 621	10 650 010
- from 1 year to 5 years	909 135	1 230 964
- from 5 years to 10 years	6 772	10 314
- from 10 years to 20 years	19 785	8 033
- over 20 years	90	7 706
- overdue amounts	130 152	129 104
c) interest	1 617 639	1 690 497
Total amounts due to the non-financial sector - savings deposits	**26 083 069**	**29 527 874**

22.3. AMOUNTS DUE TO THE NON-FINANCIAL SECTOR - SAVINGS DEPOSITS (BY ORIGINAL MATURITY)	31.12.2004	31.12.2003
a) current liabilities	2 153 733	2 528 570
b) term (by original maturity)	22 311 697	25 308 807
- within 1 month	2 791 234	2 142 700
- from 1 month to 3 months	4 522 743	6 252 950
- from 3 months to 1 year	11 696 183	13 698 100
- from 1 year to 5 years	3 301 264	3 215 057
- from 5 years to 10 years	123	-
- from 10 years to 20 years	38	-
- over 20 years	112	-
c) interest	1 617 639	1 690 497

Total amounts due to the non-financial sector - savings deposits	**26 083 069**	**29 527 874**

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22.4. AMOUNTS DUE TO THE NON-FINANCIAL SECTOR - OTHER (BY MATURITY)	31.12.2004	31.12.2003
a) current liabilities	19 589 804	18 744 504
b) term (by period remaining to maturity)	21 701 347	19 853 559
- within 1 month	6 987 869	8 426 596
- from 1 month to 3 months	4 849 120	4 928 628
- from 3 months to 1 year	9 215 145	6 163 926
- from 1 year to 5 years	646 677	320 160
- from 5 years to 10 years	589	11 972
- from 10 years to 20 years	-	-
- over 20 years	-	-
- overdue amounts	1 947	2 277
c) interest	239 675	226 781
Total amounts due to the non-financial sector - other	**41 530 826**	**38 824 844**

22.5. AMOUNTS DUE TO THE NON-FINANCIAL SECTOR - OTHER (BY ORIGINAL MATURITY)	31.12.2004	31.12.2003
a) current liabilities	19 589 804	18 744 504
b) term (by original maturity)	21 701 347	19 853 559
- within 1 month	6 079 177	5 981 075
- from 1 month to 3 months	3 463 514	4 018 212
- from 3 months to 1 year	11 611 324	8 469 881
- from 1 year to 5 years	547 246	1 384 391
- from 5 years to 10 years	52	-
- from 10 years to 20 years	34	-
- over 20 years	-	-
c) interest	239 675	226 781
Total amounts due to the non-financial sector - other	**41 530 826**	**38 824 844**

22.6. AMOUNTS DUE TO THE NON-FINANCIAL SECTOR (BY CURRENCY)	31.12.2004	31.12.2003
a) in PLN	62 111 402	62 946 249
b) in foreign currencies (by currency and PLN equivalent)	5 502 493	5 406 469
b1. Unit/currency 787/USD ths	855 132	764 052
PLN ths	2 557 187	2 857 937
b2. Unit/currency 789/GBP ths	45 248	31 801
PLN ths	261 074	212 068
b3. Unit/currency 797/CHF ths	17 981	15 586
PLN ths	47 508	47 196
b4. Unit/currency 978/EUR ths	577 608	485 180
PLN ths	2 356 063	2 288 594
b5. other currencies (PLN ths)	280 661	674
Total amounts due to the non-financial sector	**67 613 895**	**68 352 718**

22.7. AMOUNTS DUE TO THE NON-FINANCIAL SECTOR	31.12.2004	31.12.2003
a) amounts due to companies valued under the equity pick-up method	8 090	31 048
b) amounts due to other entities	67 605 805	68 321 670
Total amounts due to the non-financial sector	**67 613 895**	**68 352 718**

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Note 23

23.1. 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 amounts due to the public sector	203 601	270 398
f) interest	9 212	4 363
Total amounts due to the public sector	**5 369 539**	**3 178 790**

23.2. 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	-	-

23.3. AMOUNTS DUE TO THE PUBLIC SECTOR - SAVINGS DEPOSITS (BY ORIGINAL MATURITY)	**31.12.2004**	**31.12.2003**
a) current liabilities	-	-
b) term (by original 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	-	-

23.4. AMOUNTS DUE TO THE PUBLIC SECTOR - OTHER (BY 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	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 - other	**5 369 539**	**3 178 790**

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23.5. 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 original 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**

23.6. 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
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 24

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 25

25.1. LIABILITIES ARISING FROM SECURITIES ISSUED	**31.12.2004**	**31.12.2003**
a) bonds	21 076	-
b) certificates	-	-
c) other (by type)	-	2 900
- commercial bills of exchange	-	2 900
d) interest	-	-
Total liabilities arising from securities issued	**21 076**	**2 900**

25.2. CHANGE OF LIABILITIES ARISING FROM SECURITIES ISSUED	**1.01.-3112.2004**	**1.01.-31.12.2003**
Balance at the beginning of the period	2 900	49 939
a) increase (by type)	22 169	-
- including in consolidation of subsidiaries	133	-
- bonds issued	3 529	-
- other	18 507	-
b) decrease (by type)	(3 993)	(47 039)
- settlement of discount over time	(331)	(1 161)
- bonds redemption	(3 662)	-
- other	-	(45 878)
Liabilities arising from securities issued at the end of the period	**21 076**	**2 900**

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25.3 LONG TERM LIABILITIES FROM ISSUED DEBT SECURITIES							
a	b	c	d	e	f	g	h
debt securities according to the type	nominal value	interest rate	maturity	collaterals	additional rights	quotation market	others
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-

Note 26

SPECIAL FUNDS AND OTHER LIABILITIES	**31.12.2004**	**31.12.2003**
a) special funds (by type)	87 800	82 452
- Company Social Fund	87 800	82 452
b) other liabilities (by title)	985 878	848 234
- legal-public settlements	148 292	160 901
- inter-bank clearing accounts	138 521	118 417
- liabilities related to investment activity and Bank's resource management	102 819	86 728
- settlements of funds for payments from Foundation "Polsko-Niemieckie Pojednanie"	13 153	14 212
- liabilities related to foreign currency dealing activities	41 526	55 990
- liabilities related to bank transfers to be paid out in PLN	1 895	4 820
- liabilities due to sale of currency	22 994	25 266
- liabilities due to the counterparties	62 819	52 652
- liabilities due to State Treasury - interest on loans	-	18
- liabilities arising from transactions realized with the use of cards	10 905	6 999
- liabilities arising from transactions with non-financial entities	224 855	11 615
- liabilities to RUP related to payments of unemployment benefits	1 388	2 707
- sundry credit operational liabilities	3 292	4 558
- settlements related to the substitution service of Poczta Polska	4 836	4 314
- liabilities arising from settlements of operations on securities	69 410	163 603
- other	139 173	135 434
Total special funds and other liabilities	**1 073 678**	**930 686**

“Special funds and other liabilities” as at 31 December of 2004 and as at 31 December 2003 included liabilities to entities valued under equity pick-up method in the amounts: PLN 160 thousand and PLN 1,632 thousand respectively

Note 27

27.1. ACCRUALS	**31.12.2004**	**31.12.2003**
a) short-term, including:	159 389	114 502
- accrual for employees' bonuses	52 282	53 004
- holiday accrual	22 301	11 512
- other costs related to Bank's resource management	84 806	49 986
b) long-term, including:	37	459
- other costs related to Bank's resource management	37	459
Total accruals	**159 426**	**114 961**

27.2. CHANGE IN NEGATIVE GOODWILL	**1.01.-31.12.2004**	**1.01.-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**

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27.3. OTHER DEFERRED AND SUSPENDED INCOME	31.12.2004	31.12.2003
a) short-term, including:	356 156	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	101 473	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	**3 123 557**	**2 857 993**

Note 28

28.1. NEGATIVE GOODWILL OF SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	31.12.2004	31.12.2003
a) negative goodwill - subsidiaries	-	-
b) negative goodwill – joint-ventures	-	-
c) negative goodwill – associates	-	-
Total goodwill of subsidiaries and associates	-	-

28.2. CHANGE IN NEGATIVE GOODWILL – SUBSIDIARIES	1.01.-31.12.2004	1.01.-31.12.2003
a) gross negative goodwill at the beginning of the period	8 574	8 574
b) increase (by title)	88	-
- purchase	88	-
c) decrease (by title)	-	-
d) gross negative goodwill at the end of the period	8 662	8 574
e) accumulated amortization of negative goodwill at the beginning of the period	(8 574)	(4 662)
f) amortization charge of negative goodwill for the period (by title)	(88)	(3 912)
- share in loss	(88)	(3 912)
g) accumulated amortization of negative goodwill at the end of the period	(8 662)	(8 574)
h) net negative goodwill at the end of the period	-	-

28.3. CHANGE IN NEGATIVE GOODWILL – JOINT-VENTURES	1.01.-31.12.2004	1.01.-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) accumulated amortization of negative goodwill at the beginning of the period	-	-
f) amortization charge of negative goodwill for the period (by title)	-	-
g) accumulated amortization of negative goodwill at the end of the period	-	-
h) net negative goodwill at the end of the period	-	-

28.4. CHANGE IN NEGATIVE GOODWILL – ASSOCIATES	**1.01.-31.12.2004**	**1.01.-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) accumulated amortization of negative goodwill at the beginning of the period	-	-
f) amortization charge of negative goodwill for the period (by title)	-	-
g) accumulated amortization of negative goodwill at the end of the period	-	-
h) net negative goodwill at the end of the period	-	-

	Inteligo Financial Services S.A.	**Dom Maklerski "Broker" S.A.**
Net assets as at the date of acquisition	16 876	18 654
% of acquired share	100	100
Bank's share in net assets a the date of acquisition	16 876	18 654
Acquisition price	8 302	18 566
Negative goodwill as at the date of acquisition	8 574	88
Write-off of negative goodwill in 2001	-	-
Negative goodwill to be settled as at 31 December 2001	-	-
Write-off of negative goodwill in 2002	(4 662)	-
Negative goodwill to be settled as at 31 December 2002	3 912	-
Write-off of negative goodwill in 2003	(3 912)	-
Negative goodwill to be settled as at 31 December 2003	-	-
Write-off of negative goodwill in 2004	-	(88)
Negative goodwill to be settled as at 31 December 2004	-	-

On top of that, as at the balance sheet date the negative goodwill arising from the purchase of Centrum Bankowosci Elektronicznej was amortized. The negative goodwill amounts to PLN 20 thousand. Net negative goodwill as at 31 December 2004 amounted to PLN 16 thousand and the charge of negative goodwill in the profit and loss amounted to PLN 2 thousand.

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Note 29

29.1. CHANGE IN THE BALANCE OF DEFERRED TAX LIABILITY	1.01.-31.12.2004	1.01.-31.12.2003
1. Deferred tax liability 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 positive 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	-	-
d) charged to accrued income	-	-
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 deferred tax liability at the beginning of the period, including:	443 597	706 075
a) charged to financial result		563 631
- arising and reversing of temporary positive differences	427 365	563 631
b) charged to equity	16 232	142 444
- revaluation charged to revaluation reserve	16 232	142 444
2. Increase	**86 705**	-
a) charged to financial result for the period, arising on temporary positive differences	46 358	-
- arising and reversing of temporary positive differences	46 358	-
b) charged to financial result of the period in connection with tax loss	40 347	-
c) charged to equity, arising on temporary positive differences	-	-
- revaluation charged to revaluation reserve	-	-
d) charged to equity in connection with tax loss	-	-
e) charged to goodwill or negative goodwill, arising on temporary positive differences	-	-
f) charged to accrued income	-	-
3. Decrease	-	**(262 478)**
a) charged to financial result for the period, arising on temporary positive differences	-	(136 266)
- arising and reversing of temporary positive differences	-	(136 266)
b) charged to financial result of the period in connection with tax loss	-	-
c) charged to equity, arising on temporary positive differences		(126 212)
- revaluation charged to revaluation reserve		(126 212)
d) charged to equity in connection with tax loss	-	-
e) charged to goodwill or negative goodwill, arising on temporary positive differences	-	-
f) charged to accrued income	-	-
4. Deferred tax liability 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 positive 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	-	-
d) charged to accrued income	-	-

29.2. DEFERRED TAX LIABILITY (CURRENCY STRUCTURE)	**31.12.2004**	**31.12.2003**
a) in PLN	530 302	443 597
b) in foreign currencies (by currency and PLN equivalent)	-	-
Total provision for deferred tax	530 302	**443 597**

29.3. OTHER PROVISIONS (BY TITLE), INCLUDING:	**31.12.2004**	**31.12.2003**
- provision for off-balance sheet contingent liabilities	5 612	13 221
- general banking risk provision	661 664	661 597
- provision for jubilee and retirement benefits	184 151	173 294
- provision for potential liability due to unfavorable court sentence	7 043	5 614
- provision for other off-balance sheet liabilities	4 763	2 770
- other provisions	7 137	1 398
Total other provisions	**870 370**	**857 894**

29.4. OTHER PROVISIONS	**31.12.2004**	**31.12.2003**
a) short-term (by title):	23 069	22 613
- provision for off-balance liabilities	5 612	13 221
- provision for potential liability due to unfavorable court sentence	5 630	5 614
- provision for other off-balance liabilities	4 763	2 474
- other provisions	7 064	1 304
b) long-term (by title):	847 301	835 281
- general banking risk provision	661 664	661 597
- provision for jubilee and retirement benefits	184 151	173 294
- provision for other off-balance liabilities	-	296
- provision for potential liability due to unfavorable court sentence	1 413	-
- other provisions	73	94
Total other provisions	**870 370**	**857 894**

29.5. OTHER PROVISIONS (CURRENCY STRUCTURE)	**31.12.2004**	**31.12.2003**
a) in PLN	869 975	857 877
b) in foreign currencies (by currency and PLN equivalent)	395	17
b1. Unit/currency 787/USD ths	12	-
PLN ths	36	-
b2. Unit/currency 789/GBP ths	-	-
PLN ths	-	-
b3. Unit/currency 797/CHF ths	-	-
PLN ths	-	-
b4. Unit/currency 978/EUR ths	77	4
PLN ths	314	17
b5. other currencies (PLN ths)	45	-
Total other provisions	**870 370**	**857 894**

29.6. CHANGE IN OTHER SHORT-TERM PROVISIONS	**1.01.-31.12.2004**	**1.01.-31.12.2003**
Balance at the beginning of the period	22 613	25 648
a) increase (by title)	43 393	12 515
- including subsidiaries in consolidation	254	-
- creation of provision for other contingent liabilities	30 022	11 211
- creation of provision for guarantees	3 024	-
- creation of other provisions	10 093	1 304
b) realization (by title)	-	(3)
- creation of provision for off-balance liabilities	-	-
- other	-	(3)
c) release (by title)	(42 937)	(15 547)
- release of provision for guarantees	(8 679)	-
- release of provision for other contingent liabilities	(29 941)	(11 453)
- release of general banking risk provision	-	(4 093)
- release of other provision	(4 317)	(1)
Other short-term provisions at the end of the period	**23 069**	**22 613**

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29.7. CHANGE IN OTHER LONG-TERM PROVISIONS	**1.01.-31.12.2004**	**1.01.-31.12.2003**
Balance at the beginning of the period	835 281	706 974
a) increase (by title)	12 405	131 818
- creation of general banking risk provision	67	95 000
- creation of provision for off-balance liabilities	-	5
- creation of provision for jubilee and retirement benefits	10 861	34 598
- including subsidiaries in consolidation	-	688
- creation of provision for potential liability due to unfavorable court sentence	1 404	-
- other	73	1 527
b) realization (by title)	(292)	(360)
- realization of provision for off-balance liabilities	-	(358)
- realization of provision for jubilee and retirement benefits	(5)	(2)
- realization of provision for potential liability due to unfavorable court sentence	(287)	-
c) release (by title)	(93)	(3 151)
- release of general banking risk provision	-	-
- other	(93)	(3 151)
Other long-term provisions at the end of the period	**847 301**	**835 281**

30.1. SUBORDINATED LIABILITIES

a	b		c	d	e	f
Entity name	Value of loan		Interest rate	Maturity	Exposure	Interest
	currency	PLN				
-	-	-	-	-	-	-
-	-	-	-	-	-	-

30.2. CHANGE IN SUBORDINATED LIABILITIES	**1.01.-31.12.2004**	**1.01.-31.12.2003**
Balance at the beginning of the period	-	-
a) increase (by title)	-	-
b) decrease (by title)	-	-
Subordinated liabilities at the end of the period	-	-

Note 31

CHANGES IN MINORITY SHAREHOLDERS CAPITAL	**1.01.-31.12.2004**	**1.01.-31.12.2003**
Balance at the beginning of the period	503	558
a) increase (by title)	25 164	-
- share in net equity	25 164	-
b) decrease (by title)	(503)	(55)
- share in net loss	-	(56)
- other	(503)	1
Minority shareholders capital at the end of the period	**25 164**	**503**

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Note 32

SHARE CAPITAL								
Series / issue	Type of shares	Nature of preference	Limitation of rights to shares	Number of shares	Nominal value (PLN ths) of series issue	Capital paid up by	Date of registration	Right to dividend 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	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 33

OWN SHARES				
a	b	c	d	e
Number	Value at purchase price	Book value	Purpose of acquisition	Purpose
-	-	-	-	-
-	-	-	-	-

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

Note 34

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

Note 35

REVALUATION RESERVE	31.12.2004	31.12.2003
a) from revaluation of fixed assets	148 555	151 465
b) from deferred tax	(56 579)	(16 232)
c) from revaluation of financial assets	297 784	85 431
including valuation of securities available for sale	297 784	85 431
Total revaluation reserve	**389 760**	**220 664**

Note 36

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**

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Note 37

CAPITAL ADEQUACY RATIO	**31.12.2004**	**31.12.2003**
Capital requirement, including:	**2 752 893**	**2 350 818**
a) credit risk of assets	2 571 915	2 191 582
b) credit risk of off-balance sheet liabilities	103 098	49 110
c) market risk	71 478	107 636
d) other	6 402	2 490
Net own funds, including:	**5 735 030**	**4 807 393**
- 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
- other reserve capital	2 370 000	2 160 000
- shares in financial institutions	(104 429)	(30 380)
- intangible assets	(393 808)	(274 406)
- retained profit from the previous years	6 450	41 938
- own securities issued	-	-
- missing amount of required specific provisions	-	-
- minority shareholders capital	25 164	503
- goodwill of subsidiaries and associates	(180 268)	(58 942)
- negative goodwill of subsidiaries and associates	-	-
- negative foreign exchange differences on consolidation	(11 472)	-
- positive foreign exchange differences on consolidation	-	-
- short-term capital	70 107	33 388
CAPITAL ADEQUACY RATIO	**16.67**	**16.36**

Note 38

NET BOOK VALUE PER ORDINARY SHARE	**1.01.-31.12.2004**	**1.01.-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, including::	389 760	220 664
- revaluation reserve from revaluation of fixed assets	148 555	151 465
- revaluation reserve from revaluation of financial fixed assets	-	-
- deferred tax	(56 579)	(16 232)
- valuation of securities available for sale	297 784	85 431
- foreign exchange differences on the valuation of subsidiaries	(11 472)	-
- 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**

DILUTED NET BOOK VALUE PER ORDINARY SHARE	**1.01.-31.12.2004**	**1.01.-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, including::	389 760	220 664
- revaluation reserve from revaluation of fixed assets	148 555	151 465
- revaluation reserve from revaluation of financial fixed assets	-	-
- deferred tax	(56 579)	(16 232)
- valuation of securities available for sale	297 784	85 431
- foreign exchange differences on the valuation of subsidiaries	(11 472)	-
- 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**

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Note 39

39.1. OFF-BALANCE SHEET CONTINGENT LIABILITIES GRANTED TO RELATED ENTITIES	31.12.2004	31.12.2003
a) guarantees and sureties granted, of which granted to:	69	193
- subsidiaries	-	-
- joint-ventures	69	193
- associates	-	-
- dominating entity	-	-
- significant investor	-	-
b) other, of which granted to:	5 585	80 255
- subsidiaries	5 585	2 850
- joint-ventures	-	77 405
- associates	-	-
- dominating entity	-	-
- significant investor	-	-
Total off-balance sheet contingent liabilities granted to related entities	**5 654**	**80 448**

Note 40

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	-	-
- dominating entity	-	-
- significant investor	-	-
b) other, of which received from:	-	-
- subsidiaries	-	-
- joint-ventures	-	-
- associates	-	-
- dominating entity	-	-
- significant investor	-	-
Total off balance sheet contingent liabilities received from related entities	-	-

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Note 41

INTEREST INCOME	**1.01.-31.12.2004**	**1.01.-31.12.2003**
a) from the financial sector	501 126	485 150
b) from the non-financial sector	2 372 312	2 048 171
c) from the public sector	685 267	611 024
d) from fixed income securities	1 753 038	1 989 764
e) other	-	-
Total interest income	**5 311 743**	**5 134 109**

Note 42

INTEREST EXPENSE	**1.01.-31.12.2004**	**1.01.-31.12.2003**
a) from the financial sector	(64 608)	(58 292)
b) from the non-financial sector	(1 457 129)	(1 514 757)
c) from the public sector	(158 116)	(99 130)
d) other	(56)	-
Total interest expense	**(1 679 909)**	**(1 672 179)**

Note 43

FEES AND COMMISSION INCOME	**1.01.-31.12.2004**	**1.01.-31.12.2003**
a) fees and commission from banking operations	1 823 746	1 546 524
b) fees and commission from brokerage activities	43 219	18 835
c) fees and commission from other activities	2 089	1 913
Total fees and commission income	**1 869 054**	**1 567 272**

Note 44

INCOME FROM SHARES AND OTHER VARIABLE INCOME SECURITIES AND FINANCIAL INSTRUMENTS	**1.01.-31.12.2004**	**1.01.-31.12.2003**
a) from subsidiaries	-	-
b) from joint-ventures	-	-
c) from associates	-	-
d) from other entities	3 396	4 406
Total income from shares and other variable income securities and financial instruments	**3 396**	**4 406**

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Note 45

RESULT FROM FINANCIAL OPERATIONS	**1.01.-31.12.2004**	**1.01.-31.12.2003**
a) result from operations on securities and other financial instruments	**(181 948)**	**70 835**
- income from operations on securities and other financial instruments	1 940 883	688 599
- cost of operations on securities and other financial instruments	(2 122 831)	(617 764)
b) result from other financial operations	(3 740)	(8 829)
Total result from financial operations	**(185 688)**	**62 006**

The result from financial operations comprises the result from operations with securities excluding the result from discount settlement and interest on debt securities, the result from operations with speculative derivative instruments and the result from other financial operations.

Note 46

OTHER OPERATING INCOME	**1.01.-31.12.2004**	**1.01.-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	20 297	120 783
c) recovery of overdue, written-off and unrecoverable receivables	36 090	3 851
d) compensation, penalties and fines received	5 754	4 282
e) donations received	7	15
f) other (by title):	164 783	81 313
- income relating to the repayment of debt collector advances	4 713	8 003
- the result from the sale of coins for collection purposes	2 325	1 516
- other casual income of the Bank	30 210	37 439
- other operating income*	127 535	34 355
Total other operating income	**309 663**	**262 014**

* Other operating income comprises, among others, income from: surplus payments relating to loans, repayment of court fees, liquidation of accounts.

Note 47

OTHER OPERATING EXPENSE	**1.01.-31.12.2004**	**1.01.-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	(31 015)	(88 624)
c) receivables written-off	(1 485)	(359)
d) compensation, penalties and fines paid	(1 306)	(1 498)
e) donations	(7 699)	(7 223)
h) other (by title):	(131 554)	(66 616)
- expenses related to investments without economic result		(12 927)
- not planned depreciation charges	(36 507)	(4 589)
- paid debt collector advances	(4 401)	(9 076)
- other casual expenses of the Bank	(4 718)	(3 641)
- other operating expenses*	(85 928)	(36 383)
Total other operating expense	**(181 704)**	**(168 366)**

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

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Note 48

OVERHEAD COSTS	**1.01.-31.12.2004**	**1.01.-31.12.2003**
a) salaries and wages	(1 608 824)	(1 565 846)
b) statutory employment costs	(324 210)	(312 451)
c) non-personnel costs	(698 839)	(711 798)
d) taxes and charges	(57 304)	(54 859)
e) contribution and payment to Bank Guarantee Fund	(12 494)	(14 575)
f) other (by title):	(522 040)	(518 290)
- office services	(120 531)	(187 757)
- security	(84 611)	(50 026)
- IT costs	(99 598)	(71 458)
- cleaning services	(25 441)	(36 902)
- licenses and other payments	(47 481)	(43 787)
- health examination costs	(5 522)	(4 976)
- insurance fees	(4 187)	(7 350)
- other*	(134 669)	(116 034)
Total overhead costs	**(3 223 711)**	**(3 177 819)**

* Other overhead costs include among others costs of promotion and external services

Note 49

PROVISIONS CREATED AND REVALUATION	**1.01.-31.12.2004**	**1.01.-31.12.2003**
a) provisions created for:	(1 057 493)	(1 406 919)
- normal loans	(222 933)	(243 664)
- watch loans	(72 939)	(34 658)
- irregular loans	(761 038)	(1 030 115)
- general banking risk provision	-	(95 000)
- other	(583)	(3 482)
b) revaluation of:	(1 185)	(2 560)
- financial assets	(1 185)	(2 560)
Total provisions created and revaluation	**(1 058 678)**	**(1 409 479)**

Note 50

PROVISIONS RELEASED AND REVALUATION	**1.01.-31.12.2004**	**1.01.-31.12.2003**
a) release of provisions for:	971 581	1 108 658
- normal loans	213 582	204 447
- watch loans	67 833	31 319
- irregular loans	671 061	872 664
- general banking risk provision	-	-
- other	19 105	228
b) revaluation of:	692	3 748
- financial assets	692	3 748
Total provisions released and revaluation	**972 273**	**1 112 406**

Note 51

PROFIT (LOSS) FROM WHOLE OR PART SALE OF SHARES OF SUBSIDIARIES AND ASSOCIATES	**1.01.-31.12.2004**	**1.01.-31.12.2003**
a) profit from sale of shares	-	-
- subsidiaries	-	-
- joint-ventures	-	-
- associates	-	-
b) loss from sale of shares	-	-
- subsidiaries	-	-
- joint-ventures	-	-
- associates	-	-
Total profit (loss) on whole or part sale of shares of subsidiaries and associates	-	-

In 2004 the Bank sold shares of indirect subsidiary Inteligo Technologies Sp. z o.o. for the total amount of PLN 18 thousand.

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Note 52

EXTRAORDINARY GAINS	**1.01.-31.12.2004**	**1.01.-31.12.2003**
a) force majeure	902	739
b) other (by title)	-	-
Total extraordinary gains	**902**	**739**

Note 53

EXTRAORDINARY LOSSES	**1.01.-31.12.2004**	**1.01.-31.12.2003**
a) force majeure	(673)	(338)
b) other (by title)	-	-
Total extraordinary losses	**(673)**	**(338)**

Note 54

AMORTIZATION OF GOODWILL OF SUBSIDIARIES AND ASSOCIATES	**1.01.-31.12.2004**	**1.01.-31.12.2003**
a) subsidiaries	(21 536)	(13 441)
b) joint-ventures	-	-
c) associates	(15 378)	-
Total amortization of goodwill of subsidiaries and associates	**(36 914)**	**(13 441)**

Note 55

AMORTIZATION OF NEGATIVE GOODWILL OF SUBSIDIARIES AND ASSOCIATES	**1.01.-31.12.2004**	**1.01.-31.12.2003**
a) subsidiaries	88	3 912
b) joint-ventures	-	-
c) associates	-	-
Total amortization of negative goodwill of subsidiaries and associates	**88**	**3 912**

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Note 56

56.1. CURRENT TAXATION	**1.01.-31.12.2004**	**1.01.-31.12.2003**
1. Consolidated gross profit (loss)	1 875 025	1 625 843
2. Consolidation adjustments	96 135	5 346
3. Differences between gross profit (loss) and taxable profit (loss) (by title):	**(293 693)**	**488 303**
a) permanent differences between gross profit (loss) and taxable profit (loss)	(788 040)	(954 625)
b) temporary differences between gross profit (loss) and taxable profit (loss)	502 223	1 439 798
c) other differences between gross profit (loss) and taxable profit (loss)	(7 876)	3 130
4. Taxable profit (loss)	**1 677 467**	**2 119 492**
5. Total tax losses to be settled in the current period	26 831	(2 413)
6. Corporate income tax (at 19% in 2004, 27% in 2003)	314 021	571 611
7. Increases, decreases, abandonment, allowances and reduction of income tax	(148)	156
8. Income tax presented in the income tax declaration for the period, including:	**313 873**	**571 767**
- presented in profit and loss account	313 873	571 767
- regarding positions that increased or decreased equity	-	-
- regarding positions that decreased or increased goodwill or negative goodwill	-	-

The amount of current account comprises tax liability of the subsidiary company Kredyt Bank Ukraina, in the amount of PLN 1.520 thousand calculated at a rate prevailing in Ukraine - 25%.

56.2. DEFERRED TAX PRESENTED IN PROFIT & LOSS ACCOUNT	**1.01.-31.12.2004**	**1.01.-31.12.2003**
- decrease (increase) due to arising and reversing of temporary differences	(50 087)	138 630
- 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-down of deferred tax asset or lack of possibility to use the provision for deferred tax	-	-
- other components of deferred tax (by title)	-	-
Total deferred tax in profit & loss account	**(50 087)**	**138 630**

56.3. TOTAL AMOUNT OF DEFERRED TAX	**1.01.-31.12.2004**	**1.01.-31.12.2003**
- included in equity	56 607	16 240
- included in goodwill or negative goodwill	-	-
- included in accrued income	-	-

56.4. CORPORATE INCOME TAX PRESENTED IN PROFIT & LOSS ACCOUNT CONCERNING:	**1.01.-31.12.2004**	**1.01.-31.12.2003**
- discontinued activities	-	-
- net extraordinary gains (losses)	**44**	118

In the calculation of tax charges relating to corporate income tax, the Bank did not include in deferred tax asset, for prudential reasons, the potential effect relating to the provisions of the Law dated 16 April 2004 on EU Guarantee Fund (Journal of Laws No. 121, item 1262) that came into force on 15 June 2004.

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Note 57

OTHER OBLIGATORY CHARGES AGAINST RESULT	1.01.-31.12.2004	1.01.-31.12.2003
Other obligatory charges against result	-	-
Total other obligatory charges against result	-	-

Note 58

NET PROFIT (LOSS)	1.01.-31.12.2004	1.01.-31.12.2003
a) net profit (loss) of the holding company	1 511 065	1 192 706
b) net profit (loss) of subsidiaries	87 060	(43 175)
c) net profit (loss) of joint-ventures	-	-
d) net profit (loss) of associates	-	-
e) consolidation adjustments	(87 060)	43 175
Net profit (loss)	**1 511 065**	**1 192 706**

Note 59

SHARE IN NET PROFIT for the year	2004	2003
- dividend for shareholders	1 000 000	-
- appropriation of profit to reserve capital	500 865	1 017 994
- appropriation of profit to other reserve capital	10 000	10 000
- appropriation of profit to general banking risk fund	-	200 000
- transfer of retained earnings from previous years to reserve capital	6 450	-
- appropriation of profit to Company Social Fund	200	200
- other	-	-
Net profit	**1 517 515**	**1 228 194**

Note 60

NET PROFIT PER ORDINARY SHARE	1.01.-31.12.2004	1.01.-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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EXPLANATORY NOTES TO CASH FLOW STATEMENT

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 61

Cash and cash equivalents	**31.12.2004**	**31.12.2003**
Cash and balances with the Central Bank	3 525 323	3 807 529
Amounts due from other financial institutions	1 806 993	907 260
Amounts of Bankowy Dom Maklerski (Brokerage House) in Stock Exchange Guarantee Fund	2 911	443
Total cash and cash equivalents	**5 335 227**	**4 715 232**

Note 62

Cash flow from operating activities - other adjustments	**1.01.-31.12.2004**	**1.01.-31.12.2003**
Change of balance of other assets and special funds	82 118	(49 955)
Valuation, accrued interest, premium, discount and write-downs for permanent diminution of value for debt securities	154 470	824 515
Valuation and revaluation of shares, stocks	(3 177)	48 322
Non monetary changes in settlements related to tangible and intangible fixed assets	(11 818)	200 383
Change in deferred tax liability due to valuation of debt securities from available-for-sale portfolio	40 347	(126 191)
Other liabilities arising from the issue of financial instruments and own shares	585 502	(37 285)
Repayment of interest on a long-term loan	1 458	8 730
other (posing less than 5%)	184 995	302 141
Total	**1 033 895**	**1 170 660**

Note 63

Inflows from investing activities - other inflows	**1.01.-31.12.2004**	**1.01.-31.12.2004**
Received dividends and interests from debt securities	455 008	447 237
Total	**455 008**	**447 237**

Note 64

Outflows from financing activities - other outflows	**1.01.-31.12.2004**	**1.01.-31.12.2004**
Interest on financial leasing	(711)	(1 622)
Interest on loans	(388)	-
other (posing less than 5%)	-	(28)
Total	**(1 099)**	**(1 650)**

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, investments in subsidiaries 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.

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)

PKO BP SA Capital Group SAB-RS 31 December 2004 PLN thousand

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

1. Concentration of exposure by entity, capital group, industry sector and geographic region

a) Structure of the loan portfolio of the holding company

	31.12.2004	31.12.2004	31.12.2003	31.12.2003
Analysis of amounts due from customers and the public sector	Gross receivables	Provisions	Gross receivables	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)**

<u>"Old" portfolio housing loans</u>

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**

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- as at 31 December 2003

Type of loan	Principal	Capitalised interest	Total	Provisions	Total net
Loans repaid using the „normative" formula	1,306,441	1,861,334	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 loans, 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 2004

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.

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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.

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 currenty 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 credits	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**

<u>Corporate loans</u>

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.

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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.

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 the credit risk of the holding company

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

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- 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

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 of the holding company

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.

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e) Concentration of credit risk by the industry sector of the holding company

The holding company had significant loan exposures to the following industry sectors (the data below concerns only corporate loans and loans extended to the State budget entities):

		31.12.2004		31.12.2003	
No	**Sector description**	**Exposure (%)**	**Number of borrowers (%)**	**Exposure (%)**	**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**

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

f) Exposure concentration by geographic regions of the holding company

Region	31.12.2004		31.12.2003	
	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	-	0.0	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.

g) Activities by industry segments of the PKO BP SA Group

The operating activities of the PKO BP SA Group are divided into seven main industry segments: Corporate Segment, Retail Segment, Treasury Segment, Investments Segment, Housing Segment, Leasing Segment, Pension Fund Management Segment and Other Segments.

- Corporate Segment includes transactions of the holding company with large, medium and small corporate clients.
- Retail Segment includes transactions of the holding company with private individuals.
- Treasury Segment includes inter-bank transactions, transactions in derivative instruments and debt securities.
- Investments Segment includes investing activities and brokerage activities of the holding company.
- Housing Segment includes transactions of the holding company connected with granting housing loans and receiving deposits.

Bank has not separate other segments as a result of not having reached the thresholds outlined in IAS 14, which are:

– segment revenue from sales to external customers and from transactions with other segments is 10% or more of the total revenue, external and internal, of all segments, or

– segment result, whether profit or loss, is 10% or more of the combined result of all segments in profit or the combined result of all segments in loss, whichever is the greater in absolute amount, or

– segment assets are 10% or more of the total assets of all segments.

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

The assets and liabilities of a given segment consist of operating assets and liabilities used by the segment in operating activities.

The management result from interest (result calculated for management purposes) determined for a given segment consists of the sum total of management results from interest determined for the individual categories of services in this segment and is calculated as follows:

a) for deposits – as a difference between the value of average deposit balances determined based on transfer prices and interest expense,
b) for loans – as a difference between interest revenue and the value of average loan balances determined based on transfer prices.

Overhead costs which are allocated directly to the segment include direct costs, i.e. operating expenses and depreciation attributable to the given area of activities. These costs do not include costs attributable to service and management related activities.

Direct costs are allocated to products based on allocation basis adopted in the plan, and the amount (structure) of the allocation basis is determined based on the settlement of other-than-interest costs or revenues.

Indirect costs which are allocated to the given segment include an appropriate proportion of other operating expenses and depreciation relating to service and management-related activities.

The split into industry segments represents the Group’s primary segment reporting format.

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- **as at 31 December 2004**

Main industry segments (data not audited)

Consolidated profit and loss account

	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Housing Segment	Total Capital Group
Management interest result together with result from fees and commission	841,454	3,259,615	77,139	81,321	673,905	4,933,434
Income from shares and other securities	-	-	-	19,645	-	19,645
Foreign exchange result	-	-	474,930	-	-	474,930
Result from other operating income and expense (together with result from financial operations).	13,249	13,357	(130,838)	14,518	(4,663)	(94,377)
Management result before credit risk	**854,703**	**3,272,972**	**421,231**	**115,484**	**669,242**	**5,333,632**
Result from provisions	(119,198)	34,867	7,450	42,107	(6,491)	(41,265)*
Direct costs of operations and costs allocated to the segment	(670,346)	(2,484,845)	(29,517)	(89,532)	(354,559)	(3,628,799)
Management result	**65,159**	**822,994**	**399,164**	**68,059**	**308,192**	**1,663,568**
Unallocated result (including internal result – capital center) together with unisolated segments result						188,891
Income tax						(362,066)
Share in profit and loss of equity-accounted entities						20,720
Minority (profits)/losses						(48)
Net profit						**1,511,065**

Source: management information

* “Result from provisions” does not include movements in the balance of general banking risk provisions.

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Additional information

	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Housing Segment	Total Capital Group
Segment assets	13,775,395	8,605,283	35,893,554	1,312,660	16,127,584	75,714,476
Segment investments in equity-accounted entities	-	-	-	229,663	-	229,663
Total segment assets	**13,775,395**	**8,605,283**	**35,893,554**	**1,542,323**	**16,127,584**	**75,944,139**
Other (unallocated) assets together with unisolated segments assets						12,818,569
Total assets						**88,762,708**
Segment liabilities	12,114,281	53,352,328	693,127	201,510	7,330,865	73,692,111
Segment management result	65,159	822,994	399,164	68,059	308,192	1,663,568
Total segment liabilities	**12,179,440**	**54,175,322**	**1,092,291**	**269,569**	**7,639,057**	**75,355,679**
Other (unallocated) liabilities together with unisolated segments liabilities						13,407,029
Total liabilities						**88,762,708**
Capital expenditures (costs of acquiring assets)						534,759
Depreciation						520,039
Other non-monetary costs						-

Source: management information

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- **as at 31 December 2003**

Main industry segments (data not reviewed)

Consolidated profit and loss account

	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Housing Segment	Total Capital Group
Management interest result together with result from fees and commission	787,979	2,894,602	423,196	57,762	652,314	4,815,853
Income from shares and other securities	-	-	-	15,228	-	15,228
Foreign exchange result	-	-	535,473	-	-	535,473
Result from other operating income and expense (together with result from financial operations).	22,259	11,218	153,959	(8,872)	(16,782)	161,782
Management result before credit risk	**810,238**	**2,905,820**	**1,112,628**	**64,118**	**635,532**	**5,528,336**
Result from provisions	(22,657)	23,769	-	(10,350)	(82,838)	(92,076)*
Direct costs of operations and costs allocated to the segment	(836,212)	(2,263,020)	(35,391)	(64,045)	(396,479)	(3,595,147)
Management result	**(48,631)**	**666,569**	**1,077,237**	**(10,277)**	**156,215**	**1,841,113**
Unallocated result (including internal result – capital center) together with unisolated segments result						(215,663)
Income tax						(432,527)
Share in profit and loss of equity-accounted entities						(273)
Minority (profits)/losses						56
Net profit						**1,192,706**

Source: management information

* “Result from provisions” does not include movements in the balance of general risk provisions.

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Additional information

	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Housing Segment	Total Capital Group
Segment assets	14,797,942	6,973,587	36,064,165	976,580	14,402,443	73,214,717
Segment investments in equity-accounted entities	-	-	-	72,489	-	72,489
Total segment assets	**14,797,942**	**6,973,587**	**36,064,165**	**1,049,069**	**14,402,443**	**73,287,206**
Other (unallocated) assets together with unisolated segments assets						11,280,859
Total assets						**84,568,065**
Segment liabilities	9,133,981	56,088,887	981,373	142,316	6,321,001	72,667,558
Segment management result	(48,631)	666,569	1,077,237	(10,277)	156,215	1,841,113
Total segment liabilities	**9,085,350**	**56,755,456**	**2,058,610**	**132,039**	**6,477,216**	**74,508,671**
Other (unallocated) liabilities together with unisolated segments liabilities						10,059,394
Total liabilities						**84,568,065**
Capital expenditures (costs of acquiring assets)						347,065
Depreciation						515,980
Other non-monetary costs						-

Source: management information

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

Capital Group liabilities due to the financial, non-financial and public sector

a) Liabilities by geographic regions

Region	**31.12.2004**		**31.12.2003**	
	Amount	**%**	**Amount**	**%**
Mazowiecki	19,417,981	26.2	18,680,032	25.7
Śląsko-opolski	9,033,005	12.2	9,170,970	12.6
Wielkopolski	7,322,321	9.9	7,179,058	9.9
Małopolsko-świętokrzyski	6,575,963	8.9	6,641,667	9.1
Łódzki	5,275,566	7.1	5,285,660	7.3
Dolnośląski	5,175,981	7.0	5,223,132	7.2
Lubelsko-podkarpacki	5,044,442	6.8	5,113,237	7.0
Kujawsko-pomorski	2,783,107	3.8	2,834,651	3.9
Pomorski	3,144,265	4.2	3,203,481	4.4
Zachodnio-pomorski	3,087,326	4.2	3,061,933	4.2
Warmińsko-mazurski	2,112,958	2.8	2,120,804	2.9
Podlaski	2,053,603	2.8	2,078,104	2.9
Ukraine	638,849	0.8	-	-
Head Office	1,035,519	1.4	1,322,426	1.8
Inteligo Service Center	1,242,618	1.7	726,801	1.0
Bankowy Dom Maklerski	151,194	0.2	92,005	0.1
Centrum Operacji Kartowych (Cards Service Center)	4	0.0	4	0.0
Total client deposits	**74,094,702**	**100.0**	**72,733,965**	**100.0**

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b) Liabilities by industry sectors

Specification	31.12.2004		31.12.2003	
	Amount	**%**	**Amount**	**%**
State companies	659,588	0.9	597,847	0.8
Private companies, cooperatives	4,339,856	5.9	3,468,563	4.8
Sole traders	2,043,846	2.8	1,897,832	2.6
Individual farmers	40,960	0.0	32,041	0.0
Non-profit organizations	1,496,213	2.0	1,427,799	2.0
Private persons	59,033,432	79.7	60,928,636	83.8
State budget	5,369,539	7.2	3,178,790	4.4
Financial sector	1,111,268	1.5	1,202,457	1.6
Total client deposits	**74,094,702**	**100.0**	**72,733,965**	**100.0**

As at 31 December 2004, 91.3% of total liabilities is concentrated in the non-financial sector, of which 79.7% relates to private individuals. As at 31 December 2003 these liabilities amounted to 94.0% and 83.8% respectively.

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

The holding company does not have any foreign branches. There is one foreign subsidiary located in Ukraine and consolidated under the full method. The subsidiary located in Ukraine was not subsidized by the holding company in the year 2004.

4. Financial instruments

a) Division of financial instruments

- **Changes 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**	**3,019**	**261,527**	**3,807,529**	**4,944,096**
a) increases (due to)	**81,062,919**	**4,097**	**1,245,755**	**-**	**82,312,771**
- purchase	81,033,796	4,024	-	-	81,037,820
- accrued interest	10,868	-	-	-	10,868
- amortisation of discount	17,358	-	-	-	17,358
- increase in assets' value	870	73	1,245,755	-	1,246,698
- other	27	-	-	-	27
b) decreases (due to)	**(81,570,437)**	**(2,102)**	**(141,826)**	**(282,206)**	**(81,996,571)**
- sale	(81,496,102)	(1,666)	-	-	(81,497,768)
- redemption	(72,713)	-	-	-	(72,713)
- decrease in assets' value	(277)	-	-	-	(277)
- amortisation of premium	(1,345)	(436)	(141,826)	-	(143,607)
- movement in the balance of „Cash, balances with Central Bank	-	-	-	(282,206)	(282,206)
Total financial assets held for trading as at 31 December 2004	**364,503**	**5,014**	**1,365,456**	**3,525,323**	**5,260,296**

Financial liabilities held for trading

As at 1 January 2004	**226,413**
- derivatives valuation	567,326
Total financial liabilities held for trading as at 31 December 2004	**793,739**

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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)	**364,813**	**-**	**364,813**
- purchase	110,984	-	110,984
- consolidation of subsidiaries	13,724	-	13,724
- increase in assets' value	354	-	354
- accrued interest	100,887	-	100,887
- amortisation of discount	138,864	-	138,864
b) decreases (due to)	**(2,475,696)**	**(283,713)**	**(2,759,409)**
- redemption	(2,398,922)	-	(2,398,922)
- sale	(60,094)	-	(60,094)
- amortisation of premium	(13,862)	-	(13,862)
- decrease in assets' value	(258)	-	(258)
- interest payment	(2,560)	-	(2,560)
- movement in the balance of„Reverse repo transactions"	-	(283,713)	(283,713)
Total financial assets held to maturity as at 31 December 2004	**2,656,457**	**-**	**2,656,457**

Financial assets available-for-sale

	Debt securities	Shares in other entities, investment certificates and participation units in funds	Total
As at 1 January 2004	**23,884,959**	**384,024**	**24,268,983**
a) increases (due to)	**41,451,887**	**114,058**	**41,565,945**
- consolidation of subsidiaries	-	919	919
- purchase	35,694,259	584	35,694,843
- take over	4,182,734	-	4,182,734
- accrued interest	815,937	-	815,937
- increase of assets' value	102,690	111,192	213,882
- amortisation of discount	645,485	-	645,485
- exchange rate differences	1,153	-	1,153
- take up of shares in increased share capital	-	1,000	1,000
- other	9,629	363	9,992
b) decreases (due to)	**(44,236,752)**	**(37,126)**	**(44,273,878)**
- sale	(21,068,370)	(28,339)	(21,096,709)
- redemption	(22,919,575)	-	(22,919,575)
- decrease of assets' value	(35,988)	(1,434)	(37,422)
- amortisation of premium	(97,913)	-	(97,913)
- interest paid	(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	**21,100,094**	**460,956**	**21,561,050**

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 1January 2004	**8,260,772**	**31,284,986**	**7,243,182**	**46,788,940**
Change in the balance of gross receivables	5,171,888	3,510,025	(416,621)	8,265,292
Change in the balance of provisions	910	92,178	(4,283)	88,805
Change in the balance of accrued interests	84,154	381,491	29,951	495,596
As at 31 December 2004	**13,517,724**	**35,268,680**	**6,852,229**	**55,638,633**

The balance of "Receivables from the non-financial sector" includes receivables from equity accounted entities presented in Explanatory Note to Consolidated Balance Sheet entitled "Other Assets"

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

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 2003	**510,051**	**7,755**	**619,176**	**4,752,413**	**5,889,395**
a) increases (due to)	**51,681,282**	**5,077**	**123,379**	**-**	**51,809,738**
- purchase	49,460,980	2,128	-	-	49,463,108
- reclassification	2,212,058	-	-	-	2,212,058
- consolidation of subsidiaries	-	-	1,500	-	1,500
- accrued interest	6,986	-	-	-	6,986
- amortisation of discount	971	-	-	-	971
- increase of assets' value	178	2,949	121,879	-	125,006
- other	109	-	-	-	109
b) decreases (due to)	**(51,319,312)**	**(9,813)**	**(481,028)**	**(944,884)**	**(52,755,037)**
- sale	(51,163,719)	(9,776)	(209,408)	-	(51,382,903)
- redemption	(152,841)	-	-	-	(152,841)
- interest paid	(2,059)	-	-	-	(2,059)
- decrease of assets' value	(239)	-	(269,525)	-	(269,764)
- other	(454)	-	(2,095)	-	(2,549)
- impairment write-down	-	(37)	-	-	(37)
- movement in the balance of "Cash, balances with Central Bank"	-	-	-	(944,884)	(944,884)
Total financial assets held for trading as at 31 December 2003	**872,021**	**3,019**	**261,527**	**3,807,529**	**4,944,096**

Financial liabilities held for trading

As at 1 January 2003	**105,669**
- derivatives valuation	120,744
As at 31 December 2003	**226,413**

Financial assets held to maturity

	Debt securities	Reverse repo transactions	Total
As at 1 January 2003	**10,720,139**	**547,244**	**11,267,383**
a) increases (due to)	**5,131,478**	**-**	**5,131,478**
- purchases	4,924,491	-	4,924,491
- exchange rate differences	188	-	188
- accrued interest	45,129	-	45,129
- amortisation of discount	161,670	-	161,670
b) decreases (due to)	**(11,084,277)**	**(263,531)**	**(11,347,808)**
- redemption	(11,078,209)	-	(11,078,209)
- amortisation of premium	(6,068)	-	(6,068)
- movement in the balance of „Reverse repo transactions"	-	(263,531)	(263,531)
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 and participation units in funds	Total
As at 1 January 2003	**16,809,994**	**278,921**	**17,088,915**
a) increases (due to)	**39,535,289**	**223,039**	**39,758,328**
- purchase	38,517,602	50,313	38,567,915
- consolidation of subsidiaries	26,695	-	26,695
- accrued interest	510,603	-	510,603
- take over	12,532	-	12,532
- increase of assets' value	1,310	140,734	142,044
- amortisation of discount	466,546	-	466,546
- take up of shares due to conversion	-	13,361	13,361
- other	1	18,631	18,632
b) decreases (due to)	**(32,460,324)**	**(117,936)**	**(32,578,260)**
- sale	(8,237,135)	(33,626)	(8,270,761)
- redemption	(21,480,451)	-	(21,480,451)
- decrease of assets' value	(411,834)	(84,278)	(496,112)
- reclassification	(2,221,857)	-	(2,221,857)
- amortisation of premium	(45,709)	-	(45,709)
- interest paid	(61,725)	-	(61,725)
- exchange rate differences	(836)	-	(836)
- other	(777)	(32)	(809)
Total financial assets available-for-sale as at 31 December 2003	**23,884,959**	**384,024**	**24,268,983**

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 2003	11,341,678	27,737,886	5,269,309	44,348,873
Change in the balance of gross receivables	(3,135,890)	3,190,412	1,970,504	2,025,026
Change in the balance of provisions	5,873	(76,183)	(1,478)	(71,788)
Change in the balance of accrued interests	49,111	432,871	4,847	486,829
As at 31 December 2003	**8,260,772**	**31,284,986**	**7,243,182**	**46,788,940**

The balance of "Receivables from the non-financial sector" includes receivables from equity accounted entities presented in Explanatory Note to Consolidated Balance Sheet entitled "Other Assets"

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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	3,525,323	-	-	-	-	-	-	**3,525,323**
Debt securities issued by State Treasury	259	84,517	93,592	181,460	4,314	-	-	**364,142**
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	**3,621,132**	**490,353**	**517,117**	**609,571**	**17,109**	**-**	**5,014**	**5,260,296**

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	759,609	-	-	-	**2,652,626**
Debt securities issued by non-financial entities	-	-	1,824	2,007	-	-	-	**3,831**
Total	**-**	**124,080**	**1,770,761**	**761,616**	**-**	**-**	**-**	**2,656,457**

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	1,818,302	4,168,802	8,142,760	1,622,950	-	-	**16,104,783**
Debt securities issued by local authorities	-	11,026	82,093	482,993	99,223	-	-	**675,335**
Debt securities issued by financial institutions	1,127,839	-	14,981	90,125	2,641,071	-	-	**3,874,016**
Debt securities issued by non-financial entities	41,616	109,950	,8,053	151,479	133,562	1,300	-	**445,960**
Shares and stocks in other entities	-	-	-	-	-	-	460,393	**460,393**
Investment certificates	-	-	-	-	-	-	563	**563**
Total	**1,521,424**	**1,939,278**	**4,273,929**	**8,867,357**	**4,496,806**	**1,300**	**460,956**	**21,561,050**

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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	3,807,529	-	-	-	-	-	-	**3,807,529**
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	-	-	-	-	-	-	3,019	**3,019**
Other securities and other financial assets	2,535	18,360	197,143	43,489		-		**261,527**
Total	**3,811,966**	**176,809**	**725,449**	**188,699**	**38,154**	**-**	**3,019**	**4,944,096**

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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**
Reverse repo transactions	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	8,739,307	8,977,498	10,182	-	-	**19,472,425**
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	-	62	-	2,646,447	-	-	**2,826,952**
Debt securities issued by non-financial entities	440,281	116,052	42,079	155,101	-	1,300	-	**754,813**
Shares and stocks in other entities	-	-	-	-	-	-	384,024	**384,024**
Total	**864,244**	**1,621,397**	**8,833,410**	**9,598,288**	**2,966,320**	**1,300**	**384,024**	**24,268,983**

b) Characteristics of Group's 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 2,360,617 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 the PKO BP SA Group 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 15,971,381 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 the PKO BP SA Group 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 the PKO BP SA Group 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 the PKO BP SA Group 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 the PKO BP SA Group 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, Bayeriesche Hypo Vereins Bank and Morgan Stanley Bank of New York (as at 31 December 2003 PKO BP SA did not hold foreign bonds).Additionally the subsidiary Kredyt Bank Ukraine being part of the Group holds in its portfolio the equivalent of PLN 45 thousand Ukrainian Treasury Bonds and the equivalent of PLN 3,710 thousand corporate bonds issued by non-financial entities.

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).

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- **Debt securities by notional amount and carrying amount**

a) The holding company:

As at 31 December 2004	Notional amount	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	2,204,929
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 bills	10,000	PLN	113,072	1,127,839
6. municipal bonds	200,000	PLN	430	88,036
municipal bonds	100,000	PLN	7,620	469,186
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	1,427	144,639
corporate bonds	10,000	PLN	6,819	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

b) Subsidiary - Kredyt Bank (Ukraina) S.A.:

As at 31 December 2004	Notional amount	Currency	Number of securities	Carrying amount
Securities held to maturity, including:				**Total**
Treasury bonds	1,000	UAH	103	44
Bonds of non-financial entities	1,000	UAH	6,500	3,710
basic bills of exchange	90,000	UAH	2	122
basic bills of exchange	229,252	UAH	1	-

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basic bills of exchange	150,000	UAH	1	-

c) Subsidiary – Powszechne Towarzystwo Emerytalne BANKOWY S.A.:

As at 31 December 2004	Notional amount	Currency	Number of securities	Carrying amount
Securities held for trading, including:				**Total**
Treasury bills	10,000	PLN	2,407	23,386
Securities held for sale, including:				**Total**
Treasury bonds	1,000	PLN	24,647	25,061

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

	31.12.2004	31.12.2003
Spot purchase/sale transactions	6,865,064	1,578,279
Forward purchase/sale transactions	17,603,817	11,858,041
Securities transactions	757,551	522,611
Transactionss with financial instruments	144,858,496	56,177,998
Total	**170,084,928**	**70,136,929**

Spot purchase/sale transactions

	31.12.2004		31.12.2003	
▪ **Purchase**	**In currency**	**In PLN**	**In currency**	**In PLN**
Currency				
USD	447,466	1,338,102	40,572	151,758
EUR	16,021	65,351	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
Total	**X**	**3,433,277**	**X**	**789,527**

	31.12.2004		31.12.2003	
▪ **Sale**	**In currency**	**In PLN**	**In currency**	**In PLN**
Currency				
USD	664,395	1,986,807	134,125	501,696
EUR	11,617	47,387	44,984	212,187
GBP	-	-	530	3,534
CHF	76,210	201,355	300	908
CZK	10,600	1,422	14,300	2,071
SEK	-	-	2,700	1,402
DKK	-	-	230	146
NOK	1,000	495	800	448
HUF	20,000	332	-	-
PLN		1,193,989		66,360
Total		**3,431,787**	**X**	**788,752**

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Total spot transactions:	**6,865,064**	**X**	**1,578,279**

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The item "Spot purchase/sale transactions" includes transactions for which the off-balance sheet liabilities have maturity not exceeding 48 hours calculated according to workday calendar. The balance of "Spot purchase/sale transactions – purchase" represents purchased currency on the date of conclusion of the contract, whereas the balance of "Spot purchase/sale transactions – sale" relates to the currency sold on the date of conclusion of the contract.

Forward purchase/sale transactions and transactions with financial instruments

The PKO BP SA Group concludes various derivative transactions such as: currency swap, currency forward and forward rate agreement (FRA, IRS, CIRS, futures, 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**

  - 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**
Total forward transactions:		**17,603,817**

The item „Transactionss 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, CIRS amounting to PLN 6,088,770 thousand, embedded derivative instruments amounting to PLN 19,763 thousand, options amounting to PLN 356,065 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 holding company 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 holding company 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.

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- **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
EUR	346,899	1,636,321
CHF	678,000	2,053,052
NOK	1,000	560
PLN		331,614
Total		**5,914,162**
Total forward transactions:		**11,858,041**

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 49,788 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 holding company 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.

Companies consolidated using the full method in the profit and loss account for the year 2003 in item “Result from financial operations” include revenue from embedded derivatives amounting to PLN 189 thousand and the cost of embedded instruments amounting to PLN 1,862 thousand.

Securities transactions

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.

Embedded derivative instruments

In the PKO BP SA Group 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 PKO BP SA Group 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 consolidated financial statements, changes resulting from the Decree of the Minister of Finance dated 23 February 2004 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 points 33 and 34 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 holding company 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.

Futhermore, in the PKO BP SA Group there are options of revaluation to another currency in some loan agreements. These options are structured in such a way that, at the moment of revaluation, the new conditions of the 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 Group to foreign exchange rate risk. The economic characteristics and risks of the options of revaluation 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 recognized in the accounting records.

b) Debt securities

The Group did not identify in debt securities any significant embedded derivatives that should be separated

c) Equity securities

The Group did not identify in its equity securities any significant embedded derivatives that should be separated from host contracts and separately recognized in accounting records.

d) Standard agreements

Also standard agreements in the PKO BP SA Group (e.g. premises rental agreements, service purchase agreements, agreements for purchase of tangible and intangible fixed assets) contain embedded derivative instruments. These are contracts expressed in a currency which is not commonly used in the economic environment of any of the significant parties of the contract and is not commonly used in contracts of this type (on the basis of par.10 section 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 derivatives are not closely related to those of the host contract. As a consequence, the embedded derivatives are separated and recognized separately in the accounting records, as it was described in the Introduction to the consolidated financial statements. As described in Note 10 of the Introduction, due to 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), the Group has changed the rules for recognition of embedded derivatives, and an appropriate restatement of comparative data as at 31 December 2003 has been presented in Notes 33 and 34 of the Additional Notes and Explanations.

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- Embedded derivative instruments

Derivative instruments embedded in standard agreements are represented by derivative currency instruments (currency forward) and are re-measured to fair value on the basis of valuation model according to the present value of the expected cash flows in the future as of the day of valuation. Embedded derivative instruments are valued at the present value of expected cash flows in the future on the day of valuation (as present value of the difference between the cash flows calculated using the forward exchange rate prevailing as at the date on which 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 the 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 net in the profit and loss account under "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 binding commitment arose.

The adjustment of the subject of standard agreements amounts to the difference between the value of these contracts determined using the forward exchange rate binding as at the date on which 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 binding commitment arose.

In the case of standard agreements for purchase of tangible and intangible fixed assets, the adjustment due to the separation of embedded derivative instruments is recognized in the balance sheet under "Tangible fixed assets" and "Intangible fixed assets" in correspondence with 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 depreciation adjustment, which is recognized in the balance sheet (Accumulated depreciation/amortization) in correspondence with the profit and loss account item "Depreciation of tangible fixed assets and amortization of intangible fixed assets".

In the case of standard agreements containing embedded derivative instruments which represent "Overhead costs" or other operating income (e.g. rental agreements, service purchase/sale agreements), the adjustment to the host contract is recognized in the profit and loss account under "Overhead costs" or "Casual income" in correspondence with item "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 on which binding commitment arose.
The table below presents fair values of embedded derivative instruments outstanding as at 31 December 2004 and 31 December 2003.

Derivative instruments embedded in standard agreements at fair value

Information on derivative instruments embedded in standard agreements relates to the holding company.

	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).

	2004	2003

Impact on the Profit and Loss Account	750	45
Impact on Net Assets	1,649	899

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

	2004	2003
Impact on the Profit and Loss Account, of which:	**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 the fair value of embedded derivatives, including: revaluation of outstanding transactions to fair value and the 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 agreement constitutes a difference between the value of the agreement determined using the forward exchange rate prevailing as at the date on which binding commitment arose and the value calculated using the average NBP exchange rate prevailing as at the date of payment/issue of the invoice,
3 – depreciation/amortisation adjustment constitutes a difference between the depreciation/amortisation calculated based on the adjustment to the initial cost calculated using the forward exchange rate from the date on which binding commitment arose.

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

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

1 – adjustment relating to the agreement constitutes a difference between the value of the agreement determined using the forward exchange rate prevailing as at the date on which binding commitment arose and the value calculated using the average NBP exchange rate prevailing as at the date of payment/issue of the invoice. Accumulated depreciation/amortisation is charged on the adjustment to the initial cost of tangible or intangible fixed asset (using the forward exchange rate as at the date on which binding commitment arose). Depreciation/amortisation adjustment constitutes a difference between the depreciation/amortisation charged on the initial cost calculated using the forward exchange rate from the date on which binding commitment arose and the value calculated using the average NBP rate from the date of payment/issue of invoice,
2 - fair value of embedded derivative instruments is the present value of future cash flow as at the date of valuation.

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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 used for the purpose of determining the fair value of financial assets and liabilities

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

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

- **Assets held for trading**

Financial 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 amortized 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 that do not belong to the minority shares portfolio of the PKO BP SA Group, and that are not quoted on the Warsaw Stock Exchange, were valued at acquisition cost adjusted for write-downs due to permanent diminution in value as at 31 December 2004 and 31 December 2003. Write-downs due to permanent diminution in value were made in respect of shares in companies under liquidation and for corporate bonds and commercial bills of exchange due to the 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:

- 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 Note 12 of the Introduction to the Group's consolidated financial statements,
- Debt securities held to maturity, which are valued at acquisition cost adjusted by accrued interest, discount and premium, less write-downs for permanent diminution in value.

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, as at 31 December 2004, in the Bank's portfolio of instruments held to maturity 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 the lack of credit risk of the issuer.

The portfolio of debt securities held to maturity of a foreign subsidiary comprises Treasury bonds, bonds issued by non-financial entities and bills of exchange issued by non-financial entities, which carrying amount (equivalent in PLN) as at 31 December 2004 amounts PLN 44 thousand, PLN 3,710 thousand and PLN 122 thousand respectively.

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The carrying amount of Treasury bonds, Treasury bills and NBP bills held in the portfolio of financial instruments held to maturity in the holding company 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 Note 12 of the Introduction to the consolidated financial statements of the Group. 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 thousand).

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

- **For 2004**

	Revaluation decreasing the value of financial assets	Revaluation increasing the value of financial assets
Shares and stock	(1,010)	648
Debt securities	(175)	44
Total	(1,185)	692

- **For 2003**

	Revaluation decreasing the value of financial assets	Revaluation increasing the value of financial assets
Debt securities	(2,560)	3,748
Total	(2,560)	3,748

f) Accounting for instruments purchased on the regulated market

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

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

Both in 2004 and in 2003 the PKO BP SA Group did not conclude such agreements.

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

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

Income and cost on the 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	51,114	(94,250)	(43,136)
Total	**59,126**	**(94,811)**	**(35,685)**

- **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	71,595	(37,358)	34,237

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Total	**73,071**	**(52,966)**	**20,105**

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

	2004	2003
Income from derecognised financial assets available for sale, of which:	**128,876**	**119,216**
- Income from derecognised financial assets available for sale whose fair value could not have been previously reliably measured	-	3
Costs of derecognised financial assets available for sale, of which:	**(65,848)**	**(53,319)**
- Costs of derecognised financial assets available for sale whose fair value could not have been previously reliably measured	-	-

j) Reclassifications of financial assets from the category of assets valued at fair value to the category of assets valued at amortised cost

Both in 2004 and in 2003 there were no such reclassifications.

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

- **Write down charged to expenses**

	2004	2003
Financial assets, of which:	1,046,590	1,198,010
- Debt securities	175	2,560

- **Reversal of write-downs**

	2004	2003
Financial assets, of which:	945,335	1,036,159
- Debt securities	44	3,748

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

Income resulting from realised interest accrued on:	**2004**	**2003**
- debt securities	1,698,139	1,779,051
- receivables	3,226,067	2,881,862
Total	**4,924,206**	**4,660,913**

Income resulting from unrealised interest accrued on:	**2004**	**2003**
- debt securities	54,899	210,713
- receivables	332,638	262,483
Total	**387,537**	**473,196**

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

	31.12.2004	31.12.2003
- unrealised interest accrued on irregular receivables	3,123,557	2,857,995

n) Interest expense on financial liabilities

	2004	2003
- realised interest accrued on financial liabilities	1,632,740	1,464,100
- unrealised interest accrued on financial liabilities	47,169	208,079
Total	**1,679,909**	**1,672,179**

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o) Notional amount of derivatives [1)]

- **As at 31 December 2004**

By maturity	< 1 month	1-3 months	3 month -1 year	1-5 years	> 5 years	overdue	Total	Fair value [2)]
Currency transactions								
Currency Swap								638,908
- Purchase	4,721,861	3,092,662	1,239,986	-	-	-	**9,054,509**	
- Sale	4,470,034	2,900,785	1,006,196	-	-	-	**8,377,015**	
Cross currency interest rate swap (CIRS)								178,937
- Purchase	562,780	563,060	-	1,649,620	344,890	-	**3,120,350**	
- Sale	528,420	528,420	-	1,585,260	326,320	-	**2,968,420**	
Currency forward								2,950
- Purchase	31,678	46,768	13,923	4,723	-	-	**97,092**	
- Sale	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 Agrement (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 maturity (cont.)	< 1 month	1-3 months	3 month -1 year	1-5 years	> 5 years	overdue	Total	Fair value [2]
Transactions including securities								
Sell buy back								548
- Purchase	978,302	312,921	-	-	-	-	**1,291,223**	
- Sale	296,240	40,574	-	-	-	-	**336,814**	
Currency options								431
- Purchase	-	-	-	176,738	-	-	**176,738**	
- Sale	-	-	-	179,327	-,	-	**179,327**	

[1] Notional amounts of derivative financial instruments are presented as off-balance sheet items. Nominal values of certain types of financial instruments are the 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 current fair value of these instruments. Therefore, they do not determine the credit or price risk exposure of the Bank. Derivative financial instruments become assets (profitable) or liabilities (unprofitable) as a result of changes in the market interest rates, indices and foreign exchange rates, compared to the terms of the contracts.

[2]Fair values of derivative financial instruments are based on market (stock exchange) quotations or brokers' quotations. Where reliable market quotations are unavailable, fair values are estimated using the valuation models which take into account current market quotations of underlying instruments, time value of money, yield curve and volatility ratio

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- **As at 31 December 2003**

By maturity	< 1 month	1-3 months	3 month -1 year	1-5 years	> 5 years	overdue	Total	Fair value [2)]
Currency transactions								
Currency swap								22,609
- Purchase	1,356,892	1,504,008	1,800,584	1,205,340	-	-	**5,866,824**	
- Sale	1,223,417	1,610,587	1,791,034	1,211,240	-	-	**5,836,278**	
Cross currency interest rate swap (CIRS)							-	-
- Purchase	-	-	-	-	-	-	-	
- Sale	-	-	-	-	-	-	-	
Currency Forward								679
- Purchase	6,425	12,960	47,027	32,227	4,810	-	**103,449**	
- Sale	6,398	12,617	47,203	30,284	4,776	-	**101,278**	
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 maturity (cont.)	< 1 month	1-3 months	3 month -1 year	1-5 years	> 5 years	overdue	Total	Fair value [2]
Transactions including securities								
Sell buy back								693
- Purchase	324,318	14,718	1,019	-	-	-	**340,055**	
- Sale	-	-	-	-	-	-	-	
OTC options								-
- Purchase	-	-	-	-	-	-	-	
- Sale	-	-	-	-	-	-	-	
Currency options								- [3]
- Purchase	-	-	474,842	-	-	-	**474,842**	
- Sale	-	-	474,842	-	-	-	**474,842**	

[1] Notional amounts of derivative financial instruments are presented as off-balance sheet items. Nominal values of certain types of financial instruments are the 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 current fair value of these instruments. Therefore, they do not determine the credit or price risk exposure of the Bank. Derivative financial instruments become assets (profitable) or liabilities (unprofitable) as a result of changes in the market interest rates, indices and foreign exchange rates, compared to the terms of the contracts.

[2] Fair values of derivative financial instruments are based on market (stock exchange) quotations or brokers' quotations. Where reliable market quotations are unavailable, fair values are estimated using the valuation models which take into account current market quotations of underlying instruments, time value of money, yield curve and volatility ratio

[3] The fair value of currency options was nil as such transactions are concluded in pairs of opposite transactions.

Risk management in PKO BP Group SA
Due to the scale of operations of PKO BP SA in relation to the other companies of the Group, the main risks to which the Group is exposed concern PKO BP SA.

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.

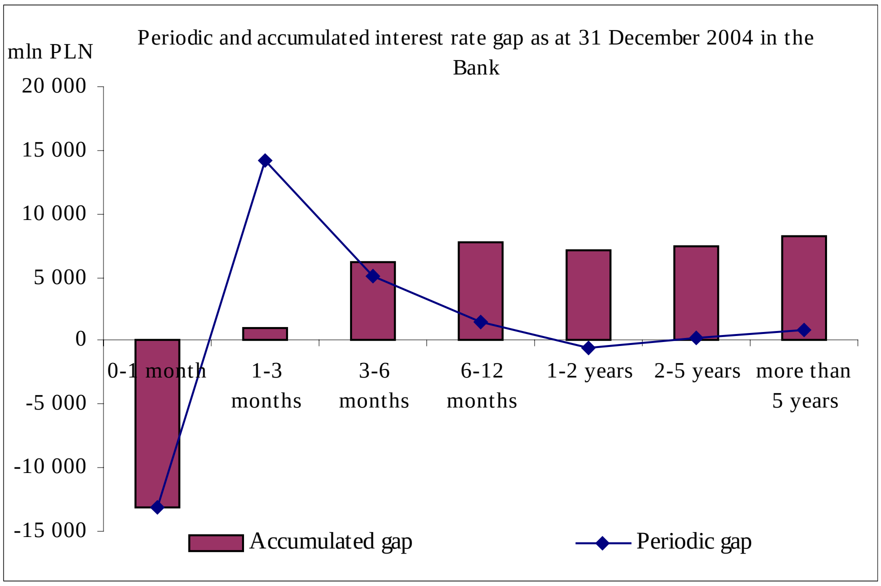
The main tools of interest rate risk management include:

- 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 a 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	

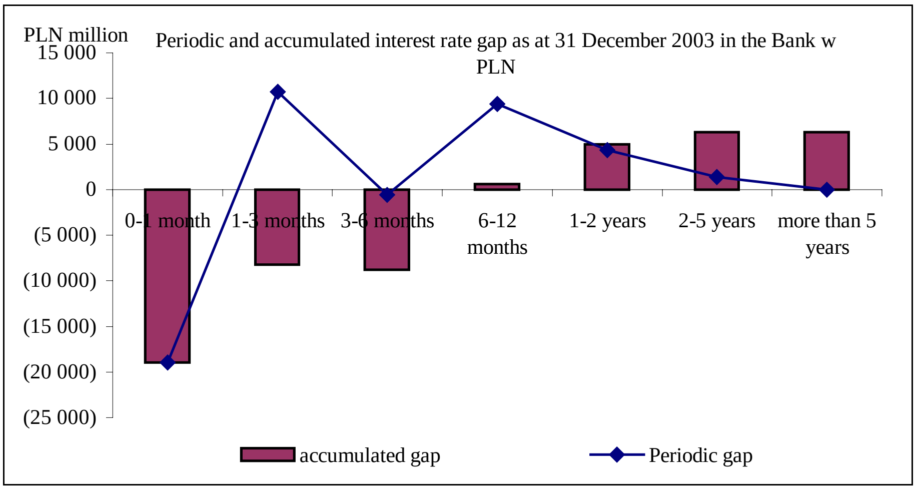
EUR valuation gap (in EUR million)	- up to one month	- above 1 month to 3 months	- above 3 months to 6 months	- above 6 months to 12 months	- above 1 year to 2 years	- above 2 years to 5 years	- above 5 years	Total
Periodic gap	113	14	(56)	(40)	-	-	4	35
Accumulated gap	113	127	71	31	31	31	35	

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 98.0% 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:

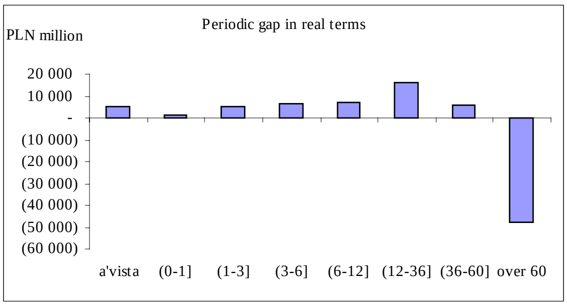
- internal procedures for liquidity risk management,
- limits and thresholds reducing liquidity risk,
- deposit transactions, including structural currency transactions and securities purchase and sale transactions,
- cash management.

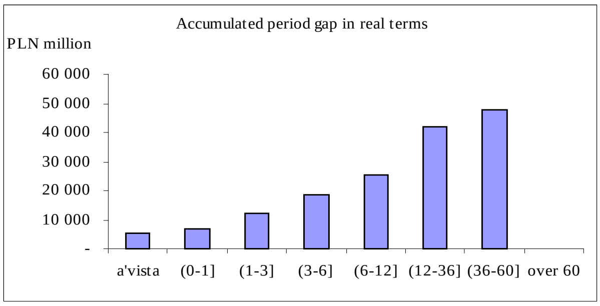
To ensure adequate liquidity level, the Bank sets limits and thresholds for liquidity risk. The limits and thresholds are used to measure both the current liquidity (up to 1 month) and the medium-term liquidity.

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	-



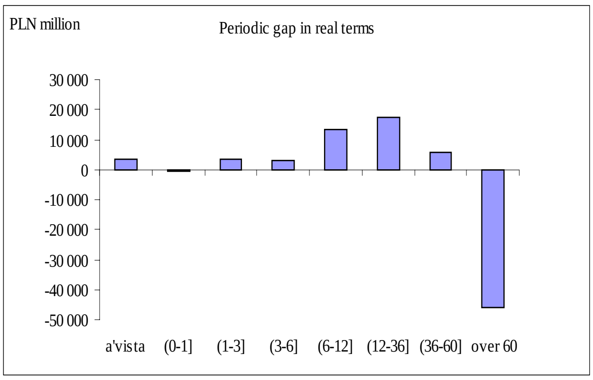


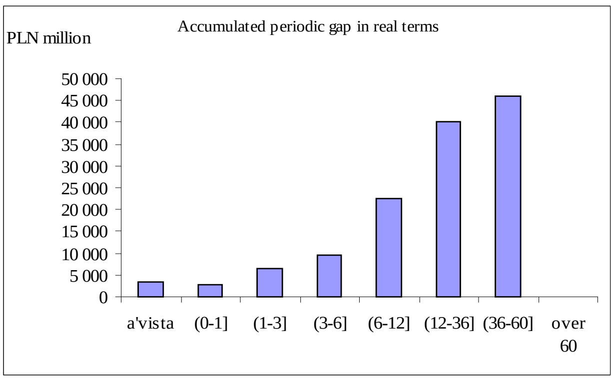
Liquidity risk in PKO BP SA remains on the stable and low level. As at 31 December 2004 the total liquidity surplus in time horizon up to 1 month amounted to PLN 23,231,166 thousand.

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.

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The Bank adopted the Value at Risk model to measure currency risk. Scenario analyses, which are 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 to ensure that PKO BP SA Group 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 Group 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 of the PKO BP SA Group:

	31.12.2004	31.12.2003
Market risk including:	**71,478**	**107,636**
Currency risk	4,527	12,316
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 specifying, among others, settlement mechanism

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 assesment,
- measurement of credit risk of potential or executed 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 the holding company 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.

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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.

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	1,238,455	-
Receivables	55,638,633	26,752,419
Securities and shares	23,348,832	430,164
Tangible and intangible fixed assets	2,759,962	2,366,154
Other	4,238,613	2,600,197
Total - banking book	87,224,495	32,148,934
Securities - trading book	1,538,213	656,901
Total balance sheet instruments	**88,762,708**	**32,805,835**

- **as at 31 December 2003**

Instrument type	Carrying amount	Risk weighted value
Cash	1,000,506	
Receivables	46,788,940	21,183,716
Securities and shares	27,787,544	333,284
Tangible and intangible fixed assets	2,724,321	2,449,915
Other	3,727,773	3,427,861
Total - banking book	82,029,084	27,394,776
Securities - trading book	2,538,981	1,014,752
Total balance sheet instruments	84,568,065	28,409,528

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 of the PKO BP SA Group.

- **as at 31 December 2004**

Instrument type	Nominal value 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

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- **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	6,038,542	127,695	26,856
Currency forward	77,053	1,509	752
Forward - embedded derivatives	26,396	2,889	1,445
SWAP	5,866,824	120,698	24,140
FX futures	708	7	1
CIRS	67,561	2,592	518
Options (delta equivalent)	340,055	34,005	6,801
Other instruments	340,055	34,005	6,801
SBB	-	-	-
Total derivative instruments	**33,008,597**	**356,423**	**76,602**
including:			
- banking book	12,335,781	282,027	57,272
- 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	**Nominal value of the underlying instrument**	**Credit equivalent**	**Risk weighted value**
Credit liabilities	16,494,538	1,161,685	797,814
Warranties granted	210,075	152,103	151,351
Letters of credit issued	28,844	14,351	14,351
Other liabilities	3,611,148	723,250	173,535
Total banking book	**20,344,605**	**2,051,389**	**1,137,051**
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)	**33,437,659**	**2,675,013**
Market risk (trading book)*		**71,478**
Other		**6,402**
Total capital requirements (banking and market risks)		**2,752,893**

*currency risk (trading and banking book)

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- **as at 31 December 2003**

Instrument type	Nominal value of the underlying instrument	Credit equivalent	Risk weighted value
Credit liabilities	14,126,312	685,180	451,526
Warranties granted	97,328	56,017	54,043
Letters of credit issued	6,489	3,125	3,125
Other liabilities	1,057,113	174,331	47,904
Total banking book	**15,287,242**	**918,653**	**556,598**
Issue warranties	167,791	167,791	90,031
Total trading book	**167,791**	**167,791**	**90,031**

	Risk weighted value	Capital requirement
Total credit risk exposure (banking book)	**28,008,646**	**2,240,692**
Market risk (trading book)*		**107,636**
Other		**2,490**
Total capital requirements (banking and market risks)		**2,350,818**

*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 12 of the Introduction to the consolidated financial statements, the PKO BP SA Group did not apply hedge accounting in the periods covered by the financial statements.

According to the accounting policies applied by the PKO BP SA Group, 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 Group 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

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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 PKO BP SA Group 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 Group's liabilities and liabilities of third parities

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

Fund for Protection of Guaranteed Money

The PKO BP SA Group 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

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

	31.12.2004	**31.12.2003**
Stock Exchange Guarantee Fund	4,911	443

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

Additionally, the entity consolidated by the full method – Kredyt Bank (Ukraina) S.A. holds the following assets pledged as the collateral of the company's liabilities and the third party's liabilities:

- monies constituting the collateral for the loans from the Ukraine's banks in the amount of UAH 38,411 thousand (PLN 21,671 thousand),
- the pledge on the tangibles and real estate constituting the collateral of the exposure of Kredyt Bank S.A. in the amount of UAH 72,834 thousand (PLN 41,093 thousand)

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

As at 31 December 2004 the nominal value 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 by the PKO BP SA Group

	31.12.2004	**31.12.2003**
For the financial sector	1,553,170	887,368
-including irrevocable	25,072	96
For the non-financial sector	12,410,964	12,300,601
-including irrevocable	9,388,597	97,131
For the public sector	1,277,000	822,599

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-including irrevocable	90,875	128
Total financial liabilities granted	**15,243,134**	**14,010,568**

10. Off-balance sheet contingent liabilities of the PKO BP SA Group

a) Contingent liabilities

	31.12.2004	31.12.2003
Contingent financial liabilities granted	**5,738,590**	**13,913,213**
- Credit lines	4,031,065	13,025,443
- Other	1,707,525	887,770
Contingent guarantee liabilities granted	**738,477**	**382,493**
- Guarantees and sureties on loan repayment	21,501	11,887
- Other	716,976	370,606
Contingent financial liabilities received	**758,291**	**84,906**
- Credit lines	451,304	84,906
- Other	306,987	-
Contingent guarantee liabilities received	**4,600,630**	**4,804,342**
- Guarantees and sureties on loan repayment	4,589,810	4,799,036
- Other	10,820	5,306
Total	**11,835,988**	**19,184,954**

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

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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 consolidated using equity pick – up method:

	31.12.2004	**31.12.2003**
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
Total	**5,652**	**80,448**

In addition, the holding company of the Group has granted off balance sheet liabilities (financial and guarantees) for subsidiaries consolidated using the full method:

	31.12.2004	**31.12.2003**
Bankowy Fundusz Leasingowy S.A.	599,831	26,066
Dom Maklerski „Broker” S.A.	105,000	-
Kredyt Bank Ukraina S.A.	1,711	-
Centrum Elektronicznych Usług Płatniczych „eService” SA	50	-
Total	**706,592**	**26,066**

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

The holding company 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 holding company 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.

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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 PKO BP SA Group 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 PKO BP SA Group did not record any income or incur any costs from discontinued activities.

In the year 2003, the PKO BP SA Group 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. The above amount is reflected in profit and loss in operating costs.

The PKO BP SA Group does not plan to discontinue any of the activities in the next reporting period.

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

The PKO BP SA Group did not incur any costs for assets under construction or fixed assets produced for its own use.

17. Incurred and planned capital expenditures (data not audited)

Details	**Expenditures planned for 2005**	**Expenditures incurred in 2004**	**Expenditures incurred in 2003**
Powszechna Kasa Oszczędności BP SA – holding company	1,105,000	516,267	344,561
Entities subject to consolidation – total	21,610	18,492	2,504
Capital Expenditures Total	**1,126,610**	**534,759**	**347,065**

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.

The table below presents transactions of the PKO BP SA Group with capital related entities.

a) Transactions of the holding company with related entities consolidated using the full method.

- **as at 31 December 2004**

Type of transaction	**Kredyt Bank Ukraina S.A.**	**PKO/Handlowy Powszechne Towarzystwo Emerytalne S.A.**	**Bankowy Fundusz Leasingowy S.A.**	**Centrum Finansowe Puławska Sp. z o.o.**	**Centrum Elektronicznych Usług Płatniczych „eService" S.A.**	**Inteligo Financial Services S.A.**	**Dom Maklerski Broker SA**	**Finanse Agent Transferowy Sp. z o.o.**

Receivables of the holding company from the company								
Loans, deposits granted	27,462	-	361,453	78,253	16,896	2,500	-	-
Other receivables	4	-	70,872	-	160	-	-	-
Liabilities of the holding company towards the company								
Current account	541	171	4,217	3,399	2,649	117	-	558
Deposits	-	2,935	149	-	-	9,231	-	1,500
Other liabilities	-	-	24	2,414	1,837	355	-	5
Off balance sheet liabilities of the holding company towards the company								
Granted	1,711	-	599,831	-	50	-	105,000	-
Obtained	1,712	-	877	-	-	-	-	-
Costs of the holding company towards the company								
Costs of interest, fees and commission	-	80	15	451	10,997	136	-	56
Other costs	-	-	158	68,459	-	41,568	-	-
Income of the holding company from the company								
Income from the interest, fees and commission	122	47	19,702	2,295	13,424	368	240	3
Other income	-	-	1,229	33	14	2	46	-

- **as at 31 December 2003**

Type of transaction	**Bankowy Fundusz Leasingowy S.A.**	**PKO/Handlowy Powszechne Towarzystwo Emerytalne S.A.**	**Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.**	**Centrum Finansowe Puławska Sp. z o.o.**	**Centrum Elektronicznych Usług Płatniczych „eService" S.A.**	**Inteligo Financial Services S.A.**	**Finanse Agent Transferowy Sp. z o.o.**
Receivables of the holding company from the company							
Loans, deposits granted	294,879	-	-	125,848	21,017		-
Other receivables	89,411	-	-	1,586	5,461	-	-
Liabilities of the holding company towards the company							
Current account	2,092	586	1,809	603	10,725	91	1,372
Deposits	205	944	80	6,500	-	1,108	-
Other liabilities	935	-	7	1,057	-	-	-
Off balance sheet liabilities of the holding company towards the company							
Granted	26,066	-	-	-	-	-	-
Obtained	-	-	-	-	-	-	-

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Costs of the holding company towards the company							
Costs of interest, fees and commission	175	28	9	915	290	180	32
Other costs	276	-	21	72,572	3	19,751	-
Income of the holding company from the company							
Income from the interest, fees and commission	12,445	314	1	2,674	41,287	320	7
Other income	873	21	9	38	13	3	-

b) Transactions between subsidiaries consolidated using the full method

In 2004 there were inter-company transactions between Bankowy Fundusz Leasingowy S.A. and Centrum Elektronicznych Usług Płatniczych „eService" S.A due to leasing transactions. The value of the transactions as at 31 December 2004 amounted to PLN 12,097 thousand (comparing to PLN 13,405 thousand as at 31 December 2003). Income from the transaction in 2004 amounted to PLN 1,742 thousand (comparing to PLN 1,344 thousand in 2003).

c) Transactions of the holding company with entities consolidated using the equity method.

- **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 income	Costs of provisions	Off-balance sheet liabilities granted
PKO Inwestycje Sp. z o.o.	Subsidiary	2	-	279	726	726	125	118	-	5,585
PKO Towarzystwo Finansowe Sp. z o.o (under liquidation)	Subsidiary	211	-	-	5	5	18	16	-	-
PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.	Joint venture	-	-	188	1,132	1,093	-	-	-	67
Wawel Hotel Development 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	-	-

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- **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
PKO Inwestycje Sp. z o.o.	Subsidiary	7,050	6,647	4,935	780	619	72	54	-	1,250
PKO Towarzystwo Finansowe Sp. z o.o (under liquidation)	Subsidiary	-	-	296	421	389	180	226	2,700	1,600
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. (in bankruptcy)	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	-	-

In the consolidated balance sheet, in the off balance sheet items and in the profit and loss account the following consolidation adjustments concerning inter-company transactions between the entities consolidated using the full method were made:

Balance Sheet Assets	**31.12.2004**	**31.12.2003**
Amounts due from the financial sector	416,222	323,099
Amounts due from the non-financial sector	109,887	160,396
Debt securities	70,787	89,294
Other assets	2,904	5,345
Consolidation adjustments total - assets	599,800	578,134
Balance Sheet Liabilities	**31.12.2004**	**31.12.2003**
Amounts due to the financial sector	506,819	466,456
Amounts due to the non-financial sector	17,459	21,455
Liabilities arising from securities issued	70,787	89,294
Special funds and other liabilities	4,735	929
Consolidation adjustments total - liabilities	599,800	578,134
Off Balance Sheet positions	**31.12.2004**	**31.12.2003**
Off balance sheet liabilities granted/obtained	709,181	26,066
Costs/Income	**2004**	**2003**
Interest/Fees and commission income/cost	47,937	60,021
Other costs/income	111,508	93,580
Consolidation adjustments total – costs/income	159,445	153,601

In addition, the carrying amount of the shares held by the holding company in subsidiaries is also eliminated, in correspondence with the equity of these companies.

d) Transactions with other related entities.

As at 31 December 2004, at 31 December 2003, there were no transactions with other related entities in the PKO BP SA Group.

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e) 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 PKO BP SA Group did not carry out any joint-venture projects that required consolidation.

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

The Group conducts brokerage activities through Bankowy Dom Maklerski and DM Broker. BDM is an internal organisational unit that prepares independent financial statements.
Income and costs of Bankowy Dom Maklerski PKO BP SA were as follows:

	2004	2003
Income	137,831	83,425
Cost	(80,823)	(60,280)

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Gross profit of BDM as presented in the financial statements of BDM	**57,008**	**23,145**

In the period from 1 September 2004 to 31 December 2004 the subsidiary company DM Broker which was consolidated using the full method since 1 September 2004 reported the income from the brokerage activities in the amount PLN 2,494 thousand and the costs in the amount of PLN 2,138 thousand.

21. Write-offs of irrecoverable receivables

During the period from 1 January 2004 to 31 December 2004 the holding company 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).

In the period from 1 January to 31 December 2004 subsidiaries charged the following amounts against bad debt provisions: PLN 2,166 thousands in respect of bad debts from the financial sector and PLN 252 thousand in respect of bad debts from the non-financial sector.

In the year 2003 the subsidiaries did not charge any amounts against bad debt provisions.

Information on costs related to creation of provisions and accruals for future liabilities to employees

	2004	2003
Provisions for bonuses for employees	50,392	46,283
Holiday accrual	10,789	1,014
Provision for jubilee and retirement bonuses	10,861	34,598
Other provisions (bonuses)	4,566	4,458
Total	**76,608**	**86,353**

22. Information on average employment by category

Employment structure in the PKO BP Group 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	2,242	5.8	2,463	6.4
26-35	13,417	34.7	13,081	34.2
36-45	11,400	29.5	11,340	29.6
46-55	10,761	27.8	10,621	27.7
56 and more	862	2.2	791	2.1
Total	**38,682**	**100.0%**	**38,296**	**100.0%**

Employment structure in the PKO BP Group 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	17,013	44.0	14,521	37.9
Secondary	21,210	54.8	23,236	60.7
Below secondary	459	1.2	539	1.4
Total	**38,682**	**100.0%**	**38,296**	**100.0%**

As at 31 December 2004, out of the total number of employees of the PKO BP SA Group, 36,512 (as at 31 December 2003 - 37,656) were employed with the holding company, which accounts for 94.4% (as at 31 December 2003 - 98.3%) of the total number of employees. In related companies consolidated by the full method there are 2,170 employees (as at 31 December 2003 - 640), which accounts for 5.6% (as at 31 December 2004 – 1.7%) of the total number of employees.

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23. 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).

a) the holding company

- **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 subsidiaries, joint ventures and associates.

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- **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.

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.

b) entities consolidated using the full method

	2004	2003
Benefits of the members of the Supervisory Boards	1,043	836
Benefits of the members of the Management Boards	3,216	3,835
Total	**4,259**	**4,671**

24. Loans, credits, guarantees and other benefits provided by the PKO BP SA Group to related parties and employee pension programmes

a) Loans, credits and guarantees granted to employees, members of the Management Board and Supervisory Board of PKO BP SA Group and relatives of the Management Board and Supervisory Board of the PKO BP Group.

	2004	2003
Employees	392,892	335,873
Members of the Management Board	7	-
Members of the Supervisory Board	-	-
Relatives of the Management Board and Supervisory Board Members	-	-
Total	**392,899**	**335,873**

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.

As of 31 December 2004 and 31 December 2003 Bank did not extended to the relatives of the Bank's Management Board and Supervisory Board members significant exposures due from loans, advances and quarantees.

b) Loans, credit and guarantees granted by the Bank to subsidiaries, associates and joint ventures

Transactions (including loans, credits, guarantees) with related entities have been described in detail in Note 18 of the Additional Notes and Explanations to the consolidated financial statements of the PKO BP SA Group.

c) Employee pension programmes

The Group is not participating in the financing of the employee pension programmes

25. Information on custodial activities

The holding company is a direct participant of the National Custody for Securities. As at 31 December 2004 the holding company had an open securities account for entity.

26. Securitisation of assets

The PKO BP SA Group did not perform securitisation of any of its receivables.

27. Significant prior year events included in the consolidated financial statements for the current period

There were no significant events relating to prior years that would have impact on the data presented in consolidated financial statements.

28. Significant events after the balance sheet date

Concerning the holding company

- 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^{+} to C^{-} 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 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 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.

Concerning the subsidiaries

- 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 National Deposit for Securities 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).

29. 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 41 of the Additional Notes and Explanations to the consolidated financial statements.

30. 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.

31. 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 PKO BP SA Group's operations did not exceed 100%. Therefore, these consolidated financial statements have not been adjusted for inflation.

32. Explanation of differences between the previously published financial statements and these financial statements

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The data concerning the years ended 31 December 2004 and 31 December 2003 was presented in the format prescribed by 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 PKO BP SA Group 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 in subsidiaries	55,817	(610) (1)	55,207
XIII. Other securities and financial assets	202,336	59,518 (1)	261,854
XIV. Intangible fixed assets	277,024	(2,618) (2)	274,406
XVI. Tangible fixed assets	2,453,321	(3,406) (3)	2,449,915
Total assets	**84,515,181**	**52,884**	**84,568,065**

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	117,784	108,629 (1)	226,413
IX. Accruals and deferred income	3,037,591	(64,619) (4)	2,972,972
X. Provisions	1,299,067	2,424 (5)	1,301,491
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	**84,515,181**	**52,884**	**84,568,065**

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	59,159,439	10,977,490 (7) (11)	70,136,929
III. Others	97,355	2,980,286 (8)	3,077,641
Total off-balance sheet items	**78,441,748**	**13,957,776**	**92,399,524**

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	5,168,161	(34,052) (4)	5,134,109
VIII. Result from financial operations	377,949	(315,943) (1) (9)	62,006
XII. Foreign exchange result	221,754	313,719 (9)	535,473
XIV. Result from banking activities	5,433,617	(36,276) (1) (4)	5,397,341
XV. Other operational income	262,990	(976) (1)	262,014
XVII. Overhead costs	(3,188,656)	10,837 (1)	(3,177,819)

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XVIII. Depreciation of tangible and amortization of intangible assets	(517,361)	1,381[1]	(515,980)
XXII. Operating result	1,660,222	(25,034)[1][4]	1,635,188
XXVI. Gross profit (loss)	1,651,094	(25,034)[1][4]	1,626,060
XXVI. Taxation	(422,683)	(10,454)[5]	(433,137)
XXXI. 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:	(7,213,358)	(407,348)	(7,620,706)
3. Depreciation and amortisation	526,890	(1,381)[1]	525,509
5. Interest and share in profits (dividends)	(3,381)	(442,836)[10]	(446,217)
7. Change in provisions	50,927	2,424[5]	53,351
13. Change in shares, other securities and other financial assets	317,001	(59,750)[1]	257,251
19. Change in prepayments and accruals	(887)	(610)[1]	(1,497)
20. Change in deferred and suspended income	482,672	(64,619)[4]	418,053
21. Other adjustments	1,011,236	159,424[1][4][5][6]	1,170,660
III. Net cash flow from operating activities	(5,985,164)	(442,836)	(6,428,000)
B. Cash flow from investing activities			
I. Inflows	6,098,375	442,836[10]	6,541,211
7. Other investment inflows	4,401	442,836[10]	447,237
III. Net cash flow from investing activities	5,304,503	442,836[10]	5,747,339

Description of changes:

1. Adjustment of item „Other securities and financial assets", including:
   - Derecognition of the value of the embedded derivative instruments as at 31 December 2003 valued according to the existing rules at that date
   - 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.
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 (SWAP anf forward).
10. Reclassification of interest on securities from held to maturity portfolio.
11. Change in the presentation of derivative instruments in off-balance sheet liabilities.

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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	907,830	(557)	907,273
b) term	7,316,238	557	7,316,795
Gross amounts due from the non-financial sector by maturity			
a) current	5,551,657	(743,240)	4,808,417
b) term	25,648,954	743,240	26,392,194
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

34. 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 in the Group's 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 33 and 34 of the Additional Notes and Explanations to the financial statements.

35. Adjustments arising from fundamental errors

As no fundamental errors were identifed, the consolidated financial statements of PKO BP SA Group do not contain any fundamental error adjustments.

36. Business combinations

During years covered by these financial statements, there were no mergers of the holding company or any subsidiary with any other company.

37. Going concern

As it was described in Point 5 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 or any related entity's continued activity in the twelve months following the balance sheet date due to an intended or compulsory withdrawal or limitation of the Bank or related entities with the exception of not material in view of the operations of the Group related companies in liquidation.

38. Information concerning the balance sheet date as at which the consolidated financial statement was prepared

The financial statements of subsidiaries and associates included in the consolidated financial statement are prepared as at the same balance sheet date as the consolidated financial statement of the PKO BP SA Group, with the exception of the financial statement of PKO Towarzystwo Finansowe, which was prepared as at 20 December 2004.

39. Information concerning the adjustments and the amounts of financial statements' positions for which different valuation policies and methods were applied

The consolidated financial statement is prepared in accordance with the uniformed valuation policies and methods

40. Excluding the entities from the Bank's consolidated financial statement

The entities excluded from the consolidated financial statement and the reasons of excluding were presented in point 8 of the Introduction to the consolidated financial statement.

41. 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,
– 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.

PKO BP SA Capital Group SAB-RS 31 December 2004 PLN thousand

These financial statements consist of 156 consecutively numbered pages.

Signatures of All Members of the Management Board

29 March 2005	Andrzej Podsiadło	President of the board	…………………………………. (signature)
29 March 2005	Kazimierz Małecki	Vice president first Deputy President of the Board	…………………………………. (signature)
29 March 2005	Danuta Demianiuk	Vice president of the board	…………………………………. (signature)
29 March 2005	Piotr Kamiński	Board Member	…………………………………. (signature)
29 March 2005	Jacek Obłękowski	Board Member	…………………………………. (signature)

Signature of a person responsible for keeping the book of account

29 March 2005
(date)

Krystyna Szewczyk

Chief Accountant – Board Member

PKO BANK POLSKI
SPÓŁKA AKCYJNA

DIRECTORS' REPORT
ON THE ACTIVITIES OF
THE POWSZECHNA KASA OSZCZĘDNOŚCI
BANK POLSKI SPÓŁKA AKCYJNA GROUP
IN 2004

WARSAW, MARCH 2005

1. INTRODUCTION

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

The PKO BP SA Capital Group reported a positive financial result in 2004 of PLN 1,511 million, mainly due to the performance of PKO BP SA. However, it needs to be emphasized that the other Group entities achieved substantially better financial results in 2004 than in 2003.

In 2004 PKO BP SA continued work as part of the strategy to modernize the Bank and further develop all of its business operations, and to prepare solid grounds for its dynamic growth in the years to come.

The Bank's crucial achievement of 2004 is the admitting of its shares to public trading. Main tasks performed included also the reorganization of the Bank's structure, preparation to implement the Integrated IT System and entering into new markets in order to expand the activity.

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

2.1. Macroeconomic factors

During 2004 the Polish economy saw rapid economic growth. According to the preliminary estimations of GUS (Central Statistics Office), GDP growth in 2004 was 5.3%, while in 2003 –3.8%. **One of the factors stimulating economic growth was internal demand**. The internal demand revival, 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 expenditure. Furthermore, the low PLN/EUR exchange rate (in the first half of 2004), better world economic situation and company restructuring (decrease in overhead costs, increase in work efficiency, improvement of product offer) contributed to the sustained, high export dynamics. Due to the dynamic export growth, the industrial production revival continued. In the second half of 2004 economic growth slowed down (as the extraordinary accession related factors ceased to play a key role), nevertheless further improvement of company investment activity was observed.

Despite the economic revival and the overall improvement in companies' financial standing, in 2004 only a slight improvement in the labour market was observed. In December 2004 the official unemployment rate decreased by 0.9 percentage point to 19.1%, with 3 million persons without regular employment (176 thousand less than in December 2003).

In 2004 the declining trend of household deposits was restrained. It was, among others, due to the increased profitability of bank deposits, resulting from interest rates 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.

Improved financial situation of enterprises contributed to the 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 growth trend seen in household loans continued. During the period from December 2003 to December 2004, the housing loan balance increased by PLN 13.5 billion, i.e. by 13.3%. High demand for housing loans continued. Moreover, a minor revival in consumer 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 significant rise 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 PLN appreciation and slower dynamics of fuel prices., The inflation rate as at the end of 2004 was 4.4%, exceeding the acceptable inflation rate limit assumed by the Monetary Policy Council (3.5%).
Macroeconomic situation in Ukraine, a country in which one of PKO BP SA subsidiaries, i.e. Kredyt Bank (Ukraine) S.A., operates, in 2004 encouraged the growth of the banking sector. The increase in banking sector indicators was higher than economic growth in Ukraine. Net assets of the banking sector increased by 34.2% and reached the level of UAH 134 billion at the end of 2004, while Gross Domestic Product increased by 12.0%. The highest pace of growth was seen in retail loans (increase by 64% in 2004). The growth of liabilities was caused, among others, by the increase in assets of corporate entities (by 43%) as well as the increase in the deposits of retail clients.
At the end of 2004 there was a substantial decrease in client deposits, due to political instability accompanying the presidential elections. The situation became stable at the beginning of 2005. Democratic changes created encouraging perspectives and environment for foreign investors.
Inflation rate in 2004 in Ukraine was 12.3% (8.2% in 2003), whereas the unemployment rate at the end of 2004 was 3.6%.
At the beginning of 2005 Moody's Rating Agency changed Ukraine's rating from negative to stable due to the political stabilization that had an impact on stabilization of the Ukrainian financial sector as well.

2.2. Monetary policy of the National Bank of Poland

Pursuant to the National Bank of Poland's *monetary policy strategy after 2003*, maintaining an annualised inflation rate at 2.5%, with an allowable fluctuation range of +/-1 percentage point, continued to be its main objective in 2004. Rapid rise in the inflation rate led **in April 2004 to the Polish Monetary Policy Council changing its standpoint from neutral to restrictive. During the period June-August 2004, the Monetary Policy Council increased basic interest rates by 1.25 percentage points.** As a result, at the end of 2004, reference rate stood at 6.5%, lombard rate – at 8%, and deposit rate – at 5%.

2.3. Financial market

During 2004, there were significant profitability fluctuations and there was a swing in 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 50 basis points higher than at the end of 2003; and at the long end of the curve - over 50 basic points lower. Gradual increase in profitability for the first seven months of the previous year was due to increased investor expectations of a more restrictive monetary policy, which was confirmed by the change in Monetary Policy Council standpoint, and subsequent increases in interest rates.

The trend of declining 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 government approval of the draft budget for 2005, • reduction in demand for loans and of State Treasury securities issuance at the end of 2004.

In 2004, the Polish currency appreciated by 20% in relation to the US dollar and by 13.5% in relation to the 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 the Polish economy resulted in a strong appreciation trend in the second half of the year. As a result of all these factors, the Polish currency appreciated (exchange rates as at the end of the year: PLN/EUR – 4.08; PLN/USD – 2.99).

2.4. Regulatory environment

In 2004, major changes in the banking system regulatory environment were subordinated to the following factors:

- EU law harmonization with Polish law, connected with Poland's accession to the European Union,
- realization of agreements concluded by government representatives, Banking Supervisory Board ("KNB") and Polish Banks Association ("ZBP") on 30 October 2003 concerning obligatory reserves, specific provisions and their taxation, accounting rules and banks' contribution to 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 for PKO BP SA and other Group entities related to the following:

- significant amendments to the Banking Law, (entered into force on 1 May 2004), which imposed on banks new duties, opened new possibilities for cost rationalization (e.g. through outsourcing bank's activities, securitization of bank receivables) and for launching new products, including cash pooling,
- decrease in the tax rate for corporate entities from 27% to 19%, positively affecting the Bank and other PKO BP SA Group entities' net financial results,
- the VAT Act , enabling the realization of centralized settlements and introducing changes in settlement of tax on leasing services,
- amendments to accounting regulations enabling PKO BP SA to recognize interest on "watch" receivables as income,
- new regulation concerning the creation of specific provisions (among others, modification of rules on 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 reserves (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 reserves referring to the income on sale of debt securities with repurchase obligation,
- BFG regulations decreasing the obligatory annual contribution paid by the banks,
- changes in policies concerning determining capital requirements for particular risk types,
- law on electronic payment instruments, obliging banks to conclude agreements for the use of banking cards with all clients that had been offered banking cards before the law entered into force (which increased the Bank's costs, including costs of correspondence with clients),
- new regulatory solutions which are the basis for the Bank's engagement in the absorption of structural funds,
- new bankruptcy and restructring law, regulating the issue of creditors' common claims on insolvent debtors and the rules of restructuring proceedings regarding enterprises threatened by insolvency (although the law entered into force at the end of 2003, its effects were not seen until 2004).

As a result of most of the above changes, PKO BP SA Capital Group entities had to incur additional financial and organizational expenditures, and these were reflected in their asset structure and financial result. These changes had an impact on their solvency ratio and enabled them to pursue new business initiatives.

Business activities of the PKO BP SA were also influenced by the following regulations that created new instruments for the allocation of savings:

- law on Individual Pension Accounts (ustawa o Indywidualnych Kontach Emerytalnych), which enabled the Bank to broaden its product offer,

- law on investment funds.

Furthermore, the Bank's result in 2004 was influenced by preparations for the introduction of new regulations in the following years, relating to:

- International Accounting Standards (IAS; IFRS)
- Banking Supervision Board solutions relating to the calculation of own funds, exposures concentration and capital adequacy

In 2004 the Bank began work related to the introduction in 2007 of regulations introduced by the guidelines of the New Capital Agreement and in the draft of European directive CAD3, taking into consideration the necessity of gradually implementing more advanced methods of calculating capital requirements.

2004 brought further changes in Ukrainian legislation. They concerned generally the implementation of regulations on the functioning of banks, mortgage lending, mortgages, support of creditors' rights and creditors' registration.

2.5. Competition in the banking sector

In 2004, the economic conditions in the banking sector improved significantly. Major factors contributing to that improvement were as follows:

– improvement of the financial standing of bank customers, resulting from the overall economic revival,
– higher quality of bank loan portfolios,
– decrease in the effective fiscal burden resulting from lower tax rate,
– increase in household demand for loans.

As a result, most banks observed an increase in income from banking activity and significant improvement of efficiency.

The development in the banking sector was also affected by market processes. The most important of these were:

- **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 mortgage loans.
  – 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 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.

3. GROUP'S DEVELOPMENT STRATEGY

The development of the Capital Group is subordinated to the "Modernization Strategy for 2003 –2005". Through commercial and ownership supervision the Bank encourages Group entities to pursue the following strategic goals:

- to increase operational effectiveness,
- to retain the 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 as a 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 new fields,
- improving business activity and innovation.

The Bank intends to maintain its leading position on the retail banking and real estate financing 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%.

PKO BP SA is concentrating on strengthening the role of the Capital Group entities in complementing the strategic areas of its business activities, both by making greater use of the potential of those companies and by bringing new business activities into the Group. The Bank estimates that the investment plans, including capital investments, are feasible and adequate in relation to the funds at the Bank's disposal.
The entities complete the business offer of the Bank by supporting the Bank's sale activity. At the same time, the Bank takes advantage of the specialized services rendered by certain Group' entities.

4. ORGANISATION OF THE PKO BP SA CAPITAL GROUP

4.1. Entities included in the consolidated financial statements

As defined in the Polish Accounting Act, the Capital Group consists of PKO BP SA, the holding company, and 15 entities directly or indirectly related to the Bank, of which 3 are non-consolidated.

Table 1. Entities included in the consolidated financial statements

No.	Company	Equity as at 31 December 2004	Net financial result for 2004	Consolidation method
		PLN thousand	PLN thousand	
	The PKO BP SA Capital Group			
	Holding company			
1	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna	8,070,534	1,511,065	-
	Direct subsidiaries			
2	Centrum Finansowe Puławska Sp. z o.o.	199,860	47,922	Full
4	Kredyt Bank (Ukraina) S.A.**	75,459	5,039	Full
4	PKO Inwestycje Sp. z o.o.	49,356	1,041	Equity method
5	Powszechne Towarzystwo Emerytalne	54,377	22,642	Full

	Bankowy S.A.			
5	Bankowy Fundusz Leasingowy S.A.	19,762	3,495	Full
7	Dom Maklerski BROKER S.A.	19,760	(916)	Full
8	Inteligo Financial Services S.A.	16,608	13,367	Full
9	PKO Towarzystwo Finansowe Sp. z o.o. - in liquidation	779	(813)	Equity method
10	Centrum Elektronicznych Usług Płatniczych eService S.A.	(3,889)	(1,616)	Full
Indirect subsidiaries				
11	Fort Mokotów Sp. z o.o.***	62,015	8,336	Equity method
12	Wilanów Investments Sp. z o.o.***	24,098	(4,082)	Equity method
13	Finanse Agent Transferowy Sp. z o.o.****	3,425	464	Full
Other subordinated entities included in consolidation				
Jointly controlled entities				
14	WAWEL Hotel Development Sp. z o.o.	51,073	12,258	Equity method
15	PKO/CREDIT SUISSE Towarzystwo Funduszy Inwestycyjnych S.A.	49,920	26,835	Equity method
Associates				
16	Bank Pocztowy S.A.	153,888	18,361	Equity method
17	Kolej Gondolowa Jaworzyna Krynicka S.A.	25,783	2,236	Equity method
18	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	4,595	86	Equity method
19	Agencja Inwestycyjna CORP S.A.	1,092	418	Equity method
20	Hotel Jan III Sobieski Sp. z o.o.	(154,005)	49,974	Equity method
21	Ekogips S.A.	In bankruptcy		Equity method

* Financial data according to the standalone financial statements of the Group entities
** PLN, average NBP PLN exchange rate as of 31.12.2004
*** a subsidiary of PKO Inwestycje Sp. z o.o.
**** a subsidiary of Powszechne Towarzystwo Emerytalne BANKOWY S.A.

In accordance with the Accounting Act of 29 September 2004 and the Ministry of Finance Decree of 20 December 2001 on specific accounting rules for brokerage houses, full consolidation and the equity method of valuation did not include the entities listed below, due to insignificant amounts or liquidation:

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

4.2. Changes in the organization of subsidiaries and associates

In 2004, the following events had an effect on the PKO BP SA Capital Group's structure:

– acquisition of shares in Kredyt Bank (Ukraina) S.A.

  PKO BP SA acquired 9,567,713,000 of the Company's shares from Kredyt Bank S.A., amounting to 66.651% of the share capital and voting rights at the General Shareholders' Meeting. The price of the shares was PLN 109.5 million. The shares were transferred on 26 August 2004, after having obtained the permission of the President of the Consumer and Competition Protection Office (UOKiK) and the approval of the Antitrust Committee of Ukraine and the National Bank of Ukraine.

– acquisition of shares in Dom Maklerski BROKER S.A.

PKO BP SA acquired 212,439 shares from Investment Bank Holdings B.V., amounting to 100% of the share capital and giving the right to exercise 100% of the votes at the General Shareholders' Meeting. The price was PLN 18.6 million. The shares were transferred on 8 September 2004.

- 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% (the Company ceased to be a subsidiary of the Bank),
- contributions to PKO Towarzystwo Finansowe Sp. z o.o. equity assigned for covering entity liquidation costs,
- contribution to PKO Inwestycje Sp. z o.o. equity assigned for realization of Miasteczko Wilanów project,
- 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,
- sale of Inteligo Technologies Sp. z o.o. shares (a subsidiary of Inteligo Financial Services S.A.),
- resolution of the Shareholders' Meeting of Sonet Hungary Kft (a subsidiary of Inteligo Financial Services S.A.) on the liquidation of the company and appointment of a liquidator,
- registration of the change of the company's name from PKO/Handlowy Powszechne Towarzystwo Emerytalne S.A. to Powszechne Towarzystwo Emerytalne BANKOWY S.A.,

In 2004 the following events had an impact on the structure of other associates:

- acquisition of shares in Bank Pocztowy S.A.

  PKO BP S.A. acquired 243,227 shares of the Company from Prokom Investments S.A., amounting to 25.0001% of the share capital and voting rights. The price was PLN 146.5 million. The transfer took place on 5 August 2004, after having obtained the permission of the Banking Supervisory Committee and the approval the President of the Consumer and Competition Protection Office (UOKiK),
- 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%
- the end of liquidation proceedings of the Bank's associate Wrocławskie Zintegrowane Centrum Logistyczne S.A. The company was deleted from the National Court Register.

5. MAJOR EVENTS THAT HAD A SIGNIFICANT INFLUENCE ON THE ACTIVITIES AND RESULTS OF THE PKO BP SA CAPITAL GROUP

5.1. PKO BP SA as the holding company

Year 2004 was the second year of the implementation of Bank's Modernization Strategy. The Bank's activity in this period was focused on the following priorities set in the Strategy:

- privatisation,
- implementation of the Integrated IT System (ZSI),
- Bank's structure reorganization,
- sales intensification,
- entrance to new markets.

5.1.1. 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 in preparing 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 (while the 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%.

5.1.2. Implementation of the Integrated IT System (ZSI)

In 2004 PKO BP SA continued to prepare for the 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.

5.1.3. 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 set up to support 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.

5.1.4. 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.

5.1.5. Entering new markets

The Bank's development on new markets in 2004 consisted mainly in:

- signing an agreement with PZU S.A., for insurances distribution – third party liability insurance and property insurances for holders of giro saving accounts (ROR),
- signing an agreement with PZU Życie SA for the 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.

5.2. Other entities of the PKO BP SA Capital Group

Changes in tax regulations, such as treating VAT on "societe" type vehicles as tax deductible costs resulted in a higher demand for the leasing services offered by Bankowy Fundusz Leasingowy S.A. during the period from March to April 2004. In 2004 fixed assets leased by the Company totalled over PLN 391 million.

The amended Act of 15 October 2003 on the organisation and functioning of pension funds as of 1 April 2004 changed, among other things, the method of calculating funds on the reserve account of open-end pension funds and set maximum rates for membership and management fees. As a result of the above, Powszechne Towarzystwo Emerytalne BANKOWY S.A.:

- was refunded PLN 16.9 million of funds maintained on the reserve account of Bankowy OFE,
- reduced the amount of monthly membership fees from weighted average of 8.83% in 2003 to 7%, as of April 2004,
- changed the level of management fees (reduced the management fee and introduced the management bonus).

6. PERFORMANCE OF THE PKO BP SA CAPITAL GROUP

The performance of the holding company - PKO BP SA, including major products, services and scope of activity as well as the financial results have been described in the Directors' Report on the activities of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna, which is an integral part of the annual report of PKO BP SA.
The performance description of the other companies of PKO BP SA Capital Group is presented below.

Bankowy Fundusz Leasingowy S.A.
The company offers operating and finance leasing of vehicles, machinery, equipment and real estate as well as other financial intermediation services. Special services of the company include: BanCar Leasing, concerning leasing of passenger cars and trucks and Bankowy Wynajem- services concerning long-term leasing of vehicles.

- In 2004 the Company improved its market position in terms of net value of leased fixed assets from 14th place at the end of 2003 to 12th place at the end of 2004 (according to the Association of Leasing Companies).
- The value of leased assets in 2004 increased by 37.06%, i.e. from PLN 285 million in 2003 to PLN 391 million at the end of 2004.
- The increase in the Company's operating activities enabled it toachieve net profit of PLN 3,495 thousand, i.e. 7.8 times higher than in 2003.

In 2005 the Company plans to continue dynamic development, among other things, through the more intensive use of the Bank's network to distribute the Company's offer.

Centrum Elektronicznych Usług Płatniczych eService S.A.

The main activities of eService SA include: the acquisition (on the Bank's order) of retail points where transactions are realized with the use of payment cards, the management of the electronic terminals' network, data processing of card transactions made using electronic terminals and servicing of cash withdrawals (on behalf of the Bank) in the electronic terminals installed, among other places, in PKO BP SA agencies and branches.

In 2004 the Company increased its market share , achieving second place in terms of the number of card accepting points as well as the value of processed transactions.

- Compared to 2003, the number of terminals installed by eService increased by 7,600 to 22,700, which accounts for 25.11% of the market share and ranks the Company second on the market. In 2004 the Company installed electronic terminals in 2.5 thousand PKO BP SA agencies and expanded the functionality of the electronic terminals to enable clients to withdraw cash.
- In 2004 the number of transactions carried out by the Company increased by 63.3% in comparison to 2003.. With the number of transactions at the level of 31 million (including 4,122 cash withdrawals in Bank agencies), the Company was ranked third on the market at the end of 2004.
- The value of transactions processed in 2004 was PLN 4,800 million and increased in 2004 by 92%. In terms of the value of transactions settled the Company achieved a 15.99% market share and was ranked second on the market (compared to third in 2003). The value of cash withdrawals in PKO BP SA agencies at the end of 2004 was PLN 1,274 million.
- In 2004 the Company improved its financial performance in comparison with previous years. Small negative net profit at the end of 2004 was five times lower than in the respective period in 2003.

As a result of constant and dynamic growth and in line with prior assumptions, the Company plans to achieve a positive financial result in 2005.

The objective of the Bank is to increase the value of the Company through, among other things, profitable placements of electronic terminals and development of new functionalities.

Centrum Finansowe Puławska Sp. z o.o.

The Company was created in order to build and manage the headquarters of the Bank. At present, the Company manages the building "Centrum Finansowe Puławska", located at Puławska 15 in Warsaw.

In 2004 the rental of office and commercial space was stable compared to 2003, being 96.18% at the end of December 2004.

The net income of the Company in 2004 was twice as high as in 2003. High net result was the effect of a positive foreign exchange result (accounting for 56% of the net result). Since the purpose for which this company was created has been achieved and provided that the Bank occupies most of the rental space (about 78%), the Bank is considering the possibility of taking over the assets of the Company in order to improve the Bank's efficiency.

Inteligo Financial Services S.A.

Main areas of Inteligo Financial Services S.A activities are services rendered to PKO BP SA relating to the technical support of Inteligo Account. The Company is a crucial element for the development of electronic services in PKO BP SA in the field of running accounts and sale of other banking products using interactive distribution channel.

- The value of deposits of PKO BP SA clients, users of Inteligo Account increased by PLN 515 million in 2004 to PLN 1,239 million at the year end.
- In 2004 the Company gained 147 thousand new clients. At the end of 2004 this Company serviced almost 379 thousand customers, which accounts for 11% of the market share in internet banking.
- In 2004 new credit products ware launched. The cooperation between the Company and the Bank was extended by new undertakings relating to internet access to Superkonto account.
- The Company reported a positive financial result for 2004 which is, among other things, the effect of the increase in revenue relating to the extension of services rendered by the Company to the Bank, cost reductions and release of provisions.
- On 7 January 2005 the Company received an ISO 9001:2000 certificate in the area of software development, implementation of software updates, installation of changes and system maintenance.

- On 1 February 2005 the Company was refunded excess VAT of PLN 12.6 million.

The Bank plans to develop remote access to banking products. Simultaneously, the Bank does not exclude the possibility of merging the Company with the Bank partially or fully in order to optimise costs.

Powszechne Towarzystwo Emerytalne BANKOWY S.A.

The main area of Powszechne Towarzystwo Emerytalne BANKOWY ("PTE") activities is the management of open-end pension fund. The Bank has held 100% shares in the Company since 2003.

- In 2004 PTE showed a dynamic increase in the value of managed assets (in Bankowy Open-end Pension Fund - BOFE). At the end of 2004 the value of assets held by BOFE was PLN 1,986 million. In 2004 BOFE assets increased by PLN 618 thousand, i.e. 45.14%, compared to 39.7% dynamics on the market of open-end pension funds.
- The number of BOFE members in 2004 were 424,148. Compared to the previous year this number increased by 28,704 members, i.e. 7.3%, compared to 4.5% increase on the market of open-end pension funds.
- At the end of 2004, in terms of the value of managed assets and the number of members, PTE held eight position among open-end pension funds.
- In 2004 BOFE recorded good investment results. In the ranking of rates-of-return announced by the Insurance and Pension Funds Supervisory Commission *(KNUiFE- Komisja nardzoru Ubezpieczeń i Funduszy Emerytalnych)*, BOFE held first position.
- In 2004 PTE obtained a QMS (quality management system) certificate PN-EN ISO 9001:2001 in the field of open pension fund asset management.
- The Company made a profit in 2004. The increase in the financial result in 2004 was a result of the decrease in overhead costs, the refund of funds from the reserve account (in accordance with the amended Act of 2003 on the organization and functioning of pension funds) and the refund of pending contribution from ZUS in the form of bonds.

The Bank is considering an acquisition or a merger of PTE with another open-end pension fund management company. The market of open-end pension funds is now being analysed in order to identify those entities whose acquisition would be the most profitable.

PKO Inwestycje Sp. z o.o.

The Company's main activity is development and construction. PKO Inwestycje Sp. z o.o. specializes in the management of big development projects.

Development projects are undertaken by the Company or by its subsidiaries set up together with specialized developers.

The Company's activity in 2004 focused on three development projects:

- „Osiedle Marina" Project
  The project is realized by the subsidiary Fort Mokotów Sp. z o.o., in which PKO Inwestycje Sp. z o.o. holds 51% of shares. The project includes: construction and sale of housing and commercial estate located in Warsaw, at Racławicka 107 Street.
  The realization of the project is going according to plan, and a high level of completion of the project is generating positive financial results for the Company.
- „Miasteczko Wilanów" Project
  The project is realized by the venture company Wilanów Investments Sp. z o.o. created in March 2004. PKO Inwestycje Sp. z o.o. holds 51% of shares. The project includes: construction and sale of housing and commercial estate located in the prestigious Warsaw district – Wilanów District. Work progress relating to this project and the level of completion of construction are in line with the plan.
- „Trzy Gracje" Project

The project includes: construction and sale of housing and commercial complex in Sopot, and it is realized directly by PKO Inwestycje Sp. z o.o. In 2005 all commercial and housing space should be sold.

In 2004 the Company recorded a positive financial result that was a result of high level of completion of the projects realized by the Company.

Future development of PKO Inwestycje Sp. z o.o. depends on the acquisition and realization of new profitable development projects.

Dom Maklerski BROKER S.A.

On 8 September 2004 PKO BP SA concluded an agreement with HSBC Investment Bank Holdings B.V. and acquired Dom Maklerski BROKER S.A. (BROKER Brokerage House).
In accordance with the strategy relating to this Company, there was a transfer of business activities from the Company to Bankowy Dom Maklerski PKO BP SA. (Bankowy Brokerage House)

The process was completed on 15 February 2005, when the Polish Securities and Exchange Commission, at the Company's request, issued a decision cancelling the Company's permission to perform brokerage activities.

According to the concept of expanding the range of the PKO BP SA Capital Group's product offer to include investment services, the core activity of Dom Maklerski BROKER S.A. has been changed.

The Company's General Shareholders Meeting has approved a new statute, specifying new core activity and enabling the Company to use the name Bankowe Towarzystwo Kapitałowe S.A.

Kredyt Bank (Ukraina) S.A.

On 26 August 2004, realizing its development strategy outside Poland, PKO BP SA acquired a majority stake in Kredyt Bank (Ukraina) S.A., constituting 66.651% of share capital and of voting rights at the General Shareholders' Meeting. The headquarters of Kredyt Bank (Ukraina) S.A. are in Lviv (Ukraine).

The main activity of the Company is focused on accepting cash deposits and granting loans, opening and running bank accounts, foreign exchange transactions, trade in securities on behalf of clients and acting as a custodian.

At the end of 2004 Kredyt Bank (Ukraina) S.A. had a 1.0% market share on the Ukrainian banking services market in terms of the value of net assets and was ranked 23rd among Ukrainian banks.

In the loan portfolio of Kredyt Bank (Ukraina) S.A. there were the following changes:

- gross loan portfolio increased by UAH 211.2 million, i.e. by 25.9%, to UAH 1,027.4 million at the year end,
- loan portfolio in local currency increased by UAH 94.4 million, i.e. 20.6%, to UAH 552.3 million at the year end,
- loan portfolio in foreign currency increased by USD 2.4 million, i.e. 33.3%, to USD 89.6 million at the year end,

In 2004 the portfolio (gross) of corporate securities increased by USD 5.5 million to UAH 10.8 million at the year end.

Cash and cash equivalents "a'vista" amounted to UAH 242.7 million.

Clients' time deposits in 2004 increased by UAH 126.2 million, i.e. 24.4%, to UAH 723.3 millions at the year end.

PKO BP SA, after taking over the majority stake in Kredyt Bank Ukraine S.A., undertook activities aimed at harmonizing internal structures and procedures relating to KBU credit risk measurement in accordance with the rules applied in PKO BP SA in order to reduce the banking risk of the Group as a whole.

7. OTHER SIGNIFICANT ASSOCIATES

PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.

PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A. creates and manages investment funds.

PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A. was founded in 1997 as a joint-venture between the Bank and Credit Suisse Management Holding Europe (Luxemburg) S.A.. The two founders each have a 50% shareholding.

As at the end of 2004 the total value of assets managed by this Company amounted to PLN 3,150 million, which accounted for a 8.45% share in the investment funds market. As a result PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A. held third position on the market compared to second position in 2003.

The 36% decrease in the value of the Funds assets was mainly caused by the decline in the Bonds Fund assets resulting from a slow-down on the debt securities market.

The Company reported a net profit in 2004. Lower profit as compared to 2003 is a result of the decrease in the average value of funds under management resulting from the outflow of assets.

8. FINANCIAL PERFORMANCE OF THE PKO BP SA GROUP

In this report the data for 2003 is presented in a way assuring comparability and was prepared using the same accounting policies as those which were applied to prepare the 2004 financial statements. A detailed description of the differences between previously published data for 2003 and the data for 2003 contained in this report is presented in the Additional Notes and Explanations to the consolidated financial statements of PKO BP SA Capital Group for 2004.

8.1. Balance sheet

The balance sheet of the holding company has the most significant impact on the balance sheet of the PKO BP SA Group. It determines both the value and the structure of the Group's assets and liabilities. As at 31 December 2004 the share of total assets of PKO BP SA accounted for 99.06% of total assets of the Capital Group (at the end of 2003 it was 99.83%).

Assets

As at 31 December 2004 total assets of the PKO BP SA Capital Group amounted to PLN 88,762.7[1] million and compared to the balance as at 31 December 2003 increased by PLN 4,194.6 million (+5.0%). The main categories of assets were receivables (62.7%) and debt securities (27.2%).

During the last 12 months the structure of the total assets was mainly influenced by the PLN 8,566 million (+7.7 pp.) increase in the share of receivables and a simultaneous decrease of PLN 5,403 million (-7.7 pp.) in the share of debt securities. The remaining items were not subject to significant change. The share of the following items: "Cash and balances with the Central Bank", "Tangible fixed assets" and "Other assets" decreased slightly while the share of "Shares and other financial assets" increased.

[1] Potential differences in sums, shares or dynamics indicators result from rounding of the amounts to PLN million and rounding of percentage shares in the structures to one decimal place.

Table 2. Structure of assets of the PKO BP SA Group (PLN thousand)

Assets	As at 31.12.2004		As at 31.12.2003		Dynamics
	PLN thousand	share	PLN thousand	share	
1	*2*	*3*	*4*	*5*	*6*
1. Cash and balances with the Central Bank	3,525,323	4.0%	3,807,529	4.5%	92.6%
2. Amounts due from the financial sector	13,517,724	15.2%	8,259,572	9.8%	163.7%
3. Amounts due from the non-financial sector	35,101,925	39.5%	31,151,081	36.8%	112.7%
4. Amounts due from the public sector	6,852,229	7.7%	7,243,182	8.6%	94.6%
5. Reverse repo transactions	0	0.0%	283,713	0.3%	0.0%
6. Debt securities	24,121,054	27.2%	29,524,320	34.9%	81.7%
7. Amounts due from subordinated entities valued using the equity accounting method	166,755	0.2%	135,105	0.2%	123.4%
8. Shares and other financial assets	1,951,163	2.2%	721,059	0.8%	270.6%
9. Intangible fixed assets	393,808	0.4%	274,406	0.3%	143.5%
10. Goodwill of subordinate entities	180,268	0.2%	58,942	0.1%	305.8%
11. Tangible fixed assets	2,366,154	2.7%	2,449,915	2.9%	96.6%
12. Other assets	586,305	0.7%	659,241	0.8%	88.9%
Total assets	**88,762,708**	**100.0%**	**84,568,065**	**100.0%**	**105.0%**

Total receivables

As at 31 December 2004, total net receivables of the Capital Group amounted to PLN 55,638.6 million and increased by 18.2% since the beginning of the year, of which:

- amounts due from sectors were PLN 55,471.9 million and increased by PLN 8,818.0 million (+18.9%). The increase during the year resulted from the PLN 5,258.2 million increase in amounts due from the financial sector and the PLN 3,559.9 million increase in amounts due from the non-financial and the public sector).
- there were no receivables from reverse repo transactions, which means that such receivables decreased by PLN 283.7 million during the period of one year.
- amounts due from entities valued using the equity method increased by PLN 31.7 million.

The table below refers only to the Capital Group's receivables from the financial, non-financial and the public sectors.

Table 3. Net receivables, by sector

Receivables	As at:		Change in percentage points	Dynamics
	31 December 2004	31 December 2003		
1	*2*	*3*	*4*	*5*
1. Amounts due from the financial sector	24.3%	17.7%	6.6	163.6%
2. Amounts due from the non-financial sector	63.4%	66.9%	-3.5	112.7%
3. Receivables due from the public sector	12.3%	15.4%	-3.1	94.6%
Total Receivables	**100.0%**	**100.0%**		**118.9%**

As at the end of 2004, the balance of gross receivables from the sectors amounted to PLN 58,163.9 million. The major items of the gross balance were: loans and credits granted (71.6%) and current accounts and placements with other banks (22.5%). Compared to the balance as at the end of 2003, loans and credits share in total assets decreased by 6.5 percentage points, mainly in favour of current accounts and placements in other banks.

Table 4. Receivables from sectors, by type (PLN thousand)

Title	As at 31 December 2004		As at 31 December 2003		Dynamics
	PLN thousand	structure	PLN thousand	structure	
1	2	3	4	5	6
1. Current accounts and deposits in other banks and other financial institutions	13,084,587	22.5%	7,881,086	15.9%	166.0%
2. Loans and credits	41,633,959	71.6%	38,567,575	78.1%	108.0%
3. Other receivables	188,462	0.3%	193,268	0.4%	97.5%
4. Interests	3,256,902	5.6%	2,761,306	5.6%	117.9%
Total gross receivables	**58,163,910**	**100.0%**	**49,403,235**	**100.0%**	**117.7%**
Provisions for receivables	(2,525,691)	-4.3%	(2,614,496)	-5.3%	96.6%
Total net receivables	**55,638,219**	**95.7%**	**46,788,739**	**94.7%**	**118.9%**

As at the end of 2004, the structure of gross receivables from sectors was as follows: 82.7% - term receivables; 11.7% - receivables in current account; 5.6% - 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 were changes which consisted in their transfer 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 25.0% to 23.5%) and overdue receivables (decrease from 7.3% to 4.4%).

Table 5. Net receivables from sectors by maturity

Receivables	As at: 31 December 2004	As at: 31 December 2003	Change in percentage points	Dynamics
1	2	3	4	5
a) in current account	**11.7%**	**11.6%**	**0.1**	**118.9%**
b) term (by period remaining to maturity):	**82.7%**	**82.8%**	**-0.1**	**117.6%**
- within 1 month	9.7%	7.3%	2.4	156.3%
- from 1 month to 3 months	8.5%	6.4%	2.1	157.0%
- from 3 months to 1 year	15.7%	15.1%	0.6	122.1%
- from 1 year to 5 years	23.5%	25.0%	-1.5	110.6%
- over 5 years	20.9%	21.7%	-0.8	113.6%
- overdue	4.4 %	7.3%	-2.9	70.8%
c) interest	**5.6%**	**5.6%**	**0.0**	**117.9%**
- not due	5.4%	5.3%	0.1	119.5%
- due	0.2%	0.3%	-0.1	86.6%
Total gross receivables from sectors	**100.0%**	**100.0%**		**117.7%**

Amounts due from clients

During the period from 31 December 2003 to 31 December 2004, the balance of gross receivables due from the Capital Group's clients, i.e. from the non-financial sector and the public sector, increased by PLN 3,504.6 million (i.e. by 8.5%) to PLN 44,575.7 million at the end of 2004, of which PLN 43,588.0 million represented gross receivables from clients of PKO BP SA– the holding company of the Capital Group.

The structure of loans and other receivables of PKO BP SA as at the end of 2004 is presented in the table below:

Table 6. Gross amounts due from the non-financial and the public sector of PKO BP SA (PLN thousand)

Title	As at 31 December 2004		As at 31 December 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 positions 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 of 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 the Capital Group's client loan portfolio improved. As at the end of 2004 the irregular receivables accounted for 9.2% of the total gross amount due from the non-financial 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.

This resulted from the improvement in PKO BP SA loan portfolio quality and the new rules of exposure classification and creation of specific provisions in banks (according to the Minister of Finance Decree of 10 December 2003 on the creation of provisions for risks relating to banking activity).

Table 7. Structure of gross amounts due from the non-financial sector and the public sector, by financial standing (without interest due and not due)

Risk Category	As at:		Change in percentage points	Dynamics
	31 December 2004	31 December 2003		
1	*2*	*3*	*4*	*5*
1. Normal	84.2%	84.1%	0.1	108.2%
2. Watch	6.6%	3.4%	3.2	211.6%
3. Irregular, of which:	**9.2%**	**12.5%**	**-3.3**	**79.0%**
- substandard	1.4%	2.3%	-0.9	66.7%
- doubtful	1.0%	1.9%	-0.9	54.8%
- lost	6.8%	8.3%	-1.5	88.0%
Total gross loan receivables	**100.0%**	**100.0%**		**108.1%**

Debt securities, stocks and shares

As at the end of 2004 the Capital Group's exposure to debt securities, stocks and shares was PLN 26,072.2 million and was by PLN 4,173.2 million (-13.8%) lower compared to the balance in the previous year. This resulted from a shift in the funds of the holding company (PKO BP SA) towards interbank deposits.

Table 8. Debt securities and shares (PLN thousand)

Title	As at 31 December 2004		As at 31 December 2003		Dynamics
	PLN thousand	structure	PLN thousand	structure	
1	*2*	*3*	*4*	*5*	*6*
1. Debt securities, of which:	24,121,054	92.5%	29,524,320	97.6%	81.7%
- issued by the Central Bank	*3,768,909*	14.5%	*2,826,890*	9.3%	133.3%
- issued by the State Treasury and local authorities	*19,797,247*	75.9%	*25,942,555*	85.8%	76.3%
- issued by other entities	*554,898*	2.1%	*754,875*	2.5%	73.5%
2. Shares in subsidiaries, joint-ventures and associates valued under the equity pick-up method	119,737	0.5%	72,489	0.2%	165.2%
3. Shares in other entities	465,068	1.8%	386,716	1.3%	120.3%
4. Other securities and other financial assets	1,366,358	5.2%	261,854	0.9%	521.8%
Total	**26,072,217**	**100.0%**	**30,245,379**	**100.0%**	**86.2%**

Liabilities and Equity

As at the end of 2004, the main item in Liabilities and Equity of the Capital Group were "Liabilities", which accounted for 83.5% of the total balance, and "Equity" which accounted for 9.1% of the total liabilities and equity balance. Compared to the balance as at the end of 2003, liabilities increased by PLN 1,381.8 million, which, taking into account higher dynamics of other items, resulted in a decrease in liabilities share in the total balance of liabilities and equity of 2.5 pp. Equity share increased by 1.5 pp.

Table 9. Main items of liabilities and equity of the PKO BP SA Capital Group (in PLN thousand)

Title	As at 31.12.2004		As at 31.12.2003		Dynamics
	PLN thousand	structure	PLN thousand	structure	
	2	*3*	*4*	*5*	*6*
1. Amounts due to the Central Bank	144	0.0%	0	0.0%	-
2. Amounts due to the financial sector	1,108,893	1.2%	1,202,120	1.4%	92.2%
3. Amounts due to the non-financial sector	67,605,805	76.2%	68,321,670	80.8%	99.0%
4. Amounts due to the public sector	5,369,539	6.1%	3,178,790	3.8%	168.9%
5. Special funds and other liabilities	1,898,958	2.1%	1,191,384	1.4%	159.4%
6 Accruals and deferred income	3,282,999	3.7%	2,972,972	3.5%	110.4%
7. Negative goodwill	0	0.0%	0	0.0%	-
8. Provisions	1,400,672	1.6%	1,301,491	1.5%	107.6%
9. Subordinated liabilities	0	0.0%	0	0.0%	-
10. Minority capital	25,164	0.0%	503	0.0%	5,002.8%
11. Equity excluding net profit	6,559,469	7.4%	5,206,429	6.2%	126.0%
12. Net profit (loss)	1,511,065	1.7%	1,192,706	1.4%	126.7%
Total	**88,762,708**	**100.0%**	**84,568,065**	**100.0%**	**105.0%**

Liabilities

As at 31 December 2004, total liabilities of the Capital Group amounted to PLN 74,909.8 million. Total amounts due to the financial, the non-financial and the public sector amounted to PLN 74,084.2 million (including PLN 73,376.7 million of PKO BP SA liabilities). The remaining PLN 825.6 million represents liabilities arising from financial instruments and amounts arising from securities issued. In comparison to the previous year, the Group's liabilities increased by PLN 1,944.9 million.

The table below refers only to the Group's liabilities towards the sectors.

Table 10. 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 financial sector	1.5%	1.6%	-0.1	92.4%
2. Amounts due to non-financial sector	91.3%	94.0%	-2.7	98.9%
3. Amounts due to public sector	7.2%	4.4%	2.8	168.9%
Total	**100.0%**	**100.0%**		**101.9%**

As at the end of 2004, the main item in liabilities (95.7%) consisted of funds on accounts and client deposits, reaching a level of PLN 70,876.2 which was an increase of 2.2% since the level as at the end of the prior financial year.

Table 11. 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 customer deposits	70,876,193	95.7%	69,319,073	95.3%	102.2%
2. Placements by banks and other financial institutions	756,597	1.0%	1,016,554	1.4%	74.4%
3 Loans and credits obtained	310,811	0.4%	163,994	0.2%	189.5%
4. Other liabilities	276,886	0.4%	308,485	0.4%	89.8%
5. Interest	1,874,215	2.5%	1,925,859	2.7%	97.3%
Total liabilities	**74,094,702**	**100.0%**	**72,733,965**	**100.0%**	**101.9%**

Compared to the prior year, changes in the liabilities maturity structure, whereby the share of current liabilities share in the total balance of liabilities increased (from 32.6% to 34.1%) and term liabilities decreased. As for 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 26.0%) from the range of 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%).

Compared to the previous year only minority capital changed significantly **in other items of equity and liabilities of the PKO BP SA Group**. An increase in this balance is due to consolidation of a new subsidiary - Kredyt Bank (Ukraina) SA, in which PKO BP SA has 66.651% share in the share capital.

The balance sheet structure of PKO BP SA Capital Group does not endanger the Group's liquidity, which is understood as the ability to settle current and future obligations. The Group's holding company developed a consistent, advanced system for liquidity risk management. PKO BP SA has a stable deposit base and portfolio of liquid securities which together are the factors influencing high liquidity of the Bank. The significant level of liquid assets in the balance sheet of the Bank and stable sources of financing cause that Bank's liquidity is not endangered.

8.2. Off-balance sheet items

As at the end of 2004 off-balance sheet items of the Capital Group amounted to PLN 195,924.6 million and in comparison to the balance as at the end of 2003 increased by 112.0%.

Liabilities arising from purchase/sale transactions are the main off-balance sheet item (86.8%). The share of this position increased by 10.9% in the 12 months of this year. This position consists mainly of financial instrument operations of a value of PLN 144,858.5 million (i.e. Interest Rate Swap, Forward

Rate Agreement, Currency Interest Rate Swap, sell-buy-back transactions) and forward purchase/sale transactions, which amounted to PLN 17,603.8 million and were concluded by PKO BP SA to manage the Bank's liquidity, to speculate and to arbitrage between financial markets.

Table 12. Off-balance sheet items of the PKO BP SA Capital Group (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	**11,835,988**	**6.0%**	**19,184,954**	**20.8%**	**61.7%**
1. Contingent liabilities granted:	6,477,067	3.3%	14,295,706	15.5%	45.3%
a) financial	5,738,590	2.9%	13,913,213	15.1%	41.2%
b) guarantees	738,477	0.4%	382,493	0.4%	193.1%
2. Contingent liabilities received:	5,358,921	2.7%	4,889,248	5.3%	109.6%
a) financial	758,291	0.4%	84,906	0.1%	893.1%
b) guarantees	4,600,630	2.3%	4,804,342	5.2%	95.8%
II. Liabilities arising from purchase/sale transactions	**170,084,928**	**86.8%**	**70,136,929**	**75.9%**	**242.5%**
III. Other	**14,003,648**	**7.2%**	**3,077,641**	**3.3%**	**455.0%**
Total off-balance sheet items	**195,924,564**	**100.0%**	**92,399,524**	**100.0%**	**212.0%**

As at 31 December 2004 the Group's off-balance contingent liabilities amounted to PLN 11,836.0 million and constituted 6.0% of total off-balance sheet liabilities, of which:

- contingent financial liabilities granted amounted to PLN 5,738.6 million and consisted mainly of credit lines,
- contingent guarantee liabilities received amounted to PLN 4,600.6 million and consisted mainly of loan repayment guarantees.

As at 31 December 2004 the Group had the following off-balance sheet liabilities with a net value equal to or higher than PLN 100 million:

Client	Contingent liabilities - financial	of which: open credit lines	Contingent liabilities - guarantees
Client 1	PLN 1 105.2 million	PLN 1,105.2 million	-
Client 2	PLN 575.3 million	PLN 567.9 million	PLN 23.9 million
Client 3	PLN 218.9 million	PLN 218.9 million	PLN 110.0 million
Client 4	PLN 174.8 million	PLN 174.8 million	-
Client 5	PLN 170.0 million	PLN 170.0 million	-
Client 6	PLN 137.1 million	PLN 137.1 million	-
Client 7	-	-	PLN 105.0 million
Client 8	PLN 100.0 million	PLN 100.0 million	-
Client 9	PLN 100.0 million	PLN 100.0 million	-

8.3. Profit and loss account

The PKO BP SA Capital Group recorded a gross profit of PLN 1,854.4 million, which is PLN 228.3 million, i.e. 14.0% higher than in 2003. Obligatory tax charges amounted to PLN 364.0 million, and the share in the net profit of entities valued using the equity method amounted to PLN 20.7 million. Taking into account these items, the net profit of PKO BP SA for 2004 amounted to PLN 1,511.1 million, which was PLN 318.4 million, i.e. 26.7%, higher than in 2003.

Table 13. PKO BP SA Capital Group's main profit and loss account items (PLN thousand)

Title	2004	2003	Change	Dynamics
1	*2*	*3*	*4*	*5*
1. Net interest income	3,631,834	3,461,930	169,904	104.9%
2. Net fees and commission income	1,590,676	1,333,526	257,150	119.3%
3. Profit from sales	79,493	135,071	-55,578	58.9%
4. Income from variable income securities	3,396	4,406	-1,010	77.1%
5. Result from financial operations	-185,688	62,006	-247,694	-
6. Foreign exchange result	473,435	535,473	-62,038	88.4%
7. Net other operating income and expense	127,959	93,648	34,311	136.6%
8. Overhead costs	-3,223,711	-3,177,819	-45,892	101.4%
9. Depreciation of tangible assets and amortization of intangible assets	-520,039	-515,980	-4,059	100.8%
10. Change in provisions value and revaluation	-86,405	-297,073	210,668	29.1%
11. Operating result	1,890,950	1,635,188	255,762	115.6%
12. Net extraordinary gains (losses)	229	401	-172	57.1%
13. Amortisation of goodwill of subordinated entities	-36,914	-13,441	-23,473	274.6%
14. Amortisation of negative goodwill of subordinated entities	88	3,912	-3,824	2.2%
15. Gross profit (loss)	**1,854,353**	**1,626,060**	**228,293**	**114.0%**
16. Taxation	-363,960	-433,137	69,177	84.0%
17. Share in net profit (loss) of companies valued using the equity method	20,720	-273	20,993	-
18. (Profit) loss attributable to minority shareholders	-48	56	-104	-
19. Net profit (loss)	**1,511,065**	**1,192,706**	**318,359**	**126.7%**

Result from banking activity of the Group for 2004 amounted to PLN 5,513.7 million and was 2.2% higher than the result for 2003.

<u>Net interest income</u>

In 2004, the PKO BP SA Capital Group earned net interest of PLN 3,631.8 million (which is 4.9% higher than the result for 2003). The above result consists of interest income of PLN 5,311.7 million decreased by interest expenses of PLN 1,679.9 7 million. Compared to 2003, interest income increased by 3.5% and interest expense increased by 0.5%.

The most significant item contributing to the Group's interest income in 2004 was income from clients (the non-financial and the public sector), amounting to 57.6% of the income and interest income on bonds and Treasury bills, i.e. fixed income debt securities (33.0%).

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 3.5 percentage points due to the considerable increase in the balance of funds deposited in PKO BP SA by public entities.

Table 14. Structure and dynamics of interest income and cost

Title	Structure 2004	Structure 2003	Change in pp.	Dynamics
1	*2*	*3*	*4*	*5*
Interest revenue from:	**100.0%**	**100.0%**		**103.5%**
a) the financial sector	9.4%	9.4%	0.0	103.3%
b) the non-financial sector	44.7%	39.9%	4.8	115.8%
c) the public sector	12.9%	11.9%	1.0	112.2%
d) fixed-rate debt securities	33.0%	38.8%	-5.8	88.1%
Interest cost from:	**100.0%**	**100.0%**		**100.5%**
a) the financial sector	3.9%	3.5%	0.4	110.8%
b) the non-financial sector	86.7%	90.6%	-3.9	96.2%
c) the public sector	9.4%	5.9%	3.5	159.5%

In 2004 - in PKO BP SA – the holding company of the Group - the average interest rate on assets bearing interest was 6.8% and 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% and was 0.1 percentage points lower than in 2003.

<u>Fees and commission income</u>

Net fees and commission income for 2004 amounted to PLN 1,590.7 million and was 19.3% higher than the previous year's balance. The result consisted in fees and commission income amounting to PLN 1,869.1 million and fees and commission expenses amounting to PLN 278.4 million. The dynamics of fees and commission income and fees and commission expenses was 119.3% and 119.1%, respectively.

The majority of fees and commission income (97.6%) was generated in 2004 by the Group from commission on banking activity, such as cash payments, servicing of bank card and fees and commission revenue related to the Bank's lending activity. The remaining 2.3% of fees and commission revenue related to the Group's brokerage activity.

In 2004 fees and commission expenses were incurred mainly due to fees on card servicing and commission paid to agents.

<u>Result of financial operations, foreign exchange result and income from shares</u>

Result of financial operations, foreign exchange result and income from shares in 2004 totalled a positive amount of PLN 291.1 million, which included a foreign exchange result of PLN 473.4 million, income from shares of PLN 3.4 million and a negative result of financial operations of PLN 185.7 million

Group's general expenses

The PKO BP SA Capital Group's general expenses including both activity expenses and depreciation/amortization amounted to PLN 3,743.8 million in the year 2004 which represented an increase of 1.4% (i.e. PLN 50.0 million) in comparison to the year 2003. It included an increase in banking overhead costs of PLN 45.9 million (+1.4%) and an increase in depreciation expenses of PLN 4.1 million (+0.8%).

Table 15. PKO BP SA Capital Group's general expenses, by type (in PLN thousand)

Title	2004		2003		Dynamics
	PLN thousand	share	PLN thousand	share	
1	*2*	*3*	*4*	*5*	*6*
I. General expenses, of which:	**3,223,711**	**86.1%**	**3,177,819**	**86.0%**	**101.4%**
1. Personnel expenses *(incl. insurance and other benefits)*	1,933,034	51.6%	1,878,297	50.8%	102.9%
2. Non-personnel expenses	1,220,879	32.6%	1,230,088	33.3%	99.3%
3. Other	69,798	1.9%	69,434	1.9%	100.5%
II. Depreciation/ amortization	**520,039**	**13.9%**	**515,980**	**14.0%**	**100.8%**
Total Group's general expenses	**3,743,750**	**100.0%**	**3,693,799**	**100.0%**	**101.4%**

Personnel expenses incurred by Group companies in 2004 were 2.9% higher (i.e. PLN 54.7 million) than in the year 2003. The main reason for the increase was the change in salary level in PKO BP SA. The increase in the costs of salaries was the result of the Bank's strategy to adjust the salary level in the Bank to the average salary level in the banking sector in Poland.

Non-personnel expenses remained stable and amounted to PLN 1,220.9 million in 2004 despite privatization costs incurred in 2004 of PLN 44.7 million. Maintaining non-personnel expenses at a stable level was possible due to intensification of activities aiming at rationalizing non-personnel expenses in the Bank and the other Group companies.

Other activity costs, comprising taxes and fares, including contribution to the Banking Guarantee Fund did not change significantly as compared with the year 2003.

Depreciation/ amortization charges increased by 0.8% (i.e. by PLN 4.1 million) in comparison to the year 2003 and amounted to PLN 520.0 million.

Net specific provisions and revaluations

In 2004, the balance of specific provisions and revaluations decreased the PKO BP SA Group's gross result by PLN 86.4 million. In comparison to 2003 net specific provisions and revaluations were PLN 210.7 million higher.

Table 16. Net specific provisions and revaluation (in PLN thousand)

Title	2004	2003	Change	Dynamics
1	*2*	*3*	*4*	*5*
1. Creation of provisions and revaluation, of which:	**(1,058,678)**	**(1,409,479)**	**350,801**	**75.1%**
- increase in the balance of specific provisions and general banking risk reserve	(1,057,493)	(1,406,919)	349,426	75.2%
- revaluation of financial assets	(1,185)	(2,560)	1,375	46.3%
2. Release of provisions and revaluation, of which:	**972,273**	**1,112,406**	**(140,133)**	**87.4%**
- reversal of specific provisions and general banking risk reserve	971,581	1,108,658	(137,077)	87.6%
- revaluation of financial fixed assets	692	3,748	(3,056)	18.5%
Net specific provisions and revaluations	**(86,405)**	**(297,073)**	**210,668**	**29.1%**

The better result in this line item of the Group's profit and loss account was the effect of the improvement in the net specific provisions result of PKO BP SA – the holding company, which was the effect of the improvement of the quality of Bank's loan portfolio, and on the other – the effect of new rules on the classification of loan exposure and creation of specific provisions.

8.4. Key financial ratios

The financial result of PKO BP SA Capital Group in 2004 (compared with the balance at the end of 2003) led to the following changes **in the profitability ratios:**

- return on assets (ROA) increased by 0.31 percentage points,
- return on equity (ROE) increased by 0.81 percentage points,
- decrease in the Group's general expenses to banking activity result ratio (C/I) by 0.54 percentage points
- increase of 7.38 percentage points in the coverage of operating expenses by fees and commission income

Table 17. Key profitability ratios

Ratios	2004	2003
1	*2*	*3*
1. Net profit/ average asset **(ROA_{net})***	**1.74%**	**1.43%**
2. Net profit /average equity **(ROE_{net})****	**20.89%**	**20.08%**
3. General activity expenses + depreciation/ amortization to Result from banking activity **(C/I)**	**67.90%**	**68.44%**
4. Net fees and commission income to operating expenses	**49.34%**	**41.96%**

**) 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*

8.5. Equity and Capital Adequacy Ratio

As at 31 December 2004, the Group's equity amounted to PLN 8,070.5 million, of which PLN 6,553.0 million (81.2%) was Shareholders' funds and PLN 1,517.5 million (18.8%) – Retained earnings and Net profit for the year.

Compared to the end of 2003, shareholders' funds increased by PLN 1,388.5 million (26.9%) mostly as a result of the appropriation of PKO BP SA net profit for 2003.

Table 18. Equity of the PKO BP SA Capital Group (in PLN thousand)

Title	2004		2003		
	in PLN thousand	structure	in PLN thousand	structure	Dynamics
1	*2*	*3*	*4*	*5*	*6*
1. Share capital	1 000 000	12,4%	1 000 000	15,6%	100,0%
2. Reserve capital	2 804 731	34,7%	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	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%**

On 31 August 2004 the Polish Securities and Exchange Commission gave its consent to PKO BP shares being admitted to public trading.
PKO BP SA Group capital adequacy ratio as at 31 December 2004 was 16.67% and remained at a similar level as in the previous year (16.36%).

9. Regulation of risk management

Due to the Group's structure risk is generated mainly by PKO BP SA – the holding company of the Group.

9.1. 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 adaption to new sources and banking factors risk.

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 the 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 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 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 works 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 updated rating system, that provides for individual client risk assessment and transaction risk assessment. A standard template of loan report 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.

9.2. 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 whole 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.

9.3. Operating Risk

In order to limit operational risk at the beginning of 2004 the Bank accepted operating risk management standards in PKO BP SA, which set the elements of the operating risk management process, separated the entities and units responsible for comprehensive and current operating 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 operating risks when designing 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.

10. MAJOR CAPITAL INVESTMENTS

Powszechna Kasa Oszczędności Bank Polski SA (PKO BP SA)

In August 2004 the Bank acquired 66.651% shares in Kredyt Bank (Ukraina) S.A.'s share capital, giving the right to exercise 66.651% of votes at the general shareholders' meeting.

In August 2004 the Bank acquired 25.0001% shares in Bank Pocztowy S.A. giving the right to exercise 25.0001% of votes at the general shareholders' meeting.

In September 2004 the Bank acquired 100% shares in Dom Maklerski BROKER S.A. giving the right to exercise 100% of votes at the general shareholders' meeting.

The Bank made a contribution to the share capital of PKO Towarzystwo Finansowe Sp. z o.o.

The Bank made a contribution to the share capital of PKO Inwestycje Sp. z o.o.

In the year 2004 PKO BP SA carried out investments on the public market buying and selling shares included in portfolios supervised by the Department of Capital Investments and Bankowy Dom Maklerski. The total value of portfolios as at 31 December 2004 at purchase price was PLN 355 million and decreased by PLN 26 million from the level as at 31 December 2003. The decrease resulted mainly from the sale of shares in KGHM "Polska Miedź" S.A. and Bank Handlowy w Warszawie S.A..

PKO Inwestycje Sp. z o.o.

The Company acquired shares in Wilanów Investments Sp. z o.o. for PLN 2,040 thousand and made a capital injection in the form of additional payments of 11,930 thousand. The investment was financed with the Bank's contribution to the capital of PKO Inwestycje Sp. z o.o.

The Company acquired shares in the new established Towarzystwo Ubezpieczeń Wzajemnych Bezpieczny Dom for PLN 100 thousand representing 5% of share capital and votes at the general shareholders' meeting. TUW Bezpieczny Dom was set up to provide clients of the companies-members of TUW Bezpieczny Dom with security when concluding development agreements.

Fort Mokotów Sp. z o.o. – a subsidiary of PKO Inwestycje Sp. z o.o. acquired 5% shares in TUW Bezpieczny Dom forPLN 100 thousand. The Company's share in TUW accounts for 5% share in share capital and votes at the general shareholders' meeting.

Inteligo Financial Services S.A.

The Company acquired shares for PLN 21 thousand in the increased capital of Inteligo Technologies Sp. z o.o.

In December 2004 Inteligo Financial Services sold its shares in Inteligo Technologies Sp. z o.o.

11. Related party transactions

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 consolidated financial statements of the PKO BP SA Capital Group in "Related party transactions".

Granted off-balance sheet liabilities

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 and increased by 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.

12. International cooperation

European Bank for Reconstruction and Development

PKO BP SA participates in the "Loan Window" programme being a part of the "UE/EBRD SME Finance Facility" (on the basis of the 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 the 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 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.

Kredyt Bank (Ukraina) S.A. performs settlements in 17 currencies. The Company maintains 19 nostro accounts and 16 loro accounts. Thanks to cooperation with the shareholders, i.e. PKO BP SA and the European Bank for Reconstruction and Development and with the main correspondent banks, Kredyt Bank (Ukraina) S.A. offers its clients a wide range of services in the field of international operations.

13. SERVICE PROMOTION AND IMAGE BUILDING

13.1. Promotional activities

Promotional activities of PKO BP SA 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 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 acted also 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 years anniversary of the Warsaw Academy of Arts. The key moments of the celebrations were 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 of 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 sport contest on the III Program of the 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.

Promotional activities of other Group companies were concentrated on the following issues in the year 2004:

- securing marketing support for the sale of products, particularly new products and services and creating a positive image of a company (Kredyt Bank (Ukraina) S.A.)
- sponsoring significant cultural projects (including events taking place in Centrum Finansowe Puławska) as well as sport, educational and health-care projects (Centrum Finansowe Puławska Sp. z o.o.)
- activities supporting the image of Bankowy Fundusz Leasingowy S.A. including an advertising campaign aimed at small and medium enterprises organized under the slogan "Polish leasing for Polish companies"
- promotions and competitions aimed at clients of Inteligo Financial Services S.A., including "I pay with Inteligo"
- launching a new PTE BANKOWY S.A. website.

13.2. Awards and Distinctions

In 2004 PKO BP SA Capital Group companies won many awards, the most important of which were:

received by PKO BP SA:

- SPORT PATRON –honorary title awarded for the Bank's activities in the area of sport' 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 municipal bonds issue",
- European program –award in the category "best finance product of the year" in the Portfolio 2004 competition organized by BusinessWeek,
- EUROPRODUCT –title awarded in *service* category for multi-currency loan and in *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 receivedthe 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 banks 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 second place for Inteligo Account in 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 Cards 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.

received by Centrum Elektronicznych Usług Płatniczych eService S.A.:

- ROCK AWARD 2003 – golden award for the biggest contribution to developing the payment cards acceptance network,

received by Inteligo Financial Services S.A.:

- SUPERMARKA 2004 – category: banking and insurance, awarded within the research project: "Super brands of the Polish market",
- OSKAR SERCA 2004 – awarded by the Council of the Foundation for Development of Cardio-surgery,

received by Kredyt Bank (Ukraina) S.A.:

- title of the most efficient investment in the Ukrainian banking sector (in the last 5 years) awarded by the President of the Republic of Poland during the VIIth Economic Forum Ukraine-Poland in Jalta,
- title of the best investor in the Lviv sector awarded during the IVth Competition of the International Economic Forum and Investment Fairs in Lviv
- title of the most European bank of Ukraine awarded during an exhibition – presentation of the District of Lvic in "Ekspocentr Ukrainy" in Kiev.

14. IMPORTANT AGREEMENTS AND SIGNIFICANT AGREEMENTS WITH THE CENTRAL BANK OR SUPERVISORY BODIES

In 2004 PKO BP SA concluded four syndicate loan agreements with one borrower (Ministry of Economy, Labour and Social Policy). The Bank's share in these agreements amounts to PLN 700 million. The other companies of the PKO BP SA Capital Group did not conclude any significant agreements where the value of the agreement's subject would exceed 10% of the Bank's shareholders' equity.

In 2004 neither the Bank nor any other PKO BP SA Capital Group company signed 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.

15. OBTAINED LOANS AND CREDITS, GUARANTEES AND SURETIES NOT RELATING TO BANK'S OPERATING ACTIVITY

In 2004 PKO BP SA 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.
In 2004 Kredyt Bank (Ukraina) S.A. did not take any loans or credits and also did not receive any guarantees and pledges not concerning the operating activity of the Bank.

16. ENFORCEABLE TITLES ISSUED

In 2004 Bank PKO BP SA issued 29,143 banking enforceable titles which amounted to PLN 816 million.

Regarding Kredyt Bank (Ukraina) S.A., the Ukrainian law does not allow banks to issue banking enforceable titles as defined by the Polish banking law.

17. PKO BP SA MANAGEMENT AND SUPERVISORY BODIES IN THE REPORTING PERIOD

<u>PKO BP SA Management Board term of office</u>

According to § 19 of the PKO BP Statute term of office of the Bank's Management Board is three years.

<u>Management Board in the period covered by the financial statements:</u>

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	

<u>Other positions held by Bank's Board Members in the period covered by the financial statements:</u>

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 the members of the Supervisory Board of PKO BP SA were as follows:

	Name	Function
1.	Bazyl Samojlik	Chairman
2.	Ryszard Kokoszczyński	Vice-chairman
3.	Arkadiusz Kamiński	Secretary
4.	Andrzej Giryn	Member
5.	Stanisław Kasiewicz	Member
6.	Jerzy Osiatyński	Member
7.	Władysław Szymański	Member

In the reporting period there were no changes in the Supervisory Board of PKO BP SA.

Bank's shares held by the 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 attorneyholders, Board Meetings and execution of resolutions of Shareholders Meetings and recommendations of the Ministry of State Treasury

1. As of 1 January 2004 there were 18 holders of commercial powers of attorneyholders, and at the year end there were 17During the year 2004 the Management Board dismissed four holders of commercial powers of attorney and appointed three.

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 General Shareholders' Meeting on 27 May 2004,
   - Five Extraordinary General Shareholders' Meetings on: 1 April 2004, 21 July 2004, 30 July 2004, 12 August 2004, 10 September 2004.

The resolutions passed during the General Shareholders' 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 Group have been presented in the relevant parts of this Director's Report.

18. 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 Transactions 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. 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.

Significant post balance sheet events in other PKO BP SA Capital Group companies:

1. 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 specialist savings bank. This has led to a change in the economic regulations for the bank.
2. Based on a decision of the National Bank of Ukraine Kredyt Bank (Ukraina) S.A. was classified in Group II – "big banks" i.e. in the group of banks whose assets exceed UAH 1,300 million,
3. On 15 February 2005 the Commission of Securities and Stock Exchanges 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.

The Management Report of PKO BP SA Capital Group for 2004 consists of 36 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