

The text below is an unofficial translation of the report disclosed by PKO BP pursuant to the Polish Act on Public Trading in Securities of 21 August, 1997 (as amended). As Polish is the only official language in the Republic of Poland, PKO BP only assumes responsibility for the Polish language report. PKO BP assumes no responsibility for the report in its unofficial English translation.

**SAB-QSr III/2004**
**(for banks)**

The Management Board of Powszechna Kasa Oszczędności Bank Polski SA hereby presents a consolidated quarterly report for the third quarter of 2004

date .....  
 (date of submission)

SELECTED FINANCIAL DATA	in PLN thousand		in EUR thousand	
	3 quarters of 2004 period from 01.01.2004 to 30.09.2004	3 quarters of 2004 period from 01.01.2003 to 30.09.2003	3 quarters of 2004 period from 01.01.2004 to 30.09.2004	3 quarters of 2004 period from 01.01.2003 to 30.09.2003
I. Interest income	3 887 944	3 884 105	841 291	890 482
II. Fees and commission income	1 335 113	1 141 947	288 898	261 806
III. Result from banking activities	4 043 668	4 018 743	874 988	921 350
IV. Operating profit	1 527 153	1 372 816	330 452	314 736
V. Gross profit (loss)	1 510 737	1 368 260	326 900	313 692
VI. Net profit (loss)	1 216 675	956 513	263 270	219 293
VII. Net cash flow from operating activities	(49 659)	(5 278 281)	(10 745)	(1 210 115)
VIII. Net cash flow from investing activities	1 505 254	4 937 310	325 714	1 131 943
IX. Net cash flow from financing activities	63 818	(283 532)	13 809	(65 003)
X. Total net cash flow	1 519 413	(624 503)	328 778	(143 176)
XI. Total assets	86 512 412	84 646 707	19 737 272	18 229 074
XII. Amounts due to Central Bank	61	-	14	-
XIII. Amounts due to the financial sector	1 166 319	2 072 878	266 088	446 404
XIV. Amounts due to the non-financial and the public sector	71 531 660	70 549 496	16 319 506	15 193 172
XV. Shareholders' equity	7 665 451	6 278 886	1 748 825	1 352 188
XVI. Share capital	1 000 000	1 000 000	228 144	215 355
XVII. Number of shares	1 000 000 000	1 000 000 000	x	x
XVIII. Net book value per share (in PLN/EUR)	7.67	6.28	1.75	1.35
XIX. Diluted net book value per share (in PLN/EUR)	7.67	6.28	1.75	1.35
XX. Capital adequacy ratio	16.57	16.68	x	x
XXI. Net profit (loss) per ordinary share (in PLN/EUR)	1.45	1.01	0.31	0.23
XXII. Diluted net profit (loss) per ordinary share (in PLN/EUR)	1.45	1.01	0.31	0.23
XXIII. Declared or paid dividend per ordinary share (in PLN/EUR)	-	-	-	-

<b>CONSOLIDATED BALANCE SHEET</b>	<b>As at 30.09.2004 end of 3rd quarter of 2004</b>	<b>As at 30.06.2004 end of previous quarter of 2004</b>	<b>As at 30.09.2003 end of 3rd quarter of 2003</b>	<b>As at 30.06.2003 end of previous quarter of 2003</b>
<b>ASSETS</b>				
<b>I. Cash and balances with the Central Bank</b>	<b>4 114 862</b>	<b>3 445 809</b>	<b>4 629 339</b>	<b>3 608 505</b>
<b>II. Debt securities eligible for rediscounting in the Central Bank</b>	-	-	-	-
<b>III. Amounts due from the financial sector</b>	<b>11 955 023</b>	<b>11 264 323</b>	<b>8 770 480</b>	<b>13 326 700</b>
1. Short-term	11 911 415	11 152 730	8 560 751	12 590 985
a) current	2 119 783	1 399 449	540 817	1 129 390
b) other	9 791 632	9 753 281	8 019 934	11 461 595
2. Long-term	43 608	111 593	209 729	735 715
<b>IV. Amounts due from the non-financial sector</b>	<b>34 342 009</b>	<b>32 191 808</b>	<b>30 608 045</b>	<b>29 391 420</b>
1. Short-term	13 353 160	12 100 982	12 560 853	11 625 165
a) current	5 967 237	5 679 298	5 742 892	5 589 467
b) other	7 385 923	6 421 684	6 817 961	6 035 698
2. Long-term	20 988 849	20 090 826	18 047 192	17 766 255
<b>V. Amounts due from the public sector</b>	<b>6 969 340</b>	<b>7 239 007</b>	<b>5 154 126</b>	<b>5 234 382</b>
1. Short-term	2 262 529	2 292 923	1 961 131	1 970 667
a) current	49 909	66 555	74 175	106 596
b) other	2 212 620	2 226 368	1 886 956	1 864 071
2. Long-term	4 706 811	4 946 084	3 192 995	3 263 715
<b>VI. Reverse repo transactions</b>	-	-	<b>1 933 146</b>	<b>1 759 819</b>
<b>VII. Debt securities</b>	<b>24 181 275</b>	<b>27 423 125</b>	<b>29 322 498</b>	<b>27 162 582</b>
<b>VIII. Amounts due from entities valued under the equity pick-up method</b>	<b>182 390</b>	<b>183 125</b>	<b>164 271</b>	<b>112 714</b>
1. Subsidiaries	1 256	3 077	13 653	6 499
2. Joint-ventures	131 570	125 932	75 250	28 570
3. Associates	49 564	54 116	75 368	77 645
<b>IX. Investment in subsidiaries valued under the equity pick-up method</b>	<b>43 638</b>	<b>40 597</b>	<b>39 564</b>	<b>12 239</b>
<b>X. Investment in joint-ventures valued under the equity pick-up method</b>	<b>38 355</b>	<b>31 651</b>	<b>56 557</b>	<b>51 160</b>
<b>XI. Investment in associates valued under the equity pick-up method</b>	<b>146 054</b>	<b>1 721</b>	<b>224</b>	<b>210</b>
<b>XII. Shares in other entities</b>	<b>496 648</b>	<b>436 978</b>	<b>344 203</b>	<b>252 698</b>
<b>XIII. Other securities and other financial assets</b>	<b>313 733</b>	<b>615 624</b>	<b>61 018</b>	<b>165 355</b>
<b>XIV. Intangible assets, including:</b>	<b>325 869</b>	<b>312 737</b>	<b>241 004</b>	<b>255 979</b>
- goodwill	-	-	-	-
<b>XV. Goodwill of subsidiaries and associates</b>	<b>90 914</b>	<b>48 784</b>	<b>11 676</b>	<b>14 596</b>
<b>XVI. Tangible fixed assets</b>	<b>2 237 493</b>	<b>2 217 478</b>	<b>2 365 789</b>	<b>2 520 721</b>
<b>XVII. Other assets</b>	<b>1 008 402</b>	<b>605 986</b>	<b>880 679</b>	<b>875 927</b>
1. Assets acquired for sale	5 952	144	-	-
2. Inventory	20 537	20 102	25 751	23 510
3. Other	981 913	585 740	854 928	852 417
<b>XVIII. Prepayments and accrued income</b>	<b>66 407</b>	<b>60 942</b>	<b>64 088</b>	<b>62 861</b>
1. Deferred tax asset	24 873	19 562	21 911	19 467
2. Other prepayments and accrued income	41 534	41 380	42 177	43 394
<b>TOTAL ASSETS</b>	<b>86 512 412</b>	<b>86 119 695</b>	<b>84 646 707</b>	<b>84 807 868</b>

<b>CONSOLIDATED BALANCE SHEET</b>	<b>As at 30.09.2004 end of 3rd quarter of 2004</b>	<b>As at 30.06.2004 end of previous quarter of 2004</b>	<b>As at 30.09.2003 end of 3rd quarter of 2003</b>	<b>As at 30.06.2003 end of previous quarter of 2003</b>
<b>LIABILITIES AND EQUITY</b>				
<b>I. Amounts due to the Central Bank</b>	<b>61</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>II. Amounts due to the financial sector</b>	<b>1 166 319</b>	<b>1 766 758</b>	<b>2 072 878</b>	<b>2 559 590</b>
1. Short-term	926 069	1 594 449	1 778 470	1 454 114
a) current	264 718	572 435	33 923	205 223
b) other	661 351	1 022 014	1 744 547	1 248 891
2. Long-term	240 250	172 309	294 408	1 105 476
<b>III. Amounts due to the non-financial sector</b>	<b>67 381 489</b>	<b>67 243 265</b>	<b>67 789 634</b>	<b>67 813 641</b>
1. Short-term	65 577 423	65 367 657	65 831 358	65 872 964
a) current, including:	21 232 647	21 145 674	20 164 088	19 410 322
- saving accounts	2 262 617	2 302 922	2 576 485	2 625 078
b) other, including:	44 344 776	44 221 983	45 667 270	46 462 642
- saving accounts	23 915 634	24 046 932	26 428 571	27 227 244
2. Long-term, including:	1 804 066	1 875 608	1 958 276	1 940 677
- saving accounts	1 152 300	1 109 412	3 864 158	1 502 088
<b>IV. Amounts due to the public sector</b>	<b>4 150 171</b>	<b>4 110 230</b>	<b>2 759 862</b>	<b>2 803 796</b>
1. Short-term	4 144 549	4 107 939	2 757 387	2 801 283
a) current	2 706 866	2 685 513	1 653 091	1 917 947
b) other	1 437 683	1 422 426	1 104 296	883 336
2. Long-term	5 622	2 291	2 475	2 513
<b>V. Repo transactions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>VI. Liabilities arising from securities issued</b>	<b>61 787</b>	<b>59 685</b>	<b>49 000</b>	<b>25 365</b>
1. Short-term	61 787	59 685	49 000	25 365
2. Long-term	-	-	-	-
<b>VII. Other liabilities arising from financial instruments</b>	<b>55 995</b>	<b>324 232</b>	<b>202 145</b>	<b>220 708</b>
<b>VIII. Amounts due to entities valued under the equity pick-up method</b>	<b>13 068</b>	<b>13 891</b>	<b>7 270</b>	<b>18 608</b>
1. Subsidiaries	3 218	3 669	1 330	2 856
2. Joint-ventures	7 263	6 711	4 477	6 122
3. Associates	2 587	3 511	1 463	9 630
<b>IX. Special funds and other liabilities</b>	<b>1 406 807</b>	<b>877 877</b>	<b>1 297 287</b>	<b>1 181 924</b>
<b>X. Accruals and deferred income</b>	<b>3 292 875</b>	<b>3 238 746</b>	<b>2 914 624</b>	<b>2 775 643</b>
1. Accruals	223 867	174 362	150 886	118 014
2. Negative goodwill	17	17	19	20
3. Other deferred and suspended income	3 068 991	3 064 367	2 763 719	2 657 609

<b>CONSOLIDATED BALANCE SHEET</b>	<b>As at 30.09.2004 end of 3rd quarter of 2004</b>	<b>As at 30.06.2004 end of previous quarter of 2004</b>	<b>As at 30.09.2003 end of 3rd quarter of 2003</b>	<b>As at 30.06.2003 end of previous quarter of 2003</b>
<b>LIABILITIES AND EQUITY (continued)</b>				
<b>XI. Negative goodwill of subsidiaries and associates</b>	-	-	-	-
<b>XII. Provisions</b>	<b>1 288 582</b>	<b>1 309 073</b>	<b>1 274 611</b>	<b>1 313 469</b>
1. Deferred tax liability	423 562	445 252	475 058	583 796
2. Other provisions	865 020	863 821	799 553	729 673
a) short-term	28 963	27 758	24 123	21 511
b) long-term	836 057	836 063	775 430	708 162
<b>XIII. Subordinated liabilities</b>	-	-	-	-
<b>XIV. Minority capital</b>	<b>29 807</b>	-	<b>510</b>	<b>523</b>
<b>XV. Share capital</b>	<b>1 000 000</b>	<b>1 000 000</b>	<b>1 000 000</b>	<b>1 000 000</b>
<b>XVI. Unpaid share capital (negative value)</b>	-	-	-	-
<b>XVII. Own shares (negative value)</b>	-	-	-	-
<b>XVIII. Reserve capital</b>	<b>2 803 078</b>	<b>2 802 781</b>	<b>1 781 928</b>	<b>1 781 848</b>
<b>XIX. Revaluation reserve</b>	<b>272 974</b>	<b>152 768</b>	<b>338 507</b>	<b>446 298</b>
<b>XX. Other reserve capital</b>	<b>2 370 000</b>	<b>2 370 000</b>	<b>2 160 000</b>	<b>2 160 000</b>
<b>XXI. Foreign exchange differences subsidiaries and associates</b>	<b>(1 998)</b>	-	-	-
1. Positive foreign exchange differences	-	-	-	-
2. Negative foreign exchange differences	(1 998)	-	-	-
<b>XXII. Retained earnings (loss) from previous years</b>	<b>4 722</b>	<b>4 726</b>	<b>41 938</b>	<b>41 938</b>
<b>XXIII. Net profit (loss)</b>	<b>1 216 675</b>	<b>845 663</b>	<b>956 513</b>	<b>664 517</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>86 512 412</b>	<b>86 119 695</b>	<b>84 646 707</b>	<b>84 807 868</b>
<b>Capital adequacy ratio</b>	<b>16.57</b>	<b>19.33</b>	<b>16.68</b>	<b>16.86</b>
<b>Net book value</b>	<b>7 665 451</b>	<b>7 175 938</b>	<b>6 278 886</b>	<b>6 094 601</b>
<b>Number of shares</b>	<b>1 000 000 000</b>	<b>1 000 000 000</b>	<b>1 000 000 000</b>	<b>1 000 000 000</b>
<b>Net book value per share (in PLN)</b>	<b>7.67</b>	<b>7.18</b>	<b>6.28</b>	<b>6.09</b>
<b>Diluted number of shares</b>	<b>1 000 000 000</b>	<b>1 000 000 000</b>	<b>1 000 000 000</b>	<b>1 000 000 000</b>
<b>Diluted net book value per share (in PLN)</b>	<b>7.67</b>	<b>7.18</b>	<b>6.28</b>	<b>6.09</b>

<b>CONSOLIDATED OFF-BALANCE SHEET ITEMS</b>	<b>As at 30.09.2004 end of 3rd quarter of 2004</b>	<b>As at 30.06.2004 end of previous quarter of 2004</b>	<b>As at 30.09.2003 end of 3rd quarter of 2003</b>	<b>As at 30.06.2003 end of previous quarter of 2003</b>
<b>I. Contingent liabilities granted and received</b>	<b>12 872 692</b>	<b>19 305 824</b>	<b>19 146 631</b>	<b>20 200 920</b>
1. Contingent liabilities granted:	7 742 486	14 290 733	13 580 049	14 902 002
a) financial	6 582 058	13 626 037	13 131 719	14 419 014
b) guarantees	1 160 428	664 696	448 330	482 988
2. Contingent liabilities received:	5 130 206	5 015 091	5 566 582	5 298 918
a) financial	497 025	477 672	784 153	293 235
b) guarantees	4 633 181	4 537 419	4 782 429	5 005 683
<b>II. Liabilities arising from purchase/sale transactions</b>	<b>102 371 284</b>	<b>92 305 610</b>	<b>75 902 295</b>	<b>77 791 602</b>
<b>III. Other</b>	<b>13 871 759</b>	<b>2 951 848</b>	<b>3 039 466</b>	<b>3 443 647</b>
- irrevocable liabilities	9 253 631	218 144	90 649	97 588
- collateral accepted	4 618 128	2 733 704	2 948 817	3 346 059
<b>TOTAL OFF-BALANCE SHEET ITEMS</b>	<b>129 115 735</b>	<b>114 563 282</b>	<b>98 088 392</b>	<b>101 436 169</b>

CONSOLIDATED PROFIT AND LOSS ACCOUNT	3rd quarter of 2004 period from 01.07.2004 to 30.09.2004	3 quarters of 2004 period from 01.01.2004 to 30.09.2004	3rd quarter of 2003 period from 01.07.2003 to 30.09.2003	3 quarters of 2003 period from 01.01.2003 to 30.09.2003
I. Interest income	1 333 118	3 887 944	1 245 709	3 884 105
II. Interest expense	(432 710)	(1 167 934)	(363 598)	(1 317 001)
<b>III. Net interest income (I-II)</b>	<b>900 408</b>	<b>2 720 010</b>	<b>882 111</b>	<b>2 567 104</b>
IV. Fees and commission income	499 908	1 335 113	396 978	1 141 947
V. Fees and commission expense	(73 052)	(191 976)	(58 007)	(164 330)
<b>VI. Net fees and commission income (IV-V)</b>	<b>426 856</b>	<b>1 143 137</b>	<b>338 971</b>	<b>977 617</b>
VII. Sales of finished goods, goods for resale and materials	23 681	74 767	15 187	47 383
VIII. Cost of finished goods, goods for resale and materials sold	(3 442)	(9 920)	-	-
IX. Selling expenses	-	-	-	-
<b>X. Profit from sales (VII-VIII-IX)</b>	<b>20 239</b>	<b>64 847</b>	<b>15 187</b>	<b>47 383</b>
<b>XI. Income from shares and other variable income securities and financial instruments</b>	<b>3 248</b>	<b>3 251</b>	<b>3 498</b>	<b>3 498</b>
1. From subsidiaries	-	-	-	-
2. From joint-ventures	-	-	-	-
3. From associates	-	-	-	-
4. From other companies	3 248	3 251	3 498	3 498
<b>XII. Result from financial operations</b>	<b>(48 050)</b>	<b>(13 110)</b>	<b>21 277</b>	<b>37 559</b>
<b>XIII. Foreign exchange result</b>	<b>15 781</b>	<b>190 380</b>	<b>109 624</b>	<b>432 965</b>
<b>XIV. Result from banking activities</b>	<b>1 298 243</b>	<b>4 043 668</b>	<b>1 355 481</b>	<b>4 018 743</b>
<b>XV. Other operating income</b>	<b>75 554</b>	<b>219 754</b>	<b>147 180</b>	<b>202 265</b>
<b>XVI. Other operating expense</b>	<b>(45 980)</b>	<b>(126 552)</b>	<b>(66 641)</b>	<b>(117 733)</b>
<b>XVII. Overhead costs</b>	<b>(792 288)</b>	<b>(2 331 983)</b>	<b>(780 031)</b>	<b>(2 242 411)</b>
<b>XVIII. Depreciation of tangible assets and amortization of intangible assets</b>	<b>(132 617)</b>	<b>(391 773)</b>	<b>(116 752)</b>	<b>(353 222)</b>
<b>XIX. Provisions created and revaluation</b>	<b>(205 423)</b>	<b>(724 989)</b>	<b>(391 651)</b>	<b>(1 011 474)</b>
1. Creation of specific provisions and provisions for general banking risk	(203 969)	(723 356)	(390 401)	(1 010 224)
2. Revaluation of financial assets	(1 454)	(1 633)	(1 250)	(1 250)
<b>XX. Provisions released and revaluation</b>	<b>239 649</b>	<b>774 181</b>	<b>274 707</b>	<b>829 265</b>
1. Release of specific provisions and provisions for general banking risk	200 527	735 058	272 547	825 517
2. Revaluation of financial assets	39 122	39 123	2 160	3 748
<b>XXI. Change in provisions value and revaluation (XIX-XX)</b>	<b>34 226</b>	<b>49 192</b>	<b>(116 944)</b>	<b>(182 209)</b>
<b>XXII. Operating result</b>	<b>457 377</b>	<b>1 527 153</b>	<b>437 480</b>	<b>1 372 816</b>

<b>CONSOLIDATED PROFIT AND LOSS ACCOUNT</b> (continued)	<b>3rd quarter of 2004</b> <b>period from</b> <b>01.07.2004 to</b> <b>30.09.2004</b>	<b>3 quarters of</b> <b>2004</b> <b>period from</b> <b>01.01.2004 to</b> <b>30.09.2004</b>	<b>3rd quarter of</b> <b>2003</b> <b>period from</b> <b>01.07.2003 to</b> <b>30.09.2003</b>	<b>3 quarters of</b> <b>2003</b> <b>period from</b> <b>01.01.2003 to</b> <b>30.09.2003</b>
<b>XXIII. Net extraordinary gains (losses)</b>	<b>95</b>	<b>11</b>	<b>158</b>	<b>290</b>
1. Extraordinary gains	134	341	224	541
2. Extraordinary losses	(39)	(330)	(66)	(251)
<b>XXIV. Amortization of goodwill of subsidiaries and associates</b>	<b>(5 384)</b>	<b>(16 515)</b>	<b>(2 920)</b>	<b>(8 758)</b>
<b>XXV. Amortization of negative goodwill of subsidiaries and associates</b>	<b>88</b>	<b>88</b>	<b>-</b>	<b>3 912</b>
<b>XXVI. Gross profit (loss)</b>	<b>452 176</b>	<b>1 510 737</b>	<b>434 718</b>	<b>1 368 260</b>
<b>XXVII. Taxation</b>	<b>(86 637)</b>	<b>(305 536)</b>	<b>(145 186)</b>	<b>(423 249)</b>
1. Current	(139 270)	(339 030)	(213 040)	(580 298)
2. Deferred	52 633	33 494	67 854	157 049
<b>XXVIII. Other obligatory charges against profit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>XXIX. Share in net profit (loss) of companies valued under the equity pick-up method</b>	<b>5 600</b>	<b>11 601</b>	<b>2 451</b>	<b>11 454</b>
<b>XXX. (Profit) loss attributable to minority shareholders</b>	<b>(127)</b>	<b>(127)</b>	<b>13</b>	<b>48</b>
<b>XXXI. Net profit (loss)</b>	<b>371 012</b>	<b>1 216 675</b>	<b>291 996</b>	<b>956 513</b>
<b>Net profit (loss) annualized</b>	<b>-</b>	<b>1 451 144</b>	<b>-</b>	<b>1 014 811</b>
<b>Weighted average number of ordinary shares</b>	<b>-</b>	<b>1 000 000 000</b>	<b>-</b>	<b>1 000 000 000</b>
<b>Net profit (loss) per ordinary share (in PLN)</b>	<b>-</b>	<b>1.45</b>	<b>-</b>	<b>1.01</b>
<b>Weighted average diluted number of ordinary shares</b>	<b>-</b>	<b>1 000 000 000</b>	<b>-</b>	<b>1 000 000 000</b>
<b>Diluted profit (loss) per ordinary share (in PLN)</b>	<b>-</b>	<b>1.45</b>	<b>-</b>	<b>1.01</b>

<b>CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY</b>	<b>3rd quarter of 2004 period from 01.07.2004 to 30.09.2004</b>	<b>3 quarters of 2004 period from 01.01.2004 to 30.09.2004</b>	<b>3rd quarter of 2003 period from 01.07.2003 to 30.09.2003</b>	<b>3 quarters of 2003 period from 01.01.2003 to 30.09.2003</b>
<b>I. Shareholders' equity at the beginning of the period</b>	<b>7 175 938</b>	<b>6 392 685</b>	<b>6 094 601</b>	<b>5 480 419</b>
a) adjustments due to changes in accounting policies	-	4 722	-	41 938
b) adjustments due to fundamental errors	-	-	-	-
<b>I.a. Adjusted shareholders' equity at the beginning of the period (after restatement of comparative data)</b>	<b>7 175 938</b>	<b>6 397 407</b>	<b>6 094 601</b>	<b>5 522 357</b>
<b>1. Share capital at the beginning of the period</b>	<b>1 000 000</b>	<b>1 000 000</b>	<b>1 000 000</b>	<b>1 000 000</b>
1.1. Changes in share capital	-	-	-	-
a) increase (by title)	-	-	-	-
b) decrease (by title)	-	-	-	-
<b>1.2. Share capital at the end of the period</b>	<b>1 000 000</b>	<b>1 000 000</b>	<b>1 000 000</b>	<b>1 000 000</b>
<b>2. Unpaid share capital at the beginning of the period</b>	-	-	-	-
2.1. Changes in unpaid share capital	-	-	-	-
a) increase (by title)	-	-	-	-
b) decrease (by title)	-	-	-	-
<b>2.2. Unpaid share capital at the end of the period</b>	-	-	-	-
<b>3. Own shares at the beginning of the period</b>	-	-	-	-
a) increase (by title)	-	-	-	-
b) decrease (by title)	-	-	-	-
<b>3.1. Own shares at the end of the period</b>	-	-	-	-
<b>4. Reserve capital at the beginning of the period</b>	<b>2 802 781</b>	<b>1 783 827</b>	<b>1 781 848</b>	<b>806 579</b>
4.1. Changes in reserve capital	297	1 019 251	80	975 349
a) increase (by title)	297	1 019 251	80	975 349
- appropriation of retained profit from previous years	-	-	-	136 701
- appropriation of net profit	-	1 017 994	-	838 092
- sales, liquidation of fixed assets	297	1 257	80	556
b) decrease (by title)	-	-	-	-
- coverage of the loss	-	-	-	-
<b>4.2. Reserve capital at the end of the period</b>	<b>2 803 078</b>	<b>2 803 078</b>	<b>1 781 928</b>	<b>1 781 928</b>
<b>5. Revaluation reserve at the beginning of the period</b>	<b>152 768</b>	<b>220 664</b>	<b>446 298</b>	<b>539 047</b>
5.1 Changes in revaluation reserve	120 206	52 310	(107 791)	(200 540)
a) increase (by title)	120 503	53 567	-	-
- revaluation charged to revaluation reserve	120 503	53 567	-	-
b) decrease (by title)	(297)	(1 257)	(107 791)	(200 540)
- revaluation credited to revaluation reserve	-	-	(107 711)	(199 984)
- sales, liquidation of fixed assets	(297)	(1 257)	(80)	(556)
<b>5.2. Revaluation reserve at the end of the period</b>	<b>272 974</b>	<b>272 974</b>	<b>338 507</b>	<b>338 507</b>
<b>6. General banking risk fund at the beginning of the period</b>	<b>1 000 000</b>	<b>800 000</b>	<b>800 000</b>	<b>597 000</b>
6.1. Changes in general banking risk fund	-	200 000	-	203 000
a) increase (by title)	-	200 000	-	203 000
- appropriation of net profit to general banking risk fund	-	200 000	-	203 000
b) decrease (by title)	-	-	-	-
<b>6.2. General banking risk fund at the end of the period</b>	<b>1 000 000</b>	<b>1 000 000</b>	<b>800 000</b>	<b>800 000</b>



<b>CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (continued)</b>	<b>3rd quarter of 2004 period from 01.07.2004 to 30.09.2004</b>	<b>3 quarters of 2004 period from 01.01.2004 to 30.09.2004</b>	<b>3rd quarter of 2003 period from 01.07.2003 to 30.09.2003</b>	<b>3 quarters of 2003 period from 01.01.2003 to 30.09.2003</b>
<b>7. Other reserve capital at the beginning of the period</b>	<b>1 370 000</b>	<b>1 360 000</b>	<b>1 360 000</b>	<b>1 350 000</b>
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)	-	-	-	-
<b>7.2 . Other reserve capital at the end of the period</b>	<b>1 370 000</b>	<b>1 370 000</b>	<b>1 360 000</b>	<b>1 360 000</b>
<b>8. Foreign exchange differences on subsidiaries and associates</b>	<b>(1 998)</b>	<b>(1 998)</b>	-	-
<b>9. Retained earnings (loss) from previous years at the beginning of the period</b>	<b>850 385</b>	<b>1 228 194</b>	<b>706 455</b>	<b>1 187 793</b>
<b>9.1. Retained earnings at the beginning of the period</b>	<b>850 385</b>	<b>1 228 194</b>	<b>706 455</b>	<b>1 187 793</b>
a) adjustments due to changes in accounting policies	-	4 722	-	41 938
b) adjustments due to fundamental errors	-	-	-	-
<b>9.2. Adjusted retained earnings from previous years at the beginning of the period</b>	<b>850 385</b>	<b>1 232 916</b>	<b>706 455</b>	<b>1 229 731</b>
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 other reserve capital	-	(10 000)	-	(10 000)
- appropriation of profit to general banking risk fund	-	(200 000)	-	(203 000)
- transfer of retained profit to reserve capital	-	-	-	(136 701)
- appropriation of profit to Capital Social Fund	-	(200)	-	-
<b>9.4. Retained earnings from previous years at the end of the period</b>	<b>850 385</b>	<b>4 722</b>	<b>706 455</b>	<b>41 938</b>
<b>9.5. Retained loss from previous years at the beginning of the period</b>	-	-	-	-
a) adjustments due to changes in accounting policies	-	-	-	-
b) adjustments due to fundamental errors	-	-	-	-
<b>9.6. Adjusted retained loss from previous years at the beginning of the period, after restatement of comparative data</b>	-	-	-	-
<b>9.7. Change in retained loss</b>	-	-	-	-
a) increase (by title)	-	-	-	-
b) decrease (by title)	-	-	-	-
<b>9.8. Retained loss from previous years at the end of the period</b>	-	-	-	-
<b>9.9. Retained earnings (loss) from previous years at the end of the period</b>	<b>850 385</b>	<b>4 722</b>	<b>706 455</b>	<b>41 938</b>
<b>10. Net result</b>	<b>371 012</b>	<b>1 216 675</b>	<b>291 996</b>	<b>956 513</b>
a) net profit	371 012	1 216 675	291 996	956 513
b) net loss	-	-	-	-
<b>II. Shareholders' equity at the end of the period</b>	<b>7 665 451</b>	<b>7 665 451</b>	<b>6 278 886</b>	<b>6 278 886</b>
<b>III. Shareholders' equity after proposed profit appropriation (covering of loss)</b>	<b>7 665 451</b>	<b>7 665 451</b>	<b>6 278 886</b>	<b>6 278 886</b>

<b>CONSOLIDATED STATEMENT OF CASH FLOWS</b>	<b>3rd quarter of 2004 period from 01.07.2004 to 30.09.2004</b>	<b>3 quarters of 2004 period from 01.01.2004 to 30.09.2004</b>	<b>3rd quarter of 2003 period from 01.07.2003 to 30.09.2003</b>	<b>3 quarters of 2003 period from 01.01.2003 to 30.09.2003</b>
<b>A. Cash flows from operating activities - indirect method</b>				
<b>I. Net profit (loss)</b>	<b>371 012</b>	<b>1 216 675</b>	<b>291 996</b>	<b>956 513</b>
<b>II. Total adjustments:</b>	<b>123 160</b>	<b>(1 266 334)</b>	<b>507 979</b>	<b>(6 234 794)</b>
1. Minority shareholders	127	127	(13)	(48)
2. Share in profit (loss) of companies valued under the equity pick-up method	(5 600)	(11 601)	(2 451)	(11 454)
3. Depreciation and amortization, including:	137 913	408 200	119 672	358 068
- amortization of goodwill and negative goodwill on consolidation of subsidiaries	5 296	16 427	2 920	4 846
4. Foreign exchange differences	-	-	-	-
5. Interest and share in profits (dividends paid and received)	(138 800)	(335 379)	(81 143)	(260 373)
6. Profit/loss on investing activities	25 705	28 607	69 882	76 179
7. Change in provisions	(123 169)	(153 966)	(31 409)	(97 841)
8. Change in inventories	(435)	1 708	(2 241)	(4 524)
9. Change in debt securities	2 155 521	3 309 997	(2 441 898)	(6 971 365)
10. Change in amounts due from the financial sector	29 929	(2 483 863)	3 968 119	2 075 544
11. Change in amounts due from the non-financial and the public sector	(1 806 052)	(2 833 183)	(1 123 315)	(2 891 898)
12. Change in receivables from reverse repo transactions	-	283 713	(173 327)	(1 385 902)
13. Change in shares, other securities and other financial assets	299 549	(33 650)	60 987	532 831
14. Change in amounts due to the financial sector	(610 626)	(98 991)	(313 232)	715 675
15. Change in amounts due to the non-financial and the public sector	178 788	9 685	(79 572)	447 322
16. Change in liabilities arising from repo transactions	-	-	-	-
17. Change in liabilities arising from securities issued	-	-	-	-
18. Change in other liabilities	532 587	462 436	118 512	420 126
19. Change in prepayments and accruals	44 037	98 315	31 644	26 705
20. Change in deferred and suspended income	4 624	210 996	106 110	323 779
21. Other adjustments	(600 938)	(129 485)	281 654	412 382
<b>III. Net cash flow from operating activities (I+/-II)</b>	<b>494 172</b>	<b>(49 659)</b>	<b>799 975</b>	<b>(5 278 281)</b>

<b>CONSOLIDATED STATEMENT OF CASH FLOWS (continued)</b>	<b>3rd quarter of 2004 period from 01.07.2004 to 30.09.2004</b>	<b>3 quarters of 2004 period from 01.01.2004 to 30.09.2004</b>	<b>3rd quarter of 2003 period from 01.07.2003 to 30.09.2003</b>	<b>3 quarters of 2003 period from 01.01.2003 to 30.09.2003</b>
<b>B. Cash flows from investing activities</b>				
<b>I. Inflows</b>	<b>1 295 112</b>	<b>2 039 807</b>	<b>(27 909)</b>	<b>5 168 493</b>
1. Sale of shares in subsidiaries	-	-	-	-
2. Sale of shares in joint-ventures	-	-	-	-
3. Sale of shares in associates	-	-	-	-
4. Sale of shares in other entities, other securities and other financial assets	1 142 508	1 687 355	(122 583)	4 889 845
5. Sale of intangible and tangible fixed assets	13 758	16 769	13 473	16 996
6. Sale of real estate and intangible assets investments	-	-	-	-
7. Other investment inflows	138 846	335 683	81 201	261 652
<b>II. Outflows</b>	<b>(409 795)</b>	<b>(534 553)</b>	<b>(166 222)</b>	<b>(231 183)</b>
1. Purchase of shares in subsidiaries	(129 699)	(142 629)	(29 840)	(35 584)
2. Purchase of shares in joint-ventures	-	-	-	-
3. Purchase of shares in associates	(146 500)	(146 500)	(4 600)	(4 600)
4. Purchase of shares in other entities, other securities and other financial assets	(995)	(1 021)	2	(142)
5. Purchase of intangible and tangible fixed assets	(132 601)	(244 403)	(131 784)	(190 857)
6. Investments in real estate and intangible assets	-	-	-	-
7. Other investment outflows	-	-	-	-
<b>III. Net cash flow from investing activities (I-II)</b>	<b>885 317</b>	<b>1 505 254</b>	<b>(194 131)</b>	<b>4 937 310</b>

<b>CONSOLIDATED STATEMENT OF CASH FLOWS (continued)</b>	<b>3rd quarter of 2004 period from 01.07.2004 to 30.09.2004</b>	<b>3 quarters of 2004 period from 01.01.2004 to 30.09.2004</b>	<b>3rd quarter of 2003 period from 01.07.2003 to 30.09.2003</b>	<b>3 quarters of 2003 period from 01.01.2003 to 30.09.2003</b>
<b>C. Cash flows from financing activities</b>				
<b>I. Inflows</b>	<b>32 438</b>	<b>91 137</b>	-	<b>50 312</b>
1. Long-term loans received from other banks	32 209	90 908	-	-
2. Long-term loans received from institutions in the financial sector other than banks	229	229	-	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	-	-	-	-
<b>II. Outflows</b>	<b>(22 540)</b>	<b>(27 319)</b>	<b>(173 583)</b>	<b>(333 844)</b>
1. Repayments of long-term loans from other banks	(22 322)	(22 322)	(19 631)	(19 631)
2. Repayments of long-term loans from institutions in the financial sector other than banks	(79)	(223)	(151 852)	(307 594)
3. Redemption of debt securities	-	-	-	-
4. Repayment of other financial liabilities	-	-	-	-
5. Repayment of liabilities under finance lease agreements	(93)	(4 470)	(2 042)	(5 340)
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	(46)	(304)	(58)	(1 279)
<b>III. Net cash flow from financing activities (I + II)</b>	<b>9 898</b>	<b>63 818</b>	<b>(173 583)</b>	<b>(283 532)</b>
<b>D. Total net cash flow (A.III+/-B.III+/-C.III)</b>	<b>1 389 387</b>	<b>1 519 413</b>	<b>432 261</b>	<b>(624 503)</b>
<b>E. Balance sheet net change in cash and cash equivalents, including:</b>	<b>1 389 387</b>	<b>1 519 413</b>	<b>432 261</b>	<b>(624 503)</b>
- change due to foreign exchange differences	-	-	-	-
<b>F. Cash and cash equivalents at the beginning of the period</b>	<b>4 845 258</b>	<b>4 715 232</b>	<b>4 737 895</b>	<b>5 794 659</b>
<b>G. Cash and cash equivalents at the end of the period (F+/- D), including:</b>	<b>6 234 645</b>	<b>6 234 645</b>	<b>5 170 156</b>	<b>5 170 156</b>
- of limited transferability	-	-	-	-

**QUARTERLY CONDENSED FINANCIAL STATEMENTS**

BALANCE SHEET (PLN thousand)	As at 30.09.2004 end of 3rd quarter of 2004	As at 30.06.2004 end of previous quarter of 2004	As at 30.09.2003 end of 3rd quarter of 2003	As at 30.06.2003 end of previous quarter of 2003
<b>ASSETS</b>				
<b>I. Cash and balances with the Central Bank</b>	<b>4 080 128</b>	<b>3 445 758</b>	<b>4 629 318</b>	<b>3 608 481</b>
<b>II. Debt securities eligible for rediscounting in the Central Bank</b>	-	-	-	-
<b>III. Amounts due from the financial sector</b>	<b>12 124 153</b>	<b>11 614 175</b>	<b>9 000 433</b>	<b>13 529 364</b>
1. Current	2 023 340	1 404 177	539 854	1 128 521
2. Term	10 100 813	10 209 998	8 460 579	12 400 843
<b>IV. Amounts due from the non-financial sector</b>	<b>33 624 342</b>	<b>32 071 492</b>	<b>30 571 505</b>	<b>29 340 554</b>
1. Current	5 950 845	5 679 298	5 742 892	5 589 467
2. Term	27 673 497	26 392 194	24 828 613	23 751 087
<b>V. Amounts due from the public sector</b>	<b>6 969 340</b>	<b>7 239 007</b>	<b>5 154 126</b>	<b>5 234 382</b>
1. Current	49 909	66 555	74 175	106 596
2. Term	6 919 431	7 172 452	5 079 951	5 127 786
<b>VI. Reverse repo transactions</b>	-	-	<b>1 933 146</b>	<b>1 759 819</b>
<b>VII. Debt securities</b>	<b>24 106 944</b>	<b>27 411 408</b>	<b>29 368 498</b>	<b>27 231 229</b>
<b>VIII. Investment in subsidiaries</b>	<b>466 415</b>	<b>324 832</b>	<b>233 878</b>	<b>184 243</b>
<b>IX. Investment in joint-ventures</b>	<b>38 355</b>	<b>31 651</b>	<b>56 557</b>	<b>51 160</b>
<b>X. Investment in associates</b>	<b>146 054</b>	<b>1 721</b>	<b>224</b>	<b>210</b>
<b>XI. Shares in other entities</b>	<b>495 947</b>	<b>436 953</b>	<b>344 161</b>	<b>252 657</b>
<b>XII. Other securities and financial assets</b>	<b>311 875</b>	<b>613 762</b>	<b>58 256</b>	<b>162 593</b>
<b>XIII. Intangible assets, including:</b>	<b>317 297</b>	<b>304 848</b>	<b>229 537</b>	<b>242 934</b>
- goodwill	-	-	-	-
<b>XIV. Tangible fixed assets</b>	<b>1 803 420</b>	<b>1 852 037</b>	<b>1 985 033</b>	<b>2 137 498</b>
<b>XV. Other assets</b>	<b>966 724</b>	<b>582 608</b>	<b>865 662</b>	<b>880 707</b>
1. Assets acquired for sale	-	-	-	-
2. Other	966 724	582 608	865 629	880 707
<b>XVI. Prepayments and accrued income</b>	<b>30 501</b>	<b>32 932</b>	<b>37 595</b>	<b>38 746</b>
1. Deferred tax asset	-	-	-	-
2. Other prepayments and accrued income	30 501	32 932	37 595	38 746
<b>TOTAL ASSETS</b>	<b>85 481 495</b>	<b>85 963 184</b>	<b>84 467 929</b>	<b>84 654 577</b>

BALANCE SHEET (PLN thousand)	As at 30.09.2004 end of 3rd quarter of 2004	As at 30.06.2004 end of previous quarter of 2004	As at 30.09.2003 end of 3rd quarter of 2003	As at 30.06.2003 end of previous quarter of 2003
<b>LIABILITIES AND EQUITY</b>				
<b>I. Amounts due to the Central Bank</b>	61	-	-	-
<b>II. Amounts due to the financial sector</b>	<b>939 237</b>	<b>1 689 366</b>	<b>1 944 384</b>	<b>2 429 125</b>
1. Current	244 660	576 480	37 260	207 180
2. Term	694 577	1 112 886	1 907 124	2 221 945
<b>III. Amounts due to non-financial sector</b>	<b>66 727 627</b>	<b>67 265 694</b>	<b>67 822 984</b>	<b>67 857 829</b>
1. Savings accounts, including:	26 855 824	27 459 266	30 359 160	31 354 410
a) current	2 205 670	2 302 922	2 576 485	2 625 078
b) term	24 650 154	25 156 344	27 782 675	28 729 332
2. Other, including:	39 871 803	39 806 428	37 463 824	36 503 419
a) current	18 873 740	18 850 591	17 599 153	16 792 304
b) term	20 998 063	20 955 837	19 864 671	19 711 115
<b>IV. Amounts due to the public sector</b>	<b>4 150 171</b>	<b>4 110 230</b>	<b>2 759 862</b>	<b>2 803 796</b>
1. Current	2 706 866	2 685 513	1 653 091	1 917 947
2. Term	1 443 305	1 424 717	1 106 771	885 849
<b>V. Repo transactions</b>	-	-	-	-
<b>VI. Liabilities arising from debt securities issued</b>	-	-	-	-
1. Short-term	-	-	-	-
2. Long-term	-	-	-	-
<b>VII. Other liabilities arising from financial instruments</b>	<b>52 176</b>	<b>320 412</b>	<b>196 226</b>	<b>213 805</b>
<b>VIII. Special funds and other liabilities</b>	<b>1 373 140</b>	<b>851 720</b>	<b>1 278 089</b>	<b>1 171 140</b>
<b>IX. Accruals and deferred income</b>	<b>3 280 605</b>	<b>3 236 077</b>	<b>2 913 061</b>	<b>2 770 391</b>
1. Accruals	211 677	171 693	149 368	112 882
2. Negative goodwill	17	17	19	20
3. Other deferred and suspended income	3 068 911	3 064 367	2 763 674	2 657 489
<b>X. Provisions</b>	<b>1 293 027</b>	<b>1 313 747</b>	<b>1 274 437</b>	<b>1 313 890</b>
1. Deferred tax liability	423 562	445 249	475 057	583 795
2. Other provisions	869 465	868 498	799 380	730 095
<b>XI. Subordinated liabilities</b>	-	-	-	-
<b>XII. Share capital</b>	<b>1 000 000</b>	<b>1 000 000</b>	<b>1 000 000</b>	<b>1 000 000</b>
<b>XIII. Unpaid share capital (negative value)</b>	-	-	-	-
<b>XIV. Own share capital (negative value)</b>	-	-	-	-
<b>XV. Reserve capital</b>	<b>2 803 078</b>	<b>2 802 781</b>	<b>1 781 928</b>	<b>1 781 848</b>
<b>XVI. Revaluation reserve</b>	<b>270 976</b>	<b>152 768</b>	<b>338 507</b>	<b>446 298</b>
<b>XVII. Other reserve capital</b>	<b>2 370 000</b>	<b>2 370 000</b>	<b>2 160 000</b>	<b>2 160 000</b>
<b>XVIII. Retained earnings (loss) from previous years</b>	<b>4 722</b>	<b>4 726</b>	<b>41 938</b>	<b>41 938</b>
<b>XIX. Net profit (loss)</b>	<b>1 216 625</b>	<b>845 663</b>	<b>956 513</b>	<b>664 517</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>85 481 495</b>	<b>85 963 184</b>	<b>84 467 929</b>	<b>84 654 577</b>

Capital adequacy ratio (in %)	17.65	19.89	16.96	17.43
Net book value	7 665 451	7 175 938	6 278 886	6 094 601
Number of shares	1 000 000 000	1 000 000 000	1 000 000 000	1 000 000 000
Net book value per share (in PLN)	7.67	7.18	6.28	6.09
Diluted number of shares	1 000 000 000	1 000 000 000	1 000 000 000	1 000 000 000
Diluted net book value per share (in PLN)	7.67	7.18	6.28	6.09

<b>OFF-BALANCE SHEET ITEMS</b>	<b>As at 30.09.2004 end of 3rd quarter of 2004</b>	<b>As at 30.06.2004 end of previous quarter of 2004</b>	<b>As at 30.09.2003 end of 3rd quarter of 2003</b>	<b>As at 30.06.2003 end of previous quarter of 2003</b>
<b>I. Contingent liabilities granted and received</b>	<b>12 582 525</b>	<b>19 331 540</b>	<b>19 183 089</b>	<b>20 232 658</b>
1. Contingent liabilities granted:	<b>7 642 910</b>	<b>14 317 190</b>	<b>13 616 507</b>	<b>14 933 740</b>
a) financial	6 562 182	13 647 084	13 154 670	14 434 655
b) guarantees	1 080 728	670 106	461 837	499 085
2. Contingent liabilities received:	<b>4 939 615</b>	<b>5 014 350</b>	<b>5 566 582</b>	<b>5 298 918</b>
a) financial	449 278	476 931	784 153	293 235
b) guarantees	4 490 337	4 537 419	4 782 429	5 005 683
<b>II. Liabilities arising from purchase/sale transactions</b>	<b>102 326 795</b>	<b>92 272 587</b>	<b>75 776 858</b>	<b>77 786 277</b>
<b>III. Other, by title:</b>	<b>12 192 771</b>	<b>2 957 955</b>	<b>3 040 343</b>	<b>3 443 647</b>
- irrevocable liabilities	9 253 631	224 251	90 649	97 588
- collateral accepted	2 939 140	2 733 704	2 949 694	3 346 059
<b>TOTAL OFF-BALANCE SHEET ITEMS</b>	<b>127 102 091</b>	<b>114 562 082</b>	<b>98 000 290</b>	<b>101 462 582</b>

<b>PROFIT AND LOSS ACCOUNT</b>	<b>3rd quarter of 2004 period from 01.07.2004 to 30.09.2004</b>	<b>3 quarters of 2004 period from 01.01.2004 to 30.09.2004</b>	<b>3rd quarter of 2003 period from 01.07.2003 to 30.09.2003</b>	<b>3 quarters of 2003 period from 01.01.2003 to 30.09.2003</b>
<b>I. Interest income</b>	1 317 758	3 854 220	1 237 133	3 859 699
<b>II. Interest expense</b>	(424 989)	(1 157 245)	(364 219)	(1 313 121)
<b>III. Net interest income (I-II)</b>	892 769	2 696 975	872 914	2 546 578
<b>IV. Fees and commission income</b>	496 122	1 342 604	408 668	1 165 000
<b>V. Fees and commission expense</b>	(76 797)	(196 475)	(58 382)	(163 522)
<b>VI. Net fees and commission income (IV-V)</b>	419 325	1 146 129	350 286	1 001 478
<b>VII. Income from shares and other variable income securities and financial instruments</b>	3 248	3 251	3 498	3 498
1. From subsidiaries	-	-	-	-
2. From joint-ventures	-	-	-	-
3. From associates	-	-	-	-
4. From other companies	3 248	3 251	3 498	3 498
<b>VIII. Result from financial operations</b>	(48 754)	(14 204)	20 284	37 494
<b>IX. Foreign exchange result</b>	6 508	181 741	118 776	442 703
<b>X. Result from banking activities</b>	1 273 096	4 013 892	1 365 758	4 031 751
<b>XI. Other operating income</b>	65 290	174 051	141 724	188 551
<b>XII. Other operating expense</b>	(32 515)	(98 698)	(61 196)	(109 445)
<b>XIII. Overhead costs</b>	(784 743)	(2 309 262)	(783 892)	(2 226 804)
<b>XIV. Depreciation of tangible assets and amortisation of intangible assets</b>	(121 085)	(357 352)	(105 900)	(318 529)
<b>XV. Provisions created and revaluation</b>	(197 369)	(703 666)	(383 398)	(983 525)
1. Creation of specific provisions and provisions for general banking risk	(197 088)	(703 385)	(382 148)	(982 275)
2. Revaluation of financial assets	(281)	(281)	(1 250)	(1 250)
<b>XVI. Provisions released and revaluation</b>	234 379	758 848	271 489	811 667
1. Release of specific provisions and provisions for general banking risk	195 918	720 387	268 989	807 919
2. Revaluation of financial assets	38 461	38 461	2 500	3 748
<b>XVII. Change in provisions value and revaluation (XV+ XVI)</b>	37 010	55 182	(111 909)	(171 858)
<b>XVIII. Operating result</b>	437 053	1 477 813	444 585	1 393 666
<b>XIX. Net extraordinary gains (losses)</b>	95	11	158	290
1. Extraordinary gains	134	341	224	541
2. Extraordinary losses	(39)	(330)	(66)	(251)
<b>XX. Gross profit (loss)</b>	437 148	1 477 824	444 743	1 393 956
<b>XXI. Taxation</b>	(84 804)	(297 404)	(144 166)	(414 272)
1. Current	(134 756)	(330 003)	(213 065)	(571 321)
2. Deferred	49 952	32 599	68 899	157 049
<b>XXII. Other obligatory charges against profit</b>	-	-	-	-
<b>XXIII. Share in net profit (loss) of companies valued under the equity pick-up method</b>	18 668	36 255	(8 581)	(23 171)
<b>XXIV. Net profit (loss)</b>	371 012	1 216 675	291 996	956 513
<b>Net profit (loss) annualised</b>	-	1 451 144	-	1 014 811
<b>Weighted average number of ordinary shares</b>	1 000 000 000	1 000 000 000	1 000 000 000	1 000 000 000
<b>Net profit (loss) per ordinary share (in PLN)</b>	-	1.45	-	1.01
<b>Weighted average predicted number of ordinary shares</b>	1 000 000 000	1 000 000 000	1 000 000 000	1 000 000 000
<b>Diluted profit (loss) per ordinary share (in PLN)</b>	-	1.45	-	1.01



<b>STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY</b>	<b>3rd quarter of 2004 period from 01.07.2004 to 30.09.2004</b>	<b>3 quarters of 2004 period from 01.01.2004 to 30.09.2004</b>	<b>3rd quarter of 2003 period from 01.07.2003 to 30.09.2003</b>	<b>3 quarters of 2003 period from 01.01.2003 to 30.09.2003</b>
<b>I. Shareholders' equity at the beginning of the period</b>	<b>7 175 938</b>	<b>6 392 685</b>	<b>6 094 601</b>	<b>5 480 419</b>
a) adjustments due to changes in accounting policies	-	4 722	-	41 938
b) adjustments due to fundamental errors	-	-	-	-
<b>I.a. Adjusted shareholders' equity at the beginning of the period</b>	<b>7 175 938</b>	<b>6 397 407</b>	<b>6 094 601</b>	<b>5 522 357</b>
<b>1. Share capital at the beginning of the period</b>	<b>1 000 000</b>	<b>1 000 000</b>	<b>1 000 000</b>	<b>1 000 000</b>
1.1. Changes in share capital	-	-	-	-
a) increase (by title)	-	-	-	-
- issue of shares	-	-	-	-
- in-kind contribution	-	-	-	-
b) decrease (by title)	-	-	-	-
- write-offs	-	-	-	-
<b>1.2. Share capital at the end of the period</b>	<b>1 000 000</b>	<b>1 000 000</b>	<b>1 000 000</b>	<b>1 000 000</b>
<b>2. Unpaid share capital at the beginning of the period</b>	-	-	-	-
2.1. Changes in unpaid share capital	-	-	-	-
a) increase (by title)	-	-	-	-
b) decrease (by title)	-	-	-	-
<b>2.2. Unpaid share capital at the end of the period</b>	-	-	-	-
<b>3. Own shares at the beginning of the period</b>	-	-	-	-
a) increase (by title)	-	-	-	-
b) decrease (by title)	-	-	-	-
<b>3.1. Own shares at the end of the period</b>	-	-	-	-
<b>4. Reserve capital at the beginning of the period</b>	<b>2 802 781</b>	<b>1 783 827</b>	<b>1 781 848</b>	<b>806 579</b>
4.1. Changes in reserve capital	297	1 019 251	80	975 349
a) increase (by title)	297	1 019 251	80	975 349
- increase of reserve capital by in-kind contribution	-	-	-	-
- increase of reserve capital by fund for brokerage activity	-	-	-	-
- appropriation of retained profit from previous years	-	-	-	136 701
- appropriation of net profit	-	1 017 994	-	838 092
- sale, liquidation of fixed assets	297	1 257	80	556
b) decrease (by title)	-	-	-	-
- covering of losses	-	-	-	-
<b>4.2. Reserve capital at the end of the period</b>	<b>2 803 078</b>	<b>2 803 078</b>	<b>1 781 928</b>	<b>1 781 928</b>
<b>5. Revaluation reserve at the beginning of the period</b>	<b>152 768</b>	<b>220 664</b>	<b>446 298</b>	<b>539 047</b>
5.1. Changes in revaluation reserve	118 208	50 312	(107 791)	(200 540)
a) increase (by title)	120 503	53 567	-	-
- revaluation credited to revaluation reserve	120 503	53 567	-	-
b) decrease (by title)	(2 295)	(3 255)	(107 791)	(200 540)
- revaluation charged to revaluation reserve	(1 998)	(1 998)	(107 711)	(199 984)
- sale, liquidation of fixed assets	(297)	(1 257)	(80)	(556)
<b>5.2. Revaluation reserve at the end of the period</b>	<b>270 976</b>	<b>270 976</b>	<b>338 507</b>	<b>338 507</b>
<b>6. General banking risk fund at the beginning of the period</b>	<b>1 000 000</b>	<b>800 000</b>	<b>800 000</b>	<b>597 000</b>
6.1. Changes in general banking risk fund	-	<b>200 000</b>	-	<b>203 000</b>
a) increase (by title)	-	200 000	-	203 000
- appropriation of net profit	-	200 000	-	203 000
b) decrease (by title)	-	-	-	-
- transfers	-	-	-	-
<b>6.2. General banking risk fund at the end of the period</b>	<b>1 000 000</b>	<b>1 000 000</b>	<b>800 000</b>	<b>800 000</b>
<b>7. Other reserve capital at the beginning of the period</b>	<b>1 370 000</b>	<b>1 360 000</b>	<b>1 360 000</b>	<b>1 350 000</b>
7.1. Changes in other reserve capital	-	10 000	-	10 000
a) increase (by title)	-	10 000	-	10 000
- appropriation of net profit	-	10 000	-	10 000
- transfer of fund for brokerage activity from special purpose fund	-	-	-	-
b) decrease (by title)	-	-	-	-
- increase of reserve capital by fund for brokerage activity	-	-	-	-
<b>7.2. Other reserve capital at the end of the period</b>	<b>1 370 000</b>	<b>1 370 000</b>	<b>1 360 000</b>	<b>1 360 000</b>

<b>STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (continued)</b>	<b>3rd quarter of 2004 period from 01.07.2004 to 30.09.2004</b>	<b>3 quarters of 2004 period from 01.01.2004 to 30.09.2004</b>	<b>3rd quarter of 2003 period from 01.07.2003 to 30.09.2003</b>	<b>3 quarters of 2003 period from 01.01.2003 to 30.09.2003</b>
<b>8. Retained earnings (loss) from previous years at the beginning of the period</b>	<b>850 385</b>	<b>1 228 194</b>	<b>706 455</b>	<b>1 187 793</b>
8.1. Retained earnings at the beginning of the period	850 385	1 228 194	706 455	1 187 793
a) adjustments due to changes in accounting policies	-	4 722	-	41 938
b) adjustments due to fundamental errors	-	-	-	-
8.2. Adjusted retained earnings from previous years at the beginning of the period	850 385	1 232 916	706 455	1 229 731
8.3. Change in retained earnings	-	(1 228 194)	-	(1 187 793)
a) increase (by title)	-	-	-	-
b) decrease (by title)	-	(1 228 194)	-	(1 187 793)
- appropriation of profit to reserve capital	-	(1 017 994)	-	(838 092)
- appropriation of profit to other reserve capital	-	(10 000)	-	(10 000)
- appropriation of profit to general banking risk fund	-	(200 000)	-	(203 000)
- transfer of retained profit to reserve capital	-	-	-	(136 701)
- appropriation to Company Social Fund	-	(200)	-	-
8.4. Retained earnings from previous years at the end of the period	<b>385</b>	<b>4 722</b>	<b>706 455</b>	<b>41 938</b>
8.5. Retained loss from previous years at the beginning of the period	-	-	-	-
a) adjustments due to changes in accounting policies	-	-	-	-
b) adjustments due to fundamental errors	-	-	-	-
8.6. Adjusted retained loss from previous years at the beginning of the period	-	-	-	-
8.7. Change in retained loss	-	-	-	-
a) increase (by title)	-	-	-	-
b) decrease (by title)	-	-	-	-
- coverage of loss	-	-	-	-
8.8. Retained loss from previous years at the end of the period	-	-	-	-
<b>8.9. Retained earnings (loss) from previous years at the end of the period</b>	<b>850 385</b>	<b>4 722</b>	<b>706 455</b>	<b>41 938</b>
<b>9. Net result</b>	<b>371 012</b>	<b>1 216 675</b>	<b>291 996</b>	<b>956 513</b>
a) net profit	371 012	1 216 675	291 996	956 513
b) net loss	-	-	-	-
<b>II. Shareholders' equity at the end of the period</b>	<b>7 665 451</b>	<b>7 665 451</b>	<b>6 278 886</b>	<b>6 278 886</b>
<b>III. Shareholders' equity after proposed profit appropriation (covering of loss)</b>	<b>7 665 451</b>	<b>7 665 451</b>	<b>6 278 886</b>	<b>6 278 886</b>

STATEMENT OF CASH FLOWS	3rd quarter of 2004 period from 01.07.2004 to 30.09.2004	3 quarters of 2004 period from 01.01.2004 to 30.09.2004	3rd quarter of 2003 period from 01.07.2003 to 30.09.2003	3 quarters of 2003 period from 01.01.2003 to 30.09.2003
<b>A. Cash flows from operating activities - indirect method</b>				
<b>I. Net profit (loss)</b>	371 012	1 216 675	291 996	956 513
<b>II. Total adjustments:</b>	<b>(23 804)</b>	<b>(1 418 997)</b>	<b>521 791</b>	<b>(6 217 276)</b>
1. Share in profit (loss) of companies valued under the equity pick-up method	(18 668)	(36 255)	8 581	23 171
2. Depreciation and amortisation	121 085	357 352	105 900	318 529
3. Foreign exchange differences	-	-	-	-
4. Interest and share in profits (dividends)	(138 846)	(335 683)	(81 201)	(261 652)
5. Profit/loss from investing activities	25 705	28 607	69 882	76 179
6. Change in provisions	(159 542)	(190 195)	(29 679)	(96 352)
7. Change in debt securities	2 217 900	3 470 941	(2 419 939)	(6 951 957)
8. Change in amounts due from the financial sector	111 323	(2 455 929)	3 941 148	2 006 997
9. Change in amounts due from the non-financial and the public sector	(1 174 764)	(2 149 150)	(1 121 515)	(2 835 352)
10. Change in receivables from reverse repo transactions	-	283 713	(173 327)	(1 387 185)
11. Change in shares, other securities and other financial assets	300 220	(32 999)	60 988	532 832
12. Change in amounts due to the financial sector	(758 641)	(226 479)	(334 741)	706 002
13. Change in amounts due to the non-financial and the public sector	(498 126)	(675 165)	(78 779)	440 286
14. Change in liabilities arising from repo transactions	-	-	-	-
15. Change in liabilities arising from securities issued	-	-	-	-
16. Change in other liabilities	525 875	477 392	111 327	438 049
17. Change in prepayments and accruals	42 415	100 423	37 636	35 674
18. Change in deferred and suspended income	4 544	210 916	106 185	324 072
19. Other adjustments	(624 284)	(246 486)	319 325	413 431
<b>III. Net cash flow from operating activities (I + II)</b>	<b>347 208</b>	<b>(202 322)</b>	<b>813 787</b>	<b>(5 260 763)</b>

STATEMENT OF CASH FLOWS (continued)	3rd quarter of 2004 period from 01.07.2004 to 30.09.2004	3 quarters of 2004 period from 01.01.2004 to 30.09.2004	3rd quarter of 2003 period from 01.07.2003 to 30.09.2003	3 quarters of 2003 period from 01.01.2003 to 30.09.2003
<b>B. Cash flows from investing activities</b>				
<b>I. Inflows</b>	<b>1 281 573</b>	<b>2 026 011</b>	<b>(33 691)</b>	<b>5 160 992</b>
1. Sale of shares in subsidiaries	-	-	-	-
2. Sale of shares in joint-ventures	-	-	-	-
3. Sale of shares in associates	-	-	-	-
4. Sale of shares in other entities, other securities and other financial assets	1 142 508	1 687 355	(122 580)	4 889 740
5. Sale of intangible and tangible fixed assets	219	2 973	7 688	9 600
6. Sale of real estate and intangible assets investments	-	-	-	-
7. Other investment inflows	138 846	335 683	81 201	261 652
<b>II. Outflows</b>	<b>(383 533)</b>	<b>(505 965)</b>	<b>(196 074)</b>	<b>(262 291)</b>
1. Purchase of shares in subsidiaries	(129 688)	(142 650)	(68 740)	(86 184)
2. Purchase of shares in joint-ventures	-	-	-	-
3. Purchase of shares in associates	(146 500)	(146 500)	(4 600)	(4 600)
4. Purchase of shares in other entities, other securities and other financial assets	(995)	(1 000)	2	(142)
5. Purchase of intangible and tangible fixed assets	(106 350)	(215 815)	(122 736)	(171 365)
6. Investments in real estate and intangible assets	-	-	-	-
7. Other investment outflows	-	-	-	-
<b>III. Net cash flow from investing activities (I - II)</b>	<b>898 040</b>	<b>1 520 046</b>	<b>(229 765)</b>	<b>4 898 701</b>
<b>C. Cash flows from financing activities</b>				
<b>I. Inflows</b>	<b>8 573</b>	<b>67 272</b>	-	<b>50 312</b>
1. Long-term loans received from other banks	8 573	67 272	-	-
2. Long-term loans received from institutions in the financial sector other than banks	-	-	-	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	-	-	-	-
<b>II. Outflows</b>	<b>(288)</b>	<b>(422)</b>	<b>(151 852)</b>	<b>(307 594)</b>
1. Repayments of long-term loans from other banks	(199)	(199)	-	-
2. Repayments of long-term loans from institutions in the financial sector other than banks	(89)	(223)	(151 852)	(307 594)
3. Redemption of debt securities	-	-	-	-
4. Repayment of other financial liabilities	-	-	-	-
5. Repayment of liabilities under finance lease agreements	-	-	-	-
6. Decrease in subordinated liabilities	-	-	-	-
7. Dividends and other amounts paid to shareholders	-	-	-	-
8. Outflows from profit appropriation other than payments to shareholders	-	-	-	-
9. Purchase of own shares	-	-	-	-
10. Other financial outflows	-	-	-	-
<b>III. Net cash flow from financing activities (I + II)</b>	<b>8 285</b>	<b>66 850</b>	<b>(151 852)</b>	<b>(257 282)</b>
<b>D. Total net cash flow (A.III +/- B.III +/- C.III)</b>	<b>1 253 533</b>	<b>1 384 574</b>	<b>432 170</b>	<b>(619 344)</b>
<b>E. Balance sheet net change in cash and cash equivalents, including:</b>	<b>1 253 533</b>	<b>1 384 574</b>	<b>432 170</b>	<b>(619 344)</b>
- change due to foreign exchange differences	-	-	-	-
<b>F. Cash and cash equivalents at the beginning of the period</b>	<b>4 849 935</b>	<b>4 718 894</b>	<b>4 737 002</b>	<b>5 788 516</b>
<b>G. Cash and cash equivalents at the end of the period (F +/- D), including:</b>	<b>6 103 468</b>	<b>6 103 468</b>	<b>5 169 172</b>	<b>5 169 172</b>
- of limited transferability	-	-	-	-

## Comments to the quarterly report SAB - QSr III/04 for the 3<sup>rd</sup> quarter of 2004

### Summary

During the 3<sup>rd</sup> quarter of 2004, i.e. compared with the end of June 2004:

- the gross profit of the PKO BP SA Group increased by PLN 452 million and net profit by PLN 371 million and, on a cumulative basis, after three quarters of 2004, the gross and net profit amounted to PLN 1,511 million and PLN 1,217 million, respectively,
- total assets of the PKO BP SA Group increased by PLN 393 million (compared with September 2003 - by PLN 1,866 million) and amounted to PLN 86,512 million as at 30 September 2004,
- the capital adequacy ratio of the PKO BP SA Group decreased by 2.76 percentage points and amounted to 16.57% at the end of September 2004.

### 1. BASIS FOR REPORT'S PREPARATION

The information included in this report is presented in the format set forth in the Decree of the Council of Ministers dated 11 August 2004 on the specific conditions which should be fulfilled by prospectuses and short-form prospectuses (Journal of Laws No. 186, item 1921).

The report for the 3<sup>rd</sup> quarter of 2004 was prepared in accordance with the description of items presented in a SAB-Q quarterly report, as defined by the Polish Securities and Exchange Commission (KPWiG). The principal accounting policies used for valuation of assets and liabilities and measurement of the result have been described in detail in the SAB-SPr consolidated half-year report for the six-month period ended 30 June 2004, which was published in PKO BP SA's prospectus on 6 October 2004. These policies reflect the amendment effective from 1 January 2004 according to which interest on "watch" receivables should be recognised in the income statement as well as amendments relating to recognition and measurement of embedded derivatives.

The report reflects the changes introduced in the nine month period ended 30 September 2004 to the classification and presentation of loan receivables as well as the changes in the methods of specific provisions estimation, resulting from the Decree of the Minister of Finance dated 10 December 2003 on the principles of providing for risks associated with banking activities.

The financial data included in the report are presented according to the comparability principle.

### 2. ADJUSTMENTS RELATING TO PROVISIONS, DEFERRED TAX ASSET AND DEFERRED TAX LIABILITY

The data has been prepared using the principles of valuation of assets and liabilities and measurement of the result that were in force at the balance sheet date, including adjustments relating to provisions and the deferred tax asset and liability as described in the Accounting Act.

	30.09.2004	30.09.2003
Deferred tax liability	754 321	1 109 041
Deferred tax asset	330 759	633 984
General banking risk provision	661 597	636 597
Provision for off-balance sheet contingent liabilities	27 702	22 192
Provision for future employee benefits	329 836	278 958
Provision against other assets	110 321	135 029

The main reason for decreases of the deferred tax asset and deferred tax liability balances as at the end of 3<sup>rd</sup> quarter of 2004 in comparison with the balances as at the end of the 3<sup>rd</sup> quarter of 2003 was the change in corporate income tax rate from 27% in 2003 to 19% in 2004.

### 3. IMPAIRMENT OF ASSETS

The balances of provisions against assets at the balance sheet date are presented below:

	30.09.2004	30.09.2003
Provisions against loan receivables, realized guarantees and deposits	2 409 390	2 517 366
Provisions against future liabilities and other receivables	501 991	423 022
Impairment write-offs of tangible and intangible fixed assets	25 159	639
Financial assets revaluation (write-off)	55 826	26 449

### 4. DESCRIPTION OF THE GROUP

#### 4.1. ENTITIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

The capital group of PKO BP SA, defined in accordance with the Accounting Act, consists of the Bank as the holding company, 11 entities directly controlled by the Bank (direct subsidiaries, including 2 unconsolidated) and 5 entities indirectly controlled by the Bank (indirect subsidiaries, including 2 unconsolidated).

The aggregate number of companies consolidated using the full method or accounted for using the equity pick-up method in the financial statements prepared as at 30 September 2004 amounts to 22, including the holding company and indirect subsidiaries.

Table 1 contains a detailed listing of subordinated entities included in the Bank's consolidated financial statements.

**Table 1. Subsidiaries, joint ventures and associates included in the consolidated financial statements of the Bank 1**

No.	Name of the entity	Equity as at 30 September 2004	Net profit/loss for nine months period 30 September 2004	Net profit/loss for Q3 2004	Method of consolidation/ valuation
		PLN thd.	PLN thd.	PLN thd.	
<b>Capital Group</b>					
Holding company					
1	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna	7 665 451	1 216 675	371 012	-
Entities directly controlled by the Bank (direct subsidiaries)					
2	Centrum Finansowe Puławska Sp. z o.o.	173 211	24 360	13 951	Full method
3	Kredyt Bank (Ukraina) S.A. <sup>2</sup>	89 841	6 337	1 543	Full method
4	PKO Inwestycje Sp. z o.o.	56 546	1 262	1 002	Equity pick-up method
5	Powszechne Towarzystwo Emerytalne BANKOWY S.A.	54 004	22 389	3 189	Full method
6	Bankowy Fundusz Leasingowy S.A.	22 548	3 307	1 051	Full method
7	Dom Maklerski BROKER S.A.	18 555	(2 121)	(1 560)	Full method
8	Inteligo Financial Services S.A.	4 637	526	(497)	Full method
9	PKO Towarzystwo Finansowe Sp. z o.o. (w likwidacji)	1 264	(470)	0	Equity pick-up method
10	Centrum Elektronicznych Usług Płatniczych	(4 717)	(2 445)	188	Full method

eService S.A.				
---------------	--	--	--	--

Entities indirectly controlled by the Bank (indirect subsidiaries)					
11	Fort Mokotów Sp. z o.o. <sup>3</sup>	58 849	5 169	3 578	Equity pick-up method
12	Wilanów Investments Sp. z o.o. <sup>3</sup>	25 061	(1 939)	(1 443)	Equity pick-up method
13	Finanse Agent Transferowy Sp. z o.o. <sup>4</sup>	3 312	350	178	Full method
<i>Other entities</i>					
Joint ventures					
14	WAWEL Hotel Development Sp. z o.o.	46 616	7 801	10 513	Equity pick-up method
15	PKO/CREDIT SUISSE Towarzystwo Funduszy Inwestycyjnych S.A.	43 704	20 619	5 964	Equity pick-up method
Associates					
16	Bank Pocztowy S.A.	149 128	15 713	7 562	Equity pick-up method
17	Kolej Gondolowa Jaworzyna Krynicka S.A.	25 730	2 183	13	Equity pick-up method
18	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	4 422	(87)	(8)	Equity pick-up method
19	Agencja Inwestycyjna CORP S.A.	1 186	425	87	Equity pick-up method
20	Hotel Jan III Sobieski Sp. z o.o.	(171 802)	32 177	27 236	Equity pick-up method
21	Wrocławskie Zintegrowane Centrum Logistyczne S.A.	under liquidation			Equity pick-up method
22	Ekogips S.A.	under liquidation			Equity pick-up method

<sup>1</sup> financial data per stand-alone accounts of the group companies,

<sup>2</sup> in PLN; profit/loss translated using the average NBP rate prevailing on the last day of each month of the year, other items of equity – using the average NBP rate as at 30 September 2004,

<sup>3</sup> a subsidiary of PKO Inwestycje Sp. z o.o.,

<sup>4</sup> a subsidiary of Powszechne Towarzystwo Emerytalne BANKOWY S.A.

Based on the Accounting Act dated 29 September 1994 (Journal of Laws No. 121, item 591 together with subsequent amendments) and the Decree of the Minister of Finance of 20 December 2001 on the specific accounting principles for banks (Journal of Laws No. 149, item 1673 together with subsequent amendments), the following subsidiaries have not been consolidated or accounted for using the equity pick-up method, due to immateriality of their financial data or pending liquidation proceedings:

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



#### **4.2. CHANGES IN THE ORGANISATION OF SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES IN THE 3<sup>RD</sup> QUARTER OF 2004**

In 3<sup>rd</sup> quarter of 2004, the following events affected the structure of capital relations between PKO BP SA and other Group entities:

- a transfer of the ownership of 25% shares plus one in Bank Pocztowy S.A. to PKO BP SA on 5 August 2004,
- a capital injection to PKO Inwestycje Sp. z o.o. by PKO BP SA on 6 August 2004 for the Miasteczko Wilanów project,
- a transfer of the ownership of 66.651% shares in Kredyt Bank Ukraina S.A. to PKO BP SA on 26 August 2004,
- a transfer of the ownership of 100% shares in Dom Maklerski BROKER S.A. to PKO BP SA on 8 September 2004.

#### **5. SUMMARY OF MAJOR ACHIEVEMENTS OF PKO BP SA IN 3<sup>RD</sup> QUARTER OF 2004**

##### **5.1. BACKGROUND**

- As at the end of September 2004 PKO BP SA had 1,271 outlets.
  - The number of outlets in the Retail Banking Customers Division amounted to 1,188, including: 12 Regional Retail Branches, 143 Centre Branches, 496 branches and 537 offices. In comparison with the end of 2<sup>nd</sup> quarter of 2004, the number of outlets in the Retail Market Area decreased by 34.
  - In 3<sup>rd</sup> quarter of 2004, 83 outlets commenced their activities in the Corporate Banking Customers Division, including: 13 Regional Corporate Branches, 13 Corporate Client Teams and 57 Corporate Centres.
- The number of ATMs as at 30 September 2004 amounted to 1,786 and remained at a comparable level during the 3<sup>rd</sup> quarter of 2004. The number of cash withdrawals from ATMs in the 3<sup>rd</sup> quarter of 2004 exceeded 42 million, which accounts for a 0.6% increase in comparison with the second quarter of 2004.
- The number of savings-giro accounts in the 3<sup>rd</sup> quarter of 2004 (including the active Inteligo and Graffiti accounts) increased by 104 thousand and amounted to 5,392 thousand at the end of September 2004.
- The number of bank cards issued by PKO BP SA increased by 171 thousand (including 65 thousand credit cards) during the 3<sup>rd</sup> quarter of 2004 and amounted to 5,313 thousand as at 30 September 2004.
- The number of Bank's employees amounted to 35,617 as at 30 September 2004 and was lower by 312 in comparison with the balance as at the end of June 2004.

##### **5.2. BUSINESS ACTIVITIES**

###### **5.2.1 Retail Banking**

###### *Individuals*

- During the 3<sup>rd</sup> quarter of 2004 the Bank increased the interest rates for products offered to individual clients due to the increase of the basic NBP rates by the Monetary Policy Board:
  - beginning from 2 August 2004 the Bank increased the interest rates for term deposits and the revolving loans for the owners of savings-giro accounts (ROR),
  - beginning from 16 September 2004 the Bank increased the interest rates for term deposits and certain consumer loans.
- Major modifications made by the Bank in its offer for individual clients in the 3<sup>rd</sup> quarter of 2004 were as follows:
  - preferential loans for students – the group of potential borrowers has been expanded to include doctorates, and the grace period has been extended up to two years from the date of completion of studies,

- introduction of a new product – a loan for the purchase of the EMISJA securities, designated for the purchase of securities indicated by Bankowy Dom Maklerski on the primary market or during the initial public offering , through BDM,
  - issuing, starting from 1 July 2004, of AURUM and PLATINIUM Visa Electron cards, performing the role of the debit card and an identity card within the network of the Bank and its external partners providing non-financial services,
  - increasing the attractiveness of the „negotiated term deposit” by providing the clients with the possibility to place deposits in GBP and by verifying the minimum interest margins,
  - termination of the contract signed with the Insurer for the „NNW” insurance cover for the holders of GOLD ACCOUNTS (ZŁOTE KONTA) and PLATINIUM accounts.
- As of 3 August 2004 the Bank activated a new function in its ATMs which makes it possible to check the balance of the account and the balance of funds available to the client.
  - The Bank conducted a sale campaign for the 12-month subscription deposit involving an additional life and endowment insurance for the holder of this deposit, and started promotion campaign for 3- and 6-month deposits, in which customers placing such deposits received gifts (“*Gwarantowany deszcz nagród*”).

#### Small and Medium Enterprises

- As of 2 August 2004 the Bank increased the interest rates for term deposits in Partner accounts.
- On 11 August 2004 PKO BP SA signed an agreement with Agencja Restrukturyzacji i Modernizacji Rolnictwa, under which the Bank can extend working capital loans for the purchase and storage of agricultural products as well as the purchase or storage of seasonal honey surpluses on the basis of par. 23 h of the Decree of the Council of Ministers of 30 January 1996 (Journal of Laws No. 16 item 82 together with subsequent amendments). The agreement was concluded for an undefined period of time.
- On 7 September 2004 PKO BP SA signed a credit/loan portfolio guarantee agreement with Bank Gospodarstwa Krajowego. On the basis of this agreement BGK will issue for PKO BP SA a guarantee for the loans and advances from the National Credit Guarantee Fund (*Krajowy Fundusz Poreczeń Kredytowych*), entered in the portfolio of credits/loans, up to the total amount of PLN 10,000,000. This agreement replaced the credit/loan portfolio guarantee agreement concluded between BGK and the Bank on 10 July 2003.

#### **5.2.2 Housing market**

- As of 1 July 2004 scoring has become an obligatory element of evaluation of loan application considered when taking the credit decision.
- As of 15 August 2004 the Bank modified its product offer for institutional clients, by dividing the NOWY DOM loan into several sub-products depending on the purpose of the loan: NOWY DOM sale, NOWY DOM rental, NOWY DOM purchase and NOWY DOM renovation. The NOWY DOM Renovation investor loan became available as of 1 September 2004.
- As of 1 July 2004 the Bank’s product offer has been extended to include a package of banking services for housing communities (“*Nasza Wspólnota*”).
- In July 2004 the Bank signed an agreement with Bank Gospodarstwa Krajowego under which PKO BP SA will advance renovation loans with the participation of Thermo Modernisation Fund managed by BGK. This provides basis for finalising in the fourth quarter the activities connected with the introduction of a renovation loan with a modernisation bonus from BGK to the Bank’s product offer as of 1 January 2005.
- On 20 July 2004 the Bank signed Annex 2 to the Guarantee Agreement of 3 August 2001 on covering the repayment of loans advanced to housing cooperatives by State Treasury guarantees. This Annex regulates the matter of introduction of changes in mortgages established as collateral for loans subject to such guarantees (based on other statutory regulations) in such a way as to minimize the risk of violating the interest of the guarantor (State Treasury), and consequently the interest of the Bank.
- On 10 September 2004 the Bank signed an agreement with the State Treasury represented by the Minister of Infrastructure and the Minister of Finance, regarding the procedure and deadlines for settlements connected with redemption of interest on housing loans using state budget funds. This agreement replaced the agreement of 21 December 2001 concluded between the Bank and the State Treasury represented by the President of Housing and Urban Development Office.

- On 23 September 2004 the Bank received funds from a guarantee in the amount of ca. PLN 4.4 million. These funds covered unpaid instalments due from four cooperatives for the 4<sup>th</sup> quarter of 2003 and 1<sup>st</sup> quarter of 2004 and 90% of amounts due from two cooperatives in respect of which the Bank terminated the loan agreement.

### **5.2.3 Corporate Banking**

#### Lending Activities

In the 3<sup>rd</sup> quarter of 2004, the Bank organised:

- two loans in the form of banking syndicates: – the first one is an investment loan of PLN 177 million (Bank's participation: PLN 88.5 million), - the second one is a working capital loan of PLN 500 million (Bank's participation: PLN 160 million),
- revolving working capital loan of USD 24 million for an entity operating in the shipyard industry.

#### Issues of Securities

In 3<sup>rd</sup> quarter of 2004 the Bank organised seven issues of municipal bonds for the total amount of PLN 77.3 million, including:

- issue of municipal bonds for the city of Płock (PLN 40.0 million),
- issue of municipal bonds for Czerwionka-Leszczyny (PLN 11.8 million),
- issue of municipal bonds for Brodnica (PLN 11 million).

#### Cooperation with Banks and Financial Institutions

1. Foreign Banks and Institutions – in the 3<sup>rd</sup> quarter of 2004 the Bank completed the process of signing a stand-by agreement for an ISDA agreement with a foreign bank.
2. Domestic Banks and Institutions - in the 3<sup>rd</sup> quarter of 2004 the Bank concluded a stand-by agreement with a domestic bank for the amount of PLN 50 million.

### **5.2.4 Brokerage Activities**

1. In the 3<sup>rd</sup> quarter of 2004 Bankowy Dom Maklerski PKO BP SA prepared prospectuses and acted as an offerer for the following 4 companies: ALMA MARKET S.A., ATM S.A., SWISSMED S.A., LUBAWA S.A.
2. On 17 September 2004 the equity of BDM was increased by PLN 100 million up to the total amount of PLN 150 million of net assets. The increased brokerage funds will adjust the amount of own capital to the increased scale of activities, reflected among others in a greater amount of customer assets.
3. The sales of BDM PKO BP SA in 3<sup>rd</sup> quarter of 2004 were as follows:
  - Sales on the stock market amounted to PLN 1,362 million and were 56% higher in comparison with a corresponding period of 2003. Considering the fact that during the same period the volume of sales on the Warsaw Stock Exchange fell by 23%, we may conclude that BDM became one of the leaders among Polish brokers owing to intense selling activities,
  - Sales on the bonds market – the average share of BDM on this market amounted to PLN 684.7 million, i.e. were more than 4-times higher than sales in the corresponding period of the previous year, whereas the sales on the Warsaw Stock Exchange bonds market were only 37% higher than in the 3<sup>rd</sup> quarter of 2003.
4. At the end of September 2004 BDM PKO BP SA maintained: 74.1 thousand investment accounts and 209.3 thousand registered accounts, which totals to 283.4 thousand accounts and means a 75% increase from the end of September 2003.

## **5.3. EQUITY INVESTMENTS**

Key investments of PKO BP SA in the 3<sup>rd</sup> quarter of 2004 were as follows:

1. On 7 July 2004 the Bank signed an agreement under which it committed to purchase the shares of Dom Maklerski BROKER S.A. from HSBC Investment Bank Holdings B.V. The transfer of 100% of shares in Dom Maklerski BROKER S.A. to PKO BP SA took place on 8 September 2004.
2. In connection with the agreement of 23 June 2004 for the sale of shares in Bank Pocztowy S.A., the Bank received:

- An approval, granted on 7 July 2004 by the Banking Supervisory Commission, to exercise together with PPUO Poczta Polska over 75% of votes at the General Shareholders Meeting of Bank Pocztowy S.A.,
  - An approval, granted on 26 July 2004 by the President of the Office of Competition and Customer Protection, to increase the share through the purchase of shares of Bank Pocztowy S.A. resulting in obtaining at least 25% votes at the General Shareholders Meeting of Bank Pocztowy S.A. The transfer of 25% +1 share of Bank Pocztowy S.A. to the Bank was executed on 5 August 2004.
3. On 6 August 2004 the Bank made a capital injection to PKO Inwestycje Sp. z o.o. for the "Miasteczko Wilanów" project.
4. On 11 August 2004 PKO BP SA was granted an approval by the National Bank of Ukraine to purchase the shares of Kredyt Bank Ukraina S.A., representing maximum 71.75% of KBU's share capital. The decision of the National Bank of Ukraine was the last permission to be obtained. The transfer of 66.651% shares of Kredyt Bank (Ukraina) S.A. to PKO BP SA was executed on 26 August 2004.

#### **5.4. RESTRUCTURING OF THE BANK**

##### Reorganisation

In the 3<sup>rd</sup> quarter of 2004 the Bank completed the centralisation of support functions in specialised organizational units of the Bank. As a result the following centers became operational:

- As of 1 July 2004 – Settlement Center comprising accounting and settlement task forces and Administration Center responsible for administration of the Bank's properties and other administrative activities,
- As of 16 July 2004 – IT Center responsible for the functioning of the Bank's IT and telecommunication resources,
- As of 27 August 2004 – Cash Management Center responsible for the servicing of branches and external ATMs with respect to cash input and the related cash sorting activities as well as distribution of other treasury items.

In addition, the following business units became operational as of 1 July 2004:

- regional corporate branches, with the main task to sell products and services to the Bank's corporate customers;
- regional retail branches, with the main task to provide direct support to branches in carrying out their business activities.

The existing regional branches of the Bank ceased to operate as of 31 August 2004, due to their functions being transferred to other organisational units of the Bank.

In the 3<sup>rd</sup> quarter of 2004, the Bank finalised the series of training courses addressed to its employees in the subject of reorganisation.

In the 3<sup>rd</sup> quarter of 2004, the Bank completed the following projects to improve the quality and efficiency of customer service: *Multicash system and the system of floppy disk data exchange with customers.*

##### Implementation of the Integrated IT System

In the 3<sup>rd</sup> quarter of 2004 the main activities under Integrated IT System (ZSI) Project included the following:

- 1) preparation of detailed technical projects for selected functionalities based on documents drawn up as a result of the Bank's Requirements Analysis,
- 2) drawing up financial schedule (estimating expenditures required to address all functionality gaps),
- 3) preparation of a project including specifications for the mainframe and application servers, call center, WEB network and server as well as customer requirements, which will provide the basis for inviting hardware and software suppliers to submit proposals for supply of equipment and services.

##### Privatisation

3<sup>rd</sup> quarter of 2004 was the period of intense work on the preparation of the final prospectus of PKO BP SA. As a result, on 22 July 2004 the Bank filed an application with the Polish Securities and Exchange Commission (“KPWiG”) to have its shares admitted to public trading. On 31 August 2004 KPWiG granted consent for the introduction to public trading of the Bank’s A, B and C shares.

On 12 August 2004 the Extraordinary Shareholders Meeting resolved to amend the Statutes of PKO BP SA, including provisions relating to the Bank’s share capital and shares. As a result of this amendment, the existing 70,000,000 A shares with a nominal value of 10 zloties each and 30,000,000 B shares with a nominal value of 10 zloties each were converted into A, B and C with a nominal value of 1 złoty each. Starting from the date of registration of this amendment (25 August 2004) the Bank’s share capital amounts to PLN 1,000,000,000 and consists of 1,000,000,000 shares with a nominal value of 1 złoty each.

As part of preparing public offering of the Bank’s shares, on 3 September 2004 the Management Board of the Bank delivered presentation for analysts. The Bank also launched media campaign in order to promote the image of PKO BP SA.

## **5.5. OTHER ACHIEVEMENTS**

### Change of rating:

On 25 August 2004 Standard&Poors rating agency informed that it increased PKO BP SA long-term domestic currency liabilities rating from BBpi to BBBpi.

### Awards and distinctions:

STUDENCKA MARKA – granted to PKO BP SA in “Bank” category by the readers of Student News (September 2004).

### Sponsoring and charity work

Sponsoring and charity activities were directed to support culture, sports, life and health and included the following:

- continuation of the long-term program “PKO Bank Polski for the National Culture”, under which the Bank sponsored the exhibition “Witold Wojtkiewicz Ceremonie” in National Museum, the International Festival of the Dialogue of Four Cultures, the International Festival of Contemporary Music “Warszawska Jesień” and the Rawa Blues Festival,
- as part of the program “PKO Bank Polski for the Olympics Representation” the Bank was a sponsor of Olympics dedicated competitions on Polish Radio and TVP 1 as well as the “Sports News” on TVP 1,
- the Bank supported foundations raising funds for hospitals and health programs, such as Foundation for Hematology and Oncology, Foundation for Children with Diabetes, Foundation “Spełnione Marzenia” and Polska Akcja Humanitarna.

## **6. SUMMARY OF THE ACHIEVEMENTS OF SUBSIDIARIES IN THE 3<sup>RD</sup> QUARTER OF 2004, INCLUDING THE MOST IMPORTANT EVENTS**

### **Powszechnie Towarzystwo Emerytalne BANKOWY S.A.**

In the 3<sup>rd</sup> quarter of 2004 the value of assets held by Bankowy OFE increased by PLN 148.99 million and as at the end of September 2004 the value of assets of Bankowy OFE amounted to PLN 1,791.74 million. In terms of the value of managed assets Bankowy OFE holds 8th position on the market.

The number of members of Bankowy OFE amounted to 420,093 at the end of September 2004 (increase by 16,229 from the end of June 2004). In terms of the number of members, Bankowy OFE held 8th position among open pension funds at the end of the 3<sup>rd</sup> quarter of 2004.

Bankowy OFE continues to achieve good investment results. In the ranking of pension funds published by the Insurance and Pension Funds Supervisory Commission (KNUiFE) for the period from 28 September 2001 to 30 September 2004 Bankowy OFE achieved the highest rate of return of 74.751%, comparing to the weighted average rate of return of 53.824%.

**Centrum Elektronicznych Usług Płatniczych eService S.A.**

The number of terminals installed at the end of 3<sup>rd</sup> quarter of 2004 amounted to 21,247 (increase by 1,168 from the end of second quarter of 2004).

The value of processed transactions at the end of 3<sup>rd</sup> quarter of 2004 amounted to PLN 3,166.38<sup>1</sup> million (increase by PLN 1,296 million from the end of second quarter of 2004).

---

<sup>1</sup> This amount includes cash withdrawals made in the outlets and agencies of PKO BP SA using POS terminals.

#### **Bankowy Fundusz Leasingowy S.A.**

During the 3<sup>rd</sup> quarter of 2004 the company entered into lease contracts with a total value of PLN 86.6 million. The total value of contracts after three quarters of 2004 amounted to PLN 264.2 million. This accounted for 2,569 contracts.

At the end of 3<sup>rd</sup> quarter of 2004 the company held 11th position on the market in terms of the net value of fixed assets leased (according to *Rzeczpospolita of 13 October 2004*).

#### **Inteligo Financial Services S.A.**

During the 3<sup>rd</sup> quarter of 2004 the company acquired 34,300 new customers and at the end of 3<sup>rd</sup> quarter of 2004 was servicing approximately 346 thousand customers, and thus maintained the 12% share in the internet banking market.

At the end of September 2004 the value of deposits collected by the company amounted to PLN 1,160 million.

#### **PKO Inwestycje Sp. z o.o.**

The sales of Fort Mokotów Sp. z o.o., a company which was established in order to carry out the “Marina” housing estate project and in which PKO Inwestycje Sp. z o.o. holds a 51% shareholding, reached the following numbers in the 3<sup>rd</sup> quarter of 2004:

- 176 apartments,
- 93 garage places,
- 34 closets.

On 6 September 2004 Wilanów Investments Sp. z o.o., a company which was established in order to carry out the “Miasteczko Wilanów” project and in which PKO Inwestycje Sp. z o.o. has a 51% share, obtained a permit for the construction of a housing estate in Warsaw at ul. Królowej Marysieńki. The permit became legally valid on 23 September 2004.

On 23 September 2004 the company activated its sales bureau. At the end of 3<sup>rd</sup> quarter of 2004, 57 reservations were made for the new apartments.

#### **Centrum Finansowe Puławska Sp. z o.o.**

The percentage of rented office and commercial space in the 3<sup>rd</sup> quarter of 2004 remained at the same level as in the second quarter and amounts to 96%. The financial result of the company for the 9 month period ended 30 September 2004 amounted to PLN 24 million.

#### **Dom Maklerski BROKER S.A.**

On 8 September 2004 PKO BP SA purchased from HSBC Investment Bank Holdings B.V. 100% of shares in Dom Maklerski BROKER S.A.

On 8 September 2004 the Extraordinary General Meeting of Dom Maklerski BROKER S.A. made changes in the Management Board and Supervisory Board of the company and introduced the Bank’s representatives to these governing bodies.

#### **Kredyt Bank (Ukraina) S.A.**

On 26 August 2004 PKO BP SA purchased 66.651% of the shares of Kredyt Bank (Ukraina) S.A. located in Lvov.

On 3 September 2004 the Extraordinary General Meeting of Kredyt Banku (Ukraina) S.A. introduced the Bank’s representatives to the Supervisory Board and Audit Committee of Kredyt Bank (Ukraina) S.A.

Relevant steps have been undertaken in order to ensure the compatibility of the internal structures of Kredyt Bank (Ukraina) S.A. with the structures of PKO BP SA.

## 7. FACTORS AND EVENTS WITH SIGNIFICANT IMPACT ON FINANCIAL PERFORMANCE

### 7.1. FINANCIAL PERFORMANCE OF THE CAPITAL GROUP IN THE 3<sup>RD</sup> QUARTER OF 2004

#### *Balance sheet data*

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. At the end of 3<sup>rd</sup> quarter of 2004, the relation of total assets of PKO BP SA to total assets of the Group was 98.81%.

#### Assets

As at 30 September 2004, total assets of the Group amounted to PLN 86,512 million and increased by PLN 393 million (0.46%) during the 3<sup>rd</sup> quarter of 2004.

The main assets' categories were receivables, debt securities and shares, which together accounted for 90.9% of total assets. When compared with the balance as of the end of September 2003, the share of these items in total assets increased by 0.6 percentage points.

**Table 2. Structure and growth of assets**

Assets	As at 30.09.2004		As at 30.09.2003		Growth
	PLN thousand	Structure	PLN thousand	Structure	
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>2/4</i>
1. Cash and amounts due from the Central Bank	4 114 862	4.8%	4 629 339	5.5%	88.9%
2. Receivables	53 448 762	61.8%	46 630 068	55.1%	114.6%
3. Debt securities and shares	25 219 703	29.1%	29 824 064	35.2%	84.6%
4. Tangible fixed assets	2 237 493	2.6%	2 365 789	2.8%	94.6%
5. Other assets	1 491 592	1.7%	1 197 447	1.4 %	124.6%
<b>Total assets</b>	<b>86 512 412</b>	<b>100.0%</b>	<b>84 646 707</b>	<b>100.0%</b>	<b>102.2%</b>

As at 30 September 2004, total net receivables of the Group amounted to PLN 53,449 million and increased by 14.6% when compared with the previous year. In this amount:

- net receivables due from financial and non-financial institutions and from the public sector amounted to PLN 53,266 million and increased by PLN 8,733 million (19.6%) compared to the previous year and by PLN 2,571 million (5.1%) compared to the end of the first half of 2004. The annual increase resulted from an increase in receivables due from customers (i.e. non-financial and public sector) by PLN 5,549 million as well as increase in receivables due from the financial sector (by PLN 3,185 million), which mainly included Bank's deposits placed. The increase in the 3<sup>rd</sup> quarter of 2004 also resulted from an increase in receivables due from customers and financial sector (by PLN 1,881 million and PLN 691 million, respectively);
- there were no receivables from reverse-repo transactions (similar to 30 June 2004), which means that such receivables decreased by PLN 1,933 million during the period of one year,
- receivables from subsidiaries, joint ventures and associates accounted for using the equity pick-up method amounted to PLN 182 million; these receivables increased by 18 million in comparison to the previous year and remained at a similar level compared to the end of the first half of 2004.

At the end of September 2004, Group's investments in debt securities and shares amounted to PLN 25,220 million and decreased by PLN 4,604 million (15.4%) in comparison to the previous year, with a decrease of PLN 3,330 million attributable to the 3<sup>rd</sup> quarter of 2004 alone. This was mainly due to the transfer of the funds of the holding entity (PKO BP SA) to deposits placed with financial institutions and loans.

#### Liabilities and equity

At the end of September 2004, amounts due were the biggest item in the Group's total liabilities and equity, as they accounted for 84.2% of the total; next was the shareholders' equity, which accounted for 8.9%. Compared



with the previous year, the percentage of amounts due to the Central Bank and to sectors in total liabilities and equity decreased by 1.9 percentage points, mainly due to the increase in shareholders' equity by 1.4 percentage points.

**Table 3. Structure of liabilities and equity**

Liabilities and Equity	As at 30.09.2004		As at 30.09.2003		Growth
	PLN thousand	Structure	PLN thousand	Structure	
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>2/4</i>
1. Amounts due	72 828 890	84.2%	72 880 789	86.1%	99.9%
2. Special funds and other liabilities	1 406 807	1.6%	1 297 287	1.5%	108.4%
3. Accruals and deferred income	3 292 875	3.8%	2 914 624	3.5%	113.0%
4. Provisions	1 288 582	1.5%	1 274 611	1.5%	101.1%
5. Minority interest	29 807	0.0%	510	0.0%	5 844.5%
6. Shareholders' equity (including net profit)	7 665 451	8.9%	6 278 886	7.4%	122.1%
<b>Total liabilities and equity</b>	<b>86 512 412</b>	<b>100.0%</b>	<b>84 646 707</b>	<b>100.0%</b>	<b>102.2%</b>

As at 30 September 2004, total liabilities of the Group amounted to PLN 72,829 million, of which PLN 72,698 million related to amounts due to the financial, non-financial and public sector (this amount included the liabilities of PKO BP SA in respect of deposits placed with the Bank, which amounted to PLN 71,817 million). Other liabilities, amounting to PLN 131 million, comprised liabilities arising from issued debt securities and financial instruments. The Group's liabilities remained at a similar level when compared to the previous year, and decreased by PLN 689 million (0.9%) when compared to the end of the first half of 2004.

As for the remaining items of Group liabilities and equity, a significant change from the prior year was only noted in minority interest. The increase in this item is due to the first time accounting for Kredyt Bank (Ukraine) S.A. in the consolidated financial statements, in which PKO BP SA has a share of 66.651%.

#### *Profit and loss and performance indicators*

After 3 quarters of 2004 the PKO BP SA Group reached a gross profit of PLN 1,511 million, out of which PLN 452 million related to the 3<sup>rd</sup> quarter itself. After deducting the corporate income tax charges, which amounted to PLN 306 million, and adjusting the result for the Bank's share in net profits of subordinated entities accounted for using the equity pick-up method and profits attributable to minority shareholders, which together amounted to PLN 12 million, the resulting net profit amounted to PLN 1,217 million, of which PLN 371 million related to the 3<sup>rd</sup> quarter.

The result from banking activities for the period of 9 months of 2004 amounted to PLN 4,044 million and was 0.6% higher than the result for the corresponding period of 2003. The result recorded in the 3<sup>rd</sup> quarter of 2004 amounted to PLN 1,298 million and was 4.2% lower than the result for the 3<sup>rd</sup> quarter of 2003.

**Table 4. Main items of the profit and loss account (PLN thousand)**

	3 quarters of 2004		3 quarters of 2003		Increase/Decrease	
	Total	of which: 3 <sup>rd</sup> quarter	Total	of which: 3 <sup>rd</sup> quarter	3 quarters of 2004 / 3 quarters of 2003	3rd quarter of 2004/ 3 <sup>rd</sup> quarter of 2003
1. Result from banking activities, of which:	4 043 668	1 298 243	4 018 743	1 355 481	100.6%	95.8%
1.1. Net interest income	2 720 010	900 408	2 567 104	882 111	106.0%	102.1%
1.2. Net fees and commission income	1 143 137	426 856	977 617	338 971	116.9%	125.9%
1.3. Result from financial operations and income from shares	-9 859	-44 802	41 057	24 775	x	x
1.4 Foreign exchange result	190 380	15 781	432 965	109 624	44.0%	14.4%
2. Profit from sales	64 847	20 239	47 383	15 187	136.9%	133.3%
3. Net other operating income and expense	93 202	29 574	84 532	80 539	110.3%	36.7%
4. Overhead costs	-2 331 983	-792 288	-2 242 411	-780 031	104.0%	101.6%
5. Depreciation of tangible fixed assets and amortisation of intangible assets	-391 773	-132 617	-353 222	-116 752	110.9%	113.6%
6. Change in provisions' value and revaluation	49 192	34 226	-182 209	-116 944	x	x
7. Result from operating activities	1 527 153	457 377	1 372 816	437 480	111.2%	104.5%
8. Net extraordinary gains (losses)	11	95	290	158	3.8%	60.1%
9. Amortisation of goodwill and negative goodwill	-16 427	-5 296	-4 846	-2 920	339.0%	181.4%
<b>10. Gross profit/(loss)</b>	<b>1 510 737</b>	<b>452 176</b>	<b>1 368 260</b>	<b>434 718</b>	<b>110.4%</b>	<b>104.0%</b>
11. Taxation	-305 536	-86 637	-423 249	-145 186	72.2%	59.7%
12. Share in net profits/losses of entities accounted for using equity pick-up method and profits/losses attributable to minority shareholders	11 474	5 473	11 502	2 464	99.8%	222.1%
<b>13. Net profit/(loss)</b>	<b>1 216 675</b>	<b>371 012</b>	<b>956 513</b>	<b>291 996</b>	<b>127.2%</b>	<b>127.1%</b>

During the period of January - September 2004 the Group recorded interest result of PLN 2,720 million, i.e. 6.0% higher than in the previous year. It consisted of interest income amounting to PLN 3,888 million and interest expense amounting to PLN 1,168 million. The interest result recorded in the 3<sup>rd</sup> quarter of 2004 amounted to PLN 900 million and was 2.1% higher than the result recorded in the 3<sup>rd</sup> quarter of 2003.

The net fees and commission income recorded after 3 quarters of 2004 amounted to PLN 1,143 million (PLN 427 million in the 3<sup>rd</sup> quarter) and was 16.9% higher when compared to the previous year. It consisted of fees and commission income amounting to PLN 1,335 million and fees and commission expense amounting to PLN 192 million.

After 9 months of 2004, financial operations, income from shares and foreign exchange operations generated a profit of PLN 181 million (38.1% of the profit for the corresponding period of 2003), which consisted of: profit from foreign exchange operations amounting to PLN 190 million, income from shares amounting to PLN 3 million and loss from financial operations amounting to PLN 13 million.

General expenses of the Group, including overhead costs and general administrative expenses and depreciation/amortisation expense, amounted to PLN 2,724 million for the three quarters of 2004 (with PLN 392 million relating to depreciation/amortisation charges) and were 4.9% higher when compared with the previous year. Costs incurred in the 3<sup>rd</sup> quarter of 2004 amounted to PLN 925 million and were 3.1% higher when compared with the corresponding period of 2003.

After 9 months of 2004, the result on provisions and revaluation was positive and increased the Group's profit by PLN 49 million (in the 3<sup>rd</sup> quarter of 2004 it amounted to +34 million PLN). Provision allowances and revaluation for the three quarters of 2004 amounted to PLN 725 million (28.3% less than in the previous year), whereas the value of released provisions amounted to PLN 774 million (6.6% less than in the previous year).

The results of the PKO BP SA Group after 3 quarters of 2004, when compared with the results for 2003 (adjusted for comparability i.e. reflecting changes made in accounting policies during the year 2004), resulted in the following changes in key performance indicators:

- the return on assets (ROA) increased by 0.27 percentage points,
- the return on equity (ROE) increased by 0.76 percentage points,
- the cost/income ratio (C/I) decreased by 1.11 percentage points,
- the coverage of overhead expenses by fees and commission income improved by 7.06 percentage points.

**Table 5. Return on assets and return on equity**

Ratios	For the 12-month period ended 30.09.2004	For the 12-month period ended 31.12.2003
<i>1</i>	<i>2</i>	<i>4</i>
1. Net profit (loss)/average assets ( <b>ROA<sub>net</sub></b> ) <sup>1</sup>	<b>1.70%</b>	<b>1.43%</b>
2. Net profit (loss)/average equity ( <b>ROE<sub>net</sub></b> ) <sup>2</sup>	<b>20.81%</b>	<b>20.05%</b>

<sup>1</sup> ROA net computed as relation of net profit (loss) for the 12 month period to the arithmetic average of assets at the beginning and at the end of the period.

<sup>2</sup> ROE net computed as relation of net profit (loss) for the 12 month period to the arithmetic average of equity (including profits brought forward and profit for the year) at the beginning and at the end of the period.

**Table 6. Selected performance indicators**

Ratios	For the period from 1.01.2004 to 30.09.2004	For the period from 1.01.2003 to 31.12.2003
<i>1</i>	<i>2</i>	<i>4</i>
1. Overhead expenses, depreciation and amortisation / result on banking activities (C/I)	<b>67.36%</b>	<b>68.47%</b>
2. Net fees and commission income / overhead costs	<b>49.02%</b>	<b>41.96%</b>

## 7.2. FINANCIAL PERFORMANCE OF PKO BP SA IN THE 3<sup>RD</sup> QUARTER OF 2004

### *Balance sheet data*

As at 30 September 2004, total assets of the Bank amounted to PLN 85,481 million and decreased by PLN 482 million, i.e. 0.6%, during the 3<sup>rd</sup> quarter of 2004.

### *Assets*

The main assets' categories were receivables, debt securities and shares, which together accounted for 91.6% of assets. Compared with the end of September 2003, the share of these items in the Bank's assets decreased by 3.0 percentage points.

**Table 7. Structure and growth of assets**

Assets	As at 30.09.2004		As at 30.09.2003		Growth
	PLN thousand	Structure	PLN thousand	Structure	
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>2/4</i>
1. Cash and amounts due from the Central Bank	4 080 128	4.8%	4 629 318	5.5%	88.1%
2. Receivables due from financial, non-financial and public sector	52 717 835	61.7%	44 726 064	53.0%	117.9%
3. Reverse-repo transactions	0	0.0%	1 933 146	2.3%	0.0%
4. Debt securities and shares	25 565 590	29.9%	30 061 574	35.6%	85.0%
5. Tangible fixed assets	1 803 420	2.1%	1 985 033	2.4%	90.9%
6. Other assets	1 314 522	1.5%	1 132 794	1.3%	116.0%
<b>Total assets</b>	<b>85 481 495</b>	<b>100.0%</b>	<b>84 467 929</b>	<b>100.0%</b>	<b>101.2%</b>

As at 30 September 2004, net receivables from financial and non-financial institutions and the public sector amounted to PLN 52,718 million and increased by PLN 7,992 million (17.9%) compared to the previous year and by PLN 1,793 million (3.5%) when compared to the first half of 2004. The annual increase resulted from an increase in receivables due from customers (i.e. non-financial and public sector) by PLN 4,868 million as well as increase in receivables due from the financial sector (by PLN 3,124 million), which mainly included Bank's deposits placed. The increase in the 3<sup>rd</sup> quarter of 2004 also resulted from an increase in receivables due from customers and financial sector (by PLN 1,283 million and PLN 510 million, respectively).

The balance of assets at the end of 3<sup>rd</sup> quarter of 2004 did not include any receivables from reverse-repo transactions, which means that such receivables decreased by PLN 1,933 million during the period of one year. Changes in the balance of those receivables are connected with current commercial operations of the Bank, and their amounts result from open positions existing at the last day of the reporting period.

At the end of September 2004, the Bank's investments in debt securities and shares amounted to PLN 25,566 million and decreased by PLN 4,496 million (15.0%) in comparison to the previous year, with a decrease of PLN 3,255 million attributable to the 3<sup>rd</sup> quarter of 2004 alone. This was due to the transfer of funds to deposits placed with financial institutions and loans.

#### Liabilities and equity

At the end of September 2004, the biggest item of the Bank's liabilities and equity constituted liabilities due to financial, non-financial and public sector, which amounted to PLN 71,817 million and accounted for 84.0% of the total liabilities and equity; next was the shareholders' equity, which accounted for 9.0% of the total and amounted to PLN 7,665 million. Compared to the previous year, the percentage of liabilities due to those sectors in total liabilities and equity of the Bank decreased by 1.9 percentage points, mainly due to the increase in shareholders' equity by 1.6 percentage points.

**Table 8. Structure of liabilities and equity**

Liabilities and Equity	As at 30.09.2004		As at 30.09.2003		Growth
	PLN thousand	structure	PLN thousand	structure	
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>2/4</i>
1. Amounts due to the Central Bank	61	0.0%	0	0.0%	X
2. Amounts due to the financial, non-financial and public sector	71 817 035	84.0%	72 527 230	85.9%	99.0%
3. Accruals and deferred income	3 280 605	3.8%	2 913 061	3.4%	112.6%
4. Provisions	1 293 027	1.5%	1 274 437	1.5%	101.5%
5. Other liabilities	1 425 316	1.7%	1 474 315	1.7%	96.7%
6. Shareholders' equity (including net profit)	7 665 451	9.0%	6 278 886	7.4%	122.1%
<b>Total liabilities and equity</b>	<b>85 481 495</b>	<b>100.0%</b>	<b>84 467 929</b>	<b>100.0%</b>	<b>101.2%</b>

In the total amount of the Bank's liabilities to the financial, non-financial and public sector, arising from deposits placed with the Bank, term liabilities made up 66.5% and current liabilities 33.5% of the total. This proportion did not change significantly during the 3<sup>rd</sup> quarter of 2004; however, when compared to the previous year, current liabilities increased by 3.4 percentage points (from 30.1% at the end of September 2003).

Provisions and other liabilities, including special funds and other liabilities of the Bank, remained at a level similar to that from the previous year.

#### ***Profit and loss and performance indicators***

After three quarters of 2004, PKO BP SA recorded a gross profit of PLN 1,478 million, with PLN 437 million recorded in the 3<sup>rd</sup> quarter. After deducting the corporate income tax charge, which amounted to PLN 297 million, and adjusting the result for the Bank's share in net profits of entities accounted for using the equity pick-up method, which amounted to PLN 36 million, the resulting net profit amounted to PLN 1,217 million, of which PLN 371 million related to the 3<sup>rd</sup> quarter.

The result on banking activities for the period of 9 months of 2004 amounted to PLN 4,014 million and was 0.4% lower than the result for the corresponding period of 2003. The result recorded in the 3<sup>rd</sup> quarter of 2004 amounted to PLN 1,273 million and was 6.8% lower than the result for the 3<sup>rd</sup> quarter of 2003.

**Table 9. Main items of the profit and loss account (PLN thousand)**

	3 quarters of 2004		3 quarters of 2003		Increase/Decrease	
	Total	of which: 3 <sup>rd</sup> quarter	Total	of which: 3 <sup>rd</sup> quarter	3 quarters of 2004 / 3 quarters of 2003	3rd quarter of 2004/ 3rd quarter of 2003
1. Result from banking activities, of which:	4 013 892	1 273 096	4 031 751	1 365 758	99.6%	93.2%
1.1. Net interest income	2 696 975	892 769	2 546 578	872 914	105.9%	102.3%
1.2. Net fees and commission income	1 146 129	419 325	1 001 478	350 286	114.4%	119.7%
1.3. Result from financial operations and income from shares	-10 953	-45 506	40 992	23 782	x	x
1.4 Foreign exchange result	181 741	6 508	442 703	118 776	41.1%	5.5%
2. Net other operating income and expense	75 353	32 775	79 106	80 528	95.3%	40.7%
3. Overhead costs	-2 309 262	-784 743	-2 226 804	-783 892	103.7%	100.1%
4. Depreciation of tangible fixed assets and amortisation of intangible assets	-357 352	-121 085	-318 529	-105 900	112.2%	114.3%
5. Change in the value of provisions and revaluation	55 182	37 010	-171 858	-111 909	x	x
6. Result from operating activities	1 477 813	437 053	1 393 666	444 585	106.0%	98.3%
7. Net extraordinary gains (losses)	11	95	290	158	3.8%	60.1%
<b>8. Gross profit/(loss)</b>	<b>1 477 824</b>	<b>437 148</b>	<b>1 393 956</b>	<b>444 743</b>	<b>106.0%</b>	<b>98.3%</b>
9. Taxation	-297 404	-84 804	-414 272	-144 166	71.8%	58.8%
10. Share in net profits/losses of entities accounted for using equity pick-up method	36 255	18 668	-23 171	-8 581	x	x
<b>11. Net profit/(loss)</b>	<b>1 216 675</b>	<b>371 012</b>	<b>956 513</b>	<b>291 996</b>	<b>127.2%</b>	<b>127.1%</b>

During the period of January - September 2004 the Bank recorded an interest result of PLN 2,697 million, i.e. 5.9% higher than in the previous year. It consisted of interest income amounting to PLN 3,854 million and interest expense amounting to PLN 1,157 million. The interest result recorded in the 3<sup>rd</sup> quarter of 2004 amounted to PLN 893 million and was 2.3% higher than the result recorded in the 3<sup>rd</sup> quarter of 2003.

The net fees and commission income recorded after 3 quarters of 2004 amounted to PLN 1,146 million (PLN 419 million in the 3<sup>rd</sup> quarter) and was 14.4% higher compared to the previous year. It consisted of fees and commission income amounting to PLN 1,343 million and fees and commission expense amounting to PLN 197 million.

After 9 months of 2004, financial operations, income from shares and foreign exchange operations generated a profit of PLN 171 million (35.3% of the profit for the corresponding period of 2003), which consisted of: profit from foreign exchange operations amounting to PLN 182 million, income from shares amounting to PLN 3 million and loss from financial operations amounting to PLN 14 million. Profit from financial operations includes the result on the IRS contracts hedging the results on financial assets classified as available for sale (the "AFS" portfolio). The effects of changes in their fair value are taken to revaluation reserve.

Due to the classification of securities under the AFS portfolio, the cumulative change in the fair value of the instruments included in this portfolio, which has been recorded under revaluation reserve, can be recognised in the profit/loss from financial operations no sooner than at the moment those securities are sold or become due.

General expenses of the Bank, including overhead costs and depreciation/amortisation expense, amounted to PLN 2,667 million for the three quarters of 2004 (with PLN 357 million relating to depreciation/amortisation charges) and were 4.8% higher when compared with the previous year. Costs incurred in the 3<sup>rd</sup> quarter of 2004 amounted to PLN 906 million and were 1.8% higher when compared with the corresponding period of 2003.

After 9 months of 2004, the result on provisions and revaluation were positive and increased the Bank's profit by PLN 55 million (in the 3<sup>rd</sup> quarter of 2004 it amounted to PLN +37 million). Provision allowances and revaluation for the three quarters of 2004 amounted to PLN 704 million (28.5% less than in the previous year),

whereas the amount of released provisions amounted to PLN 759 million (6.5% less than in the previous year). The positive result on specific provisions was due to the following two factors: improvement in the quality of the loan portfolio on one hand and application of new principles of classification of loans and recognition of specific provisions on the other hand (in accordance with the Decree of the Minister of Finance of 10 December 2003 on providing for risks associated with banking activities).

The results of PKO BP SA after 3 quarters of 2004, when compared to the results for 2003 (adjusted for comparability i.e. reflecting changes made in accounting policies during the year 2004), resulted in the following changes in key performance indicators:

- the return on assets (ROA) increased by 0.28 percentage points,
- the return on equity (ROE) increased by 0.76 percentage points,
- the cost/income ratio (C/I) increased by 0.42 percentage points,
- the coverage of overhead costs by fees and commission income improved by 5.25 percentage points.

**Table 10. Return on assets and return on equity**

Ratios	For the 12-month period ended 30.09.2004	For the 12-month period ended 31.12.2003
<i>1</i>	<i>2</i>	<i>4</i>
1. Net profit (loss)/average assets ( <b>ROA<sub>net</sub></b> ) <sup>1</sup>	<b>1.71%</b>	<b>1.43%</b>
2. Net profit (loss)/average equity ( <b>ROE<sub>net</sub></b> ) <sup>2</sup>	<b>20.81%</b>	<b>20.05%</b>

<sup>1</sup> ROA net computed as relation of net profit (loss) for the 12 month period to the arithmetic average of assets at the beginning and at the end of the period.

<sup>2</sup> ROE net computed as relation of net profit (loss) for the 12 month period to the arithmetic average of equity (including profits brought forward and profit for the year) at the beginning and at the end of the period.

**Table 11. Key performance indicators**

Ratios	For the period from 1.01.2004 to 30.09.2004	For the period from 1.01.2003 to 31.12.2003
<i>1</i>	<i>2</i>	<i>4</i>
1. Overhead expenses, depreciation and amortisation / result on banking activities ( <b>C/I</b> )	<b>66.43%</b>	<b>66.01%</b>
2. Net fees and commission income / overhead costs	<b>49.63%</b>	<b>44.38%</b>

#### *Shareholders' equity and capital adequacy ratio*

As at 30 September 2004, shareholders' equity amounted to PLN 7,665 million and was 22.1% higher compared to the previous year. This amount consisted of the Bank's capital of PLN 6,444 million (84.1%), and accumulated profits from prior years and net profit for the year amounting to PLN 1,221 million. In comparison with the previous year, the Bank's capital increased by PLN 1,164 million, mainly as a result of the appropriation of profit for the year 2003.

The increase of the Bank's capital contributed to the increase in the capital adequacy ratio by 0.69 percentage points during the period of one year (capital adequacy ratio amounted to 17.65% at 30 September 2004 and 16.96% at the end of September 2003). When compared with June 2004, capital adequacy ratio noted a decrease of 2.24 percentage points, which was due, on one hand, to the increase in overall capital requirement (due to increase in the volume of loans), and – on the other hand - the decrease in the amount of Bank's capital on the basis of which the ratio is calculated (mainly due to the increase in the Bank's investments in financial institutions).

**Table 12. Shareholders' equity**

Details	As at 30.09.2004		As at 30.09.2003		Growth
	PLN thousand	Structure	PLN thousand	Structure	
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>2/4</i>
1. Share capital	1 000 000	13.0%	1 000 000	15.9%	100.0%
2. Reserve capital	2 803 078	36.6%	1 781 928	28.4%	157.3%
3. Revaluation reserve	270 976	3.5%	338 507	5.4%	80.1%
4. Other reserves	2 370 000	30.9%	2 160 000	34.4%	109.7%
<b>Bank's capital</b>	<b>6 444 054</b>	<b>84.1%</b>	<b>5 280 435</b>	<b>84.1%</b>	<b>122.0%</b>
5. Accumulated profits/losses from prior years	4 722	0.1%	41 938	0.7%	11.3%
6. Net profit for the year	1 216 675	15.9%	956 513	15.2%	127.2%
<b>Total shareholders' equity</b>	<b>7 665 451</b>	<b>100.0%</b>	<b>6 278 886</b>	<b>100.0%</b>	<b>122.1%</b>

### 7.3. FACTORS WHICH INFLUENCED BANK'S RESULTS

#### 7.3.1 Macroeconomic environment

- Continued growth in an industrial production, retail sales and foreign trade, indicating further growth of GDP during the 3<sup>rd</sup> quarter of 2004.
- No visible effects of economic growth on the labour market. Despite the fact that August was the sixth month in a row in which unemployment decreased, the unemployment rate remained at a high 19.1% level, with slightly more than 3 million people being unemployed.
- Due to expiry of the demand created by Poland's accession to EU, the rise of inflation rate was halted in the 3<sup>rd</sup> quarter of 2004. The year to year inflation rate in August amounted to 4.6%.
- Good financial results of enterprises resulted in a significant increase in the balance of corporate deposits. At the end of August the balance of corporate deposits was 33% higher than at the corresponding period of 2003. In July and August 2004 a slight increase was noted in the dynamics of household deposits.
- The growing trend in household loans continued owing to the rapid growth in demand for housing loans. However, no significant improvement was noted in the demand for loans by enterprises.
- In August 2004, the National Bank of Poland published an official inflation rate projection, according to which it is highly probable that, during the following two years, the inflation rate will remain above the inflation target set by the Monetary Policy Board (2.5%). Concerned with the perspective of inflation remaining at an increased level, the Monetary Policy Board continued to restrict its monetary policy. During the 3<sup>rd</sup> quarter of 2004, the base interest rates were raised, on a cumulative basis, by 0.75 percentage points, up to the level of 6.5% for NBP's reference rate.

#### 7.3.2 Regulatory environment

The most important regulatory changes related to the following:

- The Act on Individual Pension Accounts (*Indywidualne Konta Emerytalne – IKE*), effective as of 1 September 2004 (2004 Journal of Laws No. 1116, item 1205), which encourages individuals to make savings in order to acquire an additional source of income upon retirement, with annual savings up to PLN 3,435 being exempt from the capital gains tax. In addition to banks, the following entities are authorised to maintain such accounts: life insurance companies, investment funds and brokers;
- The Act on Investment Funds, effective as of 1 July 2004 (2004 Journal of Laws No. 146 item 1546), which expands the possibilities for creating investment funds by expanding the scope of financial instruments that can be used for investment purposes. This may affect the allocation of savings placed with PKO BP SA.

During the 3<sup>rd</sup> quarter of 2004, PKO BP SA had to incur additional financial and organisational expenditures in order to implement the following regulations:

- Provisions of the Act on electronic payment instruments (2002 Journal of Laws No. 169, item 1385 together with subsequent amendments), which requires that banks sign agreements for the use of banking cards with all clients to whom such cards were issued prior to the effective date of the Act. This resulted in the requirement to sign - until 12 October 2004 – more than 3.8 million agreements for issuing and using PKO BP SA cards. Most of them were signed during the 3<sup>rd</sup> quarter of 2004. This resulted in high client correspondence costs.
- Interpretation of the term “banking activity”, issued by the Chief Inspector of Banking Supervision in connection with outsourcing agreements signed with external entities to perform banking activities, as defined in the amended Banking Law effective as of 1 May 2004 (interpretation presented in letter NB-BPN-I-022-7-/04 dated 3 August 2004). This interpretation requires banks to disclose additional information on the agreements concluded on an ongoing basis and those concluded prior to the date of the latest amendments to the Banking Law i.e. 1 May 2004.

### **7.3.3 Financial market**

During the 3<sup>rd</sup> quarter of 2004, the yield on annual treasury bills increased by almost 15 base points, the yield on treasury bonds with maturities from 2 to 10 years decreased by approximately 50 base points and the PLN exchange rate showed significant appreciation. The increase in the yield on treasury bills was mainly due to increases in NBP interest rates. The decrease in the yield on treasury bonds resulted from improved situation in public finance – which, among others, was due to government’s approval of a draft budget presuming a reduction of budget deficit to PLN 35 billion in 2005 and a reduction of public debt by ca. PLN 6 billion in comparison to 2004.

## **8. SIGNIFICANT POST BALANCE SHEET EVENTS**

- As of 1 October 2004, Bankowy Dom Maklerski PKO BP SA included the following products in its product offer:
  - the IKE – Obligacje Account (Bonds Related Individual Pension Account) – an individual pension account (maintained on the basis of the Act on individual pension accounts) which is linked to the sale and servicing of treasury retail bonds performed by the Bank acting as Agent for the issue of such bonds,
  - the IKE – Inwestycje Account (Investments Related Individual Pension Account) – broker’s account mainly addressed to those who have basic knowledge of capital market and decide to invest their savings on their own using a wide range of capital market instruments such as shares, bonds, rights to shares and subscription rights.
- On 6 October 2004, PKO BP SA published its Prospectus. The copies of the Prospectus were made available in each branch of the Bank and in brokerage offices throughout Poland, including in the Customer Service Points of BDM PKO BP SA.
- On 11 October 2004, the Bank started to sell Privatisation Deposits, which entitled for the purchase of the shares of PKO BP SA. The maximum value of such deposits amounted to PLN 20 thousand and this was the amount of the guaranteed number of shares allocated without any additional reduction. The underlying principle was to accept deposits up to the total amount of PLN 1.1 billion for all deposits collected in Poland. The demand from customers was so big that the maximum amount of privatisation deposits in Poland was reached as early as on the first day of sales, at 1:45pm. In accordance with the time schedule, allocation of shares will take place on 4 November 2004.
- On 21 October 2004, the price range referred to in Art. 80.2 of the Act on Public Trading in Securities was established at the level of PLN 17.50 – PLN 20.50. This is the range in which the Selling Price of the PKO BP SA shares will be contained.
- On 22 October 2004, public subscription for PKO BP SA shares began, and lasted until 3 November 2004.
- On 2 November 2004, the Council of Ministers decided to increase the total number of offered PKO BP SA shares from 300 million to 385 million, i.e. from 30.0% to 38.5% of the total number of shares.
- On 3 November 2004, the State Treasury Minister established the final structure of public offering:



- 160 million shares for individual investors, including two sub-tranches: retail investors (104,188,322 shares), whom purchased shares from brokers, and bank's customers (55,811,678 shares), who acquired privatisation deposits,
- 132 million shares to domestic institutional investors,
- 85 million shares to foreign institutional investors,
- 8 million premium shares.

Up to 10.5% of the total number of shares are still reserved for PKO BP S.A. employees.

- On 3 November 2004, the State Treasury Minister established the Selling Price at PLN 20.50 for each PKO BP SA share.

#### **9. OPINION OF THE MANAGEMENT BOARD REGARDING PERSPECTIVES FOR REALISATION OF PREVIOUSLY PUBLISHED PROJECTIONS OF THE RESULTS FOR THE YEAR, CONSIDERING THE RESULTS PRESENTED IN QUARTERLY REPORT**

The Bank did not publish any projections of the results for the year 2004.

#### **10. FACTORS WHICH WILL INFLUENCE FUTURE FINANCIAL PERFORMANCE WITHIN AT LEAST THE NEXT QUARTER**

- The implementation of the Act on Individual Pension Accounts, effective as of 1 September 2004, as referred to in paragraph 5.2.2 – due to the fact that financial institutions other than banks can guarantee higher, though more risky, income in comparison to banks, the IKE accounts offered by such institutions may present a challenge for long-term bank deposits. Despite the fact that PKO BP SA joined the IKE accounts system by launching the IKE-Obligacje and IKE-Inwestycje accounts in BDM PKO BP SA as of 1 October 2004, we can expect an outflow of long-term deposits from banks to investment and insurance societies maintaining IKE accounts during the 4<sup>th</sup> quarter of 2004.
- The implementation of the Act of 16 April 2004 on the EU Guarantee Fund (Journal of Laws No. 121, item 1262) may affect the amount of obligatory charges in respect of corporate income tax, in the portion relating to deferred tax, during the 4<sup>th</sup> quarter of 2004.
- Starting from the 1<sup>st</sup> quarter of 2005, the results of the Bank may be affected by the amendments made to the Accounting Act of 29 September 1994 (2002 Journal of Laws No. 76, item 694, together with subsequent amendments) as well as the draft amendments to the Corporate Profits Tax Act of 15 February 1992 (2000 Journal of Laws No. 54, item 654, together with subsequent amendments), in the context of the requirement for banks to prepare annual consolidated accounts in accordance with International Accounting Standards, International Financial Reporting Standards and the related interpretations published in the form of regulations of the European Commission. The most vital issues, which might influence the Bank's financial result, include: impairment of loans and tax classification of those write-offs and valuation of assets (including Bank's loans and receivables) and liabilities (deposits) at amortised cost using and effective interest rate.

## 11. SHAREHOLDERS HOLDING, EITHER DIRECTLY OR INDIRECTLY, AT LEAST 5% OF VOTES AT THE ISSUER'S GENERAL MEETING

The report for the 2<sup>nd</sup> quarter of 2004 was submitted to KPWiG together with the prospectus on 23 July 2004.

To the best knowledge of the Bank, the State Treasury is a shareholder who holds at least 5% of votes at the General Meeting of the Bank, either directly or indirectly through its subsidiaries.

Shareholder	Percentage of votes held at the date of submitting the previous quarterly report	Number of shares held at the date of submitting the previous quarterly report	% change from the date of submitting the previous quarterly report	Percentage of votes held at the date of submitting this report	Number of shares held at the date of submitting this report
State Treasury	100%	100,000,000*	(37.7%)	62.3 %	623,000,000*

\* The total number of shares at the date of submitting the previous quarterly report amounted to 100,000,000. On 12 August 2004 the General Shareholders Meeting of the Bank amended its Statutes to the effect that the share capital of the Bank now amounts to PLN 1,000,000,000 and consists of 1,000,000,000 shares with a nominal value of 1 zloty each.

The percentage of shares held by the above shareholder in the share capital of the Bank corresponds to the percentage of votes held at the General Shareholders Meeting at the date of submitting this report.

## 12. CHANGES IN THE NUMBER OF ISSUER'S SHARES HELD BY MEMBERS OF MANAGEMENT AND SUPERVISORY BOARD

Presented below are the shares held by the members of the Management Board and the Supervisory Board of the Bank as at the date of submission of the report:

	Number of shares as at the date of submission of previous quarterly report*	Purchase	Sales	Number of shares, options as at the day of submission of the report
Management Board	-	3,419	-	3,419
Supervisory Board	-	2,603	-	2,603

\* Quarterly report for the II quarter of 2004 was submitted to the KPWiG together with the prospectus as of 23 July 2004.

## 13. PROCEEDINGS PENDING BEFORE A COURT, ARBITRATION TRIBUNAL OR PUBLIC ADMINISTRATIVE AUTHORITY

As at 30 September 2004, the total value of proceedings conducted against the Bank amounted to PLN 10,000,000,411 million, and the total value of proceedings conducted on the request of the Bank amounted to PLN 83 million.

The highest value proceedings are as follows:

- Action initiated by a physical person against PKO BP S.A. for remedy of damages suffered due to Bank's failure to revalue and pay funds collected on a savings pass book registered in 1971. The value of the claim amounts to PLN 10,000,000,000 million. On 14 September 2004, the Regional Court had a statement of claim served on the Bank.

The claim for the payment of PLN 10,000,000,000 million is completely ungrounded due to the fact that the plaintiff did not meet the statutory requirements for obtaining guarantee premium as well as due to the exclusion of cash collected on bank accounts from revaluation under Art. 13 of the Act of 28 July 1990 amending the Civil Code Act (Journal of Laws No. 55, item 321). In addition, no such claims were recognised by the existing court jurisdiction.

## 14. TRANSACTION(S) CONCLUDED BY THE ISSUER OR BY ITS SUBSIDIARY WITH OTHER GROUP ENTITIES, WITH A VALUE EXCEEDING THE PLN EQUIVALENT OF EUR 500,000

- On the basis of Cooperation Agreement signed with a subsidiary, Inteligo Financial Services S.A., on 29 November 2002 (with Annexes Nos. 1,2,3,4) and the Agreement of 12 September 2003 attached as

an appendix to the Cooperation Agreement, during the 3<sup>rd</sup> quarter of 2004 PKO BP SA paid to this company an amount of PLN 23 million. The total amount of consideration received by the company during the period of January – September 2004 amounted to PLN 52 million. The agreements were signed in order to determine the principles of co-operation between the parties with respect to maintenance and development of the operating system servicing Inteligo accounts, including the amount of consideration for services provided by the company to the Bank.

The payments made in the 3<sup>rd</sup> quarter of 2004 included the following:

- consideration for services provided as part of the ongoing operating activities of IFS (June – August 2004),
- adjustment of infrastructure to enable it to maintain the call center operations,
- re invoicing of the costs of Centrum Bankowości Elektronicznej Inteligo and Call Center in Lublin.

Due to comprehensive regulation of the co-operation between the parties, the agreement is not a typical or routine agreement arising from ongoing operations of the parties.

- On the basis of Lease Agreement signed with a subsidiary, Centrum Finansowe Puławska Sp. z o.o., on 7 December 1995 (and amended by Annexes Nos. 1 to 22), during the 3<sup>rd</sup> quarter of 2004 PKO BP SA made payments to the company in the total gross amount of PLN 16 million. The total amount of gross consideration paid to the company during the period of January – September 2004 amounted to PLN 50 million. The agreement was signed in order to determine the terms of the lease of building located in Warsaw at ul. Puławska 15.

The payments made included lease fees, maintenance fees and fees for the cleaning of shared space.

Due to comprehensive regulation of the cooperation between the parties, the agreement is not a typical or routine agreement arising from ongoing operations of the parties.

#### **15. SURETYSHIPS AND GUARANTEES GRANTED BY THE ISSUER OR BY ITS SUBSIDIARY TO A SINGLE ENTITY OR ITS SUBSIDIARY IF THE TOTAL VALUE OF GRANTED SURETYSHIPS OR GUARANTEES AMOUNTS TO AT LEAST 10% OF THE ISSUER'S SHAREHOLDERS' EQUITY**

During the 3<sup>rd</sup> quarter of 2004, PKO BP SA did not grant any suretyships or guarantees to a single entity or its subsidiary in the total amount of at least 10% of PKO BP SA's shareholders' equity.

During the 3<sup>rd</sup> quarter of 2004, the subsidiaries of PKO BP SA did not grant any suretyships or guarantees to a single entity or its subsidiary in the total amount of at least 10% of PKO BP SA's shareholders' equity.

#### **16. OTHER DISCLOSURES SIGNIFICANT FOR EVALUATION OF THE ISSUER'S HUMAN RESOURCES, FINANCIAL SITUATION, FINANCIAL PERFORMANCE AND ANY CHANGES THEREIN**

- On 6 July 2004, the Management Board of the Bank issued a decision regarding the sale of the receivables due to PKO BP SA from PW INSTEX Sp. z o.o., and on 13 July 2004 an invitation was placed in a country-wide newspaper to enter into negotiations for the purchase of those receivables.
- During the 3<sup>rd</sup> quarter of 2004 (August 2004), the receivables due from INSTEX Sp. z o.o. in respect of investor and working capital loans were written-off as bad debts; simultaneously, on 23 August 2004 an agreement was signed for the sale of those receivables, which came into effect on 3 September 2004. In accordance with the agreement, consideration (PLN 30 million) will be paid in instalments until 20 December 2007.
- On 26 August 2004, PKO BP SA acquired the shares of Kredyt Bank (Ukraine) S.A. Accordingly, all guarantees connected with the acquisition of KBU shares by the Bank, i.e.:
  - guarantee up to USD 3 million plus the amount of interest on capital, penalty interest and fees and commission,
  - guarantee up to USD 3 million plus the amount of interest on capital, penalty interest and fees and commission,
  - guarantee up to the amount of capital in US dollars amounting to USD 9 million and the amount of capital in euro amounting to EUR 2 million

are valid, starting from 26 August 2004 to 31 January 2008.

