

**THE SEMI-ANNUAL
CONSOLIDATED FINANCIAL STATEMENT
OF PKO BP SA GROUP**

**THE SEMI-ANNUAL
CONDENSED FINANCIAL STATEMENT
OF POWSZECHNA KASA OSZCZĘDNOŚCI
BANK POLSKI SA**

The PKO BP SA Group

in PLN thousand

This document is a translation of the document originally issued in Polish.

The only binding version is the original Polish version.

SECURITIES AND EXCHANGE COMMISSION

The semi-annual consolidated report PSr 2005

(according to § 93 par. 2 and § 94 par. 4 of the Decree of Council of Minister, dated 21 March 2005, Journal of Law No.49, item. 463)

(for banks)

For the first half year 2005 covering period from 2005-01-01 to 2005-06-30

Containing consolidated financial statement in accordance with International Financial Reporting Standards

currency PLN

Containing consolidated financial statement in accordance with International Financial Reporting Standards

currency PLN

date of submission: 2005-09-30

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna		
(full name of issuer)		
PKO BP SA		
(abbreviated name of issuer)		
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(postal code)		(city)
Puławska		15
(street)		(number)
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(NIP)	(REGON)	(www)

data concerning consolidated financial statement	in thousand zloty		in thousand euro	
	the period from 01.01.2005 to 30.06.2005	the period from 01.01.2004 to 30.06.2004	the period from 01.01.2005 to 30.06.2005	the period from 01.01.2004 to 30.06.2004
Interest income	1 767 878	1 749 387	433 254	369 761
Fees and commission net income	600 846	715 842	147 249	151 305
Operating result	1 093 698	1 070 395	268 033	226 245
Gross profit (loss)	1 104 122	1 075 685	270 587	227 363
Net profit (loss)	887 356	856 246	217 464	180 981
Net cash flow from operating activities	387 751	(1 190 013)	95 026	(251 528)
Net cash flow from investing activities	1 959 006	2 221 127	480 094	469 470
Net cash flow from financing activities	(76 247)	53 920	(18 686)	11 397
Total net cash flow	2 270 510	1 085 034	556 434	229 339
Net book value per ordinary share	0,89	0,86	0,22	0,18
Diluted net book value per ordinary share	0,89	0,86	0,22	0,18

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data concerning condensed financial statement	in thousand zloty		in thousand euro	
	the period from 01.01.2005 to 30.06.2005	the period from 01.01.2004 to 30.06.2004	the period from 01.01.2005 to 30.06.2005	the period from 01.01.2004 to 30.06.2004
Interest income	1 738 362	1 736 231	426 020	366 980
Fees and commission net income	579 286	726 804	141 966	153 622
Operating result	1 099 962	1 058 313	269 568	223 691
Gross profit (loss)	1 099 962	1 058 313	269 568	223 691
Net profit (loss)	881 224	845 713	215 962	178 755
Net cash flow from operating activities	79 773	(1 171 780)	19 550	(247 674)
Net cash flow from investing activities	2 155 013	2 225 082	528 129	470 306
Net cash flow from financing activities	(1 330)	58 356	(326)	12 334
Total net cash flow	2 233 456	1 111 658	547 353	234 967
Net book value per ordinary share	0,88	0,85	0,22	0,18
Diluted net book value per ordinary share	0,88	0,85	0,22	0,18

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OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA CAPITAL GROUP FOR THE 6-MONTH
PERIOD ENDED 30 JUNE 2005**

CONSOLIDATED INCOME STATEMENT

for the 6-month periods ended 30 June 2005 and 30 June 2004

	Note	01.01 - 30.06.2005 unaudited	01.01 - 30.06.2004 unaudited
Interest income	8	2 887 953	2 552 439
Interest expense	8	(1 120 075)	(803 052)
Net interest income		1 767 878	1 749 387
Fee and commission income	9	749 212	834 603
Fee and commission expense	9	(148 366)	(118 761)
Net fee and commission income		600 846	715 842
Dividend income	10	1 570	3
Result from financial instruments at fair value	11	139 647	108 632
Result from investment securities	12	53 217	(5 885)
Foreign exchange result	13	331 839	174 599
Other operating income	14	302 173	229 547
Other operating expenses	14	(66 631)	(41 817)
Net other operating income		235 542	187 730
Impairment losses on loans and advances	16	(87 571)	(10 399)
Overhead costs	15	(1 949 270)	(1 849 514)
Operating profit		1 093 698	1 070 395
Share in net profits (losses) of associates	18	10 424	5 290
Profit before income tax		1 104 122	1 075 685
Income tax expense	19	(219 818)	(218 891)
Net profit (loss) (without minority interest)		884 304	856 794
(Profit) loss attributable to minority shareholders		3 052	(548)
Net profit (loss)		887 356	856 246
Profit (loss) per ordinary share:	20		
– Net profit per ordinary share		0,89	0,86
– Diluted net profit per ordinary share		0,89	0,86

CONSOLIDATED BALANCE SHEET**as at 30 June 2005 and 30 June 2004**

	Note	30.06.2005 unaudited	31.12.2004
ASSETS			
I. Cash and amounts due from Central Bank	22	4 727 818	3 525 329
II. Amounts due from banks	23	14 341 243	13 231 879
III. Financial assets held for trading	24	421 863	369 517
IV. Derivative financial instruments	25	1 378 117	1 362 379
V. Other financial instruments valued at fair value through profit or loss	26	20 213 622	-
VI. Loans and advances to customers	27	41 864 995	40 037 263
VII. Investment securities	28	2 020 518	23 458 834
1. Available for sale		1 627 398	21 565 817
2. Held to maturity		393 120	1 893 017
VIII. Shares in associates and jointly controlled entities	29	166 749	156 815
IX. Intangible assets	31	581 989	501 174
X. Tangible fixed assets	32	2 562 229	2 651 597
XI. Deferred tax asset	19	30 351	26 644
XII. Other assets	33	772 623	632 934
TOTAL ASSETS		89 082 117	85 954 365

LIABILITIES AND EQUITY			
Liabilities			
I. Amounts due to the Central Bank	35	945	144
II. Amounts due to other banks	36	1 702 465	998 718
III. Derivative financial instruments	25	1 483 150	793 739
IV. Amounts due to customers	38	74 400 988	73 096 254
V. Liabilities arising from securities issued	39	73 037	21 076
VI. Other liabilities	40	2 968 342	1 390 748
VII. Deferred tax liability	19	134 085	586 761
VIII. Provisions	41	221 895	208 773
TOTAL LIABILITIES		80 984 907	77 096 213
Equity			
IX. Share capital	45	1 000 000	1 000 000
X. Other capital	46	5 988 440	6 027 024
XI. Currency translation differences from foreign operations		(2 450)	(11 472)
XII. Retained earnings	46	156 940	270 046
XIII. Net profit for the period		887 356	1 506 705
XIV. Minority capital		66 924	65 849
TOTAL EQUITY		8 097 210	8 858 152
TOTAL EQUITY AND LIABILITIES		89 082 117	85 954 365

Capital adequacy ratio		15.68	18.42*
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* Capital adequacy ratio as at 31 December 2004 was calculated on the basis of the comparative data which are complied with the requirements of IAS. In accordance with the authorized Consolidated Financial Statements of the Capital Group as at 31 December 2004 the capital adequacy ratio amounted to 16.67%

CONSOLIDATED OFF-BALANCE SHEET ITEMS**As at 30 June 2005 and 31 December 2004, respectively**

	30.06.2005 unaudited	31.12.2004
Off-balance sheet contingent liabilities granted and received	13 831 203	11 757 265
Contingent liabilities granted:	8 644 097	6 398 345
1. financial	7 305 202	5 659 867
2. guarantee	1 338 895	738 478
Contingent liabilities received:	5 187 106	5 358 920
1. financial	593 979	758 291
2. guarantee	4 593 127	4 600 629
Liabilities arising from the purchase/sale transactions	245 981 226	170 084 929
Other, of which:	15 388 361	14 003 647
- irrevocable liabilities	9 954 035	9 504 544
- collaterals received	5 434 326	4 499 103
Total off-balance sheet items	275 200 790	195 845 841

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**For the 6-month period ended 30 June 2005 (unaudited)**

	Assigned to the shareholders of the holding company								Total	Minority capital	Total Equity
	Share capital	Reserve capital	Revaluation reserve	General banking risk fund	Other reserves	Translation reserve	Retained earnings	Net profit (loss)			
Balance according to PAS at 31 December 2004	1 000 000	2 804 731	389 760	1 000 000	1 370 000	(11 472)	6 450	1 511 065	8 070 534	25 164	8 095 698
Adjustment to impairment of goodwill	-	-	-	-	-	-	-	(21 820)	(21 820)	-	(21 820)
Reversal of amortisation of goodwill of subsidiaries and affiliates	-	-	-	-	-	-	-	21 537	21 537	-	21 537
Determination of the deemed cost of tangible fixed assets stated at fair value	-	(14 966)	(148 555)	-	-	-	389 687	-	226 166	-	226 166
Full method consolidation of subsidiaries valued using the equity method according to PAS and related reclassifications	-	534	62	-	125 495	-	(126 091)	-	-	42 597	42 597
Inclusion in consolidation of subsidiary financial statements prepared according to IAS	-	-	-	-	-	-	-	(4 077)	(4 077)	(1 912)	(5 989)
Reclassification of provision for general risk to capital	-	-	-	499 963	-	-	-	-	499 963	-	499 963
Balance according to IAS as at 31 December 2004	1 000 000	2 790 299	241 267	1 499 963	1 495 495	(11 472)	270 046	1 506 705	8 792 303	65 849	8 858 152
Application of IAS 39, of which:	-	-	2 928	(499 963)	-	-	(141 345)	-	(638 380)	-	(638 380)
- Valuation of amortised cost using the effective interest rate, adjusted for deferred tax	-	-	1 942	-	-	-	(337 944)	-	(336 002)	-	(336 002)
- Impairment of financial assets	-	-	986	-	-	-	(477 720)	-	(476 734)	-	(476 734)
- capitalised interest on „old” portfolio housing loans	-	-	-	-	-	-	174 356	-	174 356	-	174 356
- reclassification of provision for general risk	-	-	-	(499 963)	-	-	499 963	-	-	-	-
Separation of a portfolio of securities stated at fair value through profit and loss	-	-	(83 522)	-	-	-	83 522	-	-	-	-
Balance according to IAS at 1 January 2005	1 000 000	2 790 299	160 673	1 000 000	1 495 495	(11 472)	212 223	1 506 705	8 153 923	65 849	8 219 772
Transfer of net profit	-	-	-	-	-	-	1 506 705	(1 506 705)	-	-	-
Transfer from net profit to reserve capital	-	507 315	-	-	10 000	-	(510 865)	-	6 450	-	6 450
Transfer from net profit to dividends	-	-	-	-	-	-	(1 000 000)	-	(1 000 000)	-	(1 000 000)
Transfer from net profit to the Social Fund	-	-	-	-	-	-	(200)	-	(200)	-	(200)
Net profit (loss) for the period	-	-	-	-	-	-	-	887 356	887 356	-	887 356
Movement in available-for-sale investments less deferred tax	-	-	(26 265)	-	-	-	-	-	(26 265)	-	(26 265)
Appropriation of profit in the subsidiary	-	-	-	-	50 923	-	(50 923)	-	-	-	-
Movement in minority interest	-	-	-	-	-	-	-	-	-	1 075	1 075
Movement in translation reserve/ or cumulative translation adjustment ?(tak jak w template FS)	-	-	-	-	-	9 022	-	-	9 022	-	9 022
Balance according to IAS at 30 June 2005	1 000 000	3 297 614	134 408	1 000 000	1 556 418	(2 450)	156 940	887 356	8 030 286	66 924	8 097 210

For the 6-month period ended 30 June 2004 (unaudited)

	Attributable to the shareholders of the holding company								Total	Minority capital	Total Equity
	Share capital	Other capital				Translati on reserve	Retained earnings	Net profit (loss)			
		Reserve capital	Revaluation reserve	General banking risk fund	Other reserves						
Balance according to PAS at 31 December 2003	1 000 000	1 783 827	220 664	800 000	1 360 000	-	41 938	1 192 706	6 399 135	503	6 399 638
Full method consolidation of subsidiaries valued using the equity method according to PAS and other reclassifications	-	747	(43)	-	154 480	-	(155 184)	-	-	26 009	26 009
Determining deemed cost for tangible fixed assets valued at fair value	-	(12 056)	(151 465)	-	-	-	389 687	-	226 166	-	226 166
Reclassification of provision for general risk to equity	-	-	-	533 530	-	-	-	-	533 530	-	533 530
Balance according to IAS at 1 January 2004	1 000 000	1 772 518	69 156	1 333 530	1 514 480	-	276 441	1 192 706	7 158 831	26 512	7 185 343
Transfer of retained earnings	-	-	-	-	-	-	1 192 706	(1 192 706)	-	-	-
Appropriation of net profit	-	1 017 994	-	200 000	10 000	-	(1 228 194)	-	(200)	-	(200)
Movement in available-for-sale investments less deferred tax	-	-	(66 958)	-	-	-	-	-	(66 958)	-	(66 958)
Absorption of losses in a subsidiary	-	-	-	-	(29 093)	-	29 093	-	-	-	-
Movement in minority interest	-	-	-	-	-	-	-	-	-	12 112	12 112
Exclusion of a subsidiary from consolidation due to the fact that it is no longer controlled	-	(225)	-	-	-	-	-	-	(225)	(503)	(728)
Realisation of provision for general risk	-	-	-	(2 558)	-	-	-	-	(2 558)	-	(2 558)
Net profit (loss) for the period	-	-	-	-	-	-	-	856 246	856 246	-	856 246
Balance according to IAS at 30 June 2004	1 000 000	2 790 287	2 198	1 530 972	1 495 387	-	270 046	856 246	7 945 136	38 121	7 983 257

CONSOLIDATED CASH FLOW STATEMENT
for the 6-month periods ended 30 June 2005 and 30 June 2004

	Note	01.01 - 30.06.2005 unaudited	01.01 - 30.06.2004 unaudited
Cash flow from operating activities			
Net profit (loss)		887 356	856 246
Adjustments:		(499 605)	(2 046 259)
Share in results of subsidiaries valued with equity pick-up method		(10 424)	(5 290)
Profits/losses attributable to minority shareholders		(3 052)	548
Depreciation		220 368	259 282
Foreign exchange differences		-	-
(Profit) loss from investing activities		8 992	2 902
Interest and dividends		(781 110)	(907 999)
Change in loans and advances to banks		(40 322)	(1 580 002)
Change in financial assets held for trading and other financial instruments valued at fair value through profit or loss	47	(346 763)	346 431
Change in derivative financial instruments		(15 738)	(352 995)
Change in loans and advances to customers		(2 348 304)	(351 963)
Change in deferred income tax assets		(28 888)	(13 688)
Change in other assets		(139 689)	(114 142)
Change in amounts due to banks		775 638	535 876
Change in derivative financial instruments and other financial liabilities at fair value through profit or loss		689 411	94 006
Change in amounts due to customers		1 302 769	(169 375)
Change in liabilities arising from issued debt securities		51 961	56 785
Change in provisions		105 979	(567 362)
Change in other liabilities		1 577 594	(10 013)
Other adjustments		(942 245)	(135 940)
Change in accounting rules due to application of IAS		(638 380)	785 705
Income tax paid		(157 220)	(136 916)
Current tax expense		219 818	218 891
Net cash from operating activities		387 751	(1 190 013)
Cash flow from investing activities			
Inflows from investing activities		2 207 151	2 334 177
Sale of shares in subsidiaries, net of cash disposed		-	-
Sale of shares in associates		-	-
Sale of investment securities		1 415 713	1 422 909
Proceeds from sale of intangible assets and tangible fixed assets		5 337	3 011
Other investing inflows		786 101	908 257
Outflows from investing activities		(248 145)	(113 050)
Purchase of subsidiaries, net of cash acquired		-	(1 200)
Purchase of shares in jointly controlled entities		(17 497)	-
Purchase of shares in associates		-	-
Purchase of investment securities		-	-
Purchase of intangible assets and tangible fixed assets		(230 648)	(111 850)
Other investing outflows		-	-
Net cash used in investing activities		1 959 006	2 221 127
Cash flow from financing activities		(76 247)	53 920
Issue of shares		-	-
Issue of debt securities		-	-
Redemption of debt securities		-	-
Dividends paid to holding company shareholders		-	-
Dividends paid to minority shareholders		-	-
Other financing inflows/ outflows		(76 247)	53 920
Net cash generated from / (used in) financing activities		(76 247)	53 920
Total net cash flow	47	2 270 510	1 085 034
Net foreign exchange differences		-	-
Cash and cash equivalents at the beginning of the period		13 812 825	9 856 770
Cash and cash equivalents at the end of the period		16 083 335	10 941 804

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at 30 June 2005

1. Basic information

The consolidated financial statements of the Capital Group of Powszechna Kasa Oszczędności Bank Polski SA (“the PKO BP SA Group”, “the PKO BP SA Capital Group”, “the Group”, “the Capital Group”) have been prepared prepared for the 6-month period ended 30 June 2005 and include comparative data for the 6-month period ended 30 June 2004 (consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement) and comparative data as at 31 December 2004 (consolidated balance sheet).

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

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

On 12 April 2000 the Bank was entered in the Register of Entrepreneurs kept by the District Court for the capital city of Warsaw, XVI Economic Department of the National Court Register, entry no. KRS 0000026438. The Bank’s share capital amounts to 1,000,000 thousand zlotys. The Bank’s REGON statistical number is 016298263, and was granted on 18 April 2000.

As of 15 September 2005, the Bank’s shareholders structure was as follows:

Name	Number of shares	Number of votes	Nominal value of the share	Share in the share capital (%)
		%		
State Treasury	519 634 258	51.96	PLN 1	51.96
Other shareholders	480 365 742	48.04	PLN 1	48.04
Total	1 000 000 000	100.00		100.00

PKO BP SA is a public company quoted on the Warsaw Stock Exchange. According to Warsaw Stock Exchange bulletin (*Cedula Gieldowa*), the Bank is classified to the macro-sector “Finance”, sector “Banks”.

Bank’s business activities

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

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

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

According to the Statutes of PKO BP SA, the Bank’s main activities include:

- accepting call (demand) or term deposits and keeping deposit accounts,
- keeping other types of bank accounts,
- extending loans,
- extending cash advances,
- extending and confirming bank guarantees and opening and confirming letters of credit,
- performing bank settlements in the forms recognized in both domestic and foreign banking environment,

- operations including cheques and bills of exchange,
- issuing bank securities,
- issuing payment cards and performing operations using such cards,
- conducting forward transactions with domestic and foreign banks and other financial institutions,
- purchase and disposal of debt,
- issuing electronic money instruments,
- performing operations relating to the issue of securities,
- safekeeping of valuables and securities, and provision of safe deposit facilities,
- performing banking activities on behalf of other banks,
- conducting the Building Society operations,
- purchase and sale of foreign exchange,
- intermediation in money transfers and settlements in foreign exchange trade,
- granting and confirming sureties.

Additionally, the Bank's scope of activities includes:

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

In addition, the Bank can:

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

The Bank conducts its activities on the following markets:

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

Going concern of the PKO BP SA Group

The consolidated financial statements of the PKO BP SA Group have been prepared on the basis that the Bank and the entities from the PKO BP SA Group will be a going concern during a period of 12 months from the balance sheet date, i.e. 30 June 2005. As at the date of signing the financial statements, the Bank's Management Board is not aware of any facts or circumstances that would indicate a threat to the continued activity of the Bank or the entities from the PKO BP SA Group in the twelve months following the balance sheet date due to an intended or compulsory withdrawal or limitation of their activities, except for Inteligo Financial Services SA for which the Bank considers full or partial incorporation..

Reporting periods covered by these consolidated financial statements

The consolidated financial statements of the Bank are presented for the 6-month period ended 30 June 2005, and include comparative financial data for the 6-month period ended 30 June 2004 (consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement) and comparative data as at 31 December 2004 (consolidated balance sheet). The financial data is presented in PLN thousands.

Structure of the PKO BP SA Group

The PKO BP SA Group comprises PKO BP SA and the following subsidiaries:

No.	Name	Registered office	Activity	Percentage of share capital held by the Bank (%)	
				30.06.2005	31.12.2004
The PKO BP SA Group					
Holding company					
1	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna				
Direct subsidiaries					
2	Powszechne Towarzystwo Emerytalne BANKOWY S.A.	Warsaw	Pension fund management	100.00	100.00
3	Centrum Finansowe Puławska Sp. z o.o.	Warsaw	Construction and use of business premises	100.00	100.00
4	Kredyt Bank (Ukraina) S.A.	Lviv	Financial services	66.651	66.651
5	PKO Inwestycje Sp. z o.o.	Warsaw	Trading in real estate	100.00	100.00
6	Inteligo Financial Services S.A.	Warsaw	Financial services	100.00	100.00
7	Centrum Elektronicznych Usług Płatniczych eService S.A.	Warsaw	Monetary agency services	100.00	100.00
8	Bankowy Fundusz Leasingowy S.A.	Łódź	Leasing	100.00	100.00
9	Bankowe Towarzystwo Kapitałowe S.A.	Warsaw	Financial services	100.00	100.00
Indirect subsidiaries					
Subsidiaries of PKO Inwestycje Sp. z o.o.					
10	Fort Mokotów Sp. z o.o.	Warsaw	Construction	51.00	51.00
11	POMERANKA Sp. z o.o.	Warsaw	Construction	100.00	-
12	Wilanów Investments Sp. z o.o.	Warsaw	Construction	51.00	51.00
Subsidiary of PTE BANKOWY S.A.					
13	Finanse Agent Transferowy Sp. z o.o.	Warsaw	Financial services	100.00	100.00

Other entities included in consolidation					
No.	Name	Registered office	Activity	Percentage of share capital held by the Bank (%)	
				30.06.2005	31.12.2004
Jointly controlled entities					
1	Centrum Obsługi Biznesu Sp. z o.o.	Poznań	Hotel services	41.44	-
2	PKO/CREDIT SUISSE Towarzystwo Funduszy Inwestycyjnych S.A.	Warsaw	Investment fund management	50.00	50.00
3	WAWEL Hotel Development Sp. z o.o.	Kraków	Hotel services	35.40	35.40

Associated entities

Moreover, the holding entity has significant influence on the following associated entities

1	Bank Pocztowy S.A.	Bydgoszcz	Financial services	25.0001	25.0001
2	Kolej Gondolowa Jaworzyna Krynicka S.A.	Krynica	Construction and operation of cable railway	38.23	38.23
3	Ekogips S.A. – (in bankruptcy)	Warsaw	Production of construction elements	60.26	60.26
4	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Poznań	Sureties in accordance with civil law and bill of exchange law	33.33	33.33
5	Hotel Jan III Sobieski Sp. z o.o.	Warsaw	Construction and operation of Jan III Sobieski Hotel	32.50	32.50
6	Agencja Inwestycyjna CORP S.A.	Warsaw	Production on the market of construction projects	22.31	22.31

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

As at 30 June 2005, the Bank's Management Board consisted of:

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

During the 6-month period ended 30 June 2005, there were no changes in the Management Board of the Bank.

As at 30 June 2005, the Bank's Supervisory Board consisted of:

- Bazyl Samojlik	-	Chairman
- Urszula Pałaszczek	-	Vice-Chairman
- Krzysztof Zdanowski	-	Secretary
- Ryszard Kokoszczyński	-	Member
- Stanisław Kasiewicz	-	Member
- Andrzej Giryn	-	Member
- Jerzy Osiatyński	-	Member
- Czesława Siwek	-	Member
- Władysław Szymański	-	Member

On 13 April 2005 Arkadiusz Kamiński resigned from the position of the Secretary of the Supervisory Board.

On 19 May 2005, the Annual General Meeting of Shareholders of PKO BP SA appointed the following persons to the Supervisory Board:

- Urszula Pałaszczek
- Krzysztof Zdanowski

- Czesława Siwek

Internal organisational units of the PKO BP SA Group

The consolidated financial statements of the PKO BP SA Group, comprising financial data for the 6-month period ended 30 June 2005 and consolidated comparative financial data, were prepared on the basis of the financial data submitted by all organisational units of the Bank through which it performs its activities. As at 30 June 2005, these organizational units included: the Bank's Head Office in Warsaw, BDM - Bankowy Dom Maklerski, COK - Centrum Operacji Kartowych, CBE – Centrum Bankowości Elektronicznej Inteligo, 6 specialized units, 12 regional retail branches, 13 regional corporate branches, 537 independent branches, 629 offices (subordinated branches), 13 corporate client teams, 57 corporate centres and 2,620 agencies. Except for BDM, none of the organizational units listed above prepares separate financial statements.

Approval of the financial statements

These consolidated financial statements were approved by the Board of the Bank for publishing on 30 September 2005.

2. Accounting Policies

Basis for preparation of financial statements:

In accordance with the amended Accounting Act effective as of 1 January 2005, the consolidated financial statements of the PKO BP SA Group have been prepared in accordance with International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and their interpretations announced as the European Commission resolutions. At present, in view of the process of implementing IAS in EU and the Bank's activity, with respect to the accounting policies applied by the Bank, there is no discrepancy between IASs and the IAS endorsed by the EU.

This consolidated financial statement was prepared in accordance with International Financial Reporting Standards (IFRS), particularly with International Accounting Standard 34. IFRS contain standards and interpretations accepted by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC).

30 June 2005 is the reporting date for which the PKO BP SA Group is required to prepare its first semi-annual consolidated financial statements in accordance with International Financial Reporting Standards.

The date of transition to IAS is the date of the opening balance sheet of the earliest period presented, i.e. 1 January 2004. The previously published financial statements of the Bank and the Group, including the financial statements for the 6-month period ended 30 June 2004, were prepared in accordance with Polish Accounting Standards (PAS). Reconciliation of the equity and net profit for the 6-month period ended 30 June 2004 (as well as the equity, net profit and significant adjustments to the cash flow statement as at 1 January 2005) and the equity as at 1 January 2004, prepared in accordance with PAS and IAS, are presented in Note 53.

The Group applied IAS being in force as at 30 June 2005 and estimates that those standards will remain unchanged till 31 December 2005. The Group applied the same accounting policies in preparing the opening balance sheet according to IAS as at 1 January 2004, and for all periods presented in these financial statements. The accounting policies applied are consistent with the provisions of each IAS in force as at 30 June 2005, i.e. on the reporting date. Any changes of the accounting policies were introduced retrospectively, except for the exemptions allowed by IAS and listed below, which the Group decided to apply.

- Business combination (IFRS 1.15, Appendix B).

The Group has taken advantage of the exemption relating to business combinations. Therefore, in terms of goodwill, the Group applied Polish Accounting Standards in preparing data as at 31 December 2003 and the opening balance as at 1 January 2004.

- Fair value or revaluation to deemed cost (IFRS 1.16-19).

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

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

The Group designated the financial instruments reported at fair value through profit and loss account or as available for sale at the transition date, i.e. in the case of IAS 39 – as at 1 January 2005 (see note below).

- Share-based payment transactions (IFRS 1.25B)

IFRS 1 recommends that the dominant entity using IAS for the first time - but it is not obliged – using the IFRS 2 resolves “Payments in shares” with respect to equity instruments that were granted on 7 November and earlier or have been granted after 7th November 2002 and vested before 1 January 2005. Due to that fact Bank took advantage of the exemptions of IFRS 1 and did not apply the IFRS 2 requirements to the granted employee shares.

Additionally, the Group used the exemption from the requirement to restate comparatives relating to IAS 32, IAS 39 and IFRS 4. Transactions, assets and liabilities included in those standards for the periods started on 1 January 2004 and ended on 31 December 2004 or earlier were presented in accordance with Polish Accounting Standards.

The Group entities based in Poland run their accounts in accordance with Polish Accounting Standards (defined by the Accounting Act dated 29 September 1994). The consolidated financial statements include a number of adjustments that are not included in the books of account of the Group entities and are applied in order to make the financial statements compliant with standards and interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee.

All items presented in the financial statements of the Group entities, including Kredyt Bank (Ukraine) SA, are valued in functional currency i.e. in the currency of the basic economic environment in which the given entity operates.

The Polish Zloty is the functional currency and the presentation currency of the holding company.

The Group uses the average NBP rate effective as at that balance sheet as the closing exchange rate used in order to translate the assets and liabilities denominated in foreign currency at balance sheet date.

Declaration of compliance with accounting standards

In accordance with the amended Accounting Act effective as of 1 January 2005, the Bank, on the basis of a resolution of the General Meeting, may prepare financial statements in accordance with the International Accounting Standards endorsed by the European Union. At present, in view of the process of implementing IAS in EU and the Bank's activity, with respect to the accounting policies applied by the Bank, there is no discrepancy between IASs and the IAS endorsed by the EU.

These interim consolidated financial statements were prepared in accordance with International Financial Reporting Standards and all the International Financial Reporting Standards endorsed by the EU and relevant to the Bank.

These financial statements are the first interim, complete financial statements prepared in accordance with IAS, in particular with IAS 34. For the purpose of these financial statements, 1 January 2004 was the date of transition to IAS. The financial statements for the year ended 31 December 2004 were the last financial statements prepared in accordance with the Polish Accounting Act.

In accordance with IAS, the financial statements were prepared as if the entity had always applied IASs, except for the exemptions from the transformation requirement, included in IFRS 1 *First-time Adoption of International Financial Reporting Standards*. In particular, the comparable data does not take into account the impact of IAS 39 *Financial instruments: recognition and measurement*.

Principal accounting policies and methods used by the PKO BP SA Group

In the financial statements all items were recognized at historical cost, except for financial assets recognized at fair value through profit or loss, financial assets available for sale and derivatives, which are stated at fair value.

The principal accounting policies and methods used by the PKO BP SA Group during the period from 1 January to 30 June 2005:

a) Basis of consolidation

The consolidated financial statements include the financial statements of PKO BP SA and the financial statements of its subsidiaries, prepared for the 6-month period ended 30 June 2005. The financial statements of the subsidiaries cover the same reporting period as the holding company's financial statements. Consolidation adjustments are made in order to eliminate any discrepancies in the accounting policies applied by the Bank and its subsidiaries, as described in the paragraph above.

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

- for the 6-month period ended 30 June 2005:

- Bankowy Fundusz Leasingowy S.A.,
- The Capital Group of Powszechne Towarzystwo Emerytalne BANKOWY S.A.,
- Centrum Finansowe Puławska Sp. z o.o.,
- Centrum Elektronicznych Usług Płatniczych „eService” S.A.,
- Inteligo Financial Services S.A.,
- Kredyt Bank (Ukraine) S.A.,
- Bankowe Towarzystwo Kapitałowe S.A. (until 7 April 2005 operating under the name of Dom Maklerski BROKER S.A.),
- The Capital Group of PKO Inwestycje Sp. z o.o.

for the year ended 31 December 2004:

- Bankowy Fundusz Leasingowy S.A.,
- The Capital Group of Powszechne Towarzystwo Emerytalne BANKOWY S.A.,
- Centrum Finansowe Puławska Sp. z o.o.,
- Centrum Elektronicznych Usług Płatniczych „eService” S.A.,
- Inteligo Financial Services S.A.,
- Kredyt Bank (Ukraine) S.A.,

- Dom Maklerski BROKER S.A.,
 - The Capital Group of PKO Inwestycje Sp. z o.o.
- for the 6-month period ended 30 June 2004:
- Bankowy Fundusz Leasingowy S.A.,
 - The Capital Group of Powszechnie Towarzystwo Emerytalne BANKOWY S.A.,
 - Centrum Finansowe Puławska Sp. z o.o.,
 - Centrum Elektronicznych Usług Płatniczych „eService” S.A.,
 - Inteligo Financial Services S.A.,
 - The Capital Group of PKO Inwestycje Sp. z o.o.

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

The following items are eliminated in full at consolidation:

- inter-company receivables and payables, and any other settlements of a similar nature, between the consolidated entities,
- revenue and costs of business transactions conducted between the consolidated entities,
- gains or losses which arose from business transactions conducted between consolidated entities, included in the value of the assets of the consolidated entities, except for losses that indicate permanent diminution of value,
- dividends calculated or paid by the subsidiaries to the holding company and to other consolidated entities,
- inter-company cash flows in the cash flow statement.

Subsidiaries are consolidated from the date on which control was acquired to the day when it ceased.

The results of the subsidiaries are included in the consolidated financial statements for that part of the reporting period in which they were controlled by the Group.

b) Estimates

In order to prepare financial statements in accordance with IAS, the bank is required to make certain estimates and assumptions, which have a direct influence on the financial statements presented and the amounts presented in the financial statements and in the Additional Notes and Explanations.

The estimations that were made at the date of transition to IASs, i.e. 1 January 2004, and at each balance sheet date, present the actual economic situation (e.g. market prices, interest rates, exchange rates etc.). In spite of the fact that the estimations are based on the best understanding of the current situation and the activities that will be undertaken by the Group, the actual results may differ from those estimates.

The main assumptions about the future that were used by the Group when performing estimates, include first of all the following areas:

- Impairment of financial assets

At each balance sheet date, the Group assesses if there is any indication of impairment of a given financial asset or a group of financial assets. The value of a financial asset or a group of financial assets is impaired when there is an objective evidence of impairment caused by events that occurred after the initial recognition of the asset ("loss event"), and if those events have impact on the expected future cash flows relating to those assets and these cash flows can be reasonably estimated.

- Impairment of investments in associates and jointly controlled entities

At each balance sheet date the Group assesses whether there are any circumstances indicating an impairment of the value of investments made in associates and jointly controlled entities. If any such circumstances exist, the Group estimates the value in use of the investment. This projection requires making assumptions, e.g. about the

future cash flows that the Group may receive from dividends or the cash inflows from the potential disposal of the investment, decreased by the costs of sale. The adoption of other assumptions with reference to the projected cash flows might have an effect on the carrying amount of certain investments.

- Impairment of other non-current assets

At each balance sheet date the Group assesses whether there are any circumstances indicating the impairment of any of non-current assets (or cash generating centers). If any such circumstances exist, the Group estimates the recoverable value and the value in use of the given non-current asset (or cash generating center). In order to estimate such value, it is necessary to adopt certain assumptions, e.g. about the expected future cash flows that the Group may receive from the continued use or disposal of the non-current asset (or cash generating unit), the potential changes in the amounts or the timing of these cash flows, as well as other factors. The adoption of other assumptions with reference to the future cash flows may have an effect on the carrying amount of certain non-current assets.

- Goodwill impairment

Goodwill arising on acquisition of a business entity is initially recognised at the acquisition cost, being an excess of the costs of acquiring control over the entity over the share of the holding company in the net fair value of the identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is stated at acquisition cost, less any cumulative impairment losses. The test for impairment is carried out on an annual basis.

Impairment is calculated by estimating the recoverable amount of the cash-generating unit to which the given goodwill relates. In the case where the recoverable amount of the cash-generating unit is lower than the carrying amount, an impairment write-down is recognised. In the case where goodwill represents part of a cash-generating unit and part of operations conducted within this unit is sold, when calculating the gain or loss on the disposal of these operations, the goodwill related to sold operations is included in the carrying amount of these operations. Goodwill sold in such circumstances is valued on the basis of the relative value of the operations sold and the value of the remaining part of the cash-generating unit.

- Valuation of derivatives and unquoted debt securities available for sale

The fair value of non-option derivatives and debt securities available for sale not listed on an active market is determined using valuation models based on discounted cash flows that may be received from the given financial instrument. Options are valued using option valuation models. The variables and assumptions used in valuation include any available data derived from observable markets. In the valuation of unquoted debentures available for sale, assumptions are also made about the contractor's credit risk, which may have an impact on the pricing of the instruments. Any change of the assumptions might have an effect on the valuation of the above-mentioned instruments.

- Calculation of provision for retirement benefits

The provision for retirement benefits and jubilee bonuses is created individually for each employee on the basis of the anticipated level of these obligations according to the Collective Labour Agreement ("Zakładowy Układ Zbiorowy Pracy") being in force at the Bank. The calculation of the provision includes all bonuses and retirement benefits that may be paid in the future. The provision was created on the basis of a list including all the necessary details of the employees, in particular the length of their service, age and gender. The technical interest rate was adopted at the level of 1%.

- Determination of write-offs due to impairment of loan exposures

At each balance sheet date the Bank assesses whether there is any objective evidence that the value of a given financial asset or a group of financial assets is impaired. Evidence indicating impairment are events or groups of events which occurred after the date of the initial recognition of the asset and which indicate that the expected future cash flows to be derived from the given asset or group of assets might have decreased. When evidence of impairment is found, the Bank estimates the amount of write-offs due to impairment.

The Bank uses three methods for the estimation of impairment:

- a) For loans which were found to be individually impaired and which are considered individually significant, impairment is estimated on the basis of an analysis of the future cash flows expected for each asset,

- b) For loans which were found to be individually impaired and which are not considered individually significant, impairment is estimated for the individual types of exposures, on the basis of the expected average cash flows generated by the particular loan portfolios,
- c) For loans which were not found to be individually impaired, but for which it was found that they may have given rise to incurred but not reported losses, impairment write-offs are estimated on the basis of the expected time when the losses will be identified, the probability of the losses being identified and the expected amount of the loss at the moment when it is identified.

The Bank expects that the methodology used for estimating impairment write-offs in 2005 will be developed in line with the increasing possibilities of acquiring impairment data from the existing and implemented information systems and applications. As a consequence the improvement of data quality may have a significant influence on the level of impairment allowances in future.

c) Cash and cash equivalents

“Cash and cash equivalents” consist of cash in hand, current account in NBP, current amounts due from other banks, and other cash due within three months and stated at nominal value.

d) Financial assets

The Group classifies financial assets into the following categories: financial assets valued at fair value through profit and loss, financial assets available for sale, loans and other receivables, financial assets held to maturity.

The Bank determines the classification of the financial asset at the moment of its initial recognition.

- Financial assets stated at fair value through profit and loss

This category includes: financial assets held for trading and financial assets designated at the moment of initial recognition as financial assets stated at fair value through profit and loss.

Financial assets held for trading comprise: debt securities and equity securities, loans and receivables which were acquired or classified into this category with an intention to sell them in a short period of time. Derivative instruments are also included in this category.

Equity instruments

The equity instruments managed by Bankowy Dom Maklerski PKO BP SA are classified into financial assets stated at fair value through profit and loss, where the fair value is measured as follows:

- 1) for those equity instruments for which there is an active market – with reference to market value,
- 2) for those equity instruments for which there is no active market – with reference to the price of the last transaction concluded on the market, unless in the period between the date of the transaction and the balance sheet date there were significant changes in market conditions which might affect the price.

Debt instruments

Debt securities classified into the category of financial assets stated at fair value through profit and loss, where the fair value is measured as follows:

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

The effects of changes in fair value are recorded as income or expense from financial instruments stated at fair value through profit and loss.

Derivative instruments

Speculative derivative financial instruments are recognised at fair value at the date of transaction and are subsequently stated at fair value as of the balance sheet date. In the case where the estimated fair value is lower or higher than the fair value as of the preceding balance sheet date (for transactions concluded in the reporting period – acquisition cost or the sale price of the instrument), the difference is charged respectively to costs or income from operations with financial instruments (the result on financial assets and liabilities stated at fair value through profit and loss) or foreign exchange result (FX swap, FX forward and CIRS), in correspondence with other financial assets or liabilities arising from derivative financial instruments, as appropriate.

The result of the ultimate settlement of derivative instrument transactions is reflected in the result from financial instruments stated at fair value through profit and loss or in the foreign exchange result. The nominal value of the underlying instruments is presented in the off-balance sheet items from the date of origination the transaction until maturity. Off-balance sheet items denominated in foreign currencies are revalued at the end of each day according to the average NBP exchange rate.

The fair value of financial instruments held for trading is the market price, less the costs of concluding transaction. In other cases, fair value is calculated on the basis of valuation based on data derived from an active market.

Embedded derivative instruments

The PKO BP SA Group has embedded derivative instruments, which are the components of financial and non-financial contracts, whereby all or part of the cash flows relating to such agreements vary in a similar way to the stand-alone derivative.

Embedded derivative instruments separated from host contracts and presented separately are valued at fair value. Valuation is presented under “Derivative Financial Instruments”. Changes in fair value of derivative instruments are recorded in the profit and loss account under “Result from financial assets and financial liabilities valued at fair value”.

Embedded derivative instrument is recognised separately from the host contract, if all of the following conditions are met:

- the financial instrument from which the embedded derivative instrument is separated is not classified as held for trading or available-for-sale, and the effects of revaluation of such instrument are charged to income or cost of financial operations of the current financial period,
- the characteristics and risks of the embedded derivative instrument are not closely related to the characteristics and risks of the host contract,
- a separate instrument with the same characteristics as the embedded derivative, would meet the definition of a derivative,
- it is possible to reliably determine the fair value of the embedded derivative.

In the case of contracts which are not financial instruments and which include an instrument which fulfils the above conditions, embedded derivatives are classified into financial assets valued at fair value through profit and loss or financial liabilities and are valued at fair value, with changes in fair value recorded in profit and loss account.

The fair value of financial instruments held for trading is the market price, less the costs of concluding transaction. In other cases, fair value is calculated on the basis of valuation based on data derived from an active market. The techniques used are based – among others – on the discounted cash flow models, option models and yield curves.

- Financial assets available for sale

These are financial assets for which the holding period is not defined, and they are classified neither into the portfolio of assets valued at fair value through profit and loss nor into assets held to maturity. This portfolio includes: debt securities and equity securities, and loans and receivables that were not included into other categories. Interest on assets available for sale is calculated using the effective interest rate method and is charged to profit and loss account under “Interest income”.

Financial assets available for sale are valued at fair value, and gains and losses arising from changes in fair value compared with valuation using amortized cost are taken to revaluation reserve. The item included in revaluation reserve is taken to the profit and loss account at the moment the asset is sold or found to be impaired. If an asset classified as available-for-sale is found to be impaired, the increases in the value of the asset that were previously recognised on its revaluation to fair value reduce the amount of the Revaluation reserve". If the amount of the previous increases in value is not sufficient to cover the impairment, the difference is charged to the profit and loss account.

Dividends from equity instruments are recorded in the profit and loss account when the entity's right to receive the payment has been established.

Equity instruments

Equity instruments classified as available for sale are stated at fair value. The fair value is determined as follows:

- 1) For equity instruments for which an active market exists – with reference to market value,
- 2) For equity instruments for which there is no active market:
 - a) as current bid offer,
 - b) valuation performed by a specialised external entity providing this kind of services,
 - c) on the basis of total assets of the issuer, less liabilities, provisions and accruals, taking into account the net result and general economic and financial condition of this entity (if the issuer reports a loss exceeding the sum total of its reserve capital, other reserves and – in the case of joint-stock companies - 1/3 of share capital, and limited liability companies - 1/2 of share capital, the value of such security in the Bank's balance sheet is nil); not greater, however, than the original acquisition cost.

The effects of changes in the fair value of equity instruments classified as available-for-sale are taken to revaluation reserve, except for impairment write-offs, which are charged to profit and loss account.

Debt instruments

Debt instruments classified as available-for-sale are stated at fair value. The fair value is determined as follows:

- a) For those debt instruments for which there is an active market – with reference to market price,
- b) For those debt instruments for which there is no active market – with reference to other value accepted as the fair value and determined using one of the following methods:
 - a) reference asset value method,
 - b) method using the yield curve based on market interest rates,
 - c) at the initial value of the instrument, increased by income accrued, less costs accrued and impairment write-downs due to risks related to the issuer.

The differences between the fair value and the amortised cost of available-for-sale debt securities are taken to revaluation reserve, except for impairment write-offs, which are charged to the profit and loss account. Interest income and discounts calculated using the effective interest rate are presented as financial income, and the gain or loss recorded in the revaluation reserve is the difference between the fair value determined at the balance sheet date and the value of these assets at amortized cost.

• Loans and other receivables

Loans and receivables comprise financial assets that are not quoted on the active market, which are featured with fixed or determinable payments, and which are not derivative instruments. This category includes debt securities acquired from the issuer for which there is no active market, loans and other receivables acquired and allowed. Loans and receivables are valued at amortized cost using the effective interest rate, with an allowance for impairment losses.

Loans are valued at amortized cost. Amortized cost is the amount at which the loan was measured at the date of initial recognition, less principal repayments, and increased or decreased by the cumulative amortisation of any difference between that initial amount and the maturity amount, and decreased by any impairment write-downs. Valuation at amortized cost is performed using the effective interest rate – the rate that discounts the expected future cash flow to the net present value over the period to maturity or the date of the next market valuation, and which is the internal rate of return of the asset for the given period; the calculation of this rate includes the

payments received by Group which influence the financial characteristics of the instrument. Commissions and fees, which are an integral part of the effective return on a loan, adjust their carrying amounts and are included in the calculation of the effective interest rate.

Loans with unspecified repayment schedules are valued at nominal value, increased by the amount of interest due and decreased by any impairment write-downs.

Receivables from services performed by Group to contractors are valued at nominal value, increased by the amount of interest due and decreased by any impairment write-downs.

- Debt securities held to maturity

These are financial assets with fixed or determinable payments and maturity dates, which were acquired to be held and the Group is able to hold them to maturity.

Financial assets in this category are valued at amortised cost using the effective interest rate. Amortised cost using the effective interest rate is recorded in the profit and loss account under "Interest income".

Debt instruments quoted on an active market and held to maturity are presented at acquisition cost, adjusted by accrued interest, discount and premium (calculated using the effective interest rate), with an allowance for any impairment write-downs.

e) Accounting for transactions

Financial assets and financial liabilities, including forward transactions giving rise to a liability or a right to acquire or sell in the future a given number of specified financial instruments at a given price, are recognised in the books of account under the date on which the contract was entered into, irrespective of the settlement date provided in the contract.

f) Sale and repurchase contracts

Repo and reverse-repo transactions and sell-buy back, buy-sell back transactions are transactions for the sale or purchase of securities with a commitment to buy or sell back the security at an agreed date and price.

Repo transactions are recognised at the date of the transaction under amounts due to other banks or amounts due to customers in respect of deposits, depending on the contractor. Reverse-repo securities are recognised under amounts due from banks or loans extended to customers, depending on the contractor.

The difference between the sale price and the repurchase price is recognised as interest expense/income, as appropriate, and is amortised over the term of the contract using the effective interest rate.

Sell-buy back and buy-sell back transactions are recognised and are valued using the method described in the paragraph on derivative instruments.

g) Impairment of financial assets

At each balance sheet date, the Group assesses whether there is objective evidence that a given financial asset is impaired. If such evidence exists, the Group determines the amounts of impairment losses. An impairment loss is incurred if there is objective evidence of impairment due to one or more events that occurred after the initial recognition of the asset, and this loss event has an impact on the expected future cash flows to be derived from the financial asset or group of financial assets, and these cash flows are reliably measurable.

The following are considered by the Group as loss events:

- 1) significant financial difficulties of an issuer or debtor;
- 2) an actual breach of contract, such as a default or delinquency in interest or principal payments;
- 3) granting by the lender to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, of a concession that the lender would not otherwise consider;
- 4) a high probability of bankruptcy or other financial reorganization of the issuer or debtor;
- 5) the disappearance of an active market for that financial asset due to financial difficulties of the issuer or debtor,

- 6) evidence that there is a measurable decrease in the estimated future cash flows from a group of financial assets, including the collectability of these cash flows.

The Group first assesses impairment on an individual basis. If for a given financial asset assessed individually there are no objective indications of impairment, the asset is included in a group of financial assets with similar characteristics, which are subsequently assessed for impairment on a collective basis.

Amounts due from loans

The Group classifies loan and lease receivables on the basis of the amount of exposure into the individual and group portfolios.

In the individual portfolio, each individual loan and lease exposure is tested for impairment. If the exposure is found to be impaired, a write-down is recognised against the amount of the receivable. If there is no objective evidence of impairment for a given exposure, this exposure is included in the portfolio of loans or lease receivables that are assessed on a collective basis.

Within the group portfolio, groups with similar credit risk characteristics are identified, which are then assessed for impairment on a collective basis.

If there is objective evidence for the impairment of financial assets classified as loans and receivables, receivables from finance lease or investments held to maturity, the amount of the impairment write-down is the difference between the carrying amount of the asset and the present value of the estimated future cash flows (excluding future losses on loans, which have not been incurred), discounted using the original effective interest rate established at the initial recognition of the financial asset.

The carrying amount of an asset is decreased by impairment write-downs, and the amount of impairment losses is charged to profit and loss account.

The calculation of the present value of estimated cash flows relating to a financial asset for which the Bank holds collateral, takes into account the cash flows arising from the seizure of the collateral, less costs to seize and sell.

Future cash flows from a group of financial assets assessed for impairment on a collective basis are estimated on the basis of cash flows generated from contracts and historical parameters of recoveries generated from assets with similar risk characteristics.

Historical recovery parameters are adjusted on the basis of data from current observations, so as to take into account the impact of current conditions and exclude the factors that had impact in the past but no longer exist.

If, in the subsequent period, the amount of impairment loss is reduced because of an event that took place after the impairment was recognised (e.g. improvement in debtor's credit rating), then the impairment loss that was previously recognised is reversed by making an appropriate adjustment to the balance of impairment write-downs. The amount of the reversal is recorded in the profit and loss account.

In the case of impairment of a financial asset classified as available for sale, the amount of the impairment write-down is charged to the profit and loss account, which results in the necessity to transfer the effects of its "downwards" valuation from the revaluation reserve to the profit and loss account. Impairment write-downs recognised against unquoted equity instruments are not reversed through profit and loss account.

No impairment write-downs are recognised against financial assets valued at fair value through profit and loss.

h) Derecognition of financial instruments

Financial instruments are derecognised when the Group loses control over the contractual rights comprising the given financial instrument. This situation usually takes place when the instrument is sold or when all the cash flows assigned to the instrument are transferred to an independent third party.

In particular, the Group derecognises a loan or part of a loan, when it loses control over the rights arising from that loan or part of loan. The Group loses control, if the rights pertaining to the loan agreement expire, or the Group waives those rights or sells the loan. Usually the Group derecognises loans when they have been forgiven, when the period of limitation expired or when the loan is not recoverable.

Loans and other amounts due are written off against the impairment write-downs that were recognised for these accounts. In the case where no write-downs were recognised against the account or the amount of the write-down is less than the amount of the loan or other receivable, before the loan or receivable is written off, the amount of the impairment write-down is increased by the difference between the value of the receivable and the amount of the write-downs that have been recognised to date.

i) Tangible fixed assets, intangible assets and investment property

Tangible fixed assets are stated at the balance sheet date at acquisition cost or cost of production, less accumulated depreciation and impairment losses. Depreciation is charged on all fixed assets whose value decreases due to usage or passage of time, using the straight line method over the estimated useful life of the given asset. The adopted depreciation periods and depreciation rates are subject to periodic verification. If there were any events or circumstances indicating that the carrying amount of tangible fixed assets may not be recoverable, then these assets are reviewed for impairment. Depreciation charges and impairment write-downs are expensed directly to the profit and loss account for the current period.

Intangible assets are stated at acquisition cost or cost of production, less amortisation and impairment losses.

Amortisation is charged using the straight-line method over the estimated useful life of the given asset.

Intangible assets are subject to verification for impairment, when there were events or circumstances indicating that their carrying amount may not be recoverable.

Amortisation charges and impairment losses are expensed directly to the profit and loss account for the current period. The adopted amortisation periods and amortisation rates are subject to periodic verification.

Initially, investment properties are stated at acquisition cost, with an allowance for transaction costs. After initial recognition, investment properties are valued in accordance with the requirements of the acquisition cost model. Investment properties are derecognised as they are sold or when they are permanently withdrawn from usage, and no future benefits are expected from their disposal. All gains or losses from derecognition of investment properties are recognised in the profit and loss account in the period in which the properties were derecognised.

The acquisition cost and the cost of production of fixed assets, assets under construction and intangible assets comprises the aggregate costs directly related to bringing the asset to a condition allowing normal usage, incurred by the entity during the period of construction, assembly, adaptation or improvement, up to the balance sheet date or the date of accepting the asset for use, including:

- 1) non-deductible VAT and excise tax;
- 2) the costs of servicing liabilities incurred in order to finance the acquisition or production of assets - if they are related to the acquisition, construction or production of a "qualifying asset" i.e. an asset that requires a considerable amount of time in order to be prepared for the intended use or disposal, as well as foreign exchange gains or losses, if they are considered to adjust interest costs;
- 3) estimated costs of dismantling and removal of an asset and the costs of renovation of the place where the asset was located, when there exists an obligation to incur such costs and the present value of the estimated future costs is considerable when compared to the acquisition cost or the cost of construction of the asset.

Costs relating to acquisition or construction of buildings are allocated to significant components of the building, when such components have different useful lives or when each of the components generates benefits for the Bank in a different manner. Each component of the building is depreciated separately.

Depreciation of tangible fixed assets and amortisation of intangible assets commences on the first day of the month following the month in which the asset is brought to use, and ends no later than at the time when:

- 1) the amount of depreciation or amortization charges becomes equal to the initial cost of the asset, or
- 2) the asset is designated for liquidation, or
- 3) the asset is sold, or
- 4) the shortage of asset, or

5) it is found – as a result of verification – that the expected residual value of the asset exceeds its (net) carrying amount, with an allowance for the residual value of the asset expected at liquidation, i.e. the net amount that the Bank expects to obtain at the end of the useful life, net of the expected costs of disposal, if the present value of the residual value expected at liquidation is considerable when compared with the cost of acquisition or production of the asset.

For intangible assets it is assumed that the residual value is nil, unless there is an obligation of a third party to buy back the asset, or if there is an active market which will continue to exist at the end of the asset's period of use and it is possible to determine the value the asset on this market.

The residual values and the adopted useful lives of fixed assets and intangible assets are subject to verification for correctness, depending on changes in the expected useful life of the asset. Such verification should be made at least at the end of each financial year, at a date that allows the Bank to make any potential adjustments starting from the first month of the following financial year.

Depreciation periods used for the main groups of tangible fixed assets in the PKO BP SA Group are as follows:

Tangible fixed assets	Periods
Buildings, premises, cooperative rights to premises	10-67 years
Leasehold improvements (buildings, premises)	10 years*
Plant and machinery	1,5-25 years
Computer hardware	1,5-5 years
Motor vehicles	4-7 years

* For leasehold improvements, depreciation rates depend on the term of the contract. For leasehold improvements in buildings or premises subject to rental contracts concluded for an undefined period of time, the Bank uses an individual depreciation period of 10 years.

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

Intangible assets	Periods
Licences for computer software	2-5 years
Copyright, including rights to computer software	2-5 years
Other intangible assets	2-5 years

Goodwill arising on acquisition of a business entity is initially recognised at the acquisition cost, being an excess of the costs of acquiring control over the entity over the share of the holding company in the net fair value of the identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is stated at acquisition cost, less any cumulative impairment losses. The test for impairment is carried out on an annual basis. The carrying amount of goodwill in the opening balance sheet according to IAS, i.e. as of 1 January 2004, was determined in accordance with the amount recognized on the basis of the previously used principles, subject to the requirements of IFRS 1, and was subject to an impairment test.

Goodwill arising on the acquisition of subsidiaries is recognised under intangible assets, and goodwill arising on acquisition of associates is recognised under “Investments in associates and jointly controlled entities”.

As of the date of acquisition, the acquired goodwill is allocated to each cash-generating unit, which can take advantage of combination synergies. Impairment is calculated by estimating the recoverable amount of the cash-generating unit to which the given goodwill relates. In the case where the recoverable amount of the cash-generating unit is lower than the carrying amount, an impairment write-down is recognised. In the case where goodwill represents part of a cash-generating unit and part of operations conducted within this unit is sold, when calculating the gain or loss on the disposal of these operations, the goodwill related to sold operations is included in the carrying amount of these operations. Goodwill sold in such circumstances is valued on the basis of the relative value of the operations sold and the value of the remaining part of the cash-generating unit.

j) Non-current assets held for sale

Non-current assets held for sale include assets whose carrying amount is to be recovered as a result of resale and not due to continued use. Such assets only include assets available for immediate sale in the current condition, the sale of which is highly probable, i.e. the entity decided to fulfil the plan for the sale of the asset, and started to actively seek for the buyer in order to complete the sale plan. In addition, such assets are offered for sale at a price which is reasonable with respect to their present fair value and it is expected that the sale will be recognised as completed within one year from the date of classification of the asset into this category.

Non-current assets held for sale are stated at the lower of the carrying amount and fair value, less the costs of their disposal. No depreciation is charged on assets classified into this category.

k) Investments in associates and jointly controlled entities accounted for using the equity method

The equity method involves valuation of interests in other entities at the amount of the Group's share in the net assets of the given entity. The value of the Group's investment in net assets of an associate or jointly controlled entity, including any non-amortisable goodwill arising on acquisition, is tested for impairment at least once a year.

If the share of the Group in the losses incurred by an associate or jointly controlled entity is equal to or higher than the carrying amount of the investment, the value of the investment is shown as nil, and any further losses (below the carrying amount equal to nil) are recorded only, at an amount of payment made or committed by the Group on behalf of the associate or jointly controlled entity in order to fulfil the obligations of this entity that the Group guaranteed or otherwise committed to fulfil.

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

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

m) Off-balance sheet liabilities granted

Off-balance sheet liabilities granted are presented at nominal value. For off-balance sheet liabilities subject to credit risk, specific provisions are created.

n) Deferred income tax

Due to timing differences between the moment income is recognised as earned and cost as incurred according to the Accounting Act and to tax regulations, the Bank recognises deferred tax liabilities (provisions) and deferred tax assets. The amount of deferred tax is determined, using the balance sheet method, as a change in the balance of the following items – deferred tax assets and deferred tax liabilities. Deferred tax liability and deferred tax asset are presented in the balance sheet on the assets or liabilities side, as appropriate. The change in the balance of a deferred tax liability or a deferred tax asset is included in taxation charge, except for the effects of valuation of financial assets recognised in revaluation reserve, where changes in the balance of a deferred tax liability or deferred tax asset are accounted for in correspondence with revaluation reserve. The calculation of deferred tax takes into account the balance of the deferred tax asset and deferred tax liability at the beginning and at the end of the reporting period.

o) Financial liabilities at fair value

Financial liabilities at fair value include derivatives valued in accordance with point d) of these additional notes.

p) Financial liabilities at amortized cost

Financial liabilities are valued at amortized cost using the effective interest rate. If a cash flow projection is not definable for a financial liability and therefore the effective interest rate cannot be reliably determined, such liability is recorded at the amount due.

q) Accruals and deferred income

This item mainly comprises commission charged using the straight-line method and other income received in advance, which will be recognised in the profit and loss account in the future reporting periods.

Accruals include: accruals for costs of services performed for the Group by contractors, which will be recognised in the following periods, and accruals for amounts due to employees (e.g. bonuses, rewards and unused holiday payments).

Accruals and deferred income are stated in the balance sheet under "Other liabilities".

r) Prepayments and deferred costs

Prepayments and deferred costs include particular kinds of expenses which will be recognised in the profit and loss account in the future reporting periods. Prepayments and deferred costs are presented in the balance sheet under "Other assets".

s) Provisions

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

The Group creates an accrual for the future liabilities of the Group relating to unused annual leave, taking into account all remaining unused holiday days, as well as for the costs of the current period which will be incurred in the following periods.

t) Financial result

The PKO BP SA Group recognises all significant costs and income in accordance with the following principles: accrual basis, matching principle, principles for recognition and valuation of assets and liabilities, principles for recognition of impairment losses.

- Interest income and interest expense

Interest income and interest expense includes interest, together with discounts and bonuses, recognized in accordance with accruals principle based on the effective interest rate.

Interest income also comprises fees and commission received, included in the internal rate of return of the financial instrument.

- Fees and commission income and expense

Fees and commission income is generally recognised on an accruals basis at the moment when the service was performed. Fees and commission income includes one-off amounts charged by the Group for services not related to the internal rate of return on loans and other receivables, as well as amounts charged by the Bank for services performed over a period exceeding 3 months, which are recognised on a straight-line basis. Fees and commission expense comprises mainly amounts of commission paid to agents.

Fees and commission income also comprises fees and commission charged on a straight-line basis, received on loans with unspecified repayment terms.

- Foreign exchange result

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

- Other operating income and expense

Other operating income and expense include income and costs not related directly to banking activity. Other operating income mostly includes income from sale or liquidation of non-current assets and assets seized in exchange for debts, recovered bad debts, received compensation, fines and penalties, income from lease/rental of properties and released provisions for amounts in dispute and assets seized in exchange of debts.

Other operating expense mostly includes costs of sale or liquidation of non-current assets, including assets seized in exchange for debts, costs of collecting debts, costs of provisions for amounts in dispute and donations.

Other operating income and expense also include – in subsidiaries – net income from sale of finished goods, goods for resale and raw materials.

u) Income tax

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

In calculating taxable income base, the Bank took into account the provisions of the Decree of the Minister of Finance dated 28 March 2003 on the extension of deadlines for payment of corporate income tax advances by banks granting housing loans from Mortgage Fund (Journal of Laws No. 58, item 511).

v) Shareholders' equity

Shareholders' equity comprises the share capital and funds created by Group companies in accordance with the binding legal regulations and Statute of the Bank. Shareholders' equity includes retained earnings and accumulated losses from previous years. The part of shareholders' equity of subsidiaries, other than share capital, which corresponds to the interest held in the subsidiary by the holding company, is added up with the appropriate components of the equity of the holding company. The shareholders' equity of the Capital Group only includes that part of the shareholders' equity of the subsidiaries that was created after the date of acquisition of shares by the holding company. In particular, this applies to a change in equity due to acquired profits or incurred losses as well as revaluation.

- Share capital comprises only the share capital of the holding company and is stated at nominal value, in accordance with Statute and the Register of Entrepreneurs.
- Reserve capital is created according to the Statute of the Group companies, from the appropriation of net profits and from share premium.
- Revaluation reserve comprises the effects of remeasurement of financial assets available for sale and the amount of the deferred tax for items giving rise to temporary differences that are recorded in revaluation reserve. In the balance sheet, the revaluation reserve is presented net.
- Other reserves as envisaged by Articles are created by appropriation of profits.
- Currency translation adjustment includes exchange differences resulting from the translation of the net profit of a foreign operation using the weighted average rate established at the balance sheet date with reference to the average NBP rate.
- General banking risk fund in PKO BP SA is created from profit after taxation according to the Banking Law dated 29 of August 1997.

Shareholders' equity also includes:

- Net profit (loss) under the approval process, decreased by planned dividends,
- dividends declared and not paid.

The net profit (loss) for the period is the result derived from the profit and loss account, adjusted by corporate income tax expense.

w) Insurance contracts

The Group is selling to its clients products that meet the definition of an insurance contract according to IFRS 4 *Insurance contracts*. These are mostly financial guarantees and letters of credit, in the case of which the Group accepts a significant insurance risk from the client and commits to compensate the client for any negative impact form of a given uncertain future event.

IFRS 4 has been endorsed rather recently and is currently in the first phase of application, in which entities preparing their financial statements according to IAS may continue to apply their previous accounting policies. IFRS 4 requires, however, e.g. testing the sufficiency of the accepted insurance liabilities (in the case of the Bank – provisions created for guarantees and letters of credit) and disclosure of information concerning insurance contracts according to IFRS 4. On the basis of the exemption included in IFRS 1, the Bank did not apply IFRS 4 with reference to comparative data, and therefore the transition date for IFRS 4 is 1 January 2005.

Information concerning contracts classified as insurance contracts according to IFRS 4 is included in Note 48.

3. Principles and objectives relating to financial risk management

The main types of risks arising from the Group's financial instruments include credit risk, interest rate risk, liquidity risk and currency risk. The Group verifies and sets objectives and principles of management of each kind of risk – these principles are shortly discussed below. The holding company also monitors the risk of changes in market prices of all of its financial instruments. The accounting policies of the PKO BP SA Group relating to derivatives were discussed in the paragraph "Principal accounting policies and methods used by the PKO BP SA Group".

Due to the scale of operations of PKO BP SA in relation to the other companies in the Group, the main risks to which the Group is exposed relate to PKO BP SA. As result the below description relates to the holding company risk.

Credit risk

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

In the process of credit risk management, the Bank and the Group companies follow the following principles:

- each loan transaction requires a comprehensive credit risk assessment using the internal rating or scoring assessment,
- measurement of credit risk of potential or executed loan transactions is performed on a regular basis taking into account changes in external conditions and changes in the financial situation of the borrowers,
- credit risk assessment is subject to additional verification by credit risk assessment forces independent of the business forces,
- credit risk is diversified geographically, by industry, by product and by clients,
- credit decisions may be taken only by authorized persons,
- the Bank and the Group companies hedge against credit risk by creating specific provisions for the impairment of loan exposures.

Concentration of the credit risk

The Banking Law specifies maximum concentration limits for the bank. According to Article 71.1 of the Banking Law, the total value of bank's exposures together contingent liabilities granted related to one entity or to a group of entities related by capital or management, cannot exceed 20% of the Bank's own funds, if the entity is related to the Bank or 25% of the Bank's own funds, if the entity is not related to the Bank

Furthermore, according to Article 71.2 of the Banking Law, the total exposure of the Bank towards entities in which the Bank's current exposure exceeds 10% of the Bank's own funds, cannot exceed 800% of the Bank's own funds.

As at 30 June 2005, the exposure of PKO BP SA towards two entities amounted respectively to: PLN 2,214,709 thousand and PLN 2,035,576 thousand. According to Article 71.3 of the Banking Law, concentration limits do not apply to these exposures.

a) Concentration of credit risk by borrowers:

As at 30 June 2005

Exposure of the Bank towards 10 biggest borrowers			
No.	Borrower	Total exposure unaudited	Percentage of the Bank's loan portfolio
1	Borrower 1	2 214 709	5,02%
2	Borrower 2	1 824 376	4,13%
3	Borrower 3	800 447	1,81%
4	Borrower 4	444 041	1,01%
5	Borrower 5	413 953	0,94%
6	Borrower 6	224 708	0,51%
7	Borrower 7	216 290	0,49%
8	Borrower 8	211 433	0,48%
9	Borrower 9	196 894	0,45%
10	Borrower 10	178 718	0,40%

As at 31 December 2004, the two biggest exposures towards 10 biggest borrowers amounted respectively to 5.02% and 4.13%. The risks related to these exposures corresponded to State Treasury risk.

The other exposures resulted from transactions concluded with:

- Entities effectively controlled by the Bank – 1.01%
- Local self-government institutions – 2.21%
- Large corporate clients – 2.87%
- Private individuals – 0%.

Due to the fact that the level of the risk related to the two entities with the biggest exposure corresponds to State Treasury risk, this concentration does not result in an increase of the Bank's credit risk.

As at 31 December 2004, none of these exposures was classified as irregular.

As at 31 December 2004

Exposure of the Bank towards 10 biggest borrowers			
No.	Borrower	Total exposure unaudited	Percentage of the Bank's loan portfolio
1	Borrower 1	2 504 664	6,09%
2	Borrower 2	1 676 880	4,08%
3	Borrower 3	856 854	2,08%
4	Borrower 5	435 883	1,06%
5	Borrower 4	361 600	0,88%
6	Borrower 6	236 004	0,57%
7	Borrower 8	219 022	0,53%
8	Borrower 11	201 416	0,49%
9	Borrower 10	190 286	0,46%
10	Borrower 12	176 649	0,43%

In the total amount of exposure towards the 10 biggest borrowers, the two biggest exposures amounted respectively to 6.09% and 4.08%. The risks related to these exposures corresponded to State Treasury risk.

The other exposures resulted from transactions concluded with:

- Entities effectively controlled by the Bank – 0.88%
- Local self-government institutions – 2.54%
- Large corporate clients – 3.08%
- Private individuals – 0%.

Due to the fact that the level of the risk related to the two entities with the biggest exposure corresponds to State Treasury risk, this concentration does not result in an increase of the Bank's credit risk.

None of these exposures was classified as irregular.

b) Concentration of credit risk by groups

As at 30 June 2005

Total exposure towards 5 biggest capital groups that are Bank's clients	Percentage of the Bank's loan portfolio Unaudited
Group 1	1,56%
Group 2	1,01%
Group 3	0,98%
Group 4	0,90%
Group 5	0,68%
Total	5,13%

Out of the total amount of exposure towards the capital groups listed above, 64.9% share of the total exposure was valued according to IAS 39. Based on the Bank methodology, all these exposures are not individually impaired. For all of them there is an evidence of group impairment..

As at 31 December 2004

Total exposure towards 5 biggest capital groups that are Bank's clients	Percentage of the Bank's loan portfolio Unaudited
Group 1	2,77%
Group 2	1,35%
Group 3	1,14%
Group 4	1,03%
Group 5	0,75%
Total	7,04%

Out of the total amount of the exposure towards the capital groups listed above, 67.41% exposures were classified as "standard", 31.57% were classified as "watch", 0.98% were classified as "substandard" and 0.04% were classified as "doubtful", according to the regulations being in force in 2004.

c) Concentration of credit risk by industry

In order to mitigate credit risk related to excessive concentration of exposures to individual industries, the Bank developed a system for the structuring of exposures to particular industries.

The following table presents the structure of loan exposures by industry sectors:

Section	Description	Percentage of the portfolio of corporate loans	
		30.06.2005 Unaudited	31.12.2004
D	Manufacturing	17,0%	14,8%
E	Electricity, gas and water supply	9,7%	9,4%

F	Construction	4,3%	2,7%
G	Trade (wholesale and retail), repairs of cars, motorbikes and household and personal goods	10,8%	10,8%
K	Real estate activities, renting, and business-related services	9,1%	7,1%
L	Public administration and national defence, obligatory social security and public health insurance	38,8%	45,4%
	Other exposures	10,3%	9,8%
	Total	100,0%	100,0%

Market risk

Market risk includes: interest rate risk, currency risk, capital adequacy risk, equity price risk in trading book, derivatives risk, risk of financial institutions, as well as short and long-term liquidity risk.

Risk management is subject to constant evaluation and development in order to adopt it to changing market circumstances. The process of risk management includes the following:

- 1) identification of risk factors,
- 2) risk measurement,
- 3) system risk management,
- 4) risk monitoring,
- 5) risk reporting.

The market risk reporting system, as described in Management Board resolutions, is based on the following reports:

- 1) daily and weekly – prepared for operational purposes,
- 2) monthly - considered during the meetings of Assets and Liabilities Management Committee,
- 3) quarterly - considered during Management Board meetings,
- 4) half-yearly - considered during Supervisory Board meetings.

These reports relate to the market risks which can affect the Bank. Additionally, a report on the market risk in the PKO BP Group is attached to the monthly and quarterly reports at the end of each quarter.

The companies in the PKO BP Group which, due to their activities, are characterized by a high level of market risk, have their own internal regulations (submitted to the Bank for approval) for management of each type of risk. These regulations define, among others, the procedure for the reporting of market risk to the Management of these companies.

Interest rate risk

The objective of the interest rate risk management is to identify interest rate risk areas and to shape the balance sheet and off-balance sheet liabilities' structure in order to maximize the value of the net assets and interest result of the Bank.

In the process of interest rate risk management, the Bank measures risk based on the internal Value at Risk model (VaR), price sensitivity, interest income sensitivity and other methods.

The main tools used in interest rate risk management include:

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

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

Currency risk

The objective of currency risk management is to identify currency risk areas and to take measures to reduce the currency risk to the levels accepted by the Bank's Management Board. As part of currency risk management, the Management Board sets an adequate currency risk profile of the Bank in line with the accepted financial plan of the Bank concerning the result from currency transactions.

The Bank adopted the Value at Risk model to measure currency risk. Every day the model is back-tested in order to verify the assumptions used.

Currency risk management is conducted by means of setting limits and thresholds for this risk. The values to which the limits apply include: currency position, Value at Risk calculated for 10-day time horizon and loss from speculative transactions on currency market.

The main tools used in currency risk management are as follows:

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

Derivative instruments risk

The objective of derivative risk management is to monitor the use of derivative instruments and to keep derivative risk in the range defined by the general risk profile of the Bank. Derivative risk management in the Bank is entirely integrated with the management of other risks, such as: interest rate, currency, liquidity and credit risk. The principles of derivative risk management in the Bank define the risks related to derivative transactions and the tasks for individual organizational units in the process of derivative risk management.

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

The main tools used in derivative risk management are as follows:

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

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

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

Capital adequacy risk

The objective of capital adequacy risk management is to ensure that the Bank and the PKO BP SA Group follow prudence regulations concerning capital adequacy requirements due to risk exposure, expressed as capital adequacy ratio.

The main tools used in capital adequacy management are as follows:

- 1) selection of optimum measures for capital adequacy requirements for specific types of risk, according to Resolution No. 4/2004 of the Banking Supervision,
- 2) internal procedures for capital adequacy defining: classification of new transactions to trading portfolio or banking portfolio, determining original positions for transactions classified to trading portfolio, determining the market result realized on original positions, determining the loss realized on original positions classified to banking portfolio, application of price estimation techniques used for the calculation of market results realized on positions classified to trading portfolio.

The Bank calculates capital requirements relating to the following market risks:

- 1) currency risk for banking and trading books jointly,
- 2) equity securities price risk for the trading book (general and specific risk),
- 3) general interest rate risk for the trading book,

- 4) specific risk related to the prices of debt securities in the trading book,
- 5) underwriting risk for the trading book,
- 6) counterparty risk and delivery/settlement risk for the trading book.

The companies in the PKO BP SA Capital Group do not generate capital adequacy requirement connected to market risk.

Price risk of equity securities in the trading portfolio

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

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

Liquidity risk

The objective of liquidity risk management is to shape the Bank's balance sheet and off-balance sheet liabilities' structure to ensure the continuous solvency of the Bank taking into account the nature of its activities or requirements which may occur due to changes in market environment.

The Bank's policy concerning liquidity is based on a portfolio of market securities and stable deposits. In its liquidity risk management policy, the Bank also uses money market instruments, including NBP open market operations.

The Bank uses the following tools for liquidity risk measurement:

- 1) the "contractual liquidity gap" method and the "liquidity gap in real terms" method,
- 2) the "surplus liquidity" method,
- 3) analysis of stability of deposit and loan portfolio,
- 4) stress testing.

The main liquidity risk management tools used by the Group include:

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

To ensure adequate liquidity level in the Bank and other entities of the PKO BP SA Capital Group, the Bank sets limits and thresholds for liquidity risk. The limits and thresholds are used to measure both the current liquidity and the medium and long-term liquidity.

30 June 2005**Interest rate risk***Financial assets and financial liabilities subject to fair value risk connected with interest rate¹

	30.06.2005 unaudited
Bank – Debt securities	23 007 313
Bank – Loans based on fixed interest rates	168 253
Bank – Deposits from customers based on fixed interest rates	(7 164 593)
Bank – Inter-bank and negotiable deposits	(15 880 930)
Bank – Inter-bank and negotiable receivables	14 130 533
Capital Group Entities – Assets	6 855
Capital Group Entities – Liabilities	(713 753)
TOTAL	13 553 678

Financial assets and financial liabilities subject to cash flow risk connected with interest rate¹

	30.06.2005 unaudited
Bank – Loans based on variable interest rates	40 968 904
Bank – Deposits from customers based on variable interest rates	(40 619 782)
Capital Group Entities – Assets	1 662 335
Capital Group Entities – Liabilities	(1 111 863)
TOTAL	899 594

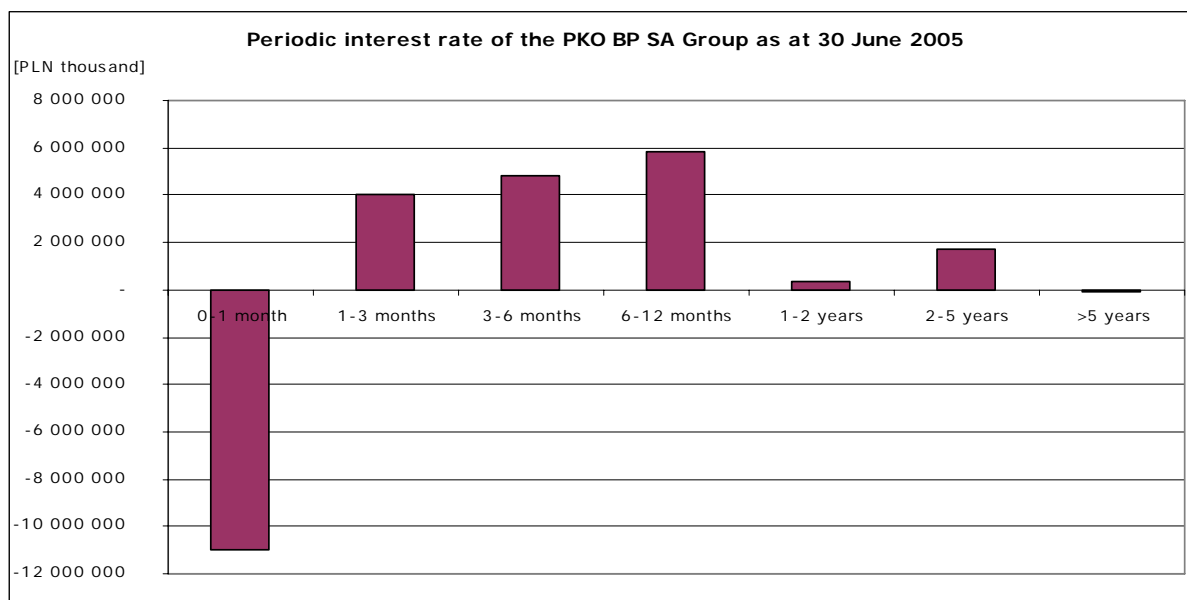
Off- balance sheet transactions:¹

	30.06.2005 unaudited
Bank – Derivatives	(13 687)

* Amounts included in the interest rate risk model of the Group

¹ Total for all currencies.

PLN Revaluation Gap	0-1 month	1 - 3 months	3-6 months	6-12 months	1- 2years	2- 5years	> 5years	Total
unaudited								
Bank - Periodic gap	(11 047 449)	4 106 229	4 785 483	5 747 828	326 286	1 752 820	14 190	5 685 387
Bank – Cumulative gap	(11 047 449)	(6 941 220)	(2 155 737)	3 592 091	3 918 377	5 671 197	5 685 387	x
Capital Group Entities - Periodic gap	92 176	(78 145)	1 708	50 510	40 146	862	(110 676)	(3 419)
Capital Group Entities - Cumulative gap	92 176	14 031	15 739	66 249	106 395	107 257	(3 419)	x
TOTAL - Periodic gap	(10 955 273)	4 028 084	4 787 191	5 798 338	366 432	1 753 682	(96 486)	5 681 968
TOTAL - Cumulative gap	(10 955 273)	(6 927 189)	(2 139 998)	3 658 340	4 024 772	5 778 454	5 681 968	x



At the end of June 2005, the PKO BP SA Capital Group presented negative cumulative PLN gap in a time horizon up to 6 months.

USD Valuation Gap (USD thousands)	0-1 month	1-3 months	3-6 months	6-12 months	1- 2years	2– 5years	> 5years	Total
unaudited								
Bank – Deposits based on fixed interest rate	(109 609)	(105 808)	(82 729)	(85 703)	(99)	(41)	-	(383 989)
Bank – Deposits based on variable interest rate	(261 540)	-	-	-	-	-	-	(261 540)
Bank – Loans based on fixed interest rate	-	-	-	-	-	-	-	-
Bank – Loans based on variable interest rate	181 710	82 312	318	-	-	-	-	264 340
Bank – Inter-bank and negotiable deposits	(276 179)	(137 395)	(25 256)	(111 484)	-	-	-	(550 314)
Bank - FX swap	(926 488)	(50 624)	19 649	(166 337)	-	-	-	(1 123 800)
Bank – FRA	9 983	(9 982)	-	-	-	-	-	1
Bank - IRS/CIRS	129 197	51 588	-	-	-	-	(93 073)	87 712
Bank – Inter-bank and negotiable receivables	877 525	488 803	-	353 147	-	-	-	1 719 475
Bank – Debt securities	72 815	65 137	-	100	-	-	98 981	237 033
Bank – Periodic gap	(302 586)	384 031	(88 018)	(10 277)	(99)	(41)	5 908	(11 082)
Bank – Cumulative gap	(302 586)	81 445	(6 573)	(16 850)	(16 949)	(16 990)	(11 082)	-
Capital Group Entities - Periodic gap	(100 574)	(35 866)	(22 833)	(2 926)	70 339	(56 915)	1 887	(146 888)
Capital Group Entities - Cumulative gap	(100 574)	(136 440)	(159 273)	(162 199)	(91 860)	(148 775)	(146 888)	-
TOTAL - Periodic gap	(403 160)	348 165	(110 851)	(13 203)	70 240	(56 956)	7 795	(157 970)
TOTAL - Cumulative gap	(403 160)	(54 995)	(165 846)	(179 049)	(108 809)	(165 765)	(157 970)	-

The exposure of the subsidiaries from the Capital Group to the interest rate risk in USD increases the Bank's exposure, particularly in the following time horizons: up to 1 month, from 3 to 6 months and from 1 to 2 years.

EUR Valuation Gap (EUR thousands)	0-1 month	1-3 months	3-6 months	6-12 months	1- 2years	2– 5years	> 5years	Total
unaudited								
Bank – Deposits based on fixed interest rate	(150 722)	(123 821)	(92 200)	(50 218)	(31)	(24)	(11)	(417 027)
Bank – Deposits based on variable interest rate	(155 049)	-	-	-	-	-	-	(155 049)
Bank – Loans based on fixed interest rate	-	-	-	-	-	-	-	-
Bank – Loans based on variable interest rate	473 600	130 066	-	-	-	-	-	603 666
Bank – Inter-bank and negotiable deposits	(64 125)	(15 268)	(7 190)	(4 862)	-	-	-	(91 445)
Bank - FX swap	(123 977)	(138 435)	-	(44 763)	-	-	-	(307 175)
Bank - IRS/CIRS	166 914	45 752	-	-	-	(2 067)	(275 861)	(65 262)
Bank – Inter-bank and negotiable receivables	154 001	-	-	60 348	-	-	-	214 349
Bank – Debt securities	-	30 097	-	-	-	2 129	275 028	307 254
Bank – Periodic gap	300 642	(71 609)	(99 390)	(39 495)	(31)	38	(844)	89 311
Bank – Cumulative gap	300 642	229 033	129 643	90 148	90 117	90 155	89 311	-
Capital Group Entities - Periodic gap	14 793	(269)	1 209	(1 744)	6 950	(3 161)	164	17 942
Capital Group Entities - Cumulative gap	14 793	14 524	15 733	13 989	20 939	17 778	17 942	-
TOTAL - Periodic gap	315 435	(71 878)	(98 181)	(41 239)	6 919	(3 123)	(680)	107 253
TOTAL - Cumulative gap	315 435	243 557	145 376	104 137	111 056	107 933	107 253	-

The exposure of the Capital Group to the interest rate risk in EUR consists mainly of the Bank's exposure. The interest rate risk in EUR generated by the Capital Group entities has no significant influence on the Group's interest rate risk, and therefore it does not change the Group's risk profile.

CHF Valuation Gap (in CHF thousand) unaudited	0-1 month	1-3 months	3-6 months	6-12 months	1- 2years	2- 5 years	> 5years	Total
Bank – Deposits based on fixed interest rate	(5 993)	(2 571)	(2 451)	(1 632)	(5)	(5)	-	(12 657)
Bank – Deposits based on variable interest rate	(9 045)	-	-	-	-	-	-	(9 045)
Bank – Loans based on fixed interest rate	-	-	-	-	-	-	-	-
Bank – Loans based on variable interest rate	1 133 770	690 523	-	-	-	-	-	1 824 293
Bank – Inter-bank and negotiable deposits	-	-	-	(50)	-	-	-	(50)
Bank - FX swap	(108 827)	(169 808)	-	-	-	-	-	(278 635)
Bank - IRS/CIRS	(601 328)	(1 001 473)	(50 046)	-	-	-	-	(1 652 847)
Bank – Inter-bank and negotiable receivables	29 300	-	-	-	-	50 784	-	80 084
Bank – Periodic gap	437 877	(483 329)	(52 497)	(1 682)	(5)	50 779	-	(48 857)
Bank – Cumulative gap	437 877	(45 452)	(97 949)	(99 631)	(99 636)	(48 857)	(48 857)	-
Capital Group Entities - Periodic gap	4 930	(574)	116	(962)	1 493	5 747	3 615	14 365
Capital Group Entities - Cumulative gap	4 930	4 356	4 472	3 510	5 003	10 750	14 365	-
TOTAL - Periodic gap	442 807	(483 903)	(52 381)	(2 644)	1 488	56 526	3 615	(34 492)
TOTAL - Cumulative gap	442 807	(41 096)	(93 477)	(96 121)	(94 633)	(38 107)	(34 492)	-

The exposure of the Group to the interest rate risk in CHF has a significant influence on the Group's interest rate risk and decreases the cumulative gap for the whole Group.

The exposure of the Group to interest rate risk in the first half year of 2005 remained at an acceptable level. The Bank was exposed almost exclusively to PLN interest rate risk, which generated approximately 97% of risk in this area, measured using Value at Risk.

The interest rate risk in PKO BP SA remained at a low level. As at 30 June 2005, the interest rate VaR in the 10-days' time horizon (10-days VaR) amounted to PLN 47,525 thousand, which is about 0.80% of the Bank's capital. The interest rate risk was generated mainly by the risk of assets and liabilities revaluation mismatch.

Effective interest rate (for the Bank)

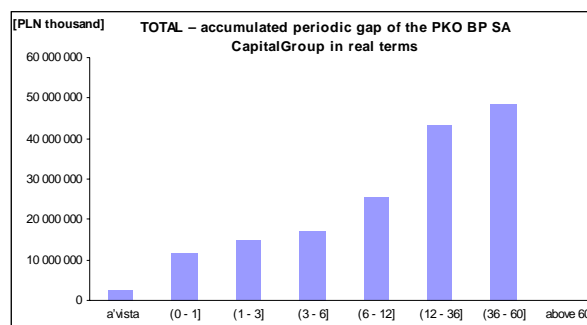
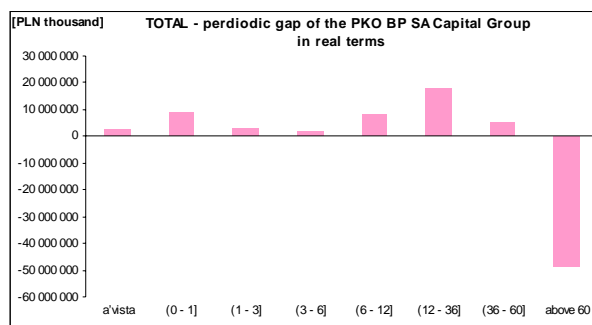
Unaudited

Loans	PLN	EUR	USD	GBP	CHF
Total	7.82	5.15	5.74	0.00	4.22
Housing loans	5.92	6.00	6.57	0.00	4.24
Corporate loans	4.24	2.14	2.72	0.00	3.00
Consumer loans	13.44	4.96	6.82	0.00	8.36
Loans to entities conducting business activities	5.72	2.13	2.87	0.00	3.70

Deposits	PLN	EUR	USD	GBP	CHF
Total	2.27	0.86	0.85	1.04	0.10
Deposits from private individuals	2.04	0.80	0.55	0.86	0.07
Corporate deposits	2.66	1.24	1.97	3.18	0.39
IKE deposits	4.54	0.00	0.00	0.00	0.00
Deposits from entities conducting business activities	2.26	0.75	1.98	3.18	0.39

Liquidity risk in the PKO BP SA Capital Group

Liquidity Gap unaudited	a'vista (on demand)	0-1 month	1-3 months	3-6 months	6-12 months	1- 2years	2- 5 years	> 5years
Bank - Periodic gap in real terms	2 674 481	9 092 004	3 198 118	2 197 392	8 533 034	17 914 766	5 144 479	(48 754 274)
Bank – Cumulative periodic gap in real terms	2 674 481	11 766 485	14 964 603	17 161 995	25 695 029	43 609 795	48 754 274	-
Capital Group Entities – contractual periodic gap	(115 837)	(21 874)	(26 366)	(30 177)	(33 258)	62 158	53 894	111 460
Capital Group Entities – contractual cumulative periodic gap	(115 837)	(137 711)	(164 077)	(194 254)	(227 512)	(165 354)	(111 460)	-
TOTAL - Periodic gap for the Bank in real terms	2 558 644	9 070 130	3 171 752	2 167 215	8 499 776	17 976 924	5 198 373	(48 642 814)
TOTAL – Cumulative periodic gap for the Bank in real terms	2 558 644	11 628 774	14 800 526	16 967 741	25 467 517	43 444 441	48 642 814	-



In all time horizons, the Group's cumulative periodic liquidity gap stated in real terms² was positive. This means the surplus of assets receivable over liabilities payable.

Currency risk

In the first half of 2005, currency risk remained at a low level. The tables below present currency exposure broken by separate types of assets, liabilities and off-balance sheet liabilities.

	<i>Currency translated to PLN – 30.06.2005</i>				
	unaudited				
Assets, of which:	PLN	EUR	CHF	Other	Total
Cash and balances with the Central Bank	4 558 738	84 733	4 913	79 434	4 727 818
Loans and other amounts due to the financial sector	7 580 574	917 635	207 824	5 967 613	14 673 646
Loans to non-financial sector	29 053 407	2 556 639	5 119 549	1 609 820	38 339 415
Loans to public sector	6 378 638	17 082	194	6 340	6 402 254
Securities	20 529 724	1 240 893	-	895 759	22 666 376
Non-current assets	6 602 728	-	-	107 531	6 710 259
Other assets and derivatives	2 247 950	128 298	113 891	60 365	2 550 504
TOTAL GROSS ASSETS	76 951 759	4 945 280	5 446 371	8 726 862	96 070 272
DEPRECIATAION/ IMPAIRMENT	(6 791 235)	(89 573)	(14 608)	(92 739)	(6 988 155)
TOTAL NET ASSETS	70 160 524	4 855 707	5 431 763	8 634 123	89 082 117
LIABILITIES, of which:					
Balances with the Central Bank	945	-	-	-	945
Amounts due to financial sector	577 847	157 552	22 643	1 084 205	1 842 247
Amounts due to non-financial sector	63 956 857	2 560 636	57 088	4 075 345	70 649 926
Amounts due to public sector	3 590 834	19 471	-	975	3 611 280
Liabilities arising from securities issued	73 037	-	-	-	73 037
Provisions	221 696	61	-	138	221 895
Other liabilities and derivatives and deferred tax provisions	4 038 918	286 400	1 988	258 271	4 585 577
Shareholders' equity	8 075 364	-	-	21 846	8 097 210
TOTAL LIABILITIES	80 535 498	3 024 120	81 719	5 440 780	89 082 117
GRANTED OFF-BALANCE SHEET LIABILITIES	14 960 500	214 399	740 084	2 683 149	18 598 132

² Liquidity gap of PKO BP SA Group in real terms calculated as a sum of PKO BP SA liquidity gap in real terms and contractual liquidity gaps of other entities comprising PKO BP SA Group.

31 December 2004**Interest rate risk***Financial assets and financial liabilities subject to fair value risk connected with interest rate³

	31.12.2004
Bank – Debt securities	24 193 205
Bank – Loans based on fixed interest rate	442 935
Bank – Deposits from customers based on fixed interest rate	(13 471 593)
Bank – Inter-bank and negotiable deposits	(15 011 284)
Bank – Inter-bank and negotiable receivables	12 969 101
Capital Group Entities – Assets	16 646
Capital Group Entities – Liabilities	(474 822)
TOTAL	8 647 542

Financial assets and financial liabilities subject to cash flow risk connected with interest rate³

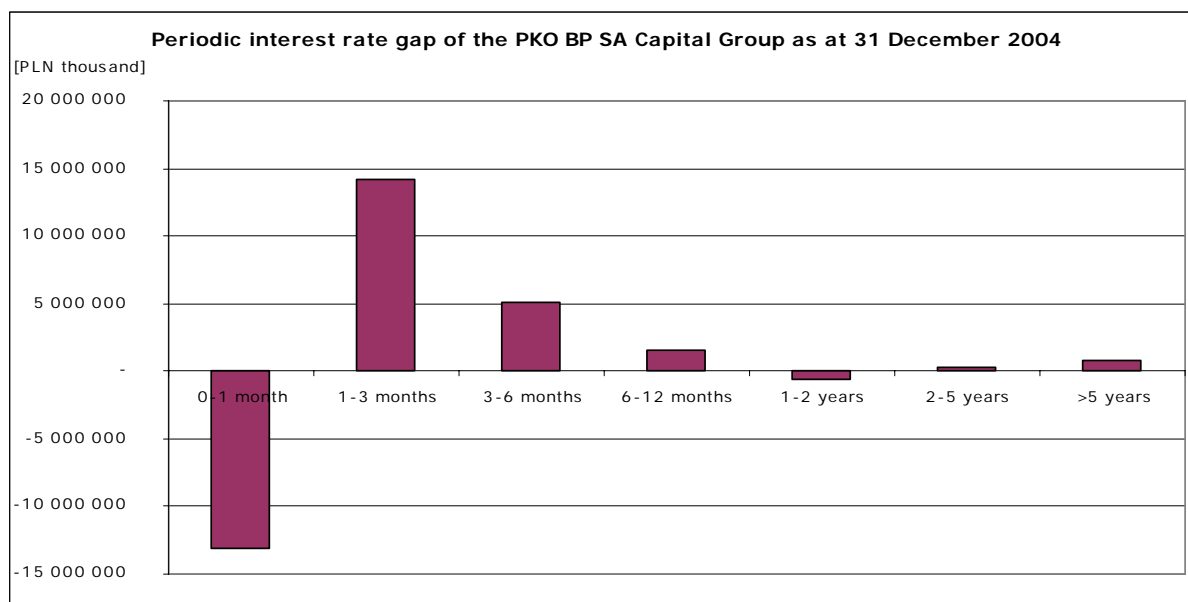
	31.12.2004
Bank – Loans based on variable interest rate	33 156 888
Bank – Deposits from customers based on variable interest rate	(37 754 237)
Capital Group Entities – Assets	1 229 392
Capital Group Entities – Liabilities	855 871
TOTAL	(4 223 828)

Off- balance sheet transactions:³

	31.12.2004
Bank – Derivatives	546 912

⁴ Amounts included in the interest rate risk model of the Group³ Total for all currencies

PLN Valuation Gap	0-1 month	1-3 months	3-6 months	6-12 months	1- 2years	2- 5 years	> 5years	Total
Bank - Periodic gap	(13 152 116)	14 231 609	5 100 638	1 538 575	(570 148)	281 493	858 696	8 288 747
Bank – Cumulative gap	(13 152 116)	1 079 493	6 180 131	7 718 706	7 148 558	7 430 051	8 288 747	x
Capital Group Entities - Periodic gap	61 575	(42 021)	9 340	36 059	32 113	8 114	(61 922)	43 258
Capital Group Entities - Cumulative gap	61 575	19 554	28 894	64 953	97 066	105 180	43 258	x
TOTAL - Periodic gap	(13 090 541)	14 189 588	5 109 978	1 574 634	(538 035)	289 607	796 774	8 332 005
TOTAL - Cumulative gap	(13 090 541)	1 099 047	6 209 025	7 783 659	7 245 624	7 535 231	8 332 005	x



At the end of 2004, the PKO BP SA Group had a negative cumulative PLN gap (in the items sensitive to interest rate risk, surplus of liabilities over assets in a time horizon up to 1 month, and a positive cumulative gap for longer horizons). At the end of 2004, the exposure of the PKO BP SA Group to interest rate risk mainly consisted of the Bank's exposure. The PLN interest rate risk generated by the other Group companies had no significant influence on the interest rate risk of the whole Group and therefore it did not affect its risk profile.

USD Valuation Gap (in USD ths.)	0-1 month	1-3 months	3-6 months	6-12 months	1- 2years	2– 5 years	> 5years	Total
Bank – Deposits based on fixed interest rate	(120 222)	(113 930)	(90 490)	(96 128)	(128)	(53)	-	(420 951)
Bank – Deposits based on variable interest rate	(239 255)	-	-	-	-	-	-	(239 255)
Bank – Loans based on fixed interest rate	-	-	-	-	-	-	-	-
Bank – Loans based on variable interest rate	200 346	75 986	-	-	-	-	-	276 332
Bank – Inter-bank and negotiable deposits	(125 102)	(24 357)	(17 432)	(15 854)	-	-	-	(182 745)
Bank - FX swap	(1 175 172)	(749 096)	(222 797)	(24 754)	-	-	-	(2 171 819)
Bank – FRA	-	-	-	-	-	-	-	-
Bank – IRS/CIRS	60 881	36 937	-	-	-	-	(81 165)	16 653
Bank – Inter-bank and negotiable receivables	1 383 929	861 132	317 548	50 216	-	-	-	2 612 825
Bank – Debt securities	15 086	30 093	-	-	-	-	87 427	132 606
Bank – Periodic gap	491	116 765	(13 171)	(86 520)	(128)	(53)	6 262	23 646
Bank – Cumulative gap	491	117 256	104 085	17 565	17 437	17 384	23 646	-
Capital Group Entities - Periodic gap	96	(1 578)	(1 580)	(3 784)	(17 740)	(18 464)	575	(42 475)
Capital Group Entities - Cumulative gap	96	(1 482)	(3 062)	(6 846)	(24 586)	(43 050)	(42 475)	-
TOTAL - Periodic gap	587	115 187	(14 751)	(90 304)	(17 868)	(18 517)	6 837	(18 829)
TOTAL - Cumulative gap	587	115 774	101 023	10 719	(7 149)	(25 666)	(18 829)	-

The exposure of the Group to interest rate risk in USD consists for the most part of the Bank's exposure. The subsidiaries' USD interest rate risk decreases the Group's interest rate risk in the time horizon from 1 to 2 years and from 2 to 5 years. In the remaining time horizons, the subsidiaries' risk has no significant influence on the Group's interest rate risk and therefore does not affect its risk profile.

EUR Valuation Gap (in EUR thousand)	0-1 month	1-3 months	3-6 months	6-12 months	1- 2years	2– 5 years	> 5years	Total
Bank – Deposits based on fixed interest rate	(138 057)	(96 039)	(52 053)	(35 982)	(30)	(17)	-	(322 178)
Bank – Deposits based on variable interest rate	(188 283)	-	-	-	-	-	-	(188 283)
Bank – Loans based on fixed interest rate	-	-	-	-	-	-	-	-
Bank – Loans based on variable interest rate	526 982	110 531	-	-	-	-	-	637 513
Bank – Inter-bank and negotiable deposits	(44 408)	(14 546)	(3 766)	(4 235)	-	-	-	(66 955)
Bank - FX swap	(133 876)	-	-	-	-	-	-	(133 876)
Bank – FRA	-	12 427	-	-	-	-	(83 206)	(70 779)
Bank – IRS/CIRS	90 314	1 506	-	-	-	-	-	91 820
Bank – Inter-bank and negotiable receivables	-	-	-	-	-	-	87 245	87 245
Bank – Periodic gap	112 672	13 879	(55 819)	(40 217)	(30)	(17)	4 039	34 507
Bank – Cumulative gap	112 672	126 551	70 732	30 515	30 485	30 468	34 507	-
Capital Group Entities - Periodic gap	3 333	(135)	60	(453)	(122)	(1 985)	27	725
Capital Group Entities - Cumulative gap	3 333	3 198	3 258	2 805	2 683	698	725	-
TOTAL - Periodic gap	116 005	13 744	(55 759)	(40 670)	(152)	(2 002)	4 066	35 232
TOTAL - Cumulative gap	116 005	129 749	73 990	33 320	33 168	31 166	35 232	-

The exposure of the Group to interest rate risk in EUR consists for the most part of the Bank's exposure. The EUR interest rate risk which is generated by Group companies has no significant influence on the Group's interest rate risk and therefore does not affect its risk profile.

CHF Valuation Gap (in CHF thousand)	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
Bank – Deposits based on fixed interest rate	(2 840)	(2 590)	(2 424)	(1 576)	(6)	(5)	-	(9 441)
Bank - Deposits based on variable interest rate	(8 457)	-	-	-	-	-	-	(8 457)
Bank – Loans based on fixed interest rate	-	-	-	-	-	-	-	-
Bank - Loans based on variable interest rate	1 112 095	22 115	-	-	-	-	-	1 134 210
Bank – Inter-bank and negotiable deposits	-	-	-	-	-	-	-	-
Bank – FX swap	(114 993)	(84 910)	-	-	-	-	-	(199 903)
Bank – IRS/CIRS	(601 310)	(400 472)	-	-	-	-	-	(1 001 782)
Bank - Inter-bank and negotiable receivables	71 400	-	-	-	-	-	-	71 400
Bank – Periodic gap	455 895	(465 857)	(2 424)	(1 576)	(6)	(5)	-	(13 973)
Bank – Cumulative gap	455 895	(9 962)	(12 386)	(13 962)	(13 968)	(13 973)	(13 973)	-
Capital Group Entities – Periodic gap	1 281	(743)	(677)	(1 735)	(1 702)	(1 075)	1 101	(3 550)
Capital Group Entities – Cumulative gap	1 281	538	(139)	(1 874)	(3 576)	(4 651)	(3 550)	-
Total - Periodic gap	457 176	(466 600)	(3 101)	(3 311)	(1 708)	(1 080)	1 101	(17 523)
Total - Cumulative gap	457 176	(9 424)	(12 525)	(15 836)	(17 544)	(18 624)	(17 523)	-

The exposure of the Group to CHF interest rate risk consists mainly of the Bank's exposures. The CHF interest rate risk generated by the Group companies does not have a significant influence on the Group's interest rate risk and therefore does not affect its risk profile.

The Bank's interest rate risk exposure did not exceed approved limits. The Bank was mainly exposed to the PLN interest rate risk, which constituted ca. 96% of the Bank's Value at Risk (VaR).

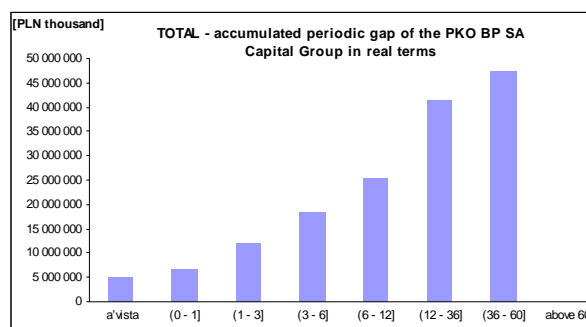
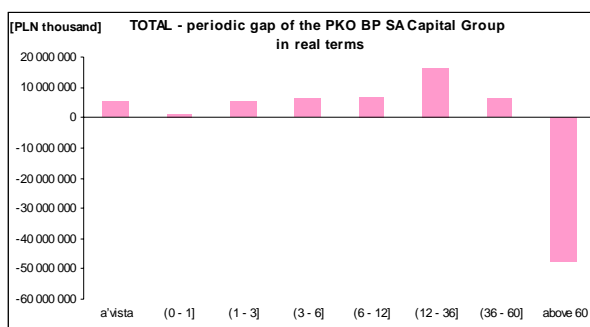
The interest rate risk in the Bank was on a low level. As at 31 of December 2004, the interest rate VaR for the holding period of 10 days amounted to PLN 18,375 thousand, which constituted ca. 0.34% of Bank's capital. The interest rate risk was generated mainly by the risk of assets and liabilities revaluation mismatch.

Effective interest rate

In 2004, the Bank did not apply the effective interest method to calculate the result on assets and liabilities.

Liquidity risk

Liquidity gap	a'vista	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years
Bank - Periodic gap	5 439 369	1 429 331	5 353 529	6 258 913	6 890 575	16 354 387	6 035 309	(47 761 413)
Bank - Cumulative periodic gap	5 439 369	6 868 700	12 222 229	18 481 142	25 371 717	41 726 104	47 761 413	-
Capital Group Entities – periodic gap	(243 108)	(44 664)	16 770	33 737	50 923	57 808	(32 321)	160 855
Capital Group Entities – cumulative periodic gap	(243 108)	(287 772)	(271 002)	(237 265)	(186 342)	(128 534)	(160 855)	-
TOTAL - Periodic gap	5 196 261	1 384 667	5 370 299	6 292 650	6 941 498	16 412 195	6 002 988	(47 600 558)
TOTAL – cumulative periodic gap	5 196 261	6 580 928	11 951 227	18 243 877	25 185 375	41 597 570	47 600 558	-



In all time horizons the cumulative⁴ liquidity gap of the PKO BP SA Group was positive. This indicates a surplus of assets receivable over liabilities payable.

⁴ Liquidity gap of PKO BP SA Group in real terms calculated as a sum of PKO BP SA liquidity gap in real terms and contractual liquidity gaps of other entities comprising PKO BP SA Group

Currency risk

	<i>Currency expressed in PLN – 31.12.2004</i>				
ASSETS, of which:	PLN	EUR	CHF	Other	Total
Cash and balances with the Central Bank	3 281 324	113 333	7 887	122 785	3 525 329
Loans and other amounts due from the financial sector	4 792 189	403 105	189 025	8 129 653	13 513 972
Loans to non-financial sector	27 780 029	2 694 604	3 107 601	1 247 803	34 830 037
Loans to public sector	7 584 307	23 237	136	6 178	7 613 858
Securities	23 103 299	355 671	407 768	407 768	23 866 738
Non-current assets	6 429 445	-	-	83 877	6 513 322
Other assets and derivatives	2 324 120	6 034	15	24 273	2 354 442
TOTAL GROSS ASSETS	75 294 713	3 595 984	3 712 432	9 614 569	92 217 698
DEPRECIATION/ IMPAIRMENT	(6 111 719)	(75 548)	(76 066)	-	(6 263 333)
TOTAL NET ASSETS	69 182 994	3 520 436	3 636 366	9 614 569	85 954 365
LIABILITIES, of which:					
Balances with the Central Bank	144	-	-	-	144
Amounts due to financial sector	517 882	199 375	32 237	378 536	1 128 030
Amounts due to non-financial sector	62 095 677	2 356 063	47 508	3 098 155	67 597 403
Amounts due to public sector	5 347 592	20 497	-	1 450	5 369 539
Liabilities arising from securities issued	21 076	-	-	-	21 076
Provisions	208 378	316	-	79	208 773
Other liabilities and derivatives and deferred tax liability	2 716 282	26 390	151	28 425	2 771 248
Equity	8 850 098	-	-	8 054	8 858 152
TOTAL LIABILITIES	79 757 129	2 602 641	79 896	3 514 699	85 954 365
GRANTED OFF-BALANCE SHEET LIABILITIES	13 303 167	353 019	439 224	1 807 479	15 902 889

Assets and liabilities of the Bank as at 30 June 2005, by maturities (unaudited)								
Balance sheet items	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	With no maturity stated	Impairment allowances	Total
Assets:								
Cash and balances with the Central Bank	4 727 818	-	-	-	-	-	-	4 727 818
Amounts due from banks	8 300 226	3 055 291	2 552 127	242 963	41 413	151 188	(1 965)	14 341 243
Financial assets held for trading	9 498	92 017	185 935	134 037	376	-	-	421 863
Other financial instruments at fair value through profit or loss	422 691	1 038 622	5 160 493	9 006 007	4 585 809	-	-	20 213 622
Amounts due from customers	8 678 370	1 680 609	6 331 753	14 340 859	14 040 516	-	(3 207 112)	41 864 995
Securities available for sale	57 985	173 293	98 086	688 710	201 781	417 916	(10 373)	1 627 398
Securities held to maturity	-	248 637	144 483	-	-	-	-	393 120
Other	777 623	-	30 351	-	-	4 886 748	(202 664)	5 492 058
Total assets:	22 974 211	6 288 469	14 503 228	24 412 576	18 869 895	5 455 852	(3 422 114)	89 082 117
Liabilities:								-
Amounts due to the Central Bank	945	-	-	-	-	-	-	945
Amounts due to banks	715 835	471 119	244 386	221 860	33 645	15 620	-	1 702 465
Amounts due to customers	41 580 416	12 404 107	18 836 123	1 486 407	93 935	-	-	74 400 988
Liabilities arising from debt securities issued	-	-	73 037	-	-	-	-	73 037
Other liabilities	2 967 144	-	-	135 283	-	1 705 045	-	4 807 472
Total liabilities:	45 264 340	12 875 226	19 153 546	1 843 550	127 580	1 720 665	-	80 984 907
Equity:	-	-	-	-	-	8 097 210	-	8 097 210
Total	45 264 340	12 875 226	19 153 546	1 843 550	127 580	9 817 875	-	89 082 117
Liquidity gap	(22 290 129)	(6 586 757)	(4 650 318)	22 569 026	18 742 315	(4 362 023)	(3 422 114)	-

Assets and liabilities of the Bank as at 31 December 2004, by maturities (unaudited)								
Balance sheet items	Up to 1 month	1 - 3 months	3 months - 1 year	1 -5 years	Over 5 years	With no maturity stated	Impairment allowances	Total
Assets:								
Cash and balances with the Central Bank	3 525 329	-	-	-	-	-	-	3 525 329
Amounts due from banks	6 647 040	3 640 456	2 790 794	512	-	155 262	(2 185)	13 231 879
Financial assets held for trading	259	84 517	93 592	181 460	4 675	5 014	-	369 517
Other financial instruments at fair value through profit or loss	-	-	-	-	-	-	-	-
Amounts due from customers	8 533 321	1 278 017	6 447 254	14 210 999	12 254 212	-	(2 686 540)	40 037 263
Securities available for sale	1 561 112	1 939 278	4 275 753	8 870 314	4 496 806	460 941	(38 387)	21 565 817
Securities held to maturity	-	124 080	1 768 937	-	-	-	-	1 893 017
Other	645 841	-	-	26 644	-	4 834 728	(175 670)	5 331 543
Total assets:	20 912 902	7 066 348	15 376 330	23 289 929	16 755 693	5 455 945	(2 902 782)	85 954 365
Liabilities :								-
Amounts due to the Central Bank	144	-	-	-	-	-	-	144
Amounts due to banks	512 604	21 111	281 486	170 406	5 920	7 191	-	998 718
Amounts due to customers	41 753 042	11 246 992	18 464 495	1 554 177	77 548	-	-	73 096 254
Liabilities arising from debt securities issued	-	-	21 076	-	-	-	-	21 076
Other liabilities	1 890 501	-	-	586 971	-	502 549	-	2 980 021
Total liabilities:	44 156 291	11 268 103	18 767 057	2 311 554	83 468	509 740	-	77 096 213
Equity :	-	-	-	-	-	8 858 152	-	8 858 152
Total:	44 156 291	11 268 103	18 767 057	2 311 554	83 468	9 367 892	-	85 954 365
Liquidity gap	(23 243 389)	(4 201 755)	(3 390 727)	20 978 375	16 672 225	(3 911 947)	(2 902 782)	-

Exposure to the credit and market risk

The table below presents the exposure of the Group to credit risk as well as individual types of market risk. The amounts have been calculated on the basis of Resolution No 5/2001 dated 12 December 2001 of the Commission for Banking Supervision taking into account changes introduced by Resolution No. 1/2003 dated 4 June 2003 of the Commission for Banking Supervision.

In the case of credit risk of balance sheet receivables, the risk weighted value is calculated as the product of the carrying amount and the risk weight appropriate to a given client and the type of collateral.

For derivatives, the risk weighted value of credit exposure is obtained by calculating the balance sheet equivalent of a derivative using the original exposure method (*metoda zaangazowania pierwotnego*) for transactions in the banking portfolio.

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

Capital requirements resulting from credit risk are calculated as the sum total of risk weighted assets and off-balance-sheet liabilities in the banking portfolio multiplied by 8%.

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

Credit and market risk as at 30 June 2005:

Balance sheet instruments		
Instrument type	Carrying amount unaudited	Risk weighted value unaudited
Cash	1 063 860	-
Receivables	56 206 238	30 370 900
Debt securities	20 732 594	110 064
Other securities, shares	588 991	404 952
Non-current assets	3 144 218	2 562 229
Other	5 856 124	4 255 827
Total banking portfolio	87 592 025	37 703 972
Debt securities	1 485 453	545 791
Reverse repo transactions	4 639	4 639
Total trading portfolio	1 490 092	550 430
Total balance sheet instruments	89 082 117	38 254 402

Off-balance-sheet instruments

Instrument type	Replacement cost unaudited	Credit equivalent unaudited	Risk weighted value unaudited
Derivatives			
<i>Interest rate instruments:</i>	<i>99 548 713</i>	<i>1 114 241</i>	<i>222 848</i>
FRA	45 942 461	90 324	18 065
IRS	53 606 252	1 023 917	204 783
<i>Foreign currency instruments:</i>	<i>11 996 753</i>	<i>500 856</i>	<i>101 017</i>
Currency forwards	90 631	2 980	1 101
Forwards – embedded derivatives	8 090	1 135	568
Swaps	6 868 629	171 329	34 266
CIRS	4 986 740	323 175	64 635
FX futures	37 114	2 092	418
Options (delta equivalent – purchase of options)	5 549	145	29
<i>Other instruments:</i>	<i>1 323 449</i>	<i>134 250</i>	<i>26 850</i>
SBB	1 323 449	134 250	26 850
Other	-	-	-
Total derivatives	112 868 915	1 749 347	350 715
of which: banking portfolio	28 294 180	739 536	148 248
trading portfolio	84 574 735	1 009 811	202 467

Other off-balance-sheet instruments – banking and trading portfolio			
Instrument type	Off-balance sheet value unaudited	Credit equivalent unaudited	Risk weighted value unaudited
Lines of credit	19 351 284	1 063 870	1 051 438
Guarantees issued	972 815	885 455	695 335
Letters of credit	93 595	46 739	46 739
Others	8 815 668	1 748 058	368 344
Total banking portfolio	29 233 362	3 744 122	2 161 856
Underwriting guarantees	700 376	518 510	482 137
Total trading portfolio	700 376	518 510	482 137

	Carrying amount and off-balance- sheet value unaudited	Risk weighted value unaudited	Capital requirement unaudited
Total banking portfolio (credit risk)	145 119 567	40 014 076	3 201 126

Capital requirements for trading portfolio		Unaudited
Market risk		69 109
of which:		
Currency risk		-
Commodity price risk		-
Securities price risk		547
Debt instruments specific risk		42 027
Interest rate general risk		26 535
Settlement risk – delivery and contractor		16 794
Underwriting risk		-
Other		-
Total capital requirement		3 270 235

Balance-sheet instruments		
Instrument type	Carrying amount	Risk weighted value
Cash	1 238 461	-
Receivables	53 269 142	29 229 639
Debt securities	22 654 992	21 021
Other securities, shares	551 541	373 903
Non-current assets	3 152 771	2 651 598
Other	3 549 245	2 020 060
Total banking portfolio	84 416 152	34 296 221
Debt securities	1 533 199	651 887
Reverse repo transactions	5 014	5 014
Total trading portfolio	1 538 213	656 901
Total balance sheet instruments	85 954 365	34 953 122

Off-balance-sheet instruments			
Instrument type	Replacement cost	Credit equivalent	Risk weighted value
Derivatives			
<i>Interest rate instruments:</i>	<i>68 605 182</i>	<i>464 006</i>	<i>92 802</i>
FRA	23 670 000	47 725	9 545
IRS	44 935 182	416 281	83 257
<i>Foreign currency instruments:</i>	<i>12 278 404</i>	<i>421 786</i>	<i>84 510</i>
Currency forwards	87 062	870	267
Forwards – embedded derivatives	10 029	201	100
Swaps	9 054 509	222 247	44 449
CIRS	3 120 350	198 118	39 624
FX futures	498	5	1
Options (delta equivalent – purchase of options)	5 956	345	69
<i>Other instruments:</i>	<i>1 291 222</i>	<i>129 122</i>	<i>25 824</i>
SBB	1 291 222	129 122	25 824
Other	-	-	-
Total derivatives	82 174 808	1 014 914	203 136
of which: banking portfolio	29 158 026	758 071	151 674
trading portfolio	53 016 782	256 843	51 462

Other off-balance-sheet instruments – banking and trading portfolio			
Instrument type	Off-balance sheet value	Credit equivalent	Risk weighted value
Lines of credit	16 496 728	1 166 465	802 593
Guarantees issued	214 330	156 358	155 606
Letters of credit	31 308	15 583	15 583
Other	3 602 239	714 341	164 626
Total banking portfolio	20 344 605	2 052 747	1 138 408
underwriting guarantees	275 147	142 017	115 391
Total trading portfolio	275 147	142 017	115 391

	Carrying amount and off-balance-sheet value	Risk weighted value	Capital requirement
Total banking portfolio (credit risk)	133 918 783	35 586 303	2 846 904

Capital requirements for trading portfolio (Market risk)	
Market risk	70 245
of which:	
Currency risk	3 294

Commodity price risk	-
Securities price risk	772
Debt instruments specific risk	50 506
Interest rate general risk	15 673
Settlement risk – delivery and contractor	4 489
Underwriting risk	1 913
Other	-
Total capital requirement	2 923 551

Credit and market risk were calculated according to the Resolution No. 5/2001 of the Commission for Banking Supervision dated 12 December 2001, with subsequent amendments.

4. Objectives and principles of operating risk management

The purpose of operating risk management is to optimise operating efficiency by reducing operating losses, costs streamlining and improving response time and adequacy.

As part of its operating risk management policy, the Bank uses the following instruments and solutions:

- rules and procedures of operating risk management, which cover a full scope of the activities of the Bank,
- defined competencies and staff hierarchy patterns in the area of operating risk management at various decision-taking levels,
- operating risk threats identification and assessment processes for all major areas of Bank's activities,
- an on-going monitoring of operating transactions in excess of specified threshold and keeping the Management Board informed,
- performing operating risk management at the level of system solutions and current risk management,
- delegating comprehensive operating risk management to special organizational Head Office units, which are responsible for defining detailed targets,
- delegating specific operating risk management tasks to the Bank's Credit and Operating Risk Department.

Discussions concerning operating risk management internal policies and regulations for Kredyt Bank (Ukraine) are currently underway, also with PKO BP S.A. The purpose and methods for operating risk management at Kredyt Bank (Ukraine) are compliant with those of the Bank. The organization of operating risk management function is tailored to the specific needs of that bank.

Currently, BFL is in the process of organization of an operating risk management system. The company created a separate organisational unit, the purpose of which is to coordinate the development of internal regulations regarding the functioning of individual entities and organisational units of the company.

5. Fair value of financial assets and liabilities

The table below presents the fair values of balance-sheet financial instruments, which have not been valued at fair value at the balance sheet date. The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Since the market value is difficult to determine for many financial instruments, the presented fair values have been estimated on the basis of various valuation methods, including estimation of the present value of future cash flows.

The market quotations applied for valuation of securities held to maturity do not include any potential adjustments resulting from a limited market liquidity or transaction costs.

For certain categories of financial assets valued at the amount due with impairment adjustments taken into account, it has been assumed that their fair value equals their carrying amount. This applies, in particular, to cash and cash equivalents, current receivables and customer liabilities, as well as other assets and liabilities. The majority of placements on inter-bank market are short-term placements. The share of fixed interest rate loans and credits and customer deposits in total loans and credits and deposits is immaterial. The majority of those loans and credits and deposits is of short-term character.

It has been assumed that the estimated fair value of regular, floating interest rate loans and receivables originated by the Bank equals their carrying amount. Fixed interest rate loans account for a relatively small share of all loans granted and do not affect the fair value of this group of assets.

As at 30 June 2005

ASSETS, of which:	Carrying amount unaudited	Fair value unaudited
Cash and balances with the Central Bank	4 727 818	4 727 818
Amounts due from banks	14 341 243	14 442 291
Financial assets held for trading	421 863	421 863
Derivative financial instruments	1 378 117	1 378 117
Other financial instruments at fair value through profit or loss	20 213 622	20 213 622
Amounts due from customers	41 864 995	41 864 995
Investment securities	2 020 518	2 020 501
Available for sale	1 627 398	1 627 398
Held to maturity	393 120	393 103
Investments in associate and joint-venture entities	166 749	166 749
LIABILITIES, of which:		
Amounts due to the Central Bank	945	945
Amounts due to other banks	1 702 465	1 702 562
Derivative financial instruments	1 483 150	1 483 150
Amounts due to customers	74 400 988	74 400 980
Liabilities arising from debt securities issued	73 037	73 037

As at 31 December 2004

ASSETS, of which:	Carrying amount	Fair value
Cash and balances with the Central Bank	3 525 329	3 525 329
Amounts due from banks	13 231 879	13 342 657
Financial assets held for trading	369 517	369 517
Derivative financial instruments	1 362 379	1 362 379
Amounts due from customers	40 037 263	40 037 263
Investment securities	23 458 834	23 449 579
Available for sale	21 565 817	21 565 817
Held to maturity	1 893 017	1 883 762
Investments in associate and joint venture entities	156 815	156 815
LIABILITIES, of which:		
Amounts due to the Central Bank	144	144
Amounts due to other banks	998 718	999 141
Derivative financial instruments	793 739	793 739
Amounts due to customers	73 096 254	73 093 441
Liabilities arising from debt securities issued	21 076	21 076

6. Custodial activities

The Bank is a direct participant of the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych). As at 30 June 2005, the Bank kept 4,162 securities accounts. The Bank also services customer investments accounts on foreign markets using depositary services of the State Street Bank GmbH.

Apart from operating activities, the Bank actively participates in the work of Council of Depository Banks (*Rada Banków Depozytariuszy*) operating as part of the Polish Banks Association (*Związek Banków Polskich*), which guarantees its participation in creation of market standards and influence on the general trends of custodial services development.

7. Segment reporting

The primary segmentation key is based on business type (business segments) and the secondary - on geographical area (geographical segments).

The Group usually settles inter-segment transactions, as if they were concluded between unrelated parties using internal settlement rates.

Business segments

Segmentation by business is as follows:

- Corporate Segment includes transactions of the holding company with large corporate clients (in 2004 it included as well small and medium sized enterprises).
- Retail Segment includes transactions of the holding company with private individuals and starting 2005 also small and medium enterprises.
- Treasury Segment includes inter-bank transactions, transactions made using derivative instruments and debt securities.
- Investments Segment includes brokerage and investing activities of the holding company.
- Housing Segment includes transactions of the holding company connected with granting housing loans and accepting housing deposits.

The Bank has not created other segments as a result of not having reached the thresholds set forth in IAS 14, which areas follows:

- segment revenue from sales to external customers and from transactions with other segments account for 10% or more of the total external and internal revenue of all segments, or
- segment result, whether profit or loss, accounts for 10% or more of the aggregated result of all segments in

profit or loss, whichever greater in absolute value, or

- segment assets account for 10% or more of total assets of all segments

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

The assets and liabilities of a given segment represent operating assets and liabilities used by that segment in its operating activities.

The financial data for the period of 6 months ended 30 June 2004 are not fully comparable due to the use by the Group of following exemptions allowed under IFRS 1, related mainly to the use of effective interest rate and calculation of impairment write-downs.

The tables below present segment revenue and segment profit for the 6 month periods ended 30 June 2005 and 30 June 2004, as well as selected segment assets and segment liabilities as at 30 June 2005 and 31 December 2004.

	Continued activities					
6 month period ended 30 June 2005 unaudited	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Housing Segment	All activities
Revenue						
External customer -related revenues	597 111	1 483 601	1 170 484	89 753	666 130	4 007 079
Inter-segment sales	-	25 040	-	66	-	25 106
Total segment revenue	597 111	1 508 641	1 170 484	89 819	666 130	4 032 185
Result						
Segment result	97 877	343 985	220 846	29 327	31 649	723 684
Unallocated result together with the result of unseparated segments.	-	-	-	-	-	147 943
Difference between Fx Swa and CIRS results (swap points) reported in B/S and management accounts	-	-	-	-	-	222 071
Result from the continued activities before taxation	-	-	-	-	-	1 093 698
Share in the results of associates	-	-	-	-	-	10 424
Result before taxation and minority interest	-	-	-	-	-	1 104 122
Income tax (tax expense)	-	-	-	-	-	(219 818)
Profit/ (loss) of minority shareholders	-	-	-	-	-	3 052
Net profit for the year	-	-	-	-	-	887 356
Assets and equity and liabilities as at 30 June 2005						
Segment assets	13 091 483	11 939 487	34 881 172	1 433 041	17 580 799	78 925 982
Investments in associates and jointly controlled entities	-	-	-	166 749	-	166 749
Unallocated assets	-	-	-	-	-	9 989 386
Total assets	-	-	-	-	-	89 082 117
Segment liabilities and equity	7 625 872	58 626 263	1 630 734	233 625	7 927 089	76 043 583
Unallocated liabilities and equity	-	-	-	-	-	13 038 534
Total liabilities and equity	-	-	-	-	-	89 082 117

Other segment information						
Impairment allowances*	8 480	(68 342)	-	-	(6 291)	(66 153)
Capex expenditure on tangible and intangible fixed assets	-	-	-	-	-	214 683
Depreciation of tangible and amortisation of intangible fixed assets	-	-	-	-	-	220 368
Other non-cash expenditure	-	-	-	-	-	-

* item does not include impairment allowances of unseparated segments

Due to the fact that it is not possible to restate data for the first half of 2004 in order to compare it with data for the corresponding period of 2005 (division into Corporate and Retail Segments), the following tables present amounts relating to the first half of 2005, which are comparable with those regarding the first half of 2004.

	Continued activities					
6 month period ended 30 June 2005 unaudited	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Housing Segment	All activities
Revenue						
External customer -related revenues	822 122	1 258 590	1 170 484	89 753	666 130	4 007 079
Inter-segment sales	-	25 040	-	66	-	25 106
Total segment revenue	822 122	1 283 630	1 170 484	89 819	666 130	4 032 185
Result						
Segment result	(45 788)	487 650	220 846	29 327	31 649	723 684
Unallocated result together with the result of unseparated segments	-	-	-	-	-	147 943
Difference between Fx Swap and CIRS results (swap points) reported in B/S and management accounts	-	-	-	-	-	222 071
Result from the continued activities before taxation	-	-	-	-	-	1 093 698
Share in the results of associates	-	-	-	-	-	10 424
Result before taxation and minority interest	-	-	-	-	-	1 104 122
Income tax (tax expense)	-	-	-	-	-	(219 818)
Profit/ (loss) of minority shareholders	-	-	-	-	-	3 052
Net profit for the year	-	-	-	-	-	887 356
Assets and equity and liabilities as at 30 June 2005						
Segment assets	15 761 213	9 269 757	34 881 172	1 433 041	17 580 799	78 925 982
Investments in associates and jointly controlled entities	-	-	-	166 749	-	166 749
Unallocated assets	-	-	-	-	-	9 989 386
Total assets	-	-	-	-	-	89 082 117
Segment liabilities and equity	11 369 772	54 882 363	1 630 734	233 625	7 927 089	76 043 583
Unallocated liabilities and equity	-	-	-	-	-	13 038 534
Total liabilities and equity	-	-	-	-	-	89 082 117

Other segment information						
Impairment allowances*	(6 673)	(53 189)	-	-	(6 291)	(66 153)
Capital expenditure on tangible and intangible fixed assets	-	-	-	-	-	214 683
Depreciation of tangible and amortisation of intangible fixed assets	-	-	-	-	-	220 368
Other non-cash expenditure	-	-	-	-	-	-

* item does not include impairment allowances of unseparated segments

	Continued activities					
6 month period ended 30 June 2004 unaudited	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Housing Segment	All activities
Revenue						
External customer - related revenues	867 133	1 212 006	1 208 144	87 797	681 931	4 057 011
Inter-segment sales	-	76	-	-	-	76
Total segment revenue	867 133	1 212 082	1 208 144	87 797	681 931	4 057 087
Result						
Segment result	95 572	312 744	212 707	36 452	183 635	841 110
Unallocated result together with the result of unseparated segments.	-	-	-	-	-	120 320
Difference between Fx Swap and CIRS results (swap points) reported in B/S and management accounts	-	-	-	-	-	108 965
Result from the continued activities before taxation	-	-	-	-	-	1 070 395
Share in the results of associates	-	-	-	-	-	5 290
Result before taxation and minority interest	-	-	-	-	-	1 075 685
Income tax (tax expense)	-	-	-	-	-	(218 891)
Profit/ (loss) of minority shareholders	-	-	-	-	-	(548)
Net profit for the year	-	-	-	-	-	856 246

	Continued activities					
	Corporate Segment	Retail Segment	Treasury Segment	Investment Segment	Housing Segment	All activities
Assets and equity and liabilities as at 31 December 2004						
Segment assets	13 775 395	8 605 283	35 893 554	1 385 508	16 127 584	75 787 324
Investments in associates and jointly controlled entities	-	-	-	156 815	-	156 815
Unallocated assets	-	-	-	-	-	10 010 226
Total assets	-	-	-	-	-	85 954 365
Segment liabilities and equity	12 179 440	54 175 322	1 092 291	269 569	7 639 057	75 355 679
Unallocated liabilities and equity	-	-	-	-	-	10 598 686
Total liabilities and equity	-	-	-	-	-	85 954 365
Other segment information	-	-	-	-	-	-
Impairment losses*	(119 198)	34 867	7 450	42 107	(6 491)	(41 265)
Capital expenditure on tangible and intangible fixed assets	-	-	-	-	-	534 797
Depreciation of tangible and amortisation of intangible fixed assets	-	-	-	-	-	259 282
Other non-cash expenditure	-	-	-	-	-	-

* item does not include impairment allowances of unseparated segments

Segmentation by geographical region

Taking into account the fact that the Group's activity is conducted also outside Poland, segmentation by geographical region is a secondary reporting format.

The operating activities of the PKO BP S.A. Capital Group, which cover all business segments, are concentrated on the activities in Poland through Bank PKO BP S.A. and subordinated entities.

Except for Poland, the Group carries out its activities in Ukraine – through Kredyt Bank Ukraina S.A.

The scope of activities of the Group outside Poland is smaller compared to the result of the whole Group.

The tables below present data on revenues, expenditures and certain types of assets of individual geographical segments for the 6 month periods ended 30 June 2005, 30 June 2004 and 31 December 2004.

6 month period ended 30 June 2005	Poland	Ukraine*	Total
Unaudited	unaudited	unaudited	unaudited
Revenues			
Total segment revenues	4 032 185	92 235	4 124 420
Other segment information			
Segment assets	87 885 067	1 030 301	88 915 368
Unallocated assets	-	-	-
Investments in associates	166 749	-	166 749
Total assets	88 051 816	1 030 301	89 082 117
Capital expenditure on tangible and intangible fixed assets	205 087	9 596	214 683

6 month period ended 30 June 2004 Unaudited	Poland unaudited	Ukraine** unaudited	Total unaudited
Revenues			
Total segment revenues	4 057 087	-	4 057 087
As at 31 December 2004			
Other segment information			
Segment assets	85 149 499	648 051	85 797 550
Unallocated assets	-	-	-
Investments in associates	156 815	-	156 815
Total assets	85 306 314	648 051	85 954 365
Capital expenditure on tangible and intangible fixed assets	525 321	9 476	534 797

* in the business segment information, Kredyt Bank Ukraina S.A. is presented under unseparated segments due to not reaching any of the thresholds set forth in IAS 14.

** as at 30 June 2004, the holding company did not have any investments in Kredyt Bank Ukraina S.A.

8. Interest income and expenses

Interest income

	01.01 – 30.06.2005 unaudited	01.01 – 30.06.2004 unaudited
Income from credits and loans granted to customers	1 805 334	1 415 040
Income from placements with other banks	280 706	182 935
Income from investment securities	98 336	907 927
Income from other placements on the monetary market	-	-
Other	703 577	46 537
Income from securities at fair value through profit or loss	627 350	-
From trading securities	9 633	16 364
Other	66 594	30 173
Total	2 887 953	2 552 439

Interest expenses

	01.01 – 30.06.2005 unaudited	01.01 – 30.06.2004 unaudited
Relating to amounts due to customers	(1 035 874)	(708 406)
Relating to placements with other banks	(36 360)	(22 921)
Relating to other placements on the monetary market	-	-
Relating to own issue of debt securities	-	-
Other*	(47 841)	(71 725)
Total	(1 120 075)	(803 052)

* For comparability purposes, included in the 2004 first half year results are the costs of settled premium on debt securities. For details of the above re-classification see Note 53 – Reconciliation of the PAS and IFRS Income statement for the 6-month period ended 30 June 2004.

Included in interest income for the 6-month period ended 30 June 2005 is income of PLN 51,891 thousand from financial assets, for which an impairment loss was recognised. According to the provisions of IFRS 1, interest income for the 6-month period ended 30 June 2004 was not restated for the purpose of compliance with IAS 39.

In the 6-month period ended 30 June 2005, the total amount of interest income, measured using the effective interest rate method, from financial assets not valued at fair value through profit or loss, amounted to PLN 138,037 thousand. At the same time, interest expense, calculated using the effective interest rate method, relating to financial liabilities which are not valued at fair value through profit or loss, amounted to PLN 5,467 thousand.

9. Fees and commission income and expense**Fees and commission income**

	01.01 – 30.06.2005 unaudited	01.01 – 30.06.2004 unaudited
From accounts' servicing	277 153	294 269
From payments cards	153 537	126 432
From credits and loans granted	43 892	177 341
From operations with securities	15 398	10 842
From guarantees, letters of credits and similar operations	14 729	11 360
From acquisition services	-	-
Other	244 503	214 359
From cash transactions	114 385	121 101
Other*	130 118	93 258
Total	749 212	834 603

* Included in "Other" item are, among others, income from bills of exchange servicing, sale of duty stamps and from services provided to PPUP "Poczta Polska".

A significant decrease in fees and commission income from loans and credits granted results from recognition of the above income in fees and commission income valued at amortized costs calculated using the effective interest rate.

Fees and commission expense

	01.01 – 30.06.2005 unaudited	01.01 – 30.06.2004 unaudited
Relating to acquisition services	(54 815)	(48 181)
Relating to payment cards	(46 630)	(44 633)
Due to operations with securities	-	-
Other, of which:	(46 921)	(25 947)
commissions paid to intermediaries	(6 215)	(1 354)
commissions for services of other banks	(4 411)	(3 850)
commissions paid to PPUP	(3 937)	(4 703)
relating to settlement services	(1 417)	-
other*	(30 941)	(16 040)
Total	(148 366)	(118 761)

*Included in „Other” item are, among others, re-invoiced costs incurred by CBE.

10. Dividend income

	01.01 – 30.06.2005 unaudited	01.01 – 30.06.2004 unaudited
Dividend income from the issuers:		
Securities classified as available for sale	1 561	-
Securities classified as held for trading	9	3
Securities at fair value through profit or loss	-	-
Total	1 570	3

11. Result from financial instruments re-measured to fair value**Result from financial assets and liabilities held for trading**

	01.01 – 30.06.2005 unaudited	01.01 – 30.06.2004 unaudited
Debt securities	362 457	6 486
Derivative instruments	(211 363)	93 109
Equity instruments	(612)	(9)
Loans and receivables	-	-
Other	(10 835)	9 046
Total	139 647	108 632

Result from financial assets and liabilities at fair value through profit or loss in the 6-month periods ended 30 June 2005 and 30 June 2004:

1.01.-30.06.2005	Profits unaudited	Losses unaudited	Net result unaudited
Financial assets at fair value through profit or loss	3 617 332	(3 477 685)	139 647
Financial liabilities at fair value through profit or loss	-	-	-
Total	3 617 332	(3 477 685)	139 647

1.01.-30.06.2004	Profits unaudited	Losses unaudited	Net result unaudited
Financial assets at fair value through profit or loss	913 889	(805 257)	108 632
Financial liabilities at fair value through profit or loss	-	-	-
Total	913 889	(805 257)	108 632

Total change in the fair value of financial instruments at fair value through profit or loss determined using valuation models (where no quotations on an active market are available) in the 6-month period ended 30 June 2005 was PLN 139,647 thousand (in the 6-month period ended 30 June 2004 - PLN 108,632 thousand).

Changes in fair value in hedge accounting

The PKO BP S.A. Group did not apply hedge accounting in the 6-month periods ended 30 June 2005 and 30 June 2004.

12. Result from investment securities / Result on financial assets and liabilities other than classified as at fair value through profit or loss**Realised result from financial assets and liabilities other than classified as at fair value through profit or loss**

	01.01 – 30.06.2005 unaudited	01.01 – 30.06.2004 unaudited
Realised profits		
Financial assets available for sale	53 217	18 908
Loans and receivables (together with finance lease receivables)	-	-
Investments held to maturity	-	-
Financial liabilities (except for held for trading)	-	-
Other	-	-
Total	53 217	18 908

	01.01 – 30.06.2005 unaudited	01.01 – 30.06.2004 unaudited
Realised losses		
Financial assets available for sale	-	(24 793)
Loans and receivables (together with finance lease receivables)	-	-
Investments held to maturity	-	-
Financial liabilities (except for held for trading)	-	-
Other	-	-
Total	-	(24 793)

Profits from financial assets available for sale in the 6-month period ended 30 June 2005 taken directly to equity amounted to PLN 164,877 thousand (in the 6-month period ended 30 June 2004 - PLN 2,794 thousand respectively).

Profits from financial assets for the 6-month period ended 30 June 2005 taken from equity to profit and loss amounted to PLN 30,479 thousand (in the 6-month period ended 30 June 2004 - PLN 8,263 thousand).

13. Foreign exchange result

	01.01 – 30.06.2005 unaudited	01.01 – 30.06.2004 unaudited
Foreign exchange differences resulting from financial instruments at fair value through profit or loss	120 219	295 362
Other foreign exchange differences	211 620	(120 763)
Total	331 839	174 599

14. Other operating income and expenses

	01.01 – 30.06.2005 unaudited	01.01 – 30.06.2004 unaudited
Other operating income		
Net sales of finished goods, goods for resale and raw materials	211 074	122 370
From asset management on behalf of third parties	38 565	42 426
Auxiliary revenues	13 609	15 636
Sale and liquidation of fixed assets and intangible assets	4 238	1 705
Lease instalments	3 973	4 377
Received compensations, penalties and fines	3 932	3 516
Recovery of overdue, written-off and unrecoverable receivables	2 394	2 143
Investment property	-	-
Rental revenues	-	-
Other, of which:	24 388	37 374
revenues from reversal of write-downs against other receivables	-	-
returns of debt collector advances	1 732	2 538
result on the sale of collector coins	1 005	1 088
reversed provisions for future liabilities to employees	-	2 179
Other*	21 651	31 569
Total	302 173	229 547

* Included in "Other" item are revenues from court fees returned, liquidated accounts etc.

	01.01 – 30.06.2005 unaudited	01.01 – 30.06.2004 unaudited
Other operating expense		
Cost of finished goods, goods for resale and raw materials sold	(5 415)	(5 582)
Costs of asset management on behalf of third parties	(3 886)	(2 898)
Cost of sale or liquidation of fixed assets, intangible assets and assets earmarked for disposal	(3 610)	(4 333)
Donations	(3 044)	(3 145)
Leases	(2 203)	-
Compensation, penalties and fines paid	(1 318)	(390)
Impairment of overdue, written-off and unrecoverable receivables	(141)	(1 185)
Investment property	-	-
Other, of which:	(47 014)	(24 284)
Impairment write-downs against other receivables	(7 410)	(1 020)
paid debt collector advances	(1 682)	(2 643)
maintenance of property and intangible fixed assets	(817)	(677)
result on the sale of collector coins	(16)	(93)
costs due to unexplained cash shortages and damages	(9)	(44)
Other	(37 080)	(19 807)
Total	(66 631)	(41 817)

Other operating expenses include, among others, expenses from credit underpayments and credit agreements not settled, liquidation of current accounts, court charges and fees.

15. Overheads

	01.01 – 30.06.2005 unaudited	01.01 – 30.06.2004 unaudited
Employee benefits	(987 673)	(954 406)
Non-personnel costs	(702 162)	(601 191)
Depreciation and amortisation	(220 368)	(259 282)
Taxes and charges	(35 056)	(28 750)
Contribution and payment to Bank Guarantee Fund	(4 011)	(5 885)
Restructuring costs	-	-
Total	(1 949 270)	(1 849 514)

Remuneration / Employee benefits

	01.01 – 30.06.2005 unaudited	01.01 – 30.06.2004 unaudited
Salaries and wages	(813 800)	(789 249)
Insurance and other employee benefits	(173 873)	(165 157)
Costs of pension funds, of which:	-	-
defined contribution plans	-	-
defined benefit plans	-	-
Costs of share-based payments	-	-
Costs of other retirement benefits	-	-
Total	(987 673)	(954 406)

16. Result on impairment allowances

6-month period ended 30 June 2005 unaudited	Impairment allowances at the beginning of the period	Increases			Decreases				Impairment allowances at the end of the period	Net impact of created impairment allowances in the profit and loss account
		Impairment allowances made during the period	Foreign exchange differences	Other	Decrease in impairment allowances due to de-recognition of assets	Reversal of the impairment allowances in the period	Foreign exchange differences	Other		
Impairment of the financial assets not at fair value through profit or loss	3 204 856	416 144	8 434	1 839	51 662	330 878	520	28 763	3 219 450	(85 266)
Financial instruments valued at cost (unquoted equity instruments and underlying derivative instruments)	27 167	-	5	-	-	-	-	27 136*	36	-
Financial assets available for sale valued at fair value through equity	10 601	-	45	619	-	732	-	196	10 337	732
Loans and credits to customers and receivables from banks valued at amortised cost	3 123 776	408 339	8 384	1 220	51 662	325 107	520	1 431	3 162 999	(83 232)
Finance lease receivables	43 312	7 805	-	-	-	5 039	-	-	46 078	(2 766)

*de-recognition of valuation of shares not admitted to public trading due to their transfer from "Minority shares", in accordance with the interpretation of the General Inspector of Banking Supervision .

Result on impairment write-downs – cont.

Investments held to maturity valued at amortised cost	-	-	-	-	-	-	-	-	-	-
Impairment write-downs:	-	-	-	-	-	-	-	-	-	-
Tangible fixed assets	-	-	-	-	-	-	-	-	-	-
Investments property	-	-	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-	-	-
Goodwill										
Other intangible assets	-	-	-	-	-	-	-	-	-	-
Impairment of the investments in associates and jointly controlled entities valued using the equity method	63 400	5 286	-	-	-	9 170	-	3 500	56 016	3 884
Other**	153 863	42 373	1 937	10 320	438	36 184	58	44	171 769	(6 189)
Total	3 422 119	463 803	10 371	12 159	52 100	376 232	578	32 307	3 447 235	(87 571)

** Included in “Other” item are impairment allowances against other assets and off-balance sheet liabilities.

Created and released impairment allowances result from Group’s normal course of business.

Impairment allowances against loans and credits, and receivables valued at amortised cost, as well as reversal of such write-downs are included in the income statement item “Result on impairment allowances against loans and credits”.

The value of impairment allowances for the period from 1 January 2004 to 30 June 2004 showed in the income statement under “Result on impairment write-downs was (PLN 10 399 thousand). Of this amount, the main item were write-downs against loans and credits. Given the fact that the Group took advantage of exemption (as set forth in IFRS 1) from the requirement to restate comparative data for the purpose of compliance with IAS 39, no data has been presented for the period from 1 January 2004 to 30 June 2004.

17. Discontinued operations

In the first half of 2005, the PKO BP SA Capital Group had no material income no cost from discontinued operations.

In the 1st quarter of 2005, a transfer of business activities from Dom Maklerski BROKER S.A. to Bankowy Dom Maklerski PKO BP SA. took place in accordance with the PKO BP SA strategy.

On 15 February 2005, the Securities Exchange Commission (KPWiG) decided, upon company's request, to cancel licence of Dom Maklerski BROKER for conducting brokerage activities.

In the 2nd quarter of 2005, after the change of its core activities the Company commenced operating in the area of venture capital. The company conducted the preliminary work for the realisation of its first projects and initial acquisition work on the market. The present name of the Company is "Bankowe Towarzystwo Kapitałowe S.A.".

18. Share in profits/ (losses) of subordinated entities

Entity name	01.01 – 30.06.2005 unaudited	01.01 – 30.06.2004 unaudited
Jointly controlled entities		
Centrum Obsługi Biznesu Sp. z o.o.	(25)	-
PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.	5 413	7 328
Wawel Hotel Development Sp. z o.o.	(263)	(960)
Associated entities		
Bank Pocztowy S.A.	5 286	-
Kolej Gondolowa Jaworzyna Krynicka S.A.	-	-
Ekogips S.A. (in bankruptcy)	-	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	8	(30)
Hotel Jan III Sobieski Sp. z o.o.	-	-
Wrocławskie Zintegrowane Centrum Logistyczne Sp. z o.o.	-	120
Agencja Inwestycyjna „CORP” S.A.	5	32
PKO Towarzystwo Finansowe Sp. z o.o.	-	(1 200)
Total	10 424	5 290

Additional information regarding on jointly controlled entities and associates is presented in Note 1, General Information.

19. Corporate income tax

	01.01 – 30.06.2005 unaudited	01.01 – 30.06.2004 unaudited
Consolidated income statement		
<u>Corporate income tax for the period</u>	589 798	199 760
Tax expense	589 798	199 760
<u>Deferred tax</u>	(369 980)	19 131
Relating to timing differences arisen and reversed	(369 980)	19 131
Tax expense disclosed in the consolidated income statement	219 818	218 891
Deferred tax charged to revaluation reserve		
Relating to timing differences arisen and reversed	(5 760)	(15 706)
Tax expense disclosed in the consolidated equity	(5 760)	(15 706)
Total	214 058	203 185

	01.01 – 30.06.2005 unaudited	01.01 – 30.06.2004 unaudited
Gross profit before taxation from continued activities	1 104 122	1 075 685
Loss before taxation from discontinued operations	-	-
Gross profit before taxation	1 104 122	1 075 685
Corporate income tax calculated using the enacted tax rate 19% (2004: 19%)	587 091	199 760
Effect of other tax rates, i.e. in Ukraine (25%)	2 707	-
Permanent differences between accounting gross profit and taxable profit, of which:	34 759	(351 704)
Other non-tax-deductible expenses	31 105	54 805
Reversed provisions and revaluation not constituting taxable revenue	16 109	(346 321)
Settlement of capitalised interest	(4 134)	(13 634)
Other non-taxable revenue	(7 209)	(24 486)
Dividend income	(14 273)	(18 840)
Other	13 161	(3 228)
Temporary differences between gross financial result and taxable income, of which:	1 983 120	333 910
Interest income and unrealised income from operations on securities	560 660	44 634
Cost of accrued income and unrealised cost of operations on securities	331 404	192 661
Creation of provisions and impairment losses not constituting tax deductible cost	84 879	253 987
Unrealised cost from derivative instruments	3 213 565	602 782
Income due, including from advance commissions taken to revenues for the period, to which they relate	180 554	12 876
Unrealised revenue from derivative instruments	(2 389 858)	(810 094)
Other	1 916	37 064
Other differences between gross financial result and taxable income, including donations	(1 708)	(6 959)
Effective tax rate	19,91%	20,35%
Corporate income tax in the consolidated income statement	219 818	218 891
Tax charge attributable to discontinued operations	-	-
Total	219 818	218 891

Deferred tax asset/liability

	Consolidated balance sheet				Consolidated income statement	
	30.06.2005 unaudited	31.12.2004	B/S adjustments	01.01.2005	01.01 – 30.06.2005 unaudited	01.01 – 30.06.2004 unaudited
<u>Deferred tax liability</u>						
Interest accrued on receivables (loans)	78 354	78 652	-	78 652	(298)	4 753
Interest on securities	45 237	83 381	-	83 381	(38 144)	(26 912)
Settlement of discount from securities (less premium)	48 038	71 237	-	71 237	(23 199)	181
Capitalised interest from restructuring bonds	-	112 769	-	112 769	(112 769)	(13 147)
Interest on operations with the state budget	4 728	7 405	-	7 405	(2 677)	5 393
Capitalised interest on regular housing loans	323 280	331 044	-	331 044	(7 764)	(2 447)
Valuation of derivatives	-	71 676	-	71 676	(71 676)	49 179
Valuation of embedded derivatives	245	301	-	301	(56)	(41)
Other increases	58 775	58 775	-	58 775	-	(1 817)
Valuation of securities, of which:	77 060	37 567	20 749	58 316	-	-
- taken to profit/ (loss)	40 511	(21 570)	20 063	(1 507)	42 018	(3 929)
- taken to equity	36 549	59 137	686	59 823	-	-
Total other taxable temporary differences recognized by the Group companies	1 222	3 407	-	3 407	(2 185)	-
Gross deferred tax liability	636 939	856 214	20 749	876 963	(216 750)	11 213
Net deferred tax liability	134 085	586 761	(79 206)	507 555	-	-
<u>Deferred tax asset</u>						
Interest accrued on liabilities	185 409	152 281	-	152 281	33 128	21 952
Provision for future liabilities to employees	25 597	13 747	-	13 747	11 850	8 770
Provision for jubilee bonuses and retirement benefits	34 981	34 981	-	34 981	-	3 230
Cost of accruals	55 785	56 167	-	56 167	(382)	(30 192)
Interest on operations with the state budget	-	-	-	-	-	(3 050)
Valuation of derivatives	85 693	-	-	-	85 693	-
Valuation of embedded derivatives	-	-	-	-	-	-
Other	1 695	-	-	-	1 695	(1 819)
ESP valuation adjustment	100 828	-	79 506	79 506	21 322	-
Valuation of securities, of which:	12 866	12 277	20 449	32 726	-	-
- taken to income statements	7 715	9 720	456	10 176	(2 461)	(5 032)
- taken to equity	5 151	2 557	19 993	22 550	-	-
Total other deductible temporary differences recognized by the Group companies	30 351	26 644	(130)	26 514	-	-
- taken to income statement	30 495	26 672	(130)	26 542	3 953	(1 777)
- KBU foreign exchange differences	-	-	-	-	(1 568)*	-
- taken to equity	(144)	(28)	-	(28)	-	-
Gross deferred tax asset	533 205	296 097	99 825	395 922	153 230	(7 918)
Net deferred tax asset	30 351	26 644	(130)	26 514	-	-

Total deferred tax						
(consolidated deferred tax liability – consolidated deferred tax asset)	103 734	560 117	(79 077)	481 041	-	-
Total deferred tax in the income statement	72 192	503 509	(59 770)	443 740	(369 980)	19 131

* The amount of PLN 1 568 thousand relating to deferred tax taken to income statement is the result of the application of various exchange rates to translation of balance sheet and income statement result of a subsidiary included in the consolidated financial statement.

As at 30 June 2005, the unsettled tax loss of Group companies amounted to PLN 155,448 thousand. This loss may be utilised up to 2008.

20. Earning per share

Basic earnings per share

Basic earnings per share is calculated on the basis of profit or loss attributable to ordinary shareholders of the Bank by dividing their respective profits or losses by the weighted average number of ordinary shares listed during a given period.

Earning per share

	01.01 – 30.06.2005 unaudited	01.01 – 30.06.2004 unaudited
Net profit attributable to ordinary shareholders (in PLN thousands.)	887 356	856 246
Weighted average number of ordinary shares in the period (in thousands.)	1 000 000	1 000 000
Earning per share (in PLN per share)	0,89	0,86

Earning per share from discontinued operations

In the 6-month periods ended 30 June 2005 and 30 June 2004, no material income from or cost of discontinued operations occurred in the Capital Group.

Diluted earnings per share

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

There are no diluting instruments in the Capital Group.

Diluted earning per share from discontinued operations

As stated above, in the 6-month periods ended 30 June 2005 and 30 June 2004, no material income from or material cost of discontinued operations occurred in the Capital Group.

21. Dividends paid and proposed

As of 1 January 2005, subject to appropriation is the net profit of PKO BP S.A. showed in the standalone financial statement in accordance with International Accounting Standards.

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

According to the Resolution No. 8/2005 of the Ordinary Annual General S Meeting of PKO BP SA dated 19 May 2005, the dividend for 2004 was set at the total level of PLN 1,000,000 thousand i.e. PLN 1 gross per share. The list of the shareholders entitled to receive dividend was determined as of 19 August 2005 and the payment took place on 1 September 2005.

As at 30 June 2005, the share capital of PKO BP SA amounted to PLN 1,000,000 thousand and was divided into 1,000,000 thousand shares with a nominal value PLN 1 each (as at 31 December 2004: PLN 1,000,000 thousand).

22. Cash and amounts due from Central Bank

	30.06.2005 unaudited	31.12.2004 unaudited
Current account with the Central Bank	3 714 154	2 285 043
Cash	1 008 772	1 238 461
Other funds	4 892	1 825
Total	4 727 818	3 525 329

In the course of the day the Bank may use funds of the obligatory reserve account for ongoing payments, in accordance with an instruction submitted to the National Bank of Poland. It must, however, ensure that the average monthly balance on this account complies with the requirements described in the obligatory reserve declaration.

Funds on the obligatory reserve account bear interest of 0.9 of the rediscounting rate for bills of exchange; as of 30 June 2004 this interest rate is 4.95%

As at 30 June 2005 and 31 December 2004 there were no restrictions as regards use of these funds.

23. Amounts due from banks

	30.06.2005 unaudited	31.12.2004
Current accounts	157 967	85 482
Placements with other banks	14 008 014	12 961 627
Loans and credits granted	26 039	31 672
Cash in transit	47 557	32 396
Other placements on the monetary market	103 631	122 866
Other receivables	-	21
Total	14 343 208	13 234 064
Receivables impairment write-down	(1 965)	(2 185)
Net Total	14 341 243	13 231 879

The value of placements with other banks with a floating interest amounted to PLN 130,360 thousand (as at 31 December 2004; PLN 59,808 thousand), while of those with fixed interest rate – PLN 13,900,307 thousand (as at 31 December 2004: PLN 12,917,797 thousand). The majority of those placements were short-term placements.

Amount due from banks, by maturities**According to remaining residual maturities as of the balance sheet date**

	30.06.2005 unaudited	31.12.2004
Current accounts	157 967	85 482
Term deposits with a maturity period:	14 034 053	12 993 320
up to 1 month	8 142 259	6 561 558
from 1 to 3 months	3 055 291	3 640 456
from 3 months to 1 year	2 552 127	2 790 794
from 1 year to 5 years	242 963	512
above 5 years	41 413	-
Cash in transit	47 557	32 396
Other monetary market placements	103 631	122 866
Total	14 343 208	13 234 064
Receivables impairment write-down	(1 965)	(2 185)
Net total	14 341 243	13 231 879

24. Financial assets held for trading

	30.06.2005 unaudited	31.12.2004
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Debt securities	417 225	364 503
- issued by central banks	-	-
- issued by other banks	-	-
- issued by other financial institutions	-	-
- issued by non-financial entities	-	-
- issued by the State Treasury	416 849	364 142
- issued by local government bodies	376	361
Shares in other entities – listed on stock exchange	4 638	5 014
Loans and credits	-	-
Total financial assets held for trading	421 863	369 517

Financial assets held for trading, by maturities as at 30 June 2005, valued at carrying amount (unaudited)

	- up to 1 month	- from 1 to 3 months	- from 3 months to 1 year	- from 1 to 5 years	- above 5 years	with no maturity date specified	Total
Debt securities	4 860	92 017	185 935	134 037	376	-	417 225
- issued by central banks	-	-	-	-	-	-	-
- issued by other banks	-	-	-	-	-	-	-
- issued by other financial institutions	-	-	-	-	-	-	-
- issued by non-financial entities	-	-	-	-	-	-	-
- issued by the State Treasury	4 860	92 017	185 935	134 037	-	-	416 849
- issued by local government bodies	-	-	-	-	376	-	376
Shares in other entities – listed on stock exchange	4 638	-	-	-	-	-	4 638
Loans and credits	-	-	-	-	-	-	-
Total financial assets held for trading as at 30 June 2005	9 498	92 017	185 935	134 037	376	-	421 863

Average yield of debt securities issued by the State Treasury as at 30 June 2005 amounted to 4,70% in PLN, 2,42% in EUR and 3,45% in USD.

As at 30 June 2005, the held for trading portfolio included:

- treasury bills with a total nominal value of PLN 102,780 thousand,
- treasury bonds with a total nominal value of PLN 300,346 thousand,
- bonds denominated in USD with a total nominal value of PLN 335 thousand,
- bonds denominated in EUR with a total nominal value of PLN 8,080 thousand,
- municipal bonds with a total nominal value of PLN 359 thousand.

Financial assets held for trading, by maturities as at 31 December 2004, valued at carrying amount (unaudited)

	- up to 1 month	- from 1 to 3 months	- from 3 months to 1 year	- from 1 to 5 years	- above 5 years	with no maturity date specified	Total
Debt securities	259	84 517	93 592	181 460	4 675		364 503
- issued by central banks	-	-	-	-	-	-	-
- issued by other banks	-	-	-	-	-	-	-
- issued by other financial institutions	-	-	-	-	-	-	-
- issued by non-financial entities	-	-	-	-	-	-	-
- issued by the State Treasury	259	84 517	93 592	181 460	4 314	-	364 142
- issued by local government bodies	-	-	-	-	361	-	361
Shares and stocks in other entities – listed on stock exchange	-	-	-	-	-	5 014	5 014
Loans and credits	-	-	-	-	-	-	-
Total financial assets held for trading as at 31 December 2004	259	84 517	93 592	181 460	4 675	5 014	369 517

Average yield of debt securities issued by the State Treasury as at 31 December 2004 amounted to 6,60% in PLN.

As at 31 December 2004, the held for trading portfolio included:

- treasury bills with a total nominal value of PLN 159,710 thousand,
- treasury bonds with a total nominal value of PLN 202,325 thousand,
- municipal bonds with a total nominal value of PLN 446 thousand.

25. Derivative financial instruments

Derivatives used by the Bank

The PKO BP SA Capital Group uses various types of financial derivatives with a view to manage the risk involved in its business activities. The majority of derivatives used by the Group are over-the-counter contracts. As at 30 June 2005, the Bank had the following derivative instruments:

	30.06.2005 Unaudited		31.12.2004	
Type of contract	Assets	Liabilities	Assets	Liabilities
IRS	802 845	1 107 593	394 050	633 220
FRA	174 693	172 800	46 257	59 816
FX Swap	163 577	149 868	716 752	77 849
CIRS	180 035	552	178 937	-
Forward	3 368	175	3 638	683
Options	51 530	51 998	21 875	21 849
SBB	2 069	164	870	322
Total	1 378 117	1 483 150	1 362 379	793 739

Derivatives embedded in other instruments

The Group uses derivative instruments, which are part of compound financial instruments, i.e. instruments including both a derivative and a host contract, which results in a part of the cash flows from the compound instrument changing similarly to cash flows from a separate derivative. Derivatives embedded in other instruments cause that a part or all cash flows resulting from the host contract are modified on the basis of a certain interest rate, price of a security, foreign exchange rate, price index or interest rate index.

Derivatives are also embedded in loan and deposit agreements. The Group offers deposits with embedded derivative instruments. Such derivatives are not by their nature closely related to their respective host contracts i.e. deposit agreements. Such embedded derivatives are separated from their host contracts, classified as held for trading portfolio and are subject to valuation. The valuation of such instruments is recognised in the profit and loss account. The Group has analysed the loan and other agreements portfolio in order to determine whether the embedded derivative instruments should be separated. Based on the above the Group concluded that those agreements do not require any separation and recognition of embedded derivatives.

Risk involved in financial derivatives

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

The objective of derivative risk management is to monitor derivative instruments utilisation and keep any derivative-related risk within the limits set forth by the general Group risk profile. The derivative risk management process within the Group is fully integrated with the management of interest rate, currency, liquidity and credit risk. The policies of derivative risk management define derivative-related risks and the tasks for individual organisational units in the process of derivative risk management.

The Value at Risk model is used to measure the risk related to derivative instruments.

The main tools of derivative risk management are as follows:

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

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

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

The credit risk derivative exposure was presented in Note 3.

The Bank concludes derivative transactions with other financial institutions, mainly other banks.

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

Derivative financial instruments become profitable (assets) or unprofitable (liabilities) as a result of fluctuations of market interest rates, indices, or foreign exchange rates as compared with their terms.

Derivative financial instruments as at 30 June 2005

Notional amounts and fair value of derivative financial instruments (unaudited)

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
- over the counter market	-	-	-	-	-	-		
FX Swap	6 997 988	4 704 712	2 019 315	-	-	13 722 015	149 868	163 577
Purchase	3 507 459	2 361 255	999 916	-	-	6 868 630		
Sale	3 490 529	2 343 457	1 019 399	-	-	6 853 385		
Currency Forward	39 397	51 784	98 862	4 911	-	194 954	175	3 368
Purchase	19 808	26 118	50 397	2 496	-	98 819		
Sale	19 589	25 666	48 465	2 415	-	96 135		
Options	-	-	605 354	-	-	605 354	51 998	51 530
Purchase	-	-	301 655	-	-	301 655		
Sale	-	-	303 699	-	-	303 699		
- regulated market	-	-	-	-	-	-		
FX Swap	-	-	-	-	-	-		
Purchase	-	-	-	-	-	-		
Sale	-	-	-	-	-	-		
Options	-	-	-	-	-	-		
Purchase	-	-	-	-	-	-		
Sale	-	-	-	-	-	-		
- regulated market	-	-	-	-	-	-		
Currency Futures	-	-	-	-	-	-		
Purchase	-	-	-	-	-	-		
Sale	-	-	-	-	-	-		

Notional amounts and fair value of derivative financial instruments (unaudited) – cont.

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
Interest rate transactions								
Interest Rate Swap (IRS)	2 200 000	5 900 000	44 944 000	50 188 160	3 980 344	107 212 504	1 107 593	802 845
Purchase	1 100 000	2 950 000	22 472 000	25 094 080	1 990 172	53 606 252		
Sale	1 100 000	2 950 000	22 472 000	25 094 080	1 990 172	53 606 252		
Forward Rate Agreement (FRA)	13 504 000	20 692 461	44 525 000	14 150 000	-	92 871 461	172 800	174 693
Purchase	6 177 000	9 765 461	21 700 000	8 300 000		45 942 461		
Sale	7 327 000	10 927 000	22 825 000	5 850 000		46 929 000		
Interest rate transactions	-	-	-	-	-	-		
Cross Currency IRS	-	-	-	9 148 953	664 880	9 813 833	552	180 035
Purchase	-	-	-	4 645 068	341 672	4 986 740		
Sale	-	-	-	4 503 885	323 208	4 827 093		
Other transactions	-	-	-	-	-	-		
SELL BUY BACK	729 534	599 193	-	-	-	1 328 727	164	2 069
Purchase	724 256	599 193	-	-	-	1 323 449		
Sale	5 278	-	-	-	-	5 278		
Futures on bonds	-	37 114	10 402	-	-	47 516		
Purchase	-	37 114	-	-	-	37 114		
Sale	-	-	10 402	-	-	10 402		
Total derivative instruments	23 470 919	31 985 264	92 202 933	73 492 024	4 645 224	225 796 364	1 483 150	1 378 117

Derivative financial instruments as at 31 December 2004**Notional amounts and fair value of derivative financial instruments**

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
- over the counter market								
FX Swap	9 191 895	5 993 447	2 246 182	-	-	17 431 524	77 849	716 752
Purchase	4 721 861	3 092 662	1 239 986	-	-	9 054 509		
Sale	4 470 034	2 900 785	1 006 196	-	-	8 377 015		
Currency Forward	62 734	92 678	27 425	9 218	-	192 055	683	3 638
Purchase	31 678	46 768	13 923	4 723	-	97 092		
Sale	31 056	45 910	13 502	4 495	-	94 963		
Options	-	-	-	356 065	-	356 065	21 849	21 875
Purchase	-	-	-	176 738	-	176 738		
Sale	-	-	-	179 327	-	179 327		
- regulated market	-	-	-	-	-	-		
FX Swap	-	-	-	-	-	-		
Purchase	-	-	-	-	-	-		
Sale	-	-	-	-	-	-		
Options	-	-	-	-	-	-		
Purchase	-	-	-	-	-	-		
Sale	-	-	-	-	-	-		
- regulated market	-	-	-	-	-	-		
Currency Futures	-	-	-	-	-	-		
Purchase	-	-	-	-	-	-		
Sale	-	-	-	-	-	-		

Notional amounts and fair value of derivative financial instruments – cont.

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	above 5 years	Total	Fair value (negative)	Fair value (positive)
Interest rate transactions								
Interest Rate Swap (IRS)	6 600 000	7 632 000	39 794 000	34 288 000	1 556 364	89 870 364	633 220	394 050
Purchase	3 300 000	3 816 000	19 897 000	17 144 000	778 182	44 935 182		
Sale	3 300 000	3 816 000	19 897 000	17 144 000	778 182	44 935 182		
Forward Rate Agreement (FRA)	7 100 000	13 565 000	21 530 000	4 700 000	-	46 895 000	59 816	46 257
Purchase	3 600 000	6 970 000	10 850 000	2 250 000	-	23 670 000		
Sale	3 500 000	6 595 000	10 680 000	2 450 000	-	23 225 000		
Interest rate transactions								
Cross Currency IRS	1 091 200	1 091 480	-	3 234 880	671 210	6 088 770		178 937
Purchase	562 780	563 060	-	1 649 620	344 890	3 120 350		
Sale	528 420	528 420	-	1 585 260	326 320	2 968 420		
Other transactions								
SELL BUY BACK	1 274 542	353 495	-	-	-	1 628 037	322	870
Purchase	978 302	312 921	-	-	-	1 291 223		
Sale	296 240	40 574	-	-	-	336 814		
Futures on bonds	498	-	-	-	-	498		
Purchase	498	-	-	-	-	498		
Sale	-	-	-	-	-	-		
Total derivative instruments	25 320 869	28 728 100	63 597 607	42 588 163	2 227 574	162 462 313	793 739	1 362 379

26. Other financial instruments at fair value through profit or loss

	30.06.2005 unaudited	1.01.2005
Debt securities	20 213 622	19 953 740
- issued by the State Treasury	16 644 843	16 079 725
- issued by central banks	3 018 466	3 874 015
- issued by other banks	550 313	-
- issued by other financial institutions	-	-
- issued by non-financial entities	-	-
- issued by local government bodies	-	-
Shares and stocks in other entities	-	-
- listed on stock exchange	-	-
- unlisted	-	-
Loans and advances	-	-
Total other financial instruments at fair value through profit or loss	20 213 622	19 953 740

The Group took advantage of the IFRS 1 exemption as to the requirement to restate IAS 39 compliant comparative data. For more details, see Note 53.

As at 30 June 2005 the portfolio of securities valued at fair value through profit or loss included:

- NBP money market bills with a total nominal value of PLN 422,750 thousand,
- treasury bonds with a total nominal value of PLN 2,082,450 thousand,
- NBP bonds with a total nominal value of PLN 2,522,112 thousand,
- treasury bills with a total nominal value of PLN 13,204,347 thousand.

The average yield of PLN debt securities issued by the State Treasury and Central Bank and included in the portfolio of other financial instruments at fair value through profit or loss was 4.65% as at 30 June 2005. The average yield of EUR debt securities was 3.44% and 4.13% for USD. For comparison purposes, as at 1 January 2005 it amounted to 6.33% for PLN debt securities.

Other financial instruments at fair value through profit or loss, by maturities as at 30 June 2005: carrying amount (unaudited)

	- up to 1 month	- from 1 to 3 months	- from 3 months to 1 year	- from 1 to 5 years	- above 5 years	With no maturity date specified	Total
Debt securities	422 691	1 038 622	5 160 493	9 006 007	4 585 809	-	20 213 622
- issued by the State Treasury	-	1 038 622	5 109 911	8 603 779	1 892 531	-	16 644 843
- issued by central banks	422 691	-	-	-	2 595 775	-	3 018 466
- issued by other banks	-	-	50 582	402 228	97 503	-	550 313
- issued by other financial institutions	-	-	-	-	-	-	-
- issued by non-financial entities	-	-	-	-	-	-	-
- issued by local government bodies	-	-	-	-	-	-	-
Shares in other entities – listed and unlisted on stock exchange	-	-	-	-	-	-	-
Loans and advances	-	-	-	-	-	-	-
Total other financial instruments at fair value through profit or loss as at 30 June 2005	422 691	1 038 622	5 160 493	9 006 007	4 585 809	-	20 213 622

Other financial instruments at fair value through profit or loss, by maturities as at 1 January 2005 *: carrying amount

	- up to 1 month	- from 1 to 3 months	- from 3 months to 1 year	- from 1 to 5 years	- above 5 years	With no maturity date specified	Total
Debt securities	1 409 019	1 816 793	4 249 550	8 217 677	4 260 701		19 953 740
- issued by central banks	1 057 050	-	85 769	90 125	2 641 071	-	3 874 015
- issued by other banks	-	-	-	-	-	-	-
- issued by other financial institutions	-	-	-	-	-	-	-
- issued by non-financial entities	-	-	-	-	-	-	-
- issued by the State Treasury	351 969	1 816 793	4 163 781	8 127 552	1 619 630		16 079 725
- issued by local government bodies	-	-	-	-	-	-	-
Shares in other entities – listed and unlisted on stock exchange	-	-	-	-	-	-	-
Loans and advances	-	-	-	-	-	-	-
Total other financial instruments valued at fair value through profit or loss as at 31 December 2004	1 409 019	1 816 793	4 249 550	8 217 677	4 260 701	-	19 953 740

* classification as at 1 January 2005, in accordance with the exemption under IFRS 1 (see Note 3)

27. Amounts due from customers

As at 30 June 2005 Unaudited	Receivables valued using the individual method	Receivables valued using the portfolio and collective methods	Allowances against exposures with individual impairment	Allowances against exposures with collective and portfolio impairment	Total net value
Loans and advances:					
to state budget entities	6 209	6 396 045	(6 209)	(41 435)	6 354 610
to financial entities other than banks	69 081	261 357	(39 573)	(31 354)	259 511
to non-financial entities	1 217 986	36 518 629	(604 577)	(2 437 886)	34 694 152
Total	1 293 276	43 176 031	(650 359)	(2 510 675)	41 308 273

As at 31 December 2004	Receivables in "normal" risk category	Receivables in "watch" risk category and irregular receivables	Specific provisions for receivables in "normal" risk category	Specific provisions for receivables in "watch" risk category and irregular receivables	Total net value
Loans and advances granted :					
to state budget entities	7 569 756	44 102	-	(13 063)	7 600 795
to financial entities other than banks	181 779	98 129	(25)	(68 057)	211 826
to non-financial entities	27 952 064	6 353 109	(134 828)	(2 427 255)	31 743 090
Total	35 703 599	6 495 340	(134 853)	(2 508 375)	39 555 711

Additionally as at 31 December 2004, the Bank had a general banking risk reserve in the amount of PLN 661,597 thousand.

Out of the above amount, PLN 161 634 thousand was allocated to loan receivables, while the amount of PLN 499 963 thousand was presented under Group equity (general banking risk reserve).

Additional information as at 1 January 2005, by sectors (regarding holding company)

Additional information as at 31 January 2008, by sectors (regarding holding company)				
	Minister of Finance Decree	IAS 39		Impairment allowances
		individual approach	collective approach	
Loans and allowances to customers				
financial sector	67 928	34 236	39 832	74 068
non-financial sector	2 357 961	575 349	2 376 865	2 952 214
state budget sector	13 034	400	51 109	51 509
Total credits and loans	2 438 923	609 985	2 467 806	3 077 791
General banking risk reserve	661 597	-	-	-
TOTAL	3 100 520	609 985	2 467 806	3 077 791

As at 31 December 2004, a subsidiary - Kredyt Bank (Ukraine) S.A., applied IAS 39 for the valuation of loans and advances. The PLN equivalent of impairment allowance as at 31 December 2004 amounted to PLN 44,231 thousand.

	30.06.2005 unaudited	31.12.2004
	Carrying amount	Carrying amount
Loans and advances granted:		
to state budget entities	6 402 254	7 613 858
up to 1 month	689 681	197 098
from 1 to 3 months	332 775	80 538
from 3 months to 1 year	929 508	1 971 935
from 1 to 5 years	3 858 574	4 368 705
above 5 years	591 716	995 582
average effective rate	7,23 %	
to financial entities other than banks	330 438	279 908
up to 1 month	114 175	79 620
from 1 to 3 months	33 481	36 997
from 3 months to 1 year	133 226	40 996
from 1 to 5 years	39 826	114 167
above 5 years	9 730	8 128
average effective rate	7,34 %	
to non-financial entities	37 736 615	34 305 173
up to 1 month	7 874 514	8 256 603
from 1 to 3 months	1 314 353	1 160 482
from 3 months to 1 year	5 008 672	4 205 626
from 1 to 5 years	10 134 560	9 438 341
above 5 years	13 404 516	11 244 121
average effective rate	15,60 %	
Total	44 469 307	42 198 939

As at 31 December 2004, the Group, except for its subsidiary, Kredyt Bank (Ukraina) S.A., took advantage of the exemption allowed under IFRS 1 and did not restate comparative data relating to the valuation of loans and advances using the effective interest rate method.

Currently the Bank is in the process of negotiating a sale of non-performing retail loans pool, included under balance sheet and off – balance sheet items. The above pool consists of 73 thousand of receivables with a total gross value of PLN 659 482 thousand. This amount includes principal, capitalised and accrued interest and related costs.

Finance and operating leases

Finance leases

The Group conducts leasing operations through Bankowy Fundusz Leasingowy S.A.

The gross investment in the lease and the minimum lease payments were as follows:

As at 30 June 2005

Finance lease receivables	Gross investment in the lease unaudited	Present value of minimum lease payments unaudited
Gross investment in the lease and minimum lease payments		
Gross lease receivables		
up to 1 year	306 953	260 347
from 1 to 5 years	359 562	307 899
above 5 years	41 966	34 554
Total	708 481	602 800
Impairment allowance	(46 078)	(46 078)
Total after impairment allowances	662 403	556 722

	Gross investment in the lease unaudited	Present value of minimum lease payments unaudited	Unearned finance income Unaudited
up to 1 year	306 953	260 347	46 606
from 1 to 5 years	359 562	307 899	51 663
above 5 years	41 966	34 554	7 412
Total	708 481	602 800	105 681

Investment in the lease (unaudited)	
Present value of minimum lease payments	602 800
of which: un-guaranteed residual value to the lessor	80 465

As at 31 December 2004

Gross investment in the lease and minimum lease payments	Gross investment in the lease	Present value of minimum lease payments
Gross investment in the lease		
up to 1 year	272 723	228 697
from 1 to 5 years	328 040	289 786
above 5 years	7 604	6 381
Total	608 367	524 864
Impairment allowances	(43 312)	(43 312)
Total after impairment charges	565 055	481 552

	Gross investment in the lease	Present value of minimum lease payments	Unearned finance income
up to 1 year	272 723	228 697	44 026
from 1 to 5 years	328 040	289 786	38 254
above 5 years	7 604	6 381	1 223
Total	608 367	524 864	83 503

Net investment in the lease	
Present value of minimum lease payments	524 864
of which: un-guaranteed residual value to the lessor	67 580

Operating lease

Operating lease agreement is an agreement under which the lessor retains substantially all of the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense in the income statement on a straight line basis over the lease term.

The table below shows data concerning operating lease agreements concluded by the Group companies:

Total value of future lease payments under non-cancellable operating lease	30.06.2005 unaudited
For the period:	
up to 1 year	3 321
from 1 to 5 years	12 676
above 5 years	2 337
Total	18 334

Lease and sub-lease payments recognised as an expense of the period from 1 January to 30 June 2005 amounted to PLN 2,866 thousand.

Rental agreements concluded by the Bank as part of its normal business activities meet the criteria of operating lease. All such agreements are conducted at arm's length. Given the fact that the Bank does not have a centralised database for such agreements it is not possible to determine the amount of future lease payments under such these agreements. The Bank took steps to gather the above information, which will be subsequently disclosed in the 2005 annual financial statements.

28. Investment securities

	30.06.2005 unaudited	31.12.2004
Available for sale	1 637 771	21 604 204
- issued by central banks	-	3 768 909
- issued by other banks	236 271	161 663
- issued by other financial institutions	1 784	97 949
- issued by non-financial entities	696 562	795 518
- issued by the State Treasury	23 195	16 104 830
- issued by local government bodies	679 959	675 335
Held to maturity	393 120	1 893 017
- issued by central banks	-	-
- issued by other banks	-	-
- issued by other financial institutions	-	-
- issued by non-financial entities	-	-
- issued by the State Treasury	393 120	1 893 017
- issued by local government bodies	-	-
Total investment securities	2 030 891	23 497 221
Impairment allowances	(10 373)	(38 387)
Total net investment securities	2 020 518	23 458 834

Movements in investment securities

	1.01-30.06.2005 Unaudited	1.01-30.06.2004 Unaudited
Available for sale		
Balance at the beginning of the period	21 565 817	24 268 983
Change in accounting principles*	(19 953 740)	-
Balance as at 1 January 2005	1 612 077	24 268 983
Foreign exchange differences	1 044	-
Increases	1 386 440	14 240 193
Decreases (redemption)	(1 371 885)	(15 330 948)
Impairment allowances	-	-
Change in the fair value	(278)	(220)
Balance at the end of the period	1 627 398	23 178 008
Held to maturity		
Balance at the beginning of the period	1 893 017	3 830 980
Foreign exchange differences	-	-
Increases	34 815	236 892
Decreases (redemption)	(1 534 712)	(2 174 855)
Impairment allowances	-	-
Changes in the fair value	-	-
Balance at the end of the period	393 120	1 893 017

* Reclassified as of 1 January 2005 to the portfolio of assets and liabilities at fair value through profit or loss according to IFRS 1.

Available for sale securities (unaudited)

As at 30 June 2005, the portfolio of available for sale debt securities included:

- commercial bills with a total nominal value of PLN 164,500 thousand,
- corporate bonds with a total nominal value of PLN 272,700 thousand,
- municipal bonds with a total nominal value of PLN 665,915 thousand,
- treasury bonds with a total nominal value of PLN 22,453 thousand,
- bonds issued by other entities with a total nominal value of PLN 13,543 thousand,

The PKO BP SA Group

in PLN thousand

- certificates of deposit with a total nominal value of PLN 79,728 thousand,
- promissory notes with a total nominal value of PLN 100 thousand.

Held to maturity securities (unaudited)

As at 30 June 2005, the portfolio of held to maturity debt securities included treasury bonds with a nominal value of PLN 385,000 thousand.

Available for sale securities by maturities as at 30 June 2005: carrying amount (unaudited)

	- up to 1 month	- from 1 to 3 months	- from 3 months to 1 year	- from 1 to 5 years	- above 5 years	With no maturity date stated	Total
Available for sale securities							
issued by central banks	-	-	-	-	-	-	-
issued by other banks	27 030	53 152	-	1 472	-	154 617	236 271
issued by other financial institutions	-	-	1 388	-	12	320	1 720
issued by non-financial entities	15 815	103 759	41 395	161 254	101 051	262 979	686 253
issued by the State Treasury	902	-	5 032	13 944	3 317	-	23 195
issued by local government bodies	3 865	16 382	50 271	512 040	97 401	-	679 959
Total available for sale securities as at 30 June 2005	47 612	173 293	98 086	688 710	201 781	417 916	1 627 398

Available for sale securities by maturities as at 31 December 2004: carrying amount

	- up to 1 month	- from 1 to 3 months	- from 3 months to 1 year	- from 1 to 5 years	- above 5 years	With no maturity date stated	Total
Available for sale securities							
issued by central banks	-	-	-	-	-	-	-
issued by other banks	-	-	-	-	-	91 421	91 421
issued by other financial institutions	1 127 841	-	14 981	90 125	2 641 071	40 075	3 914 093
issued by non-financial entities	42 915	109 950	9 877	154 391	133 562	329 445	780 140
issued by the State Treasury	351 969	1 818 302	4 168 802	8 142 805	1 622 950	-	16 104 828
issued by local government bodies	-	11 026	82 093	482 993	99 223	-	675 335
Total available for sale securities as at 31 December 2004	1 522 725	1 939 278	4 275 753	8 870 314	4 496 806	460 941	21 565 817

Average yields of available for sale securities issued by the State Treasury as at 31 December 2004 amounted to 6.33% in PLN, 3.78% in EUR and 4.12% in USD.

Available for sale securities by maturities as at 1 January 2005: carrying amount

	- up to 1 month	- from 1 to 3 months	- from 3 months to 1 year	- from 1 to 5 years	- above 5 years	With no maturity date specified	Total
Available for sale securities							
issued by central banks	-	-	-	-	-	-	-
issued by other banks	-	-	-	-	-	91 421	91 421
issued by other financial institutions	-	-	-	45	-	40 030	40 075
issued by non-financial entities	36 284	109 950	10 782	153 486	133 563	334 905	778 970
issued by the State Treasury	-	1 509	5 021	15 210	3 321	-	25 061
issued by local government bodies	-	12 243	82 093	482 991	99 223	-	676 550
Total available for sale securities as at 1 January 2005	36 284	123 702	97 896	651 732	236 107	466 356	1 612 077

* classification as at 1 January 2005, in accordance with the exemption allowed under IFRS 1 (see Note 53).

Average yields of available for sale securities issued by the State Treasury as at 31 December 2004 amounted to 6.33% in PLN, 3.78% in EUR and 4.12% in USD

Held to maturity securities by maturities as at 30 June 2005: carrying amount (unaudited)

	- up to 1 month	- from 1 to 3 months	- from 3 months to 1 year	- from 1 to 5 years	- above 5 years	With no maturity date specified	Total
Held to maturity securities							
issued by central banks	-	-	-	-	-	-	-
issued by other banks	-	-	-	-	-	-	-
issued by other financial institutions	-	-	-	-	-	-	-
issued by non-financial entities	-	-	-	-	-	-	-
issued by the State Treasury	-	248 637	144 483	-	-	-	393 120
issued by local government bodies	-	-	-	-	-	-	-
Total held to maturity securities as at 30 June 2005	-	248 637	144 483	-	-	-	393 120

As at 30 June 2005 the average effective interest rate for held to maturity securities was 9.23%.

Held to maturity securities by maturities as at 31 December 2004: carrying amount

	- up to 1 month	- from 1 to 3 months	- from 3 months to 1 year	- from 1 to 5 years	- above 5 years	With no maturity date specified	Total
Held to maturity securities							
issued by central banks	-	-	-	-	-	-	-
issued by other banks	-	-	-	-	-	-	-
issued by other financial institutions	-	-	-	-	-	-	-
issued by non-financial entities	-	-	-	-	-	-	-
issued by the State Treasury	-	124 080	1 768 937	-	-	-	1 893 017
issued by local government bodies	-	-	-	-	-	-	-
Total held to maturity securities as at 31 December 2004	-	124 080	1 768 937	-	-	-	1 893 017

As at 31 December 2004 the average effective interest rate for held to maturity securities issued by the State Treasury was 6.59%.

Held to maturity securities by maturities as at 1 January 2005: carrying amount

	- up to 1 month	- from 1 to 3 months	- from 3 months to 1 year	- from 1 to 5 years	- above 5 years	With no maturity date specified	Total
Held to maturity securities	-	-	-	-	-	-	-
issued by central banks	-	-	-	-	-	-	-
issued by other banks	-	-	-	-	-	-	-
issued by other financial institutions	-	-	-	-	-	-	-
issued by non-financial entities	-	-	-	-	-	-	-
issued by the State Treasury	-	124 080	1 768 937	-	-	-	1 893 017
issued by local government bodies	-	-	-	-	-	-	-
Total held to maturity securities as at 1 January 2005	-	124 080	1 768 937	-	-	-	1 893 017

* classification as at 1 January 2005 in accordance with the exemption allowed under IFRS1 (see Note 53)

Average yield of held to maturity securities issued by the State Treasury in PLN as at 31 December 2004 was 6.59%.

29. Investments in associates and jointly controlled entities

a) value of the Bank's share in net assets of jointly controlled entities, adjusted by goodwill:

Entity name	30.06.2005 unaudited	31.12.2004
Centrum Obsługi Biznesu Sp. z o.o.*	17 472	-
PKO/CREDIT SUISSE TFI SA	17 671	24 960
Wawel Hotel Development Sp. z o.o.	17 818	18 080
Total	52 961	43 040

* Entity registered on 25 January 2005

b) value of the Bank's share in net assets of associates adjusted by goodwill:

Entity name	30.06.2005 unaudited	31.12.2004
Bank Pocztowy SA	112 000	112 000
Kolej Gondolowa Jaworzyna Krynicka SA	-	-
Ekogips S.A. (in bankruptcy)	-	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 540	1 531
Hotel Jan III Sobieski Sp. z o.o.	-	-
Agencja Inwestycyjna CORP SA	248	244
Total	113 788	113 775

Summary information about associated entities valued using the equity pick-up method:

Entity name	Total assets	Total liabilities	Total revenues	Net profit (loss)	% share
30.06.2005 unaudited					
Bank Pocztowy SA	3 253 205	3 004 782	125 756	14 919	25.0001%
Kolej Gondolowa Jaworzyna Krynicka SA	37 180	8 044	8 067	3 262	38.23%
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	4 672	20	59	53	33.33%
Hotel Jan III Sobieski Sp. z o.o.	133 520	278 432	26 634	5 997	32.50%
Agencja Inwestycyjna CORP SA	4 447	2 652	7 857	356	22.31%
Total	3 433 024	3 293 930	168 373	24 587	---
31.12.2004					
Bank Pocztowy SA	2 273 065	1 995 995	140 268	18 361	25.0001%
Kolej Gondolowa Jaworzyna Krynicka SA	37 099	11 222	9 848	2 236	38.23%
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	4 607	7	88	59	33.33%
Hotel Jan III Sobieski Sp. z o.o.	135 760	287 560	53 048	49 974	32.50%
Agencja Inwestycyjna CORP SA	4 373	2 823	17 017	418	22.31%
Total	2 454 904	2 297 607	220 269	71 048	---

The data presented in the above table derives from the companies' financial statements prepared in accordance with Polish Accounting Standards

Summary information about joint venture entities presented using the equity pick-up method:

Entity name	Total assets	Total liabilities	Total revenues	Net profit (loss)	% share
30.06.2005 unaudited					
Centrum Obsługi Biznesu Sp. z o.o.*	46 500	4 337	-	(516)	41.44%
PKO/CREDIT SUISSE TFI SA	42 684	6 509	40 510	10 825	50.00%
Wawel Hotel Development Sp. z o.o.	176 238	121 894	19 496	621	35.40%
Total	265 422	132 740	60 006	10 930	---
31.12.2004					
PKO/CREDIT SUISSE TFI SA	57 329	6 575	71 955	26 835	50.00%
Wawel Hotel Development Sp. z o.o.	176 443	122 039	21 608	12 258	35.40%
Total	233 772	128 614	93 563	39 093	---

The data presented in the above table derives from the companies' financial statements prepared in accordance with Polish Accounting Standards.

As at 31 December 2004 and 30 June 2005, the Group owned more than 20% of votes/potential voting rights in Wschodni Bank Cukrownictwa S.A. This company is currently under corporate recovery proceedings supervised by the Commission for Banking Supervision. The Group, in its opinion, has no significant influence on Wschodni Bank Cukrownictwa because it cannot influence the financial and operating policies of this company, including profit appropriation or loss absorption.

Financial data of Wschodni Bank Cukrownictwa S.A.:

Entity name	Total assets	Total liabilities	Total revenues	Net profit (loss)	% share
30.06.2005 unaudited					
Wschodni Bank Cukrownictwa S.A.	1 007 428	676 141	40 113	21 233	25.13%
31.12.2004					
Wschodni Bank Cukrownictwa S.A.	994 932	803 758	94 892	44 252	25.13%

The data presented in the above table derives from the company's financial statements prepared in accordance with Polish Accounting Standards.

Unrecognised share in the losses of associated entities for which the Group ceased to recognise its share amounted to:

Entity name	Cumulated share in losses
30.06.2005 unaudited	
Hotel Jan III Sobieski Sp. z o.o.	(56 637)
31.12.2004	
Hotel Jan III Sobieski Sp. z o.o.	(58 586)

In the Bank's consolidated financial statements for the first half of 2005, all associates and jointly controlled entities were accounted for using the equity method.

	1.01-30.06.2005 unaudited	1.01-30.06.2004 unaudited
Investment in associate entities as at 1 January 2005	113 775	214
Share in profits (losses)	5 299	76
Share in taxation	-	-
Dividends paid	-	-
Share in changes recognised directly in the equity of the entity	(5 286)	1 470
increase in the goodwill impairment	(5 286)	-
increase in impairment allowance	-	(30)
transfer of PFPK from subordinated entities	-	1 500
Acquisition of Bank Pocztowy	-	-
Investment in associate entities at the end of the period	113 788	1 760

	1.01-30.06.2005 unaudited	1.01-30.06.2004 Unaudited
Investment in jointly controlled entities at the beginning of the period	43 040	44 119
Share in profits (losses)	5 125	5 244
Share in taxation	-	-
Dividends paid	(12 702)	(18 837)
Share in changes recognised directly in the equity of the entity	-	-
Acquisition of shares in Centrum Obsługi Biznesu Sp. z o.o.	17 498	-
Investment in jointly controlled entities at the end of the period	52 961	30 526

As at 30 June 2005 and as at 31 December 2004, the holding company had no share in contingent liabilities of associates, which were acquired together with other investors.

30. Investments in subsidiaries

The Group owns directly or indirectly over 50% of votes in the following entities: Przedsiębiorstwo Informatyki Bankowej „Elbank” Sp. z o.o. (in liquidation), International Trade Center Sp. z o.o. (in liquidation), Sonet Hungary Kft (in liquidation). These entities have never been consolidated due to their immateriality.

In case of Kredyt Bank (Ukraine) there are certain restrictions regarding its ability to pay dividends to the investor. Ukrainian regulations allow companies to pay dividends. According to the “Capitalisation Plan” approved by the Supervisory Board of Kredyt Bank (Ukraine) S.A. which had been filed with the National Bank of Ukraine, any dividend payment or appropriation of Kredyt Bank (Ukraine) S.A. equity in any form was prohibited. The business plan, which was the basis for approval by the Ukraine National Committee, Management Board and Supervisory Board of KBU of granting a subordinate loan by PKO BP SA, did not account for the possibility to pay dividend during the whole loan term.

As at 30 June 2005 and as at 31 December 2004 Kredyt Bank (Ukraine) S.A. was consolidated in the consolidated financial statements of the Group using full method.

Detailed information regarding the acquisition of shares in Kredyt Bank (Ukraine) S.A. is presented in Note 51.

31. Intangible fixed assets

6 months period ended 30 June 2005 Unaudited	Development expenses	Patents and licenses	Goodwill acquired as a result of business consolidation (including goodwill of subsidiary entities)	Intangible fixed assets under construction	Total
Purchase price as at 1 January 2005 including amortisation	-	134 476	106 457	260 241	501 174
Increases due to internal development projects	-	-	-	-	-
Purchase	-	1 568	-	140 903	142 471
Sale	-	(3 041)	-	(263)	(3 304)
Increase resulting from mergers of business entities	-	-	-	-	-
Reversal of impairment allowances	-	-	-	-	-
Due to foreign exchange differences from translation of foreign entities to presentation currency	-	351	-	40	391
Attributable to discontinued operations	-	-	-	-	-
Impairment allowance	-	-	-	-	-
Amortisation	-	(60 036)	-	(1 517)	(61 553)
Other changes	-	137 795*	-	(134 985)	2 810
Net carrying amount	-	211 113	106 457	264 419	581 989
<i>As at 31 December 2004</i>					
Purchase price (gross carrying amount)	32	662 793	106 457	267 589	1 036 871
Accumulated amortisation and impairment allowance	(32)	(528 317)	-	(7 348)	(535 697)
Net carrying amount	-	134 476	106 457	260 241	501 174
<i>As at 30 June 2005</i>					
Purchase price (gross carrying amount)	32	796 823	106 457	273 284	1 176 596
Accumulated amortisation and impairment allowance	(32)	(585 710)	-	(8 865)	(594 607)
Net carrying amount	-	211 113	106 457	264 419	581 989

* Included in „Other changes” of Patents and licences category is software transferred from investments.

A significant item of intangible fixed assets under construction are investment expenditures on integrated IT system (ZSI). As at 30 June 2005, investment expenditures on ZSI amounted to PLN 93 027 thousand. As at 30 June 200, these expenditures amounted to PLN 39 748 thousand.

6 months period ended 30 June 2004 unaudited	Development expenses	Patents and licenses	Goodwill acquired as a result of merger of business combination (including goodwill of subsidiary entities)	Intangible fixed assets under construction	Total
Purchase price as at 1 January 2004 including amortisation	-	137 511	-	136 895	274 406
Change in accounting policies	-	-	58 943	-	58 943
Purchase price as at 1 January 2004 after changes in accounting policies	-	137 511	58 943	136 895	333 349
Increases due to internal development projects	-	-	-	-	-
Purchase	-	2 010	-	67 845	69 855
Sale	-	(114)	-	-	(114)
Increase resulting from mergers of business entities	-	-	-	-	-
Reversal of impairment allowances	-	-	-	-	-
Due to foreign exchange differences from translation of foreign entities to presentation currency	-	-	-	-	-
Attributed to discontinued operations	-	-	-	-	-
Impairment allowance	-	-	-	-	-
Amortisation	-	(68 742)	-	(1 632)	(70 374)
Other changes	-	93 745*	-	(55 280)	38 465
Net carrying amount	-	164 410	58 943	147 828	371 181
<i>As at 1 January 2004</i>					
Purchase price (gross carrying amount)	-	525 990	58 943	139 760	724 693
Accumulated amortisation and impairment allowance	-	(388 479)	-	(2 865)	(391 344)
Net carrying amount	-	137 511	58 943	136 895	333 349
<i>As at 30 June 2004</i>					
Purchase price (gross carrying amount)	-	618 461	58 943	153 604	831 008
Accumulated amortisation and impairment allowance	-	(454 051)	-	(5 776)	(459 827)
Net carrying amount	-	164 410	58 943	147 828	371 181

* Included in „Other changes” of Patents and licences category is software transferred from investments.

Since 1 January 2004 the goodwill has not been amortised and has been annually tested for impairment.

The goodwill of Kredyt Bank (Ukraine) was tested for impairment; the test was based on the value in use. The basic assumption for the conducted test was the strategy for the coming years approved by the Supervisory Board of this company discounted by the Bank using the expected rate of return. In case of PTE Bankowy, the Bank applied the fair value method decreased by the costs of sales. The fair value was estimated using the average fees per member of OFE Bankowy estimated based on transactions made on the pension fund market. Any change in the above assumptions may influence the estimation of company's recoverable amount in the future.

The Group did not create any patent or license itself.

In the period from 1 January 2005 to 30 June 2005, the PKO BP SA Group incurred investment expenditure for the purchase of tangible and intangible fixed assets in the amount of PLN 214,683 thousand. In the period from 1 January 2004 to 30 June 2004 the PKO BP SA, Capital Group incurred investment expenditure for the purchase of fixed and intangible fixed assets in the amount of PLN 104,138 thousand.

32. Tangible fixed assets

6 months period ended 30 June 2005 Unaudited	Land and buildings	Machinery and equipment	Motor vehicles	Assets under construction	Investment properties	Other	Total
Gross value of tangible fixed assets at the beginning of the period	2 384 624	2 400 363	49 832	260 582	41 201	339 849	5 476 451
Increases, of which:	37 804	126 562	9 556	67 574	-	6 029	247 525
Purchase and other changes	29 996	121 804	9 066	67 152	-	5 255	233 273
Foreign exchange differences	7 808	4 758	490	422	-	774	14 252
Decreases, of which:	(14 784)	(11 949)	(2 009)	(157 715)	-	(3 856)	(190 313)
Transfer to assets available for sale	-	-	-	-	-	-	-
Liquidation and sale	(4 555)	(11 114)	(1 926)	-	-	(2 102)	(19 697)
Disposal resulting from merger of business entities	-	-	-	-	-	-	-
Other	(10 229)	(835)	(83)	(157 715)	-	(1 754)	(170 616)
Gross amount of fixed assets at the end of the period	2 407 644	2 514 976	57 379	170 441	41 201	342 022	5 533 663
Accumulated depreciation at the beginning of the period	(468 653)	(1 988 883)	(36 540)	-	(1 461)	(294 096)	(2 789 633)
Increases, of which:	(36 518)	(115 091)	(3 756)	-	(797)	(7 895)	(164 057)
Depreciation charge for the period	(35 380)	(111 842)	(3 333)	-	(797)	(7 463)	(158 815)
Other	(108)	(1 070)	(32)	-	-	-	(1 210)
Transfers	-	-	-	-	-	-	-
Foreign exchange differences	(1 030)	(2 179)	(391)	-	-	(432)	(4 032)
Decreases, of which:	1 331	11 140	1 951	-	-	3 055	17 477
Liquidation and sale	1 331	11 140	1 951	-	-	1 833	16 255
Other	-	-	-	-	-	1222	1222
Accumulated depreciation at the end of the period	(503 840)	(2 092 834)	(38 345)	-	(2 258)	(298 936)	(2 936 213)
Impairment allowances							
Opening balance	(35 221)	-	-	-	-	-	(35 221)
Increases	-	-	-	-	-	-	-
Decreases	-	-	-	-	-	-	-
Closing balance	(35 221)	-	-	-	-	-	(35 221)
Net amount							
Opening balance	1 880 750	411 480	13 292	260 582	39 740	45 753	2 651 597
Closing balance	1 868 583	422 142	19 034	170 441	38 943	43 086	2 562 229

The carrying amount of machinery and equipment as at 30 June 2005 based on the finance lease agreements and tenancy agreements with purchase option accounted for PLN 13,135 thousand (as at 31 December 2004 PLN 15,209 thousand, and as at 30 June 2004 PLN 22,730 thousand, respectively).

In the 6-month period ended 30 June 2005 there were no restrictions on the Group's right to use these tangible fixed assets caused by pledging them as collateral.

6 months period ended 30 June 2004 Unaudited	Land and buildings	Machinery and equipment	Motor vehicles	Assets under construction	Investment properties	Other	Total
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Gross book value of tangible fixed assets as at 1 January 2004	2 013 189	2 282 342	45 521	202 606	44 560	327 553	4 915 771
Change of accounting policy – Determining deemed cost of tangible fixed assets re-measured to fair value in accordance with IFRS 1	279 217	-	-	-	-	-	279 217
Gross value of tangible fixed assets after change of accounting policy	2 292 406	2 282 342	45 521	202 606	44 560	327 553	5 194 988
Increases, of which:	36 750	115 911	687	35 060	-	14 922	203 330
Purchase and other changes	36 750	115 911	687	35 060	-	14 922	203 330
Foreign exchange differences	-	-	-	-	-	-	-
Disposal, of which:	(5 524)	(55 488)	(809)	(203 223)	-	(9 417)	(274 461)
Transfer to assets available for sale	-	-	-	-	-	-	-
Liquidation and sale	(3 688)	(53 240)	(789)	(1 135)	-	(4 886)	(63 738)
Disposal resulting from merger of business entities	-	-	-	-	-	-	-
Other	(1 836)	(2 248)	(20)	(202 088)	-	(4 531)	(210 723)
Gross amount of fixed assets at the end of the period	2 323 632	2 342 765	45 399	34 443	44 560	333 058	5 123 857
Accumulated depreciation as at 1 January 2004	(396 355)	(1 771 098)	(29 426)	-	-	(280 140)	(2 477 019)
Additions, of which:	(34 362)	(142 852)	(3 201)	-	(664)	(8 837)	(189 916)
Depreciation for the period	(34 362)	(142 787)	(3 169)	-	-	(8 590)	(188 908)
Other	-	(65)	(32)	-	(664)	(247)	(1 008)
Transfers	-	-	-	-	-	-	-
Decreases, of which:	1 335	55 243	661	-	-	4 901	62 140
Liquidation and sale	1 123	54 979	661	-	-	4 901	61 664
Other	212	264	-	-	-	-	476
Accumulated depreciation at the end of the period	(429 382)	(1 858 707)	(31 966)	-	(664)	(284 076)	(2 604 795)
Impairment allowances							
Opening balance	(121)	-	-	(683)	-	(8)	(812)
Increases	(25 000)	-	(8)	-	-	-	(25 008)
Decreases	121	-	-	683	-	8	812
Closing balance	(25 000)	-	(8)	-	-	-	(25 008)
Net amount							
Opening balance	1 895 930	511 244	16 095	201 923	44 560	47 405	2 717 157
Closing balance	1 869 250	484 058	13 425	34 443	43 896	48 982	2 494 054

The amount of compensations received from third parties due to impairment or loss of tangible fixed assets recognised in the profit and loss account for the period 6 month period ended at 30 June 2005 amounted to PLN 3 932 thousand (for the 6 month period ended at 30 June 2004 it amounted to PLN 3 516 thousand).

“Investment properties” include land, which is not subject to depreciation. The largest item is the plot of land in Warsaw, with the estimated fair value exceeding by approx. PLN 7 000 thousand its carrying amount. There are no contractual or restrictions to sell these properties.

The amounts of incomes/costs connected with investment properties of the Group are presented below.

	1.01-30.06.2005 unaudited	1.01-30.06.2004 unaudited
Rent income from investment properties	-	-
Direct operating costs concerning investment properties (including maintenance and repair costs) that in the given period brought rental income.	-	-
Direct average operating costs concerning the investment properties (including maintenance and repair costs) that in the given period did not bring rental income.	758	738

33. Other assets

	30.06.2005 unaudited	31.12.2004
Settlements of transactions carried out using cards	184 537	193 419
Inter-bank and inter- branch clearing accounts	45 083	1 800
Prepayments	44 451	38 203
Settlements of securities trading transactions	26 347	3 686
Other	472 205	395 826
Total	772 623	632 934

Included in “Other” item are mainly trade receivables from inventories used in non operating activities, which as at 30 June 2005 amounted to PLN 328,479 thousand (as at 31 December 2004: PLN 278,449 thousand), receivables from shortages and damages, receivables from counterparties and receivables from Bank's resource management and, among others, assets available for sale. As at 30 June 2005, the Group had assets meeting the requirements of IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” in the amount of PLN12,350 thousand. The assets held by Kredyt Bank (Ukraine) accounted for the majority of the above balance and amounted to PLN 9,312 thousand.

34. Assets pledged as security/ collateral for liabilities

The Group has the following assets pledged as collateral/ security of the company's liabilities and the third party's liabilities:

Fund for the Protection of Guaranteed Money

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

	30.06.2005 unaudited	31.12.2004
Fund's value	89 280	174 307
Nominal value of collateral/ security	93 500	200 000
Type of collateral/ security	treasury bonds	treasury bonds
Maturity of collateral/ security	12.08.2005	12.08.2005
Carrying amount of collateral/ security	92 998	192 720

Cash pledged as collateral for securities' transactions conducted by BDM PKO BP SA and Bankowe Towarzystwo Kapitałowe are deposited in the National Depository for Securities as part of the stock exchange guarantee fund.

	30.06.2005 unaudited	31.12.2004
Stock exchange guarantee fund	2 374	2 911

Cash pledged as collateral for securities' transactions conducted by BDM PKO BP SA are deposited in the National Depository for Securities in the stock exchange guarantee fund.

35. Amounts due to the Central Bank

	30.06.2005 unaudited	31.12.2004
Current accounts	945	144
Up to 1 month	945	144
From 1 month to 3 months	-	-
From 3 months to 1 year	-	-
From 1 year to 5 years	-	-
Over 5 years	-	-
Total amounts due to the Central Bank	945	144

36. Amounts due to other banks

	30.06.2005 unaudited	31.12.2004
Current accounts	16 427	6 977
Other banks' deposits	1 453 795	659 259
Loans and advances received	183 171	306 992
Cash in transit	-	-
Other deposits from money market	49 072	25 490
Total amounts due to other banks	1 702 465	998 718

Structure of amounts due to other banks by maturities

	30.06.2005 unaudited	31.12.2004
Current accounts	16 427	6 977
Amounts due with maturity period of:	1 670 418	984 550
Up to 1 month	699 408	505 627
From 1 month to 3 months	471 119	21 111
From 3 months to 1 year	244 386	281 486
From 1 year to 5 years	221 860	170 406
Over 5 years	33 645	5 920
Cash in transit	-	-
Other deposits from money market	15 620	7 191
Total	1 702 465	998 718

37. Other financial liabilities valued at fair value through profit or loss

As at 30 June 2005 and 31 December 2004 the Group did not have other financial liabilities valued at fair value through profit or loss.

38. Amounts due to customers

	30.06.2005 unaudited	31.12.2004
Amounts due to corporates	7 989 032	6 618 132
Current accounts and O/N deposits	3 778 881	3 756 218
Term deposits	4 113 552	2 787 712
Other	96 599	74 202
Amounts due to budget entities	3 611 280	5 369 539
Current accounts and O/N deposits	2 953 339	2 420 571
Term deposits	511 957	2 735 874
Other	145 984	213 094
Amounts due to individuals	62 800 676	61 108 583

Current accounts and O/N deposits	18 896 792	17 989 792
Term deposits	41 920 524	41 243 404
Other	1 983 360	1 875 387
Total amounts due to customers	74 400 988	73 096 254

Structure by maturity

	30.06.2005 unaudited	31.12.2004
Current accounts and O/N deposits	25 772 596	24 282 610
Amounts due with maturity period of:	48 628 392	48 813 644
Up to 1 month	15 807 820	17 470 432
From 1 month to 3 months	12 404 107	11 246 992
From 3 months to 1 year	18 836 123	18 464 495
From 1 year to 5 years	1 486 407	1 554 177
Over 5 years	93 935	77 548
Other	-	-
Total	74 400 988	73 096 254

39. Liabilities arising from debt securities issued

As at 30 June 2005 and 31 December 2004, the Group had the following liabilities arising from debt securities issued.

	30.06.2005 unaudited	31.12.2004
Liabilities arising from issue of :		
Bonds	73 037	21 076
Certificates	-	-
Other	-	-
Total	73 037	21 076

	30.06.2005 unaudited	31.12.2004
Liabilities arising from issue with repayment period:	73 037	21 076
Up to 1 month	-	-
From 1 month to 3 months	-	-
From 3 months to 1 year	73 037	21 076
From 1 year to 5 years	-	-
Over 5 years	-	-
Total	73 037	21 076

As at 30 June 2004 and 31 December 2004, average interest rates of the above securities were 5.74% and 7.32%, respectively.

40. Other liabilities

	30.06.2005 unaudited	31.12.2004
Prepayments and accrued income	224 828	343 702
Other liabilities	2 743 515	1 047 047
declared dividend	1 000 000	-
inter-bank and inter-branch clearing accounts	367 167	138 521
settlements arising from transactions realised with the use of cards	12 711	10 905
liabilities due to suppliers	105 637	62 819
legal-public settlements	503 876	148 503
liabilities arising from settlements of operations on securities	170 781	69 410
liabilities arising from foreign currency activities	60 063	41 526
liabilities arising from sale of treasury stamps	33 649	22 994
liabilities arising from transactions with non-financial entities	137 099	224 855
settlements of funds for payments from Foundation "Polsko-Niemieckie Pojednanie"	5 792	13 153
liabilities relating to investment activities and Bank's resource management	8 476	102 819
liabilities relating to bank transfers to be paid out in PLN	3 389	1 895
sundry credit operating liabilities	2 228	3 292
settlements relating to the substitution service of Poczta	3 741	4 836
liabilities to RUP relating to payments of unemployment benefits	2 364	1 388
other*	326 541	200 130
Total	2 968 342	1 390 748

* Included in "Other" item as at 30 June 2005 are other amounts due to ARiMR of PLN 37,073 thousand and liabilities arising from settlements with counterparties in the amount of PLN 27,986 thousand.

41. Provisions

6 months period ended 30 June 2005 unaudited	Provision for disputes	Provisions for jubilee bonuses and retirement benefits	Provisions for liabilities and guarantees granted	Other provisions	Total
As at 1 January 2005	7 110	184 151	10 375	7 137	208 773
Increase/revaluation	148	-	20 894	-	21 042
Utilization	(44)	(3)	-	-	(47)
Reversal	-	-	(21 605)	(10 865)	(32 470)
Change due to increase of discounted amount resulting from time passage and changes in discount rate	-	-	-	-	-
Acquisition/sale due to merger of business entities	-	-	-	-	-
Foreign exchange differences	-	-	14	-	14
Other changes	162	-	8 067	16 354	24 582
As at 30 June 2005	7 376	184 148	17 745	12 626	221 895

6 months period ended 30 June 2004 Unaudited	Provision for disputes	Provisions for jubilee bonuses and retirement benefits	Provisions for liabilities and guarantees granted	Other provisions	Total
As at 1 January 2004	5 614	173 294	15 991	273	195 172
Increase/revaluation	-	1 069	12 155	3 124	16 348
Utilization	-	(286)	-	-	(286)
Reversal	-	-	(6 919)	(3 215)	(10 134)
Change due to increase of discounted amount resulting from time passage and changes in discount rate	-	-	-	-	-
Acquisition/sale due to mergers of business entities	-	-	-	-	-
Foreign exchange differences	-	-	-	-	-
Other changes	-	281	(281)	-	0
As at 30 June 2004	5 614	174 358	20 946	182	201 100

Provisions for disputes were created in the amount equal to expected outflows of economic benefits.

42. Employee benefits

On 10 November 2004 in accordance with the Act dated 30 August 1996 on commercialisation and privatisation (Journal of Laws, 2002, No 171, item 1397 with further amendments) and § 14.1 of the Minister of State Treasury Decree dated 29 January 2003 concerning detailed principles of dividing entitled employees into groups, determining the number of shares falling to each of those groups and the course of acquiring shares by entitled employees (Journal of Laws, No 35, item 303), employee shares of the holding company have been granted to the employees. As a result, the employees received 105,000,000 shares, which account for 10.5% in the share capital of the holding company. In preparing the attached consolidated financial statements, the holding company applied transitional provisions of IFRS 1 and did not settle the above transaction according to the requirements of MSSF 2.

43. Resources of Zakładowy Fundusz Świadczeń Socjalnych [Company's Social Security Fund] ("ZFŚŚ")

According to Company's Social Security Fund Act dated 4 March 1994, with further amendments, Bank and Group's companies employing at least 20 employees formed ZFŚŚ. The aim of this Fund is to finance social activities on behalf of employees and subsidising of company's social units. The liabilities of the Fund consist of accumulated contributions made by the Bank and Group's companies on behalf of ZFŚŚ reduced by non-returnable expenditures from ZFŚŚ.

In the consolidated balance sheet, the Group compensated Fund's assets and liabilities taking into account the fact that the assets of ZFŚŚ are not constituting the part of the Group assets. Hence, in Group's consolidated balance sheet as at 30 June 2005 and 31 December 2004 the balances of ZFŚŚ accounts would amount to zero.

The following listing presents types and carrying amounts of assets, liabilities and costs associated with ZFŚŚ:

	30.06.2005 unaudited	31.12.2004
Loans granted to employees	86 206	74 006
Amounts on the Social Fund account	25 827	13 338
Social Fund liability	112 033	87 344
	1.01-30.06.2005 unaudited	1.01-30.06.2004 unaudited
Contributions to Social Fund	14 376	12 948
Non-returnable expenditure by the Fund	4 211	4 900

44. Contingent liabilities

As at 30 June 2005 the binding underwriting agreements covered following securities' programs:
unaudited

Issuer of securities underwritten	Type of underwritten securities	Amount to which the Bank committed in case of realisation of underwriting agreement	Contract period	Sub-issue type
Company A	Corporate bonds	19 966 320	2006-12-31	Bonds Issue Agreement*
Company B	Commercial bills of exchange	69 893 684	2005-12-31	Commercial Bill Issue Agreement
Company C	Commercial bills of exchange	39 912 348	2006-12-30	Commercial Bill Issue Agreement
Company D	Corporate bonds	349 562 850	2009-12-31	Bonds Issue Agreement
Entity A	Municipal bonds	5 000 000	2011-12-31	Bonds Issue Agreement
Entity B	Municipal bonds	4 500 000	2010-12-31	Bonds Issue Agreement
Entity C	Municipal bonds	5 000 000	2010-12-31	Bonds Issue Agreement
Entity D	Municipal bonds	2 600 000	2014-12-31	Bonds Issue Agreement
Entity E	Municipal bonds	1 930 000	2011-12-31	Bonds Issue Agreement
Entity F	Municipal bonds	5 800 000	2015-12-31	Bonds Issue Agreement
Entity G	Municipal bonds	5 000 000	2013-12-31	Bonds Issue Agreement
Entity H	Municipal bonds	3 000 000	2012-12-30	Bonds Issue Agreement
Entity I	Municipal bonds	4 900 000	2011-12-31	Bonds Issue Agreement
Entity J	Municipal bonds	700 000	2009-12-31	Bonds Issue Agreement
Entity K	Municipal bonds	5 000 000	2009-12-31	Bonds Issue Agreement
Entity L	Municipal bonds	2 600 000	2013-12-31	Bonds Issue Agreement
Entity M	Municipal bonds	900 000	2010-12-31	Bonds Issue Agreement
Entity N	Municipal bonds	2 000 000	2011-12-31	Bonds Issue Agreement
Entity O	Municipal bonds	11 222 000	2011-12-31	Bonds Issue Agreement
Entity P	Municipal bonds	2 500 000	2012-10-01	Bonds Issue Agreement
Entity Q	Municipal bonds	9 500 000	2012-12-31	Bonds Issue Agreement
Entity R	Municipal bonds	4 200 000	2014-12-31	Bonds Issue Agreement
Entity S	Municipal bonds	4 200 000	2014-12-31	Bonds Issue Agreement
Entity T	Municipal bonds	5 000 000	2011-12-31	Bonds Issue Agreement
Entity U	Municipal bonds	2 400 000	2009-12-31	Bonds Issue Agreement
Entity V	Municipal bonds	2 000 000	2014-12-31	Bonds Issue Agreement
Entity W	Municipal bonds	1 500 000	2012-12-31	Bonds Issue Agreement
Entity X	Municipal bonds	1 780 000	2015-07-15	Bonds Issue Agreement
Entity Y	Municipal bonds	14 000 000	2013-12-30	Bonds Issue Agreement
Entity Z	Municipal bonds	40 500 000	2017-12-31	Bonds Issue Agreement
Entity AA	Municipal bonds	7 500 000	2011-12-31	Bonds Issue Agreement
Entity BB	Municipal bonds	50 000 000	2011-12-31	Bonds Issue Agreement
Entity CC	Municipal bonds	12 000 000	2011-12-31	Bonds Issue Agreement
Entity DD	Municipal bonds	7 900 000	2008-12-31	Bonds Issue Agreement
Entity EE	Municipal bonds	5 900 000	2015-12-31	Bonds Issue Agreement
Entity FF	Municipal bonds	500 000	2010-11-30	Bonds Issue Agreement
Total		710 867 202		

* relates to the Agreement for the Organization, Conducting and Servicing of the Bond Issuance Program

As at 31 December 2004 the following sub-issue programs of underwriting agreements were in place :

unaudited

Issuer of securities underwritten	Type of underwritten securities	Amount to which the Bank committed in case of realisation of underwriting agreement	Contract period	Sub-issue type
Company A	Commercial bills of exchange	69 870 816	2005-12-31	Commercial Bill Issue Agreement
Company B	Commercial bills of exchange	39 912 348	2006-12-30	Commercial Bill Issue Agreement
Entity A	Municipal bonds	5 000 000	2011-12-31	Bonds Issue Agreement*
Entity B	Municipal bonds	4 500 000	2010-12-31	Bonds Issue Agreement
Entity C	Municipal bonds	10 000 000	2010-12-31	Bonds Issue Agreement
Entity D	Municipal bonds	5 430 000	2011-12-31	Bonds Issue Agreement
Entity E	Municipal bonds	5 900 000	2011-12-31	Bonds Issue Agreement
Entity F	Municipal bonds	700 000	2009-12-31	Bonds Issue Agreement
Entity G	Municipal bonds	5 000 000	2009-12-31	Bonds Issue Agreement
Entity H	Municipal bonds	900 000	2010-12-31	Bonds Issue Agreement
Entity I	Municipal bonds	3 000 000	2011-12-31	Bonds Issue Agreement
Entity J	Municipal bonds	11 222 000	2011-12-31	Bonds Issue Agreement
Entity K	Municipal bonds	3 800 000	2012-10-01	Bonds Issue Agreement
Entity L	Municipal bonds	5 200 000	2014-12-31	Bonds Issue Agreement
Entity M	Municipal bonds	2 400 000	2009-12-31	Bonds Issue Agreement
Entity N	Municipal bonds	2 000 000	2014-12-31	Bonds Issue Agreement
Entity L	Municipal bonds	1 700 000	2012-12-31	Bonds Issue Agreement
Entity O	Municipal bonds	2 160 000	2015-07-15	Bonds Issue Agreement
Entity P	Municipal bonds	14 000 000	2013-12-30	Bonds Issue Agreement
Entity Q	Municipal bonds	40 500 000	2017-12-31	Bonds Issue Agreement
Entity R	Municipal bonds	7 500 000	2011-12-31	Bonds Issue Agreement
Entity S	Municipal bonds	35 000 000	2011-12-31	Bonds Issue Agreement
Entity T	Municipal bonds	500 000	2010-11-30	Bonds Issue Agreement
Total		276 195 164		

* relates to the Agreement on Organization, Conducting and Servicing of the Bond Issuance Program

All securities under sub-issue program have an unlimited transferability, are not quoted on stock exchange and are not traded on a regulated OTC market.

Potential liabilities

As at 30 June 2005, the total value of court proceedings in which the Bank is defendant (inbound) was PLN 393,352 thousand (as at 31 December 2004: the total amounted to PLN 10,000,000,391,362 thousand), while the total value of court proceedings in which the Bank filed claims (outbound) was PLN 78,710 thousand (as at 31 December 2004: PLN 92,072 thousand).

a) Unfair competition proceedings

The Bank is a party to proceedings initiated based on the decision dated 23 April 2001 of the President of the Competition and Consumer Protection Office upon request of the Polish Trade and Distribution Organization against the following: Visa CEMEA – Visa International, Europay International S.A, Visa Forum Polska and Europay Forum Polska and the banks –members of the association of payees Visa Forum Polska and Europay Forum Polska, including against the Bank, for practices limiting competition on the market of services relating to discharging consumer liabilities towards accepting parties resulting from credit card purchases of goods and services made on the territory of Poland, whereby the above named participate in agreeing of “interchange” fees for transactions made with the use of Visa credit cards (which may be in breach of Art. 5.section 1 point 1 of the Act on competition protection), participate in agreeing of “interchange” fees for transactions made with the use of Europay/ Eurocard/Mastercard cards in Poland (which may be in breach of Art. 5. section 1 point 1 and 6 of

the Act on competition protection) and coordinate activities with a view to limiting an access to the corporate market for the payees, who are not members of the above systems (which may violate of Art. 5. section 1 point 1 and 6 of the Act on competition protection). The deadline for completing the proceedings was postponed several times. Based on the decision of the President of the Competition and Consumer Protection Office dated 29 August 2005, the deadline for the completion of proceedings was postponed to 29 October 2005 due to the necessity to obtain appropriate data and information and the necessity to analyze court evidence. Additionally, in response to the letter of the Competition and Consumer Protection Office dated 21 April 2005, the Bank submitted on 4 May 2005 a complete source documentation and cost analyses relating to interchange fee. In its letter dated 20 July 2005, the Competition and Consumer Protection Office informed the Bank that the President of the Office decided to appoint an appropriate expert in response to the request of the Polish Trade and Distribution Organization dated 14 June 2005.

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

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

In the opinion of the Management Board of PKO BP SA, the probability of claims that may arise under the proceedings described in the points a) and b) above is remote.

Financial liabilities granted

	30.06.2005 unaudited	31.12.2004
Total liabilities granted:	17 259 237	15 164 411
to the financial sector	2 922 923	1 555 170
to the non-financial sector	13 785 368	12 332 241
to the state budget	550 946	1 277 000
including: irrevocable liabilities granted	9 954 035	9 504 544

Guarantee liabilities granted

	30.06.2005 unaudited	31.12.2004
Amounts due to the financial sector:	6 009	59 260
guarantees	4 757	59 260
sureties	-	-
confirmed export letters of credit	1 252	-
Amounts due to the non-financial sector:	1 061 019	468 710
guarantees	1 041 040	468 710
sureties	19 979	-
confirmed export letters of credit	-	-
Amounts due to the state budget:	271 867	210 508
Guarantees	271 867	210 508
Sureties	-	-
Avails	-	-
Total guarantees granted	1 338 895	738 478

Information on provisions for off-balance guarantees and financial liabilities is included in Note 42.

Assets pledged as collaterals for contingent liabilities

As at 30 June 2005 and 31 December 2004 the Group had no financial assets pledged as collaterals.

45. Share capital

In the 6 months periods ended 30 June 2004 and 30 June 2005, respectively, there were no changes in the holding company's share capital.

As at 30 June 2005 the share capital of PKO BP SA amounted to PLN 1,000,000 thousand and consisted of 1,000,000 thousand ordinary shares with a nominal value of 1 PLN each (as at 31 December 2004: PLN 1,000,000 thousand, 1,000,000 ordinary shares with a nominal value of 1 PLN each) – shares fully paid.

Information on the holders of PKO BP SA shares is presented in Note 1.

46. Other capital items and retained earnings

	30.06.2005 unaudited	31.12.2004
Reserve capital	3 297 614	2 790 299
share premium	-	-
Other	3 297 614	2 790 299
Revaluation reserve of financial assets available for sale	134 408	241 267
General banking risks reserve	1 000 000	1 499 963
Other reserves	1 556 418	1 495 495
Other	-	-
Retained earnings	156 940	270 046
Total	6 145 380	6 297 070

47. Additional information to the cash flow statement

Cash and cash equivalents

	30.06.2005 unaudited	30.06.2004 niezbadane
Cash and amounts in the Central Bank	4 727 818	3 445 815
Current receivables from financial institutions	11 355 517	7 495 989
Total	16 083 335	10 941 804

Cash flow from operating activities – other adjustments

	01.01- 30.06.2005 unaudited	01.01- 30.06.2004 unaudited
Valuation, interest accrued, discount, premium on debt securities decreased by deferred tax	77 132	124 722
Non-cash changes due to the settlement of tangible and intangible fixed assets	4 504	44 157
Re-measurement of tangible fixed assets to fair value	-	(226 166)
Repayment of interest on long-term loan	1 330	144
Valuation, impairment allowances against investments in jointly controlled entities and associates	7 563	992
Dividend declared	(1 000 000)	-
Utilization of provision for general banking risk		(2 558)
Foreign exchange differences on foreign entities' translation	9 022	-
Separation of tax paid and current tax expense	(62 598)	(81 975)
Other, less than 5%	20 802	3 744
Total other adjustments	(942 245)	(136 940)

Reconciliation of differences between the balance sheet and the consolidated cash flow statement (Group A) changes in those items.

1. Change in amounts due from banks – includes balance sheet change in receivables from banks adjusted by receivables included in cash and cash equivalents, adjusted by impairment losses.
2. Change in financial assets held for trading and other financial instruments at fair value– includes change in the purchase price of financial assets held for trading and other financial instruments
3. Change in loans and credit granted to customers – includes balance sheet change in loans and credit granted to customers, adjusted by impairment losses, minus finance lease receivables.
4. Change in available for sale securities – included in investment activities
5. Change in deferred tax asset – includes balance sheet change of this item, adjusted by change in deferred tax liability due to valuation of available for sale securities
6. Change in amounts due to banks – includes balance sheet change of this item, adjusted by transfer to Group C of long-term loans from banks taken out/ repaid
7. Change in amounts due to customers – includes balance sheet change of this item, adjusted by transfer to Group C of finance lease instalments
8. Change in provisions – includes balance sheet change of this item, adjusted by impairment losses

Change in the balance of financial assets held for trading and other financial instruments valued at fair value includes recognition of other financial instruments valued at fair value through profit and loss account in relation to the change in accounting principles as at 1 January, 2005.

48. Insurance contracts

	30.06.2005 unaudited
Off-balance sheet liabilities arising from insurance contracts:	1 338 895
Guarantees	1 291 565
Letters of credit	47 330
Provision for off-balance sheet liabilities arising from insurance contracts (insurance liabilities) as at 1 January 2005	7 435
Income from insurance contracts during the 6-month period ended 30 June 2005	7 035
Expenses due to insurance contracts during the 6-month period ended 30 June 2005	(6 432)

Reconciliation of insurance liabilities balance

	1.01-30.06.2005 unaudited
Provision for off-balance sheet liabilities (insurance liabilities) arising from insurance contracts	7 566
Additional provisions for guarantees and letters of credits	6 432
Reversal of provisions for guarantees and letters of credit	6 563
Provision for off-balance sheet liabilities arising from insurance contracts (insurance liabilities) as at 30 June 2005	7 435

The Group took advantage of exemptions allowed under IFRS 1 and did not restate comparative data in the scope of IFRS 4.

49. Transactions with the State budget

According to the Act dated 30 November 1995 on the state support in the repayment of certain housing loans, the refund of guarantee premium to banks and amendments to certain acts (Journal of Laws 2003, No.119, item 1115 with subsequent amendments), PKO BP SA receives payments from the State budget due to the repurchase of interest on housing loans. As part of the realisation of the statutory obligations of the State budget, during the half-year period ended 30 June 2005 the Bank recognised income in the amount of PLN 90,864 thousand (in the corresponding period of 2004: PLN 60,321 thousand) due to the temporary repurchase by the State treasury of interest on housing loans from the “old” portfolio. During this period the Bank received PLN 52,130 thousand in cash (in the corresponding period of 2004: PLN 58,707 thousand), due to the temporary repurchase by the State treasury of interest on housing loans from the “old” portfolio. The difference of PLN 38,724 thousand (in the corresponding period of 2004: PLN 1,614 thousand) between income recognised for this period and income received in cash is reflected in the balance sheet of the Group under “Amounts due from the clients/from the public sector”.

PKO BP SA receives a commission for the settlement relating to the repurchase of interest on housing loans. During 6 months of 2005 PKO BP SA received a commission for the fourth quarter of 2004 amounting to PLN 1,715 thousand (in the corresponding period of 2004 for the fourth quarter of 2003: PLN 2,629 thousand). This commission is included in the income statement under “Fees and commission income”.

The balance sheet of the Group includes receivables, securities and liabilities arising from transactions with the State Treasury, local authorities and entities for which the State Treasury is the shareholder. The largest loan exposures were disclosed in Note 3. These transactions were concluded on arms length.

As of 1 January 1996 the Bank became general distributor of duty stamps. The amount received in this respect from the State budget in the 6 months period ended 30 June 2005 totalled PLN 18,888 thousand (in the corresponding period of 2004: PLN 24,034 thousand) and was recognised in the Bank's income under "Fees and commission income" in full.

In the 6 months period ended 30 June 2005, the Bank also recognised a commission income of PLN 409 thousand (in the corresponding period of 2004: PLN 5,345 thousand) as its fees for servicing compensation payments for pensioners, who in 1991 lost the increases or additions to their pensions payable for performing work in specific conditions or of a specific nature, as well as for public sector employees whose salaries were not adjusted in the second half of 1991 and in the first half of 1992. This amount was included under "Fees and commission income".

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

50. Transactions between the issuer and capital related entities**Transactions of the holding company with subsidiaries, joint ventures and associates valued using equity pick-up method**

As at 30 June 2005

(unaudited)

Entity	Net receivable s	Including gross loans	Liabilities	Total revenues	Including interest and fees commissio n income	Total costs	Including interest and fees commission costs	Off-balance sheet liabilities granted
International Trade Centem Sp. z o.o. (in liquidation)	-	-	-	-	-	-	-	-
Przedsiębiorstwo Informatyki Bankowej Elbank Sp. z o.o. (in liquidation)	-	-	-	-	-	-	-	-
PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.	-	-	623	11 830	11 827	13	13	224
Wawel Hotel Development Sp. z o.o.	118 284	113 690	10 016	2 358	2 339	103	102	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	2 287	1	-	8	4	-
Agencja Inwestycyjna „CORP” S.A.	69	-	-	275	-	1 131	-	-
Ekogips S.A. (in bankruptcy)	-	-	-	-	-	-	-	-
Hotel Jan III Sobieski Sp. z o.o.	40 668	81 335	1	983	983	66	2	-
Kolej Gondolowa Jaworzyna Krynicka S.A.	3 750	3 750	11	1 627	1 627	2	2	-
Bank Pocztowy S.A.	-	-	-	-	-	22	-	-

As at 30 June 2004

(unaudited)

Entity	Net receivables	Including gross loans	Liabilities	Total revenues	Including interest and fees commission income	Total costs	Including interest and fees commission costs	Off-balance sheet liabilities granted
PKO Towarzystwo Finansowe Sp. z o.o. (in liquidation)	146	-	842	234	234	145	145	400
International Trade Centem Sp. z o.o. (in liquidation)	-	-	-	-	-	-	-	-
Przedsiębiorstwo Informatyki Bankowej Elbank Sp. z o.o. (in bankruptcy)	-	-	-	-	-	-	-	-
PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.	3 677	-	1 825	433	426	-	-	-
Wawel Hotel Development Sp. z o.o.	122 255	118 945	4 886	114	104	22	22	21 182
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	2 315	-	-	-	-	-
Agencja Inwestycyjna „CORP” S.A.	236	-	-	-	-	1 221	-	-
Ekogips S.A. (in liquidation)	668	2 948	-	-	-	-	-	-
Hotel Jan III Sobieski Sp. z o.o.	47 622	95 121	-	1 203	1 203	2 801	-	-
Kolej Gondolowa Jaworzyna Krynica S.A.	5 590	3 750	1 196	351	351	54	23	-
Wrocławskie Zintegrowane Centrum Logistyczne S.A. (in liquidation)	-	-	-	-	-	-	-	-

Benefits of the key management of the holding company

	01.01 – 30.06.2005 unaudited	01.01 – 30.06.2004 unaudited
Management Board		
Short-term personnel benefits	819	845
Bank's Supervisory Board		
Short-term personnel benefits	112	87
Total remuneration	931	932

Loans, advances, guarantees and other benefits provided by the Bank to related parties

	30.06.2005 unaudited	31.12.2004
Employees	396 044	389 624
Members of the Management Board	25	7
Members of the Supervisory Board	201	-
Relatives of the Management Board and Supervisory Board Members	-	-
Total	396 270	389 631

Terms of interest and repayment periods for these receivables do not differ from market terms.

Remuneration received by the members of the Management and Supervisory Boards of the Group's subsidiaries

	01.01 – 10.06.2005 unaudited	01.01 – 30.06.2004 unaudited
Management Board		
Short-term employee benefits	2 925	1 552
Supervisory Board		
Short-term employee benefits	743	513
Total benefits	3 668	2 065

51. Business combinations

Acquisitions of business entities

As at 30 June 2005 and 30 June 2004 there were no mergers of the holding company or any subsidiary with any other entity.

In the second half of 2004, PKO BP SA acquired from Kredyt Bank S.A. 9,567,713,000 shares of Kredyt Banku (Ukraine), which represent 66.651% of share capital and votes at the annual general meeting of this company. The acquisition price was PLN 109.5 million. On 26 August 2004, after obtaining permissions from the President of the Consumer and Competition Protection Office (Urząd Ochrony Konkurencji i Konsumentów) and Anti-Monopoly Committee of Ukraine and the National Bank of Ukraine, a transfer of ownership rights to those shares to PKO BP SA took place.

Information on acquisition of shares of Kredyt Bank (Ukraine) S.A.

Entity name	Kredyt Bank (Ukraine) SA
Date of acquisition	26.08.2004.
Percentage share in the share capital of KBU	66,651%
Acquisition price	PLN 109 531 thousand
Fair value of net assets as at 31.08.2004 Of which:	PLN 93 047 thousand
– Cash and amounts due from Central Bank	PLN 39 897 thousand
– Amounts due from financial sector	PLN 132 240 thousand
– Amounts due from other sectors	PLN 583 973 thousand
– Debt securities	PLN 52 167 thousand
– Intangible assets	PLN 2 505 thousand
– Tangible fixed assets	PLN 66 366 thousand
– Other assets	PLN 10 538 thousand
– Prepayments and deferred costs	PLN 7 344 thousand
– Liabilities	PLN 799 784 thousand
– Special funds and other liabilities and equity	PLN 1 001 thousand
– Accruals and deferred income, restricted and provisions	PLN 1 198 thousand
Share of PKO BP SA in the fair value of net assets of KBU at acquisition date	PLN 62 017 thousand
Goodwill	PLN 47 514 thousand
Goodwill as at 31.12.2004	PLN 47 514 thousand
Goodwill as at 30.06.2005	PLN 47 514 thousand

Disposal of business entities

In the first half of 2005 and in the first half of 2004 there were no disposal of subsidiaries.

52. Events after the balance sheet date

On 15 September 2005 the Supervisory Board of PKO BP SA on the basis of § 15 p. 7 and 8 of the Bank's Statute adopted decrees appointing:

- Danuta Demianiuk as a Vice President of Powszechna Kasa Oszczędności Spółka Akcyjna,

- Krystyna Szewczyk as a Member of Management Board of Powszechna Kasa Oszczędności Spółka Akcyjna,
- Piotr Kamiński as a Member of Management Board of Powszechna Kasa Oszczędności Spółka Akcyjna.

In accordance with the passed resolutions, on 16 September 2005 the above-mentioned Management was appointed for the specified positions in PKO BP SA for common Management Board cadence starting on 19 May 2005.

On 9 September 2005 a conditional agreement was signed between Powszechna Kasa Oszczędności Bank Polski and Getin Holding S.A. with the head office in Wrocław. The agreement concerns sale of 50,312,200 G series shares of Wschodni Bank Cukrownictwa SA with the head office in Lublin (WBC S.A.) at nominal value of PLN 1 each. The acquirer is not related with PKO BP SA. The disposed assets were acknowledged as significant as they exceed 20% of the initial capital of WBC SA. The transaction price exceeds the acquisition price by PLN 2 515 thousands. The transaction will be completed on the condition that amongst other appropriate permissions will be granted by banking supervision bodies.

On 17 August 2005 the Bank signed with the related entity Kredyt Bank (Ukraine) S.A. with the head office in Lwów (the Bank's subsidiary) the subordinated loan agreement amounting to USD 7 million for the period of 8 years. The subordinated loan was granted without collateral and will be paid off in one instalment in the end of the financing period.

The subordinated loan was granted in an arm's length transaction. The subordinated loan agreement was signed in accordance with the requirements of the National Bank of Ukraine specified by the Board of the National Bank of Ukraine Resolution No. 368 dated 28 August 2001, which makes it possible to include this loan, after obtaining appropriate permission from the National Bank of Ukraine, in equity of Kredyt Bank (Ukraine). The purpose of the loan is to finance the development of operating activities of Kredyt Bank (Ukraine) S.A. The total acquisition price of KBU shares owned by PKO BP SA is PLN 109.53 million. These account for 66.65% of the KBU share capital and give PKO BP SA 66.65% votes at the Annual General Meeting of Kredyt Bank (Ukraine) S.A.

On 10 August 2005 UKRPOLINWESTYCJE Sp. z o.o. was registered in the Unified National Register of Enterprises and Organizations of Ukraine (Jednolitym Państwowym Rejestrze Przedsiębiorstw i Organizacji Ukrainy). PKO Inwestycje Sp z o.o. – subsidiary of the Bank – took over shares representing 55% equity of UKRPOLINWESTYCJE Sp. z o.o. The company's primary activity will be to trigger activities heading for realization of investment projects in area of Kiev or other cities.

53. First-time adoption of International Financial Reporting Standards

In the following note are presented: the reconciliation of the equity at 1 January 2004, 30 June 2004 and 31 December 2004 and the reconciliation of net profit for 6 months ended 30 June 2004 and for the year ended 31 December 2004 between previously published financial statements prepared in accordance with Polish Accounting Standards (PAS) and restated comparative data in accordance with IFRS presented in the attached financial statements.

The comparison of balance sheet prepared in accordance with PAS and IFRS at 31 December 2004 and 1 January 2005 and the comparison of profit and loss account for the period of 6 months ended 30 June 2004 prepared in accordance with PAS and IAS are also presented.

The financial statements were prepared in accordance with IFRS 1. The optional exemptions allowed by IFRS 1 and applied by the Group are described in Note 2.

The principles of accounting policy in accordance with IAS are different in many fields comparing to PAS. The differences between IAS and PAS, which had a significant influence on calculation of net profit and valuation of equity in 2004 and in the 6 month period ended 30 June 2005 are described below.

Valuation of financial assets and liabilities at amortised cost

The International Accounting Standard IAS 39 requires that certain financial assets and liabilities should be valued at amortised cost using the effective interest rate.

The Group took advantage of the exemption of the requirement of transforming comparative data in accordance with IAS 39. This standard requires commencing the valuation of financial instruments at amortized cost using

the effective interest rate method starting from 1 January 2005. The comparative data concerning this standard were prepared in accordance with Polish accounting standards.

As of 1 January 2005 the Group introduced adjustments regarding the financial asset and liability valuation at amortised cost using the effective interest rate method in accordance with IAS 39. The result of introduced adjustments as at 1 January 2005 is presented in the following reconciliation of equity as at 1 January 2005 and in the comparison of balance sheet prepared in accordance with IAS as at 31 December 2004 (without complying to IAS 39) and the balance sheet in accordance with IAS as at 1 January 2005.

Main adjustments, which were essential in preparing comparative data in accordance with IAS 39 with reference to the financial assets and liabilities valuation at amortised cost:

- adjustment to the value of credits and loans granted to clients – valuation at amortised cost,
- adjustment to amounts due from banks – valuation at amortised cost,
- adjustment to financial liabilities (apart from these valued at fair value) i.e. clients deposits – valuation at amortised cost,
- adjustment to financial instruments held to maturity value – valuation at amortised cost,
- adjustment to revaluation reserve of financial instruments available for sale – using the effective interest rate method,
- adjustment to deferred tax assets/liabilities.

Except for the adjustment to deferred tax assets/ deferred tax liability, the above adjustments relate to the fact that in accordance with PAS the Group applies straight line method to the settlement of interest revenues and expenses. Application of those amended IFRSs would result in transferring certain commission income items from commission income to interest result.

If the Bank prepared comparative data, the effect of the above adjustments would have been taken to the financial result as at 1 January 2004 and to the income statement for the 6-month period ended 30 June 2004.

Impairment of assets

According to IAS 39, a financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An enterprise is required to assess at each balance sheet date whether there is any objective evidence that the financial asset may be impaired. Such evidence includes among others information about significant financial difficulty of the issuer or an actual breach of contract, such as a default or delinquency in interest or principal payments. If the diminution or loss of value occurs, the amount of loss is the difference between the asset's carrying amount and the present value of the expected future cash flows, discounted using the original effective interest rate for assets measured at cost, and using the current market rate of interest for financial assets measured at fair value.

According to Polish Accounting Standards, the banks are required to perform, at least quarterly, a review of loan exposures and classify them to the so-called risk groups (i.e. normal receivables, watch receivables, substandard receivables, doubtful receivables, lost receivables). The classification follows the criteria of timeliness of repayments of receivables and of economic and financial situation of the borrower. Specific provisions for loan exposures are created at least at the level required for particular risk groups (from 1.5% do 100% of the basis for creating a provision).

In addition, in accordance with PAS, the required level of specific provisions for loan exposures:

- relating to retail loans classified as “normal” – is decreased by 25% of the general banking risks reserve;
- classified as “watch” – is decreased by 25% of the general banking risks reserve created in accordance with Art. 130 of the Banking Law.

The Group took advantage of the exemption from the requirement to restate comparative data required for IAS 39 purposes. This standard states that the IFRS transition date is 1 January 2005. The comparative financial data concerning transactions, assets and liabilities within the scope of IAS 39 for the periods commencing 1 January 2004 and ending 31 January 2004 or earlier have been prepared in accordance with Polish Accounting Standards.

Portfolio of financial assets and liabilities in accordance with IAS 39

IAS 39 includes portfolio definitions, which are different from those under PAS. The necessity of transfer some financial instruments from one portfolio to another results among others from the requirements of classification of given financial instrument to specific portfolio in accordance with IAS 39, which is different from PAS. Moreover, according to the exemption included in IFRS 1 the Group had the possibility to assign certain financial instruments held to the portfolio of financial assets at fair value through profit or loss or to the available for sale portfolio.

The Group took advantage of the exemption from the requirement to restate comparative data in accordance with IAS 32, IAS 39 and IFRS 4. Recognition of transactions, assets and liabilities, which fall within the scope of these for the periods commencing 1 January 2004 and ending 31 December 2004 or earlier was made in accordance with PAS.

Given the above, the Group designated certain financial instruments, which are to be included in the portfolio of assets and liabilities at fair value through profit or loss or available for sale portfolio at 1 January 2005. The transfer of instruments between portfolios valued using different principles had an effect on the profit of the Group. The result of the adjustments as at 1 January 2005 is presented in the reconciliation of equity as at 1 January 2005 and in the comparison of the balance sheet in accordance with IAS as at 31 December 2004 (prepared with no compliance with IAS 39) and the balance sheet in accordance with IAS as at 1 January 2005.

The table below presents the fair value of items of financial assets designated to the financial assets fair value through profit or loss portfolio as at 1 January 2005.

unaudited

	The name of the instrument	Fair value as at 1 January 2005	Previous classification	Carrying amount as At 31 December 2004
Financial assets designated to financial assets valued at fair value through profit and loss as at 1 January 2005				
	NBP bills	1 127 839	DDS	1 127 839
	NBP bonds	2 641 070	DDS	2 641 070
	treasury bills	2 204 929	DDS	2 204 929
	treasury bonds	13 682 074	DDS	13 682 074
	treasury bonds – collateral of the BFG	192 720	DDS	192 720
	bonds of other banks in foreign currency	105 108	DDS	105 108
Total		19 953 740		19 953 740

Adjustments, which would be necessary in case of preparation of comparative data for the year ended 31 December 2004 in accordance with IAS 39 relating to assigning financial instruments to specific portfolios, would depend, among others, on the decision of the Bank's Management Board concerning assignment of financial instruments to portfolios defined in accordance with IAS 39 as at 1 January 2004.

Effects of hyperinflationary economy

IAS 29 „Financial reporting in hyperinflationary economies” requires that the assets and liabilities reported in the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the end of the reporting period and constitute the basis for the measurement of assets and liabilities in the financial statements for the following periods. The above standard applies to non-monetary balance sheet items. In case of the Group, significant non-monetary items include tangible fixed assets and equity. Until the end of 1996 the Polish economy fulfilled the criteria of the hyperinflationary economy. However, since 1997 the criteria have not been fulfilled. The Group did not apply IAS 29 in the previous years, revaluing the tangible fixed assets as at 1 January 1995, in accordance with the binding Polish regulations, in order to reflect the inflationary effects on their book value through applying revaluation indices set by the Ministry of Finance for the individual groups of tangible fixed assets. This revaluation did not meet the requirements of IAS 29, as the Group did not apply general price indexes and did not revalue the tangible fixed assets as at 31 December 1996.

Taking advantage of the exemptions under IFRS 1, the Group valued certain tangible non-current assets purchased before the period of hyperinflation at fair value on the day of transition to IFRS i.e. on 1 January 2004. The Group used this fair value as an estimated purchasing cost incurred on that day. Since all the assets acquired before the hyperinflation period were valued using the estimated cost method, no other IAS 29 overestimations were needed.

The effect of adjustments implemented on January 1, 2004 has been presented in the equity reconciliation for January 1, 2004 presented below. As at 1 January 2004 the Group established the deemed cost of tangible fixed assets in accordance with MSSF 1. The value of the adjustment amounted to PLN 279 217 thousand without the deferred tax effect.

Insurance contracts

The Group took advantage of exemptions allowed under IFRS 1 and did not restate comparative data in the scope of IFRS 4.

Scope of consolidation

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

The Bank had included in the consolidated financial statements all significant subsidiaries and jointly controlled entities except those, which conduct other than financial activities or which are not the bank services auxiliary entities. To this end, the Bank consolidated - using the equity method - its subsidiaries, PKO Inwestycje Sp. z o.o. in accordance with PAS. IAS 27 requires such entities should be consolidated using the full method. In the attached financial statements, PKO INwestycje Sp. z o.o. was consolidated using the full method.

Share based payments

In accordance with IFRS 1, the first –time adopters of IFRS are recommended but not required to apply provisions of IFRS 2 to own equity instruments, which have been granted on the 7th November 2002 or earlier or have been granted after 7th November 2002 and vested before 1 January 2005. Consequently, the Bank took advantage of exemptions allowed under IFRS 1 and did not apply the IFRS 2 requirements to granted employee shares (see Note 2).

General banking risks reserve

In accordance with IFRS 30, the general banking risks reserve cannot be a part of liabilities but should be presented as a separate item of retained earnings. The value of the general banking risks reserve which, in accordance with IFRS requirements, has been presented in retained earnings was PLN 499 963 thousands on 1 January 2005.

The above adjustments arising from differences i between PAS and IFRS had an impact on the balance of deferred tax asset/deferred tax liability as at 1 January 2004, 31 December 2004 and 1 January 2005.

Reconciliation of differences between IAS and PAS, between the previously published data and comparables prepared in accordance to IFRS as at 31 December 2004

	PAS 31.12.2004 unaudited	IAS 31.12.2004	Difference IAS – PAS
ASSETS			
Cash and balances with the Central Bank	3 525 323	3 525 329	6 ¹⁾
Amounts due from banks	13 245 881	13 231 879	(14 002) ^{1), 2)}
Financial assets held for trading	369 517	369 517	-
Derivative financial instruments	1 362 379	1 362 379	-
Other financial instruments valued at fair value through profit or loss	-	-	-
Amounts due from customers	43 151 902	40 037 263	(3 114 639) ^{3), 4),}
Investment debt securities	23 457 944	23 458 834	890
1. available for sale	21 561 050	21 565 817	4 767 ⁵⁾
2. held to maturity	1 896 894	1 893 017	(3 877) ⁵⁾
Intangible fixed assets	215 085	156 815	(58 270) ¹⁾
Tangible fixed assets	478 728	501 174	22 446 ^{1), 9)}
Financial assets classified as available for sale	2 366 154	2 651 597	285 443 ^{1), 5), 7)}
Deferred tax assets	22 482	26 644	4 162 ^{5), 8)}
Other assets	567 313	632 934	65 621 ^{1), 2), 3)}
Total Assets	88 762 708	85 954 365	(2 808 343)

	PAS 31.12.2004 unaudited	IAS 31.12.2004	Difference IAS – PAS
Liabilities and equity			
Amounts due to the Central Bank	144	144	-
Amounts due to other banks	998 419	998 718	299 ⁵⁾
Derivative financial instruments	793 739	793 739	-
Amounts due to customers	73 096 283	73 096 254	(29) ^{1), 5)}
Liabilities arising from securities issued	21 076	21 076	-
Other liabilities	4 356 677	1 390 749	(2 965 928) ^{1), 3), 6)}
Deferred tax liability	530 302	586 760	56 458 ^{1), 7)}
Provisions	870 370	208 773	(661 597) ^{4), 8)}
Equity	8 095 698	8 858 152	762 454
Share capital	1 000 000	1 000 000	-
Other capital items	5 564 491	6 027 024	462 533 ^{4), 7)}
Foreign exchange translation differences	(11 472)	(11 472)	-
Retained earnings	6 450	270 046	263 596 ^{1), 7)}
Result for the current year	1 511 065	1 506 705	(4 360) ¹⁰⁾
Minority capital*	25 164	65 849	40 685 ¹⁾
Total liabilities and equity	88 762 708	85 954 365	(2 808 343)

* In accordance with PAS minority capital was not presented under the equity of the parent company.

- 1) Consolidation of subsidiaries using the full method previously valued using equity method according to PAS.
- 2) Derecognition the receivables from Zakładowego Funduszu Świadczeń Socjalnych
- 3) Derecognition of the restricted interest from the balance sheet
- 4) General risk provision allocated to the “normal” and “watch” category receivables
- 5) Consolidation of the subsidiary preparing the financial statements in accordance with IFRS
- 6) Derecognition of a liability to Zakładowego Funduszu Świadczeń Socjalnych
- 7) Deemed cost of the tangible fixed assets
- 8) Change in the presentation of the deferred tax of the subsidiary
- 9) Reversal of the company’s goodwill amortisation

- ¹⁰⁾ Consolidation of the subsidiary preparing the financial statements in accordance with IFRS, goodwill adjustment, reversal of the goodwill amortisation

Reconciliation of equity between the previously published data prepared in accordance with PAS and comparables prepared in accordance with IFRS as at 1 January 2004

	unaudited
Equity according to PAS as at 1.01.2004	6 399 638
Transfer of the general banking risk provision to the equity	533 530
Including minority capital	26 009
Deemed cost of the tangible fixed assets valued at fair value in accordance with IFRS I	226 166
Equity according to IAS as at 1.01.2004	7 185 343

Reconciliation of differences between IFRS and PAS in the Bank's profit and loss account for the 6 months period ended 30 of June 2004 (unaudited)

	unaudited
Equity according to PAS as at 30.06.2004	7 177 662
Reversal of the goodwill amortisation of subsidiaries	11 131
Including minority capital	38 121
Transfer of the general banking risk provision to the equity	530 972
Deemed cost of the tangible fixed assets valued at fair value in accordance with IFRS I	226 166
Other changes	(795)
Net assets according to IAS	7 983 257

Reconciliation of equity differences between earlier published PAS data and comparative data restated to IAS as at 31 December 2004 and 1 January 2005

	unaudited
Net assets according to PAS as at 31 December 2004	8 095 698
Adjustment of goodwill impairment	(21 820)
Reversal of the goodwill amortisation of subsidiaries	21 537
Including minority capital	42 597
Consolidation of the subsidiary financial statements prepared in accordance with IFRS	(5 989)
Transfer of the general banking risk provision to the equity	499 963
Deemed cost of the tangible fixed assets valued at fair value in accordance with IFRS I	226 166
Equity according to IAS as at 31.12.2004	8 858 152
Equity according to PAS as at 31.12.2004	8 095 698
Adjustment of goodwill impairment	(21 820)
Reversal of the goodwill amortisation of subsidiaries	21 537
Including minority capital	42 597
Consolidation of the subsidiary financial statements prepared in accordance with IFRS	(5 989)
Application of IAS 39, including:	(138 417)
valuation at amortised cost with use of the effective interest rate adjusted with deferred tax	(336 002)
financial assets impairment	23 229
"old portfolio" capitalized interests	174 356
Deemed cost of the tangible fixed assets valued at fair value in accordance with IFRS I	226 166
Equity according to IAS as at 1 January 2005	8 219 772

Profit and loss for the 6 month period ended 30 June 2005 – Reconciliation of earlier published PAS financial data and comparative data restated to IAS.

	PAS 01.01.2004 – 30.06.2004 unaudited	IAS 01.01.2004 – 30.06.2004 unaudited	Difference IAS-PAS
Interest income	2 554 826	2 552 439	(2 387) ^{1),2)}
Interest cost	(735 224)	(803 052)	(67 828) ¹⁾
Net interest result	1 819 602	1 749 387	(70 215)
Fees and commission income	835 205	834 603	(602) ¹⁾
Fees and commission expense	(118 924)	(118 761)	163 ²⁾
Net fees and commission income	716 281	715 842	(439)
Dividend income	3	3	-
Result from financial instruments valued at fair value	107 429	108 632	1 203 ²⁾
Result from investment securities	(72 489)	(5 885)	66 604 ²⁾
Foreign exchange result	174 599	174 599	-
Other operating income	195 493	229 547	34 054 ^{1),2)}
Other operating expense	(98 472)	(41 817)	56 655 ^{2),3)}
Other net operating income	97 021	187 730	90 709
Impairment losses	14 966	(10 399)	(25 365) ²⁾
Overhead costs	(1 798 851)	(1 849 514)	(50 663) ^{1),2)}
Operating result	1 058 561	1 070 395	11 834
Share in net profit (loss) of companies valued under the equity pick-up method	6 001	5 290	(711) ¹⁾
Gross profit (loss)	1 064 562	1 075 685	11 123
Taxation	(218 899)	(218 891)	8²⁾
Net profit/loss for the period (without minority shareholders)	845 663	856 794	11 131
(Profit) loss attributable to minority shareholders	-	(548)	(548)¹⁾
Net profit (loss)	845 663	856 246	10 583

Description of changes

¹⁾ Consolidation of the subsidiaries with the full method, previously under PAS, valued using of equity pick-up method

²⁾ change of presentation in the subsidiaries consolidated with the full method

³⁾ reversal of the goodwill amortisation

Reconciliation of the differences between IFRS and PAS in the Group's net profit for the 6 month period ended 30 of June 2004

<i>(6 months period ended 30 June 2004)</i>	unaudited
Net profit according to PAS	845 663
Reversal of the goodwill amortisation	11 131
Profit/loss of the minority shareholders	(548)
Net profit according to IAS	856 246

<i>(12 month period ended 31 December 2004)</i>	
Net profit according to PAS	1 511 065
Reversal of the goodwill amortisation	21 537
Adjustment to the goodwill impairment	(21 820)
Consolidation of the subsidiary financial statements prepared in accordance with IFRS	(4 077)
Net profit according to IAS	1 506 705

Explanation of significant differences between earlier published PAS consolidated cash flow statement for the 6-month period ended 30 June 2004 and comparative data restated to IAS:

1. Cash and cash equivalents

Included in cash and cash equivalents are amounts due from banks with a maturity date of less than 3 month, except for cash and amounts due from Central Bank.

2. Financial assets available for sale

Movements in the balance of financial assets classified as available for sale transferred from operating to investing activities.

Effect of IAS implementation on the cash flow statement

	1.01.-30.06.2005	1.01-30.06.2004
Cash flow from operating activities		
Determining deemed cost of tangible fixed assets re-measured to fair value	-	226 166
Transfer of general banking risks reserve to equity	-	533 530
Full method consolidation of subsidiaries, which under PAS are consolidated using the equity method	-	26 009
Valuation at amortized costs using the effective interest method, adjusted by deferred tax	(336 002)	-
Financial assets impairment	(476 734)	-
Capitalized interest on "old" portfolio housing loans	174 356	-
Total effect of transition to IAS	(638 380)	785 705

Signatures of all Members of the Management Board

30 September 2005	Andrzej Podsiadło	President of the Board	..... (signature)
30 September 2005	Kazimierz Małecki	Vice-President First Deputy President of the Board	..... (signature)
30 September 2005	Danuta Demianiuk	Vice-President	..... (signature)
30 September 2005	Piotr Kamiński	Member of the Board	..... (signature)
30 September 2005	Jacek Obłəkowski	Member of the Board	..... (signature)

Signature of a person responsible for keeping the book of account

(date)

Krystyna Szewczyk

Member of the Management Board Chief Accountant of the Bank

(signature)

**CONDENSED FINANCIAL STATEMENTS OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK
POLSKI SA FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2005**

PROFIT AND LOSS ACCOUNT

for the 6 month period ended 30 June 2005 and 30 June 2004 ,respectively.

	1 January – 30 June 2005 unaudited	1 January – 30 June 2004 unaudited
I. Interest income	2 820 656	2 536 462
II. Interest expense	(1 082 294)	(800 231)
III. Net interest income	1 738 362	1 736 231
IV. Fee and commission income	732 633	846 482
V. Fee and commission expense	(153 347)	(119 678)
VI. Net fee and commission income	579 286	726 804
VII. Dividend income	14 272	18 840
VIII. Result from financial instruments at fair value	139 063	108 622
IX. Result from investment securities	53 197	(6 097)
X. Foreign exchange result	342 202	175 233
XI. Other operating income	82 190	108 968
XII. Other operating expenses	(32 264)	(41 385)
XIII. Net other operating income	49 926	67 583
XIV. Impairment losses	(69 514)	(8 117)
XV. General administrative costs	(1 746 832)	(1 760 786)
XVI. Operating profit	1 099 962	1 058 313
XVIII. Gross profit (loss)	1 099 962	1 058 313
XIX. Income tax	(218 738)	(212 600)
XX. Net profit (loss)	881 224	845 713

Profit (loss) per ordinary share:		
– net profit per ordinary share	0,88	0,85
– diluted net profit per ordinary share	0,88	0,85

BALANCE SHEET

as at 30 June 2005 and 31 December 2004

	30 June, 2005 unaudited	31 December, 2004
ASSETS		
I. Cash and amounts due from Central Bank	4 727 784	3 490 505
II. Amounts due from banks	14 229 756	13 146 115
III. Financial assets held for trading	400 413	346 131
IV. Derivative financial instruments	1 378 117	1 362 379
V. Other financial instruments valued at fair value through profit or loss	20 213 622	-
VII. Loans and advances to customers	41 316 200	39 577 723
IX. Investment securities	1 901 453	23 498 314
1. Available for sale	1 508 333	21 605 297
2. Held to maturity	393 120	1 893 017
X. Investments	801 860	764 865
XI. Intangible assets	466 615	384 045
XII. Tangible fixed assets	2 124 926	2 218 233
XVI. Other assets	371 386	323 286
TOTAL ASSETS	87 932 132	85 111 596

	30 June, 2005 unaudited	31 December, 2004
LIABILITIES		
Liabilities		
I. Amounts due to the Central Bank	945	144
II. Amounts due to other banks	1 546 530	800 403
III. Derivative financial instruments	1 483 150	793 739
IV. Amounts due to customers	73 638 737	72 576 273
V. Liabilities arising from debt securities issued	-	-
VI. Other liabilities	2 792 989	1 243 404
VII. Deferred tax liability	132 865	583 353
VIII. Provisions	207 333	207 033
TOTAL LIABILITIES	79 802 549	76 204 349
Equity		
IX. Share capital	1 000 000	1 000 000
X. Other capital	5 810 933	5 900 933
X. Retained earnings	437 426	558 264
XI. Profit for the current year	881 224	1 448 050
Total equity	8 129 583	8 907 247
TOTAL EQUITY AND LIABILITIES	87 932 132	85 111 596

Capital adequacy ratio	15.98	18.70*
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* Capital adequacy ratio as at 31 December, 2004 was calculated on the basis of the adjusted financial data in order to include PAS changes. According to the approved Bank's Financial Statements as at 31 December, 2004 capital adequacy ratio amounted to 16.77%.

OFF-BALANCE SHEET ITEMS

as at 30 June, 2005 and 31 December 2004

	30 June 2005 unaudited	31 December 2004
Off-balance sheet contingent liabilities granted and received	13 937 379	12 292 273
Contingent liabilities granted:	9 048 533	7 148 458
1. financial	7 693 447	6 290 493
2. guarantee	1 355 086	857 965
Contingent liabilities received:	4 888 846	5 143 815
1. financial	562 171	714 887
2. guarantee	4 326 675	4 428 928
Liabilities arising from purchase/sale transactions	245 978 286	170 088 351
Other, of which:	13 041 783	12 368 143
- irrevocable liabilities	9 954 035	9 504 544
- collaterals received	3 087 748	2 863 599
Total off-balance sheet items	272 957 448	194 748 767

STATEMENT OF CHANGES IN EQUITY

for the 6 month period ended 30 June 2005

unaudited

	Share capital	Reserve capital	Revaluation reserve	General banking risk fund	Other reserve capital	Retained earnings	Net profit (loss)	Total equity
31 December 2004 according to PAS	1 000 000	2 804 731	378 288	1 000 000	1 370 000	6 450	1 511 065	8 070 534
Valuation of shares in subsidiaries, associates and joint-ventures	-	-	11 472	-	-	162 127	(63 015)	110 584
Determination of deemed cost of tangible fixed assets valued at fair value	-	(14 966)	(148 555)	-	-	389 687	-	226 116
Transfer of general banking risk provision to equity	-	-	-	499 963				499 963
31 December 2004 according to IAS	1 000 000	2 789 765	241 205	1 499 963	1 370 000	558 264	1 448 050	8 907 247
Adoption of IAS 39, of which:	-	-	2 928	(499 963)	-	(141 345)	-	(638 380)
- valuation at amortized cost with effective interest rate adjusted for deferred tax	-	-	1 942	-	-	(337 944)	-	(336 002)
- financial assets impairment	-	-	986	-	-	(477 720)	-	(476 734)
- release of capitalized interest from "old" housing loans portfolio	-	-	-	-	-	174 356	-	174 356
- utilization of general banking risk provision	-			(499 963)	-	499 963	-	-
Separation of the portfolio of securities valued at fair value through profit and loss	-	-	(83 522)	-	-	83 522	-	-
1 January, 2005 according to IAS	1 000 000	2 789 765	160 611	1 000 000	1 370 000	500 441	1 448 050	8 268 867
Profit brought forward	-	-	-	-		1 448 050	(1 448 050)	-
Appropriation of profit to equity	-	507 315	-	-	10 000	(510 865)	-	6 450
Appropriation of profit to dividends	-	-	-	-	-	(1 000 000)	-	(1 000 000)
Appropriation of profit to ZFŚS	-	-	-	-	-	(200)	-	(200)
Change in investments available for sale adjusted for income tax	-	-	(26 758)	-	-	-		(26 758)
Net profit (loss) for the period	-	-	-	-	-	-	881 224	881 224
30 June, 2005 according to MSR	1 000 000	3 297 080	133 853	1 000 000	1 380 000	437 426	881 224	8 129 583

For the 6 month period ended 30 June, 2004
unaudited

	Share capital	Reserve capital	Revaluation reserve	General banking risk fund	Other reserve capital	Retained earnings	Net profit (loss)	Total equity
31 December, 2003 according to PAS	1 000 000	1 783 827	220 664	800 000	1 360 000	41 938	1 192 706	6 399 135
Valuation of shares in subsidiaries, associates and joint-ventures	-	-	-	-	-	161 928	-	161 928
Determination of deemed cost of tangible fixed assets valued at fair value	-	(12 056)	(151 465)	-	-	389 687	-	226 166
Transfer of general banking risk prvision to equity	-	-	-	533 530	-	-	-	533 530
1 January 2005 according to IAS	1 000 000	1 771 771	69 199	1 333 530	1 360 000	593 553	1 192 706	7 320 759
Shares issue	-	-	-	-	-	-	-	-
Profit brought forward	-	-	-	-	-	1 192 706	(1 192 706)	-
Appropriation of profit to equity	-	1 017 994	-	200 000	10 000	(1 228 194)	-	(200)
Dividend pay-out	-	-	-	-	-	-	-	-
Change in investments available for sale adjusted for income tax	-	-	(66 936)	-	-	-	-	(66 936)
Utilisation of general banking risk provision	-	-	-	(2 558)	-	-	-	(2 558)
Net profit (loss) for the period	-	-	-	-	-	-	845 713	845 713
30 June according to IAS	1 000 000	2 789 765	2 263	1 530 972	1 370 000	558 065	845 713	8 096 778

CASH FLOW STATEMENT

for the 6 months period ended 30 June 2005 and 30 June 2004 respectively.

	1 January - 30 June 2005	1 January - 30 June 2004
	unaudited	unaudited
Cash flow from operating activities		
Net profit (loss)	881 224	845 713
Adjustments:	(801 451)	(2 017 493)
Depreciation	198 001	236 267
Foreign exchange differences	-	-
Profit (loss) from investing activities	(795)	2 902
Interests and dividends	(786 101)	(908 257)
Change in loans and advances to banks	(87 011)	(1 534 646)
Change in financial assets held for trading and other financial instruments valued at fair value	(348 270)	(574 236)
Change in derivative financial instruments (assets)	(15 738)	(352 309)
Change in loans and advances to customers	(2 398 480)	(390 936)
Change in securities available for sale	-	-
Change in other assets	(48 100)	(28 387)
Change in amounts due to banks	746 928	532 162
Change in derivative financial instruments (liability) and other financial liabilities valued at fair value	689 411	94 006
Change in amounts due to customers	1 062 464	(177 039)
Change in provisions	(293 987)	(27 371)
Change in other liabilities	1 549 585	(16 426)
Other adjustments	(487 816)	125 833
Change in accounting policies due to IAS adoption	(638 380)	921 624
Income tax paid	(161 983)	(133 280)
Current tax expense	218 821	212 600
Net cash from operating activities	79 773	(1 171 780)

	1 January - 30 June 2005	1 January - 30 June 2004
	unaudited	unaudited
Cash flows from investing activities		
Inflows from investing activities	2 390 905	2 346 113
Sale of shares in subsidiaries	-	-
Sale of shares in associates	-	-
Redemption of investment securities	1 600 269	1 435 102
Proceeds from sale of intangible assets and tangible fixed assets	4 535	2 754
Other investing inflows	786 101	908 257
Outflows from investing activities	(235 892)	(121 031)
Purchase of subsidiaries, net of cash acquired	(19 500)	(10 929)
Purchase of shares in associates	(17 498)	-
Purchase of investment securities	-	(1 005)
Purchase of intangible assets and tangible fixed assets	(198 894)	(109 097)
Other investing outflows	-	-
Net cash used in investing activities	2 155 013	2 225 082
Cash flows from financing activities	(1 330)	58 356
Issue of shares	-	-
Issue of debt securities	-	-
Redemption of debt securities issued	-	-
Dividends paid to shareholders of the holding company	-	-
Dividends paid to minority shareholders	-	-
Long-term debts incurred	-	58 699
Repayments of long-term loans	(1 330)	(343)
Net cash from (used in) financing activities	(1 330)	58 356
Net increase (decrease) in cash and cash equivalents	2 233 456	1 111 658
Cash and cash equivalents at the beginning of the period	13 696 809	9 856 728
Cash and cash equivalents at the end of the period	15 930 265	10 968 386

ADDITIONAL NOTES***1. Approval of financial statements***

These condensed standalone financial statements were approved for publication by the Bank's Management Board on 30 September, 2005.

2. Compliance with International Financial Reporting Standards

According to the revised Accounting Law, which came into force on 1 January, 2005, Powszechna Kasa Oszczednosci Bank Polski SA ("Bank", "PKO BP SA"), is obliged to prepare the consolidated financial statements in accordance with International Accounting Standards ("IAS"), endorsed by EU. Shareholders General Meeting decided that the standalone financial statements should also be prepared in accordance with IAS. At present, taking into account the process of implementing IAS standards in EU and the Bank's activity, in field of the accounting principles used by Bank there are no differences between IAS standards and IAS standards accepted by EU.

These semi-annual condensed financial statements was prepared in accordance with International Financial Reporting Standards ("IFRS"), especially in accordance with International Accounting Standard no 34. IFRSs include standards and interpretations accepted by International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC")

These financial statements are the first interim condensed standalone financial statements for the 6 month period ended 30 June 2005, prepared in accordance with IAS.

As it is described in point 2 of the Introduction to the consolidated financial statements 1 January, 2004 was the transition date to IAS.

According to IAS standards, the financial statements were prepared as if IAS standards had been always in use, apart from some exemptions from the requirements to transform, which are stated in IFRS 1.

This note presents the reconciliation of equity as at 1 January, 2004, 30 June, 2004 and 31 December, 2004 and the explanation of significant adjustments included in the cash flow statement (and equity as at 1 January 2005) and the reconciliation of net profit for the 6 month period ended 30 June, 2004 and for the year ended 31 December, 2004 between the previously published financial data according to Polish Accounting Standards and the adjusted comparative figures according to International Financial Reporting Standards presented in these financial statement.

Accounting standards (policies) according to IAS differ from Polish accounting standards (policies) in many fields. Differences between IAS and PAS, which had a significant influence on net financial result and equity in 2004 and in the 6 month period ended 30 June, 2005 are described below.

Valuation of financial assets and liabilities at amortised cost

The International Accounting Standard IAS 39 requires that certain financial assets and liabilities should be valued at amortised cost using the effective interest rate.

The Group took advantage of the exemption of the requirement of transforming comparative data in accordance with IAS 39. This standard requires commencing the valuation of financial instruments at amortized cost using the effective interest rate method starting from 1 January 2005. The comparative data concerning this standard were prepared in accordance with Polish accounting standards.

As of 1 January 2005 the Group introduced adjustments regarding the financial asset and liability valuation at amortised cost using the effective interest rate method in accordance with IAS 39. The result of introduced adjustments as at 1 January 2005 is presented in the following reconciliation of equity as at 1 January 2005 and in the comparison of balance sheet prepared in accordance with IAS as at 31 December 2004 (without complying to IAS 39) and the balance sheet in accordance with IAS as at 1 January 2005.

Main adjustments, which were essential in preparing comparative data in accordance with IAS 39 with reference to the financial assets and liabilities valuation at amortised cost:

- adjustment to the value of credits and loans granted to clients – valuation at amortised cost,
- adjustment to amounts due from banks – valuation at amortised cost,
- adjustment to financial liabilities (apart from these valued at fair value) i.e. clients deposits – valuation at amortised cost,
- adjustment to financial instruments held to maturity value – valuation at amortised cost,
- adjustment to revaluation reserve of financial instruments available for sale – using the effective interest rate method,
- adjustment to deferred tax assets/liabilities.

Except for the adjustment to deferred tax assets/ deferred tax liability, the above adjustments relate to the fact that in accordance with PAS the Group applies straight line method to the settlement of interest revenues and expenses. Application of those amended IFRSs would result in transferring certain commission income items from commission income to interest result.

If the Bank prepared comparative data, the effect of the above adjustments would have been taken to the financial result as at 1 January 2004 and to the income statement for the 6-month period ended 30 June 2004.

Impairment of assets

According to IAS 39, a financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An enterprise is required to assess at each balance sheet date whether there is any objective evidence that the financial asset may be impaired. Such evidence includes among others information about significant financial difficulty of the issuer or an actual breach of contract, such as a default or delinquency in interest or principal payments. If the diminution or loss of value occurs, the amount of loss is the difference between the asset's carrying amount and the present value of the expected future cash flows, discounted using the original effective interest rate for assets measured at cost, and using the current market rate of interest for financial assets measured at fair value.

According to Polish Accounting Standards, the banks are required to perform, at least quarterly, a review of loan exposures and classify them to the so-called risk groups (i.e. normal receivables, watch receivables, substandard receivables, doubtful receivables, lost receivables). The classification follows the criteria of timeliness of repayments of receivables and of economic and financial situation of the borrower. Specific provisions for loan exposures are created at least at the level required for particular risk groups (from 1.5% do 100% of the basis for creating a provision).

In addition, in accordance with PAS, the required level of specific provisions for loan exposures:

- relating to retail loans classified as “normal” – is decreased by 25% of the general banking risks reserve;
- classified as “watch” – is decreased by 25% of the general banking risks reserve created in accordance with Art. 130 of the Banking Law.

The Group took advantage of the exemption from the requirement to restate comparative data required for IAS 39 purposes. This standard states that the IFRS transition date is 1 January 2005. The comparative financial data concerning transactions, assets and liabilities within the scope of IAS 39 for the periods commencing 1 January 2004 and ending 31 January 2004 or earlier have been prepared in accordance with Polish Accounting Standards.

Portfolio of financial assets and liabilities in accordance with IAS 39

IAS 39 includes portfolio definitions, which are different from those under PAS. The necessity of transfer some financial instruments from one portfolio to another results among others from the requirements of classification of given financial instrument to specific portfolio in accordance with IAS 39, which is different from PAS. Moreover, according to the exemption included in IFRS 1 the Group had the possibility to assign certain financial instruments held to the portfolio of financial assets at fair value through profit or loss or to the available for sale portfolio.

The Group took advantage of the exemption from the requirement to restate comparative data in accordance with IAS 32, IAS 39 and IFRS 4. Recognition of transactions, assets and liabilities, which fall within the scope of these for the periods commencing 1 January 2004 and ending 31 December 2004 or earlier was made in accordance with PAS.

Given the above, the Group designated certain financial instruments, which are to be included in the portfolio of assets and liabilities at fair value through profit or loss or available for sale portfolio at 1 January 2005. The transfer of instruments between portfolios valued using different principles had an effect on the profit of the Group. The result of the adjustments as at 1 January 2005 is presented in the reconciliation of equity as at 1 January 2005 and in the comparison of the balance sheet in accordance with IAS as at 31 December 2004 (prepared with no compliance with IAS 39) and the balance sheet in accordance with IAS as at 1 January 2005.

The table below presents the fair value of items of financial assets designated to the financial assets fair value through profit or loss portfolio as at 1 January 2005.

unaudited

	The name of the instrument	Fair value as at 1 January 2005	Previous classification	Carrying amount as At 31 December 2004
Financial assets designated to financial assets valued at fair value through profit and loss as at 1 January 2005				
	NBP bills	1 127 839	AFS	1 127 839
	NBP bonds	2 641 070	AFS	2 641 070
	treasury bills	2 204 929	AFS	2 204 929
	treasury bonds	13 682 074	AFS	13 682 074
	treasury bonds – collateral of the BFG	192 720	AFS	192 720
	bonds of other banks in foreign currency	105 108	AFS	105 108
Total		19 953 740		19 953 740

Adjustments, which would be necessary in case of preparation of comparative data for the year ended 31 December 2004 in accordance with IAS 39 relating to assigning financial instruments to specific portfolios, would depend, among others, on the decision of the Bank's Management Board concerning assignment of financial instruments to portfolios defined in accordance with IAS 39 as at 1 January 2004.

Effects of hyperinflationary economy

IAS 29 „Financial reporting in hyperinflationary economies” requires that the assets and liabilities reported in the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the end of the reporting period and constitute the basis for the measurement of assets and liabilities in the financial statements for the following periods. The above standard applies to non-monetary balance sheet items. In case of the Group, significant non-monetary items include tangible fixed assets and equity. Until the end of 1996 the Polish economy fulfilled the criteria of the hyperinflationary economy. However, since 1997 the criteria have not been fulfilled. The Group did not apply IAS 29 in the previous years, revaluing the tangible fixed assets as at 1 January 1995, in accordance with the binding Polish regulations, in order to reflect the inflationary effects on their book value through applying revaluation indices set by the Ministry of Finance for the individual groups of tangible fixed assets. This revaluation did not meet the requirements of IAS 29, as the Group did not apply general price indexes and did not revalue the tangible fixed assets as at 31 December 1996.

Taking advantage of the exemptions under IFRS 1, the Group valued certain tangible non-current assets purchased before the period of hyperinflation at fair value on the day of transition to IFRS i.e. on 1 January 2004. The Group used this fair value as an estimated purchasing cost incurred on that day. Since all the assets acquired before the hyperinflation period were valued using the estimated cost method, no other IAS 29 overestimations were needed.

The effect of adjustments implemented on January 1, 2004 has been presented in the equity reconciliation for January 1, 2004 presented below. As at 1 January 2004 the Group established the deemed cost of tangible fixed assets in accordance with MSSF 1. The value of the adjustment amounted to PLN 279 217 thousand without the deferred tax effect.

Insurance contracts

The Group took advantage of exemptions allowed under IFRS 1 and did not restate comparative data in the scope of IFRS 4.

Valuation of subsidiaries, associates and joint-ventures

Until now, Bank valued shares in subsidiaries, associates and joint -ventures under the equity pick-up method. According to IAS principles, the holding company/significant investor states in a standalone financial statement shares in subsidiaries, associates and joint-ventures at acquisition price (cost), adjusted for impairment or valued according to IAS 39. For the purposes of preparing of the standalone financial statements Bank applies the cost method adjusted for impairment.

Share based payments

In accordance with IFRS 1, the first –time adopters of IFRS are recommended but not required to apply provisions of IFRS 2 to own equity instruments, which have been granted on the 7th November 2002 or earlier or have been granted after 7th November 2002 and vested before 1 January 2005. Consequently, the Bank took advantage of exemptions allowed under IFRS 1 and did not apply the IFRS 2 requirements to granted employee shares (see Note 2).

General banking risks reserve

In accordance with IFRS 30, the general banking risks reserve cannot be a part of liabilities but should be presented as a separate item of retained earnings. The value of the general banking risks reserve which, in accordance with IFRS requirements, has been presented in retained earnings was PLN 499 963 thousands on 1 January 2005.

The above adjustments arising from differences between PAS and IFRS had an impact on the balance of deferred tax asset/deferred tax liability as at 1 January 2004, 31 December 2004 and 1 January 2005.

The reconciliation of equity between the previously published financial data according to PAS and the adjusted comparative figures according to IAS as at 1 January 2004, i.e. as at the transition date to IAS.

The reconciliation of equity as at 1 January 2004 (IAS transition date) is as follows:

Equity according to PAS as at 1 January 2004	6 399 135
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- adjustment for valuation of shares in subsidiaries, associates and joint-ventures – cost method adoption - impairment instead of valuation under equity pick-up method	161 928
- determination of deemed cost of tangible according to IAS 1 - valuation at fair value	226 166
- transfer of general banking risk provision to equity	533 530
Net assets according to IFRS as at 1 January 2004	7 320 759

Reconciliation of equity as at 30 June 2004 is as follows:

unaudited

Equity according to PAS as at 30 June 2004	7 177 662
- valuation and settlement of shares in subsidiaries, associates and joint-ventures – cost method adoption - impairment instead of valuation under equity pick-up method	161 978
- transfer of general banking risk provision to equity	530 972
- determination of deemed cost of tangible according to IAS 1 - valuation at fair value	226 166
Equity according to PAS as at 30 June 2004	8 096 778

Reconciliation of equity as at 31 December 2004 and 1 January 2005 is as follows:

Equity according to PAS as at 31 December 2004	8 070 534
- valuation and settlement of shares in subsidiaries, associates and joint-ventures – cost method adoption - impairment instead of valuation under equity pick-up method	110 584
- determination of deemed cost of tangible according to IAS 1 - valuation at fair value	226 166
- transfer of general banking risk provision to equity	499 963
Equity according to IAS as at 31 December 2004	8 907 247

Equity according to PAS as at 31 December 2004	8 070 534
- valuation and settlement of shares in subsidiaries, associates and joint-ventures – cost method adoption - impairment instead of valuation under equity pick-up method	110 584
- determination of deemed cost of tangible according to IAS 1 - valuation at fair value	226 166
Adoption of IAS 39, of which	(138 417)
- amortized cost valuation with effective interest rate adjusted for income tax	(336 002)
- impairment of assets	23 229
- capitalized interests from “old” housing loans portfolio	174 356
Equity according to IAS as at 1 January, 2005	8 268 867

Reconciliation of net profit for the 6 month period ended 30 June 2004 is as follows:

Unaudited

Net profit according to PAS for the six month period ended 30 June 2004	845 663
valuation and settlement of shares in subsidiaries, associates and joint-ventures – cost method adoption - impairment instead of valuation under equity pick-up method	50
Net profit according to IAS for the six month period ended 30 June 2004	845 713

Reconciliation of net profit for the 1 month period ended 31 December 2004 is as follows:

Net profit according to PAS for 2004	1 511 065
valuation and settlement of shares in subsidiaries, associates and joint-ventures – cost method adoption - impairment instead of valuation under equity pick-up method	(63 015)
Net profit according to IAS for 2004	1 448 050

Explanation of significant differences between earlier published PAS consolidated cash flow statement for the 6-month period ended 30 June 2004 and comparative data restated to IAS:

1. Cash and cash equivalents

Included in cash and cash equivalents are amounts due from banks with a maturity date of less than 3 month, except for cash and amounts due from Central Bank.

2. Financial assets available for sale

Movements in the balance of financial assets classified as available for sale transferred from operating to investing activities.

3. *Homogeneity of accounting principles and calculation methods used during preparation of semi-annual and last yearly financial statements*

Detailed description of the accounting principles of Bank used from 1 January 2005 was described in Note 2 of the consolidated financial statement of PKO BP SA Capital Group for the 6 month period ended at 30 June 2005, apart from the principles of Bank's investments in shares valuation.

In the Bank's standalone financial statements shares in subsidiaries, associates and joint-ventures are recorded in books at cost adjusted for impairment.

Description of these characteristics and their influence on the Bank's equity and the financial result in relation to first time adoption of International Financial Reporting Standards is presented in Note 1 above.

Accounting principles accepted by Bank from 1 January 2005 were used retrospectively (with the exemptions described in Note 2 of the consolidated financial statements of PKO BP SA Capital Group for the 6 month period ended 30 June 2005) with reference to all periods presented in these condensed financial statements.

Previously published financial statements of Bank – including the financial statements for the year ended 31 December 2004 – were prepared in accordance with Polish Accounting Standards.

4. *Seasonality and periodicity of activity in the interim period*

In Bank's activity there are no significant events being subject to seasonal fluctuations or of periodic characteristics.

5. *Type and amounts of changes of values of assumed amounts, stated in previous interim periods of current financial year or changes of the assumed values stated in the previous financial years if they effect significantly the current interim period*

In first half of 2005 there were no significant changes in estimates stated in previous financial periods except for IAS 39 adoption.

6. *Issues, repurchase and repayment of debt and equity securities*

In first half of 2005 no issues nor redemption nor repayments of debt securities were made by Bank.

7. *Paid dividends (collectively or calculated for one stock), divided into ordinary and other stocks*

On 19th May 2005 General Shareholders Meeting adopted the resolution concerning payment of the dividend for 2004 amounting to PLN 1,000,000 thousand. PKO BP will pay the dividend for 2004 amounting to 1 PLN gross per share. The list of shareholders entitled to dividend for 2004 was determined on 19 August 2004 and the payment was made on September 2005.

8. Significant events after the end of interim period, not stated in the financial statement for the given interim period

On 15 September 2005 the Supervisory Board of PKO BP SA on the basis of § 15 p. 7 and 8 of the Bank's Statute adopted decrees appointing:

- Danuta Demianiuk as a Vice President of Powszechna Kasa Oszczędności Spółka Akcyjna,
- Krystyna Szewczyk as a Member of Management Board of Powszechna Kasa Oszczędności Spółka Akcyjna,
- Piotr Kamiński as a Member of Management Board of Powszechna Kasa Oszczędności Spółka Akcyjna.

In accordance with the passed resolutions, on 16 September 2005 the above-mentioned Management was appointed for the specified positions in PKO BP SA for common Management Board cadence starting on 19 May 2005.

On 9 September 2005 a conditional agreement was signed between Powszechna Kasa Oszczędności Bank Polski and Getin Holding S.A. with the head office in Wrocław. The agreement concerns sale of 50,312,200 G series shares of Wschodni Bank Cukrownictwa SA with the head office in Lublin (WBC S.A.) at nominal value of PLN 1 each. The acquirer is not related with PKO BP SA. The disposed assets were acknowledged as significant as they exceed 20% of the initial capital of WBC SA. The transaction will be completed on the condition that amongst other appropriate permissions will be granted by banking supervision bodies.

On 17 August 2005 the Bank signed with the related entity Kredyt Bank (Ukraine) S.A. with the head office in Lwów (the Bank's subsidiary) the subordinated loan agreement amounting to USD 7 million for the period of 8 years. The subordinated loan was granted without collateral and will be paid off in one instalment in the end of the financing period.

The subordinated loan was granted in an arm's length transaction. The subordinated loan agreement was signed in accordance with the requirements of the National Bank of Ukraine specified by the Board of the National Bank of Ukraine Resolution No. 368 dated 28 August 2001, which makes it possible to include this loan, after obtaining appropriate permission from the National Bank of Ukraine, in equity of Kredyt Bank (Ukraine). The purpose of the loan is to finance the development of operating activities of Kredyt Bank (Ukraine) S.A. The total acquisition price of KBU shares owned by PKO BP SA is PLN 109.53 million. These account for 66.65% of the KBU share capital and give PKO BP SA 66.65% votes at the Annual General Meeting of Kredyt Bank (Ukraine) S.A.

On 10 August 2005 UKRPOLINWESTYCJE Sp. z o.o. was registered in the Unified National Register of Enterprises and Organizations of Ukraine (Jednolitym Państwowym Rejestrze Przedsiębiorstw i Organizacji Ukrainy). PKO Inwestycje Sp z o.o. – subsidiary of the Bank – took over shares representing 55% equity of UKRPOLINWESTYCJE Sp. z o.o. The company's primary activity will be to trigger activities heading for realization of investment projects in area of Kiev or other cities.

9. Effect of changes in entity structure in the first half of year, including entities' merger, takeover or sales of subsidiaries and long term investments, restructuring and abandonment of the activity

In first half of 2005 no acquisition, sale nor merger of entities took place. There was no takeover nor sale of subsidiaries or long term investments, restructuring or abandonment of activities.

10. Other:

- *provisions for the impairment of tangible fixed assets, intangible assets or other assets and the reversal of provisions for that*
-

6-month period ended 30 June 2005 unaudited	Impairment write-downs at the beginning of the period	Increases			Decreases				Impairment write-downs at the end of the period	Net impact of created impairment write-downs on the income statement
		Impairment write-downs made during the period	Foreign exchange differences	Other	Decrease in impairment write-downs due to de-recognition of assets	Reversal of the impairment write-downs in the period	Foreign exchange differences	Other		
Impairment of the financial assets not at fair value through profit or loss	3 117 032	377 747	-	669	51 159	300 765	-	27 136	3 116 388	(76 982)
Financial instruments valued at cost (unquoted equity instruments and underlying derivative instruments)	27 136	-	-	-	-	-	-	27 136*	-	-
Financial assets available for sale valued at fair value through equity	10 351	-	-	619	-	732	-	-	10 238	732
Loans and credits to customers and receivables from banks valued at amortised cost	3 079 545	377 747	-	50	51 159	300 033	-	-	3 106 150	(77 714)

*de-recognition of valuation of shares not admitted to public trading due to their transfer from "Minority shares", in accordance with the interpretation of the General Inspector of Banking Supervision .

Result on impairment write-downs – cont.

Investments held to maturity valued at amortised cost	-	-	-	-	-	-	-	-	-	-
Impairment write-downs:	-	-	-	-	-	-	-	-	-	-
Tangible fixed assets	-	-	-	-	-	-	-	-	-	-
Investments property	-	-	-	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-	-	-	-	-
Goodwill										
Other intangible assets	-	-	-	-	-	-	-	-	-	-
Impairment of the investments in associates and jointly controlled entities valued using the equity method	112 867	-	-	-	-	9 170	-	3 500	100 197	9 170
Other**	142 286	30 299	-	9 824	-	28 597	-	-	153 812	(1 702)
Total	3 372 185	408 046	-	10 493	51 159	338 532	-	30 636	3 370 397	(69 514)

** Included in “Other” item are impairment write-downs against other assets and off-balance sheet liabilities.

Created and released impairment allowances result from Bank’s normal course of business.

Impairment write-downs against loans and credits, and receivables valued at amortised cost, as well as reversal of such write-downs are included in the income statement item “Result on impairment write-downs against loans and credits”.

The value of impairment write-downs of tangible and intangible and other assets for the first half of 2005 showed in the income statement under “Result on impairment write-downs was (PLN 76) thousand, for the first half of 2004 amounted to (PLN 25 089) thousand. Of this amount, the main item were write-downs against loans and credits. Given the fact that the Group took advantage of exemption (as set forth in IFRS 1) from the requirement to restate comparative data for the purpose of compliance with IAS 39, no data has been presented for the period from 1 January 2004 to 30 June 2004.

– *Investment expenditure incurred*

In the period from 1 January 2005 to 30 June 2005 PKO BP SA incurred the investment expenditure of PLN

191,414 thousand relating to the acquisition of tangible fixed assets and intangible assets.

In the period from 1 January 2004 to 30 June 2004 PKO BP SA incurred the investment expenditure of PLN 96,924 thousand relating to the acquisition of tangible fixed assets and intangible assets.

– *Clearings due to court cases*

As at 30 June 2005, the total value of court proceedings in which the Bank is defendant (inbound) was PLN 393,352 thousand (as at 31 December 2004: the total amounted to PLN 10,000,000,391,362 thousand), while the total value of court proceedings in which the Bank filed claims (outbound) was PLN 78,710 thousand (as at 31 December 2004: PLN 92,072 thousand).

a) Unfair competition proceedings

The Bank is a party to proceedings initiated based on the decision dated 23 April 2001 of the President of the Competition and Consumer Protection Office upon request of the Polish Trade and Distribution Organization against the following: Visa CEMEA – Visa International, Europay International S.A, Visa Forum Polska and Europay Forum Polska and the banks –members of the association of payees Visa Forum Polska and Europay Forum Polska, including against the Bank, for practices limiting competition on the market of services relating to discharging consumer liabilities towards accepting parties resulting from credit card purchases of goods and services made on the territory of Poland, whereby the above named participate in agreeing of “interchange” fees for transactions made with the use of Visa credit cards (which may be in breach of Art. 5.section 1 point 1 of the Act on competition protection), participate in agreeing of “interchange” fees for transactions made with the use of Europay/ Eurocard/Mastercard cards in Poland (which may be in breach of Art. 5. section 1 point 1 and 6 of the Act on competition protection) and coordinate activities with a view to limiting an access to the corporate market for the payees, who are not members of the above systems (which may violate of Art. 5. section 1 point 1 and 6 of the Act on competition protection). The deadline for completing the proceedings was postponed several times. Based on the decision of the President of the Competition and Consumer Protection Office dated 29 August 2005, the deadline for the completion of proceedings was postponed to 29 October 2005 due to the necessity to obtain appropriate data and information and the necessity to analyze court evidence. Additionally, in response to the letter of the Competition and Consumer Protection Office dated 21 April 2005, the Bank submitted on 4 May 2005 a complete source documentation and cost analyses relating to interchange fee. In its letter dated 20 July 2005, the Competition and Consumer Protection Office informed the Bank that the President of the Office decided to appoint an appropriate expert in response to the request of the Polish Trade and Distribution Organization dated 14 June 2005.

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

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

In the opinion of the Management Board of PKO BP SA, the probability of claims that may arise under the proceedings described in the points a) and b) above is remote.

– *Adjustments of errors from previous periods*

In first half of 2005 no adjustments of errors from previous periods were made.

- ***Unpaid loans or infractions of the loan agreement if no remedial works have been made neither before the balance sheet date nor on that day***

As at 30 June 2005 and as at 31 December 2004 there were no unpaid loans or infractions of the loan agreement, by which no remedial works have been made neither before the balance sheet date nor on that date.

- ***Transactions with related parties***

All below described transactions with capitally or personally affiliated entities were concluded on the conditions fulfilling the market conditions. Transaction repayment periods oscillate from one month till ten years.

Transactions with related parties for the 6 months period ended 30 June 2005 were as follows:
unaudited

Entity	Type of relation	Net receivables	including gross loans	Payables	Overall income	including interest fees and commissions	Overall costs	including interest charges and commissions	Off-balance sheet liabilities granted
Bankowe Towarzystwo Kapitałowe SA	Subsidiary	-	-	10 103	3	-	44	7	-
Bankowy Fundusz Leasingowy S.A.	Subsidiary	443 986	436 019	3 373	12 268	11 939	578	36	478 135
Centrum Finansowe Puławska Sp. z o.o.	Subsidiary	83 938	81 542	6 475	1 188	1 188	30 400	135	-
Elbank Sp. z o.o. (in liquidation)	Subsidiary	-	-	-	-	-	-	-	-
Centrum Elektronicznych Usług Płatniczych "eService" S.A.	Subsidiary	21 142	21 017	4 634	913	910	7 936	7 846	50
Inteligo Finansial Services S.A.	Subsidiary	-	-	24 704	151	150	22 775	512	-
International Trade Center Sp. z o.o. (in liquidation)	Subsidiary	-	-	-	-	-	-	-	-
Kredyt Bank Ukraina S.A.	Subsidiary	68 343	41 414	1 169	720	720	-	-	20 808
PKO Inwestycje Sp. z o.o.	Subsidiary	-	-	5 996	52	52	4	1	5 285
Powszechnie Towarzystwo Emerytalne BANKOWY S.A.	Subsidiary	-	-	15 100	587	587	134	134	-
PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.	Joint-venture	-	-	623	11 831	11 827	13	13	224
Wawel Hotel Developmet Sp. z o.o.	Joint-venture	118 284	113 690	10 016	2 358	2 339	103	102	-
Agencja Inwestycyjna CORP S.A.	Associate	69	-	-	275	-	1 131	-	-
Bank Pocztowy S.A.	Associate	-	-	-	-	-	22	-	-
Ekogips S.A. (in bankruptcy)	Associate	-	-	-	-	-	-	-	-
Hotel Jan III Sobieski Sp. z o.o.	Associate	40 668	81 335	1	983	983	66	2	-
Kolej Gondolowa Jaworzyna Krynicka S.A.	Associate	3 750	3 750	12	1 627	1 627	2	2	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Associate	-	-	2 287	1	1	8	4	-
Finanse Agent Transferowy Sp. z o.o.	Indirect subsidiary	-	-	2 088	2	2	35	35	-
Fort Mokotów Sp. z o.o.	Indirect subsidiary	54 438	54 693	25 088	1 580	1 580	112	112	91
Pomeranka Sp. z o.o.	Indirect subsidiary	52 770	52 100	3 565	183	183	17	17	-
Wilanów Investments Sp. z o.o.	Indirect subsidiary	89 162	89 162	5 484	3 657	3 657	-	-	15 838

Below transactions with related parties in terms of capital with PKO BP SA as at 30 June 2004

Entity	Type of relation	Net receivables	including gross loans	Payables	Overall income	including interest fees and commissions	Overall costs	including interest charges and commissions	Off-balance sheet liabilities granted	Entity
Bankowy Fundusz Leasingowy S.A.	Subsidiary	386 108	349 791	2 246	9 070	8 584	96	11	-	33 154
Powszechnie Towarzystwo Emerytalne Bankowy S.A.	Subsidiary	1	-	1 185	23	23	21	21	-	-
Centrum Elektronicznych Usług Płatniczych "eService" S.A.	Subsidiary	21 142	21 017	5 883	12 507	12 507	2 637	2 637	-	-
Centrum Finansowe Puławska Sp. z o.o.	Subsidiary	113 909	112 059	5 776	894	894	34 617	226	-	-
Inteligo Financial Services S.A.	Subsidiary	4 925	5 000	385	154	154	13 803	16	75	-
PKO Inwestycje Sp. z o.o.	Subsidiary	2 931	2 647	2 827	205	203	176	174	150	1 250
PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.	Joint-venture	3 677	-	1 825	433	426	-	-	-	-
Wawel Hotel Development Sp. z o.o.	Joint-venture	122 255	118 945	4 886	114	104	22	22	-	21 182
Poznański Fundusz Pręczeń Kredytowych Sp. z o.o.	Associate	-	-	2 315	-	-	-	-	-	-
Agencja Inwestycyjna CORP S.A.	Associate	236	-	-	-	-	1 221	-	-	-
Ekogips S.A. (w bankructcy)	Associate	668	2 948	-	-	-	-	-	-	-
Hotel Jan III Sobieski Sp. z o.o.	Associate	47 622	95 121	-	1 203	1 203	2 801	-	-	-
Kolej Gondolowa Jaworzyna Krynicka S.A.	Associate	5 590	3 750	1 196	351	351	54	23	-	-
PKO Towarzystwo Finansowe Sp. z o.o. (w likwidacji)	Subsidiary	146	-	842	234	234	145	145	-	400
International Trade Center Sp. z o.o. (in liquidation)	Subsidiary	-	-	-	-	-	-	-	-	-
Elbank Sp. z o.o. (w likwidacji)	Subsidiary	-	-	-	-	-	-	-	-	-
Wrocławskie Zintegrowane Centrum Logistyczne Sp. z o.o. (in liquidation)	Associate	-	-	-	-	-	-	-	-	-
Finanse Agent Transferowy Sp. z wszystkich.o.	Indirect subsidiary	-	-	1 475	3	-	16	-	-	-
Fort Mokotów Sp. z o.o.	Indirect subsidiary	49 632	49 632	33 294	1 988	-	305	-	-	-
Wilanów Investment Sp z o.o.	Indirect subsidiary	66 000	66 000	773	1 241	-	-	-	-	39 000

Signatures of all Management Board Members

30 September, 2005	Andrzej Podsiadło	President of the Management Board	..... (signature)
30 September, 2005	Kazimierz Małecki	Vice-President First Deputy President of the Management Board	..... (signature)
30 September, 2005	Danuta Demianiuk	Vice-President of the Management Board	..... (signature)
30 September, 2005	Piotr Kamiński	Member of the Management Board	..... (signature)
30 September, 2005	Jacek Obłękowski	Member of the Management Board	..... (signature)

Signature of a person responsible for keeping the book of account
30 September 2005

Krystyna Szewczyk

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



**PKO BANK POLSKI
SPÓŁKA AKCYJNA**

**DIRECTORS' REPORT
ON THE ACTIVITIES OF
THE POWSZECHNA KASA OSZCZĘDNOŚCI
BANK POLSKI SPÓŁKA AKCYJNA GROUP
FOR THE 1ST HALF OF 2005**

WARSAW, SEPTEMBER 2005



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1. INTRODUCTION

In the 1st half of 2005 PKO BP SA Capital Group reported a positive financial result of PLN 887 million, which increased by 3.6% in comparison to the corresponding period of 2004.

As at 30 June 2005:

- the consolidated total assets amounted to PLN 89,082 million and increased by PLN 3,128 million compared to 2004 year-end,

- shareholders' equity amounted to PLN 8,097 million, and decreased by PLN 761 million in comparison to the balance as of 31 December 2004, mainly due to PLN 1,000 million dividend paid from the profit generated by the holding company in 2004.

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

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

2.1. Macroeconomic factors

- The dynamics of economic growth in the 1st half of 2005 was 2.4% (year-to-year), while in the corresponding period of 2004 – 5.4% (year-to-year) and decreased due to decline in domestic demand – caused mainly by poor investment dynamics in the 1st quarter of 2005.
- In the 1st half of 2005 a slight, positive effect of the EU funds inflow and seasonal factors was noted. These contributed to a considerable decrease in the unemployment rate, which at the end of June 2005 was 18.0%.
- In the 1st half of 2005, a decrease in the inflation rate was noted, which amounted to 1.4% in June, compared to 4.4% in December 2004. Therefore, the inflation rate was slightly below the borderline for the inflation objective of the Monetary Policy Council (1.5%), while in December - was significantly above the top range (3.5%).
- In the 1st half of 2005, a strong increasing trend in household deposits was observed. The household deposits growth rate amounted to 4.2% at the end of June 2005, due to the increase in real salary funds of enterprises. At the same time, the increasing trend in corporate deposits observed in the 2nd quarter of 2005 was slightly weaker than in the 1st quarter of 2005, due to the overall deterioration in companies' financial standing compared to the previous year.
- In the 2nd quarter of 2005, a slight increase in household loans' dynamics was recorded, compared to the 1st quarter of 2005. The increase in household loans was stimulated by high demand for housing loans. Since the beginning of this year a declining trend in corporate loans has been weakening, and since May an increased demand for corporate loans was observed.
- The increase in the public debt in the 1st half of 2005, resulting from the increase in the public debt was comparable to the growth in the respective period of 2004. The public debt, increased by expected guaranteed payments, was at the end of June 2005 approximately 52 - 53%¹ of the GDP (compared to 50.2% at the end of 2004). This means that the relation between the first (50%) and the second (55%) caution threshold regulated by the Act on Public Finances is stable.

At the same time, the Group's performance was influenced by the macroeconomic factors in Ukraine, where the subsidiary of PKO BP SA, Kredyt Bank (Ukraine) is located. Among the most important, the following facts should be noted:

¹ PKO BP SA estimation



- In the 1st half of 2005, the economic growth rate decreased and was 5.4% (year-to-year) in the 1st quarter of 2005 compared to 12.1% in 2004. As a result, in the 1st half of 2005 the GDP growth is estimated to be 4% compared to the 1st half of the previous year.
- In the 1st half of 2005, the labour market saw a slight decrease in the unemployment rate, which amounted to 3.0% in June of this year, compared to 3.6% in December 2004. It should be emphasized that according to the IMF estimates the real unemployment rate amounts to 8% - 12%.
- In June 2005, the inflation rate decreased and was 14.4%, compared to the year-to-year inflation rate of 12.3% in December 2004. Increases of salaries in the public sector and old age and disability pensions at the turn of 2004 and 2005, during the election campaign, resulted in the increasing demand pressure in the past months. Also the gradual increase in administration salaries, which were undervalued at the end of 2004, contributed to the above mentioned trend. Significant increases in fuel prices on world markets in the 1st half of the current year also contributed to the increase in the inflation rate.
- In the 1st half of the year the growth of the overall deposits value amounted to 40% (year-to-year), compared to 35% (year-to-year) in December 2004. The increase in national currency deposits amounted to 31% year-to-year and 53% in the foreign currency.
- The value of loans granted increased in June by approx. 34%, compared to 30.5% in December 2004. Higher dynamics of loans was due to the political and economic stabilization perspectives and to the decrease in interest rates (especially of Polish zloty denominated loans). As in the 2nd half of the previous year, the growing dynamics of loans denominated in foreign currencies was slightly higher compared to loans in national currency and the value of foreign currency loans increased mostly in case of households.
- In the 1st half of 2005, the national fiscal position improved, mainly due to elimination of several tax allowances. In the period from January to June, the national budget deficit amounted to 1% of the GDP, compared to 4.5% in the 2nd half of 2005.
- In the 1st half of 2005, the central bank's monetary policy was still subordinated to the currency objective. In the 1st half of 2005, Ukraine continued to have a controlled floating exchange rate system. In April 2005 the National Bank of Ukraine approved a 3% appreciation of hrywna in relation to US dollar in order to restrict the monetary policy in times of increasing inflation. In the whole period the central bank kept the currency exchange rate at a fixed parity, which led to numerous interventions on the currency market. At the end of June 2005, the Ukrainian hrywna exchange rate against US dollar amounted to 5.05 UAH/USD, compared to 5.31 UAH/USD at the end of the previous year.

2.2. Monetary policy of the National Bank of Poland

In the 1st half of the current year, the Monetary Policy Council decreased interest rates three times, by 150 b.p. in total. In February 2005, the National Bank of Poland issued the Inflation Report, including inflation projections. The results of those projections suggested a significant increase in inflation risks for years 2005-2006. The weakening of the price pressure and the favourable inflation projections made the Monetary Policy Council to soften its monetary policy approach. After those reductions the NBP reference rate amounted to 5.0%, being the lowest in history.

2.3. Financial market

In the 1st half of 2005 a significant decrease was recorded in the profitability of the Polish Treasury bonds on the yield curve, which varied from 120 b.p. (in case of 10-year bonds) to 180 b.p. (in case of one year-bills). The increase in prices of the treasury bonds resulted from the investors' expectations for a less-restrictive monetary policy, based on the macroeconomic data publications and confirmed by the Monetary Policy Council's decisions on decreases in interest rates. Moreover, the decline in the profitability of the Polish Treasury bonds was due to the influence of the world economic markets, including the euro zone, where the bond profitability decreased by 50 b.p. approximately.



In the 1st half of 2005, the Polish currency appreciated against EUR by approx. 1%, depreciating by 12% against US dollar. At the end of June 2005, the PLN/EUR exchange rate was 4.04, while the PLN/USD exchange rate amounted to 3.35.

2.4. Regulatory environment

The most significant changes in the regulatory environment affecting the PKO BP SA Group related to the following:

- Amendments to the Accounting Act, which imposed on banks an obligation to prepare their consolidated financial statements in accordance with the International Accounting Standards, International Financial Reporting Standards and related Interpretations, published in the form of Directives, including the Decree of the Minister of Finance dated 10 December 2002 on the specific rules of accounting for banks, which requires that banks value their financial assets and liabilities at amortized cost using the effective interest rate method,
- Changes in the own funds definition, modification of prudence regulations, including changes in the capital adequacy ratio calculation formula and the introduction of a concentration limit, in accordance with the Banking Law, as amended in April 2004,
- Increase in banks' costs in connection with loss by the client of a copy of agreement concerning bank's current accounts, cheques or cheque blank forms, resulting from the Banking Law, as amended in April 2004,
- Decrease in the ratio of banks' share in the EU Guarantee Fund (*Fundusz Poręczeń Unijnych*) in relation to the interest revenues from the obligatory reserve, according to the Law on the EU Guarantee Fund, dated 16 April 2004,
- Reduction of banks' costs relating to the bank deposits guarantee system, resulting from the decrease in an annual obligatory payment and of the ratio determining the amount of guaranteed funds, according to the resolutions of the Bank Guarantee Fund Council,
- Introduction of new and modified obligations relating to the current and periodical reporting requirements to be met by the issuers of securities quoted on GPW (Warsaw Stock Exchange), in accordance with the Decree of the Council of Ministers dated 21 March 2005,
- Change in the policies of brokerage activities, including the scope of service provided, settlements processing, transaction registration and loan collaterals, introduced by the Decree of Council of Ministers dated 19 April 2005 and new information requirements concerning brokerage and trust activities,
- Amendments to the VAT Act and its executive regulations relating to tax relief for bad debts, more precise definition of taxable base, new exemptions in the scope of taxable trading, list of input VAT deductible items,
- New requirements for the banks concerning banking secret resulting from amendments to the Act on protection of confidential information,
- Modified starting from 30 June 2005 information requirements imposed on banks by NBP and GINB concerning data necessary to define the monetary policy and assess country's monetary situation, banks' financial standing and banking sector's risk,

The situation of the PKO BP SA Group was also influenced by legislative changes in Ukraine, relating to:

- abolition of restrictions for Ukrainian banks during the 'orange revolution', including policies concerning payments of deposits and loans granting,
- introduction of regulations concerning creation of specific provisions,
- changes in regulations relating to obligatory reserves,
- new requirement for the banks to participate in the creation of private persons deposits' guarantee system (to guarantee bank deposits of EUR 800).



In the future periods the Group's activity will be affected by the following factors:

- changes in the PIT Law, being in force since 1 July 2005, resulting in new reporting requirements for banks in relation to taxation of interest income obtained by non-residents and requirements relating to the identification of such clients,
- amendments to the Tax Ordinance introducing numerous regulatory changes.

Due to the transition to IFRS and new reporting standards imposed by the European Central Bank, the Bank was obliged to introduce new reporting and information formats for NBP, KNB and KPWiG, which caused the necessity to adjust IT systems and train personnel. At the same time, the Bank is monitoring the preparation work leading to the implementation of the law on an additional supervision over financial institutions, insurance companies and investment companies being a part of a financial conglomerate.

2.5. Competition

The banking sector

In 1st half of 2005 the financial standing of the banking sector improved significantly. Major factors contributing to that improvement were as follows:

- increase in household demand for loans, especially mortgage loans and consumer loans,
- higher quality of bank loan portfolios,
- decrease in the effective fiscal burden resulting from lower income tax rate.

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

The most important factors affecting development of the banking sector were as follows:

- **higher competition on the retail banking services market**, resulting in amongst other:
 - extension and updating of banking products: Banks intensively developed their products relating to housing loans, bankassurance and capital markets, as well as products relating to the assimilation of the EU aid funds. The banks have diversified prices for services by promoting loyalty programs and packages,
 - e-banking development, in particular: development of credit card products and on-line services. Currently, banks service over 2.8 million of internet bank accounts, which account for 17% of all saving- settlement accounts,
 - development of financial services offered by non-banking institutions, and in particular by investment funds, companies providing credit agency services, SKOK, supermarkets' chains and gas stations,
- **higher competition on the corporate banking services market**, resulting in particular in aggressive policy in the banking sector aiming at attracting local authorities' to place deposits and at financing corporate customers,
- **extension of distribution channels of banking products** – after the restructuring of selling networks, banks began to establish new institutions, including partnership institutions or institutions specialized in granting housing loans, concluded agreements concerning mutual cash dispensers services, and expanded direct sale, via agents and internet,
- **reducing operating expenses via outsourcing** – more and more banks opt for outsourcing in certain areas of their activities, this relates in particular to administrative functions, IT support and payment cards processing,
- **entrance of new foreign competitors to the Polish banking market** – nearly 70 foreign banks, mainly from the European Union, expressed their interest in providing products and services in a cross-border form in the area of real estate financing, housing loans, asset management, servicing the most affluent clients, as well as in the provision of financial services to local governments; new branches were opened by a Swedish Bank, Handelsbanken, Ukrainian



bank - Pryvatbank- based on the Bud-Bank license acquired from BGK, car bank- RCI Bank Polska, which is the subsidiary of the Renault Group,

- **planned merger of European financial groups, UniCredito and HVB, which might result** in the future in a merger of two Polish banks, Bank Pekao S.A. and BPH. This merger will result in forming a bank with the highest assets, funds, deposits and loans value on the Polish market.

Non-banking sectors:

- dynamic development of the investment funds market – the value of assets under management of investment funds management companies (TFI) increased by 19.6% in comparison to the end of 2004, mainly as a result of better absorption of households savings,
- TFIs launched new products – by taking advantage of the amended provisions of the Investment Funds Act dated April 2004, which gave them the possibility to extend their product offer, introduced umbrella funds, securitisation funds (the first securitisation fund was established by TFI PKO/Credit Suisse) and extended their activities by offering asset management services. A good economic situation on the real estate market made it possible for TFIs to establish funds, which deal with placing investment certificates on the real estate market,
- increase in the number of agents in mortgage loans sale, and, at the same time, the position of nationwide operating entities strengthened,
- development of venture capital/private equity funds,
- the consolidation process on the pension funds market and insurance market continued,
- revival on the life insurance market, and more companies used electronic delivery channels for sale purposes,
- dynamic development of the lease market, despite un-favourable changes in legal regulations resulting from amendment of the VAT Act – the value of leased assets increased by over 20% in comparison to the previous year.

3. GROUP'S DEVELOPMENT STRATEGY

The development of the Group is strongly related to the holding company's strategy. Group entities support the Bank in achieving the following strategic goals:

- to increase operational effectiveness,
- to retain the leading position in the retail banking and real estate financing segment,
- to gain the leading position in the segment of service and distribution of the EU funds,
- to strengthen the Bank's position as an SME service provider,
- to create a new image of the Bank as a service provider to large businesses, and to strengthen the Bank's position in servicing the public sector, including local governments.

The Group entities complete the business offer of the Bank by supporting the Bank's selling activities. At the same time, the Bank takes advantage of the specialized services rendered by certain Group entities.

4. ORGANISATION OF THE PKO BP SA CAPITAL GROUP

The PKO BP SA Capital Group as at 30 June 2005 consists of PKO BP SA, the holding company, and 15 subsidiaries directly or indirectly controlled by the Bank.

4.1. Entities included in the consolidated financial statements

The consolidated financial statements include the financial statements of the Bank, as the holding company of the PKO BP SA Capital Group, and its subsidiaries, as defined under IAS 27 "Consolidated and Separate Financial Statements".



Table 1. Entities included in the consolidated financial statements

Table 1: Entities included in the consolidated financial statements

No.	Company	Acquisition price	Percentage in share capital	Consolidation method
		in PLN thousands	%	
The PKO BP SA Capital Group				
Holding company				
1	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna			
Direct subsidiaries				
2	Powszechne Towarzystwo Emerytalne BANKOWY S.A.	205 786	100.00	Full
3	Centrum Finansowe Puławska Sp. z o.o.	128 288	100.00	Full
4	Kredyt Bank (Ukraina) S.A.	109 531	66.651	Full
5	PKO Inwestycje Sp. z o.o.	85 403*	100.00	Full
6	Inteligo Financial Services S.A.	59 602	100.00	Full
7	Centrum Elektronicznych Usług Płatniczych eService S.A.	55 500	100.00	Full
8	Bankowy Fundusz Leasingowy S.A.	30 000	100.00	Full
9	Bankowe Towarzystwo Kapitałowe S.A.	18 566	100.00	Full
Indirect subsidiaries				
Direct subsidiaries of PKO Inwestycje Sp. z o.o.				
10	Fort Mokotów Sp. z o.o.	32 130	51.00	Full
11	POMERANKA Sp. z o.o.	17 000	100.00	Full
12	Wilanów Investments Sp. z o.o.	16 320	51.00	Full
Direct subsidiaries of PTE BANKOWY S.A.				
13	Finanse Agent Transferowy Sp. z o.o.	1 861	100.00	Full
Other entities included in consolidation				
Jointly controlled entities				
14	Centrum Obsługi Biznesu Sp. z o.o.	17 498	41.44	Equity method
15	PKO/CREDIT SUISSE Towarzystwo Funduszy Inwestycyjnych S.A.	14 000	50.00	Equity method
16	WAWEL Hotel Development Sp. z o.o.	13 865	35.40	Equity method

Associates				
1	Bank Pocztowy S.A.	146 500	25.0001	Equity method
2	Kolej Gondolowa Jaworzyna Krynicka S.A.	15 531	38.23	Equity method
3	Ekogips S.A. – In bankructcy	5 400	60.26	Equity method
4	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	33.33	Equity method
5	Hotel Jan III Sobieski Sp. z o.o.	522	32.50	Equity method
6	Agencja Inwestycyjna CORP S.A.	29	22.31	Equity method

* inclusive of a specific additional payment of PLN 5.5 million



Due to insignificant amounts the following entities were never consolidated.

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

4.2. Changes in the organization of entities included in consolidation

In the 1st half of 2005, the following events occurred:

- Acquisition of shares in increased capital of Centrum Obsługi Biznesu Sp. z o.o.

On 25 January 2005, PKO BP SA acquired 34,992 shares, representing 41.44% of the company's share capital and votes at the shareholders' meeting. The acquisition price was PLN 17,498 thousand.

The company is the joint venture of the Bank, Poznań City, and Buildco Poznań S.A. with its registered office in Luxembourg. The main area of its business activities is the construction and operation of a hotel located in Poznań, which will be managed by the international hotel chain operator, Sheraton.

- foundation of POMERANKA Sp. z o.o.

On 31 March 2005, a deed of incorporation of Pomeranka Sp. z o.o. was signed. On the day of incorporation, the shareholders were the following subsidiaries of PKO BP SA:

- PKO Inwestycje Sp. z o.o., which acquired and paid for 498 shares with the total value of PLN 49,800,
- Bankowe Towarzystwo Kapitałowe S.A. (former Dom Maklerski BROKER S.A.), which acquired and paid for 2 shares with the total value of PLN 200.

On 11 April 2005, the Company was entered in the National Court Register.

On 20 April 2005, PKO Inwestycje Sp. z o.o. re-acquired from Bankowe Towarzystwo Kapitałowe S.A. 2 shares of POMERANKA Sp. z o.o., thus becoming the owner of 100% of shares in the company and obtaining the right to exercise 100% of votes at the shareholders' meeting of POMERANKA Sp. z o.o.

On 6 May 2005, PKO Inwestycje Sp. z o.o. took up new shares in the increased share capital of POMERANKA Sp. z o.o. with a value of PLN 3,950 thousand. After the increase, the share capital of POMERANKA Sp. z o.o. amounts to PLN 4 million and is divided into 40,000 shares with a nominal value of PLN 100 each.

The company was set up in order to realise development projects.

- Completing liquidation process of the Bank's subsidiary, PKO Towarzystwo Finansowe Sp. z o.o.

On 22 February 2005, the Company was removed from the National Court Register.

- Change of the name and the core activity of Bankowe Towarzystwo Kapitałowe S.A., former Dom Maklerski BROKER S.A.

In accordance with the Bank's brokerage strategy, a transfer of business activities from the Company to Bankowy Dom Maklerski PKO BP SA took place. The transfer process was completed on 1 April 2005.

On 24 March 2005, the company's Extraordinary General Shareholders' Meeting resolved to change the company's statutes, including changing its name to Bankowe Towarzystwo Kapitałowe S.A. and specifying new core business activity. The main area of business activity of the company is venture capital.

The changes were registered in the National Court Register on 7 April 2005.



5. CONSOLIDATION PRINCIPLES

In preparing the consolidated financial statements for the 1st half of 2005, the following were applied: the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the Decree of the Council of Ministers dated 21 March 2005 (Journal of Laws, No. 49, item 463) on current and period information requirements of the issuers of securities.

The consolidation principles applied during the preparation of the consolidated financial statements for the 1st half of 2005 were presented in detail in the additional notes and explanations, which are an integral part of the consolidated financial statements.

6. FINANCIAL PERFORMANCE OF THE PKO BP SA GROUP

6.1. Balance sheet structure

The balance sheet of the holding company has the most significant impact on the balance sheet of the PKO BP SA Group. It determines both the value and the structure of the Group's assets and liabilities. As at 30 June 2005, total assets of PKO BP SA accounted for 98.7% of total assets of the Capital Group.

As at 30 July 2005, total assets of the PKO BP SA Capital Group amounted to PLN 89,082 million and compared to the balance as at 31 December 2004 increased by PLN 3,128 million (+3.6%).

Assets

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

Assets	As at:		Dynamics
	30.06.2005	31.12.2004	
1	2	3	4
1. Cash and balances with the Central Bank	4 727 818	3 525 329	34.1%
2. Loans and advances to banks	14 341 243	13 231 879	8.4%
3. Financial assets held for trading	421 863	369 517	14.2%
4. Derivative financial instruments	1 378 117	1 362 379	1.2%
5. Other financial instruments at fair value through profit or loss	20 213 622	0	x
6. Loans and advances to customers	41 864 995	40 037 263	4.6%
7. Investment securities	2 020 518	23 458 834	(91.4)%
8. Tangible fixed assets	2 562 229	2 651 597	(3.4)%
9. Other assets	1 551 712	1 317 567	17.8%
TOTAL ASSETS	89 082 117	85 954 365	3.6%

The most significant movement in the structure of assets is the transfer from the "Investment securities" category to the "Other financial instruments at fair value through profit or loss" category, made in connection with separating the ALPL portfolio from the existing Available for sale (AFS) portfolio.

The most significant item of the Group's asset (47%) are Loans and advances to customers, which as at 30 June 2005 amounted to PLN 41,865 million and were 4.6% higher compared to the balance as at 31 December 2004.



Table 3. Credits and loans granted to clients of the PKO BP SA Group (in PLN thousands)

Receivables	As at:		Dynamics	
	30.06.2005	31.12.2004	PLN thousand	%
1	2	3	4	5
I. Net value of loans and advances	41 308 273	39 555 711	1 752 562	4.4%
1. Gross value of loans and advances granted to:	44 469 307	42 198 939	2 270 368	5.4%
- public sector	6 402 254	7 613 858	(1 211 604)	(15.9)%
- financial sector (except for banks)	330 438	279 908	50 530	18.1%
- non-financial sector	37 736 615	34 305 173	3 431 442	10.0%
2. Write-downs against exposures, for which impairment indicators were identified*	(3 161 034)	(2 643 228)	(517 806)	19.6%
3. Net receivables from finance lease	556 722	481 552	75 170	15.6%
Value of credits and loans granted to customers	41 864 995	40 037 263	1 827 732	4.6%

* As at 31.12.2004 specific provisions for receivables.

Write-downs against exposures, for which impairment indicators were identified as at 30 June 2005 amounted to PLN 3,161 million and were 0.6% higher compared to the balance of specific provisions for receivables including the provision for general banking risk, created for selected loan portfolios at the end of the previous year.

Liabilities and Equity

Table 4. Main items of liabilities and equity (in PLN thousands)

Item	As at:		Dynamics
	30.06.2005	31.12.2004	
1	2	3	4
I. Liabilities, of which:	80 984 907	77 096 213	5.0%
1. Amounts due to the Central Bank	945	144	556.3%
2. Amounts due to other banks	1 702 465	998 718	70.5%
3. Derivatives	1 483 150	793 739	86.9%
4. Amounts due to customers	74 400 988	73 096 254	1.8%
5. Other liabilities	3 397 359	2 207 358	53.9%
II. Total equity	8 097 210	8 858 152	(8.6)%
TOTAL LIABILITIES AND EQUITY	89 082 117	85 954 365	36%

The main item (83.5%) of Liabilities and Equity are amounts due to customers which as at 30 June 2005 amounted to PLN 74,401 million, and increased by 1.8% compared to the balance as at 31 December 2004.

Table 5. Amounts due to the PKO BP SA Group customers by maturity

Item	As at:		Change in pp.	Dynamics
	30.06.2005	31.12.2004		
1	2	3	4	5
Total liabilities	100.0%	100.0%		101.8%
Current accounts and O/N deposits	34.6%	33.2%	1.4	106.1%
Term liabilities with a maturity:	65.4%	66.8%	(1.4)	99.6%
1) up to one month	21.2%	23.9%	(2.7)	90.5%
2) 1 - 3 months	16.7%	15.4%	1.3	110.3%
3) 3 months - 1 year	25.4%	25.3%	0.1	102.0%
4) 1 year - 5 years	2.0%	2.1%	(0.1)	95.6%
5) more than 5 years	0.1%	0.1%	0.0	121.1%
6) unspecified	0.0%	0.0%	0.0	x



The ageing structure of liabilities as at the end of June 2005 proves that current accounts and O/N (*overnight*) deposits had a predominant role. Their total value increased by 6.1% compared to the balance as at the end of 2004.

Table 6. Amounts due to customers of the PKO BP SA Group (in PLN thousands)

Item	As at:		Dynamics
	30.06.2005	31.12.2004	
1	2	3	4
1. Amounts due to corporate entities	7 989 032	6 618 132	20.7%
Current accounts and O/N deposits	3 778 881	3 756 218	0.6%
Term deposits	4 113 552	2 787 712	47.6%
Other	96 599	74 202	30.2%
2. Amounts due to public sector entities	3 611 280	5 369 539	(32.7)%
Current accounts and O/N deposits	2 953 339	2 420 571	22.0%
Term deposits	511 957	2 735 874	(81.3)%
Other	145 984	213 094	(31.5)%
3. Amounts due to private customers	62 800 676	61 108 583	2.8%
Current accounts and O/N deposits	19 067 376	18 105 821	5.3%
Term deposits	41 920 524	41 243 404	1.6%
Other	1 812 776	1 759 358	3.0%
Total amounts due to customers	74 400 988	73 096 254	1.8%

The main item of amounts due to customers of the PKO BP SA Group were amounts due to private customers, which as at 30 June 2005 amounted to PLN 62,801 million.

6.2. Off-balance sheet items

As at 30 June 2005, total off-balance sheet liabilities of the Group amounted to PLN 275,201 million and in comparison to the balance as at the beginning of the year increased by 40.5%.

The main item, accounting for 89.4% of total balance were liabilities arising from purchase/sale transactions, amounting to PLN 245,981 million. As a result of high dynamics in the last six months, the share of this balance in the off-balance sheet liabilities increased by 2.6 p.p. This balance mainly consisted of derivatives and forward transactions, concluded by the PKO BP SA Group with an aim to control liquidity in currencies, for trading purposes and arbitrage between financial markets.



6.3. Profit and loss account

Table 7. The PKO BP SA Capital Group's main profit and loss account items (in PLN thousands)

Item	1 st half of 2005	1 st half of 2004	Dynamics
1	2	3	4
1. Net interest income	1 767 878	1 749 387	101.1%
2. Net fees and commission income	600 846	715 842	83.9%
3. Dividend income	1 570	3	x
4. Result from financial instruments at fair value	139 647	108 632	128.6%
5. Result from the investment securities	53 217	(5 885)	x
6. Foreign exchange result	331 839	174 599	190.1%
7. Net other operating income and expense	235 542	187 730	125.5%
8. Total income items (1-7)	3 130 539	2 930 308	106.8%
9. Impairment losses	(87 571)	(10 399)	842.1%
10. Overhead costs	(1 949 270)	(1 849 514)	105.4%
11. Share of profits of associates and joint ventures	10 424	5 290	197.1%
12. Gross profit	1 104 122	1 075 685	102.6%
13. Income tax expense	(219 818)	(218 891)	100.4%
14. Profits/losses of minority shareholders	3 052	(548)	X
15. Net profit	887 356	856 246	103.6%
Cost/income ratio (C/I)	62.3%	63.1%	

In the 1st half of 2005, the PKO BP SA Group recorded a gross profit amounting to PLN 1,104 million. After deducting obligatory tax charges and profits (losses) of minority shareholders, the resulting net profit amounted to PLN 887 million. Compared to the corresponding period of 2004 the gross profit and the net profit were 2.6% and 3.6% higher, respectively.

In the 1st half of 2005, the consolidated cost/income ratio (C/I) amounted to 62.3% and was 0.8 p.p. lower in relation to the corresponding period of 2004.

In the 1st half of 2005, the aggregated income items of the Group's profit and loss account amounted to PLN 3,131 million, being PLN 200 million (i.e. 6.8%) higher than in the 1st half of 2004. This amount included the following items:

Net interest income

The net interest income amounted to PLN 1,768 million, having increased by PLN 18.5 million, i.e. 1.1% in relation to the 1st half of 2004. It consisted of interest income amounting to PLN 2,888 million and interest expenses, amounting to PLN 1,120 million, both having increased in relation to the corresponding period of the previous year by 13.1% and 39.5%, respectively.

Fees and commission income

In the 1st half of 2005, the net fees and commission income amounted to PLN 601 million and was 16.1% lower compared to the corresponding period of 2004; income amounted to PLN 749 million (10.2% lower compared to the 1st half of 2004), expenses amounted to PLN 148 million (24.9% higher than in the previous year). The decrease in the income relates mainly to credits and loans and is due to their amortization using the effective interest method.

Other income items

- In the 1st half of 2005, the sum total of the result from financial instruments at fair value and the result from investment securities was PLN 193 million, i.e. 87.7% higher compared to the previous year. The increase resulted, among others, from the transfer of a significant part of debt securities portfolio to the ALPL portfolio. The above classification made it possible for the Bank to recognize the results from the valuation of hedged and hedging instruments in the profit and loss account.



- The foreign exchange result amounted to PLN 332 million, and was 90.1% higher compared to the 1st half of 2004, mainly due to higher profit from FX SWAP and CIRS operations (the result of these transactions is of an interest type).
- Net other operating income totaled PLN 236 million (dynamics: 125.5%), and consisted of operating income amounting to PLN 302 million and operating costs amounting to PLN 67 million.

As for other operating income, its main item (69.9%) was income from sale of products and materials, which amounted to PLN 211 million and increased by 72.5% compared to the corresponding period of 2004. The other operating income increased mainly due to consolidation in the 1st half of 2005 of Wilanów Investment (a subsidiary of PKO Inwestycje) as well as due to income increase of Fort Mokotów (which is also a subsidiary of PKO Inwestycje) included in the consolidation, due to its activities expansion.

Other operating expenses comprise mainly write-downs against other receivables and operating expenses, such as costs of third party property management, sale and liquidation of fixed assets, donations, costs of leases etc. Compared to the 1st half of 2004, other operating expenses increased by 59.3%.

Impairment losses

Impairment losses resulted in a decrease of a profit for the 1st half of the year by PLN 88 million, which was almost 8-times more than in the 1st half of 2004. However, in considering the above result, due consideration should be given to the fact that in the 1st half of 2004 impairment allowances resulted from different regulations, i.e. the Decree of the Minister of Finance dated 10 December 2003 on providing for risks relating to banking activities.

General expenses

Table 8. General administrative expenses of the PKO BP SA Group (in PLN thousands)

Item	1 st half of 2005	1 st half of 2004	Dynamics
1	2	3	4
1. Employee benefits	(987 673)	(954 406)	103.5%
2. Costs by type	(702 162)	(601 191)	116.8%
3. Depreciation/amortization	(220 368)	(259 282)	85.0%
4. Taxes and charges	(35 056)	(28 750)	121.9%
5. Contribution and payments to the Bank Guarantee Fund	(4 011)	(5 885)	68.2%
6. Restructuring costs	0	0	X
Total	(1 949 270)	(1 849 514)	105.4%

In the 1st half of 2005, general administrative expenses of the Group totalled PLN 1,949 million and were 5.4% higher compared to the 1st half of the previous year. At the same time, general administrative expenses of PKO BP SA, as holding company, decreased by 0.8%. General administrative expenses of the Group increased due to the above-mentioned acquisition (and inclusion in the consolidation) of Wilanów Investment, which is a part of the PKO Inwestycje Group, as well as to the increase in development expenses of the consolidated entity Fort Mokotów, which is also a part of PKO Inwestycje Group. The increase in administrative expenses of both entities of the Group was mitigated by the increase in its income, recognised as "other operating income".



6.4. Equity and capital adequacy ratio

Table 9. Equity of the PKO BP SA Group (in PLN thousands)

Item	As at:		Dynamics
	30.06.2005	31.12.2004	
1	2	3	4
1. Share capital	1 000 000	1 000 000	0.0%
2. Other capital items	5 988 440	6 027 024	(0.6)%
3. Foreign exchange differences arising from valuation of foreign units	(2 450)	(11 472)	(78.6)%
4. Retained earnings	156 940	270 046	(41.9)%
5. Profit for the year	887 356	1 506 705	(41.1)%
6. Minority capital	66 924	65 849	1.6%
Total equity	8 097 210	8 858 152	(8.6)%
Capital adequacy ratio	15.68%	18.42%	(2.74) pp.

As at 30 June 2005, the share capital of PKO BP SA comprised PLN 1,000,000,000 ordinary inscribed shares with a nominal value of PLN 1 each, including: 510,000,000 series A shares, 105,000,000 series B shares and 385,000,000 series C shares.

As at 30 June 2005, the PKO BP Group's equity amounted to PLN 8,097 million and were lower by PLN 761 million, i.e. 8.6% compared to the balance as at the end of 2004. The increase in equity resulted mainly from the appropriation of the 2004 profit amounting to PLN 1 billion to dividends.

The capital adequacy ratio as at 30 June 2005 amounted to 15.68% and decreased by 2.74 p.p. compared to the end of December 2004, due to the decrease in equity and to greater capital requirements resulting from the dynamic development of credit activities.

The consolidated profit for the last 12 months resulted in the return on equity (ROE_{net})² amounting to 19.13%.

7. ACTIVITIES OF PKO BP SA AS HOLDING COMPANY OF THE PKO BP SA GROUP

7.1. Financial results of PKO BP SA

7.1.1. Balance Sheet structure

As at 30 June 2005, total assets were PLN 87,932 million and were PLN 2,821 million (i.e. 3.3%) higher compared to the end of 2004.

² ROE_{net} calculated as relation of consolidated net financial result for the period 01.07.2004 - 30.06.2005 to arithmetic average of equity as at beginning and end of the period



Assets

Table 10. Main assets categories of PKO BP SA (in PLN thousands)

Item	As at		Dynamics
	30.06.2005	31.12.2004	
1	2	3	4
Assets			
1. Cash and balances with the Central Bank	4 727 784	3 490 505	35.4%
2. Loans and advances to banks	14 229 756	13 146 115	8.2%
3. Financial assets held for trading	400.413	346.131	15.7%
4. Derivative financial instruments	1 378 117	1 362 379	1.2%
5. Other financial instruments at fair value through profit or loss	20 213 622	0	X
6. Loans and advances to customers	41 316 200	39 577 723	4.4%
7. Investment securities	1 901 453	23 498 314	(91.9)%
8. Tangible fixed assets	2 124 926	2 218 233	(4.2)%
9. Other assets	1 639 861	1 472 196	11.4%
TOTAL ASSETS	87 932 132	85 111 596	3.3%

The most significant change in the assets structure is the reclassification of securities from "Investment Securities" to "Other financial instruments at fair value through profit or loss", which resulted from separating an ALPL³ portfolio from the former available for sale securities portfolio (AFS portfolio).

The most significant assets balance (accounting for 47.0% of total assets) are loans and credits with a carrying amount of PLN 41,316 million as at 30 June 2005; this was 4.4% higher compared to the end of December 2004.

Liabilities

Table 11. Main items of liabilities and equity of PKO BP SA (in PLN thousands)

Item	As at:		Dynamics:
	30.06.2005	31.12.2004	
1	2	3	4
Liabilities and equity			
I. Liabilities, of which:	79 802 549	76 204 349	4.7%
amounts due to Central Bank	945	144	556.3%
amounts due to other banks	1 546 530	800 403	93.2%
Derivatives	1 483 150	793 739	86.9%
amounts due to clients	73 638 737	72 576 273	1.5%
other liabilities	3 133 187	2 033 790	54.1%
II. Total equity	8 129 583	8 907 247	(8.7)%
TOTAL LIABILITIES AND EQUITY	87 932 132	85 111 596	3.3%

The most significant item of the Bank's liabilities (accounting for 83.7% of total liabilities) are amounts due to clients with a value of PLN 73,639 million as at 30 June 2005; this increased by 1.5% compared to the end of 2004.

7.1.2. Off-balance sheet items

As at 30 June 2005, off-balance sheet liabilities amounted to PLN 272,957 million and increased by 40.2% compared to the balance at the beginning of the year.

The main item of off-balance liabilities (accounting for 90.1% of total off-balance sheet items) were liabilities relating to the realization of off-balance sheet transactions (current and term) amounting to

³ Assets and liabilities valued at fair value through profit and loss



PLN 245,978 million. As a result of high dynamics during the period of 6 months of 2005, the share of this balance in total off-balance sheet liabilities increased by 2.8 pp. This item mainly consisted of derivative and term currency exchange transactions, conducted by PKO BP SA with an aim to control the Bank's currency liquidity for traded purposes and arbitral between financial markets arbitration.

7.1.3. Profit and loss account

Table 12. Main Profit and loss account items of PKO BP SA (in PLN thousands)

Item	1 st half of 2005	1 st half of 2004	Dynamics
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
1. Net interest result	1 738 362	1 736 231	100.1%
2. Net fees and commission income	579 286	726 804	79.7%
3. Income from dividends	14 272	18 840	75.8%
4. Result on financial instruments at fair value through profit or loss	139 063	108 622	128.0%
5. Result on investment securities	53 197	(6 097)	x
6. Result on foreign exchange	342 202	175 233	195.3%
7. Other operating income and other operating expenses	49 926	67 583	73.9%
8. Total income items (1-7)	2 916 308	2 827 216	103.2%
9. General administrative expenses	(1 746 832)	(1 760 786)	99.2%
10. Impairment losses on loan and advances	(69 514)	(8 117)	856.4%
11. Gross profit	1 099 962	1 058 313	103.9%
12. Corporate income tax	(218 738)	(212 600)	102.9%
13. Net profit	881 224	845 713	104.2%
Costs to income ratio	59.9%	62.3%	

In the 1st half of 2005, PKO BP SA earned gross profit of PLN 1,100 million. After considering the amounts of corporate income tax, the net profit was PLN 881 million. Compared to the corresponding period of 2004, the gross and net profit were higher by 3.9%, and 4.2%, respectively.

In the 1st half of 2005, the cost/income ratio amounted to 59.9% and was 2.4 p.p. lower in relation to the corresponding period of 2004.

In the 1st half of 2005, the total of income items amounted to PLN 2,916 million and was higher by PLN 89 million (i.e. 3.2%) than in the 1st half of 2004. Of this amount:

- PLN 1,738 million represented net income result, which was PLN 2 million (i.e. 0.1%) higher compared to the 1st half of 2004. It consisted of interest income of PLN 2,821 million (higher by 11.2% compared to the corresponding period of the previous year) and interest expenses of PLN 1,082 million (higher by 35.2% compared to the corresponding prior year period),
- PLN 579 million represented net fees and commission income, which was lower by 20.3% compared to the corresponding period of 2004, of the above amount, fees and commission income was PLN 733 million (lower by 13.4% compared to the first 6 months of 2004) and costs were PLN 153 million (higher by 28.1% compared to the year figure). Income decline relates primarily to loans and credits in connection with their valuation using the effective interest rate method,
- PLN 192 million represented total result on financial instruments valued at fair value and investment securities, and was 87.5% higher compared to the prior year. The above increase was due, among others, to the transfer of a significant part of debt securities portfolio to the ALPL portfolio. This classification made it possible for the Company to include the result on the valuation of hedged items and hedging instruments in the profit and loss account,
- PLN 342 million represented the result on foreign exchange transactions, which was 95.3% higher compared to the 1st half of 2004; the increase was mainly due to earning higher profit from FX SWAP and CIRS transactions (the result from these transactions has an interest character),



- PLN 50 million represented other operating income and costs (with the dynamics of 73.9%) and consisted of operating income of PLN 82 million and operating expenses in amount of PLN 32 million.

Result on impairment allowances reduced the financial result for the 1st half of 2005 by PLN 70 million, and this amount was 8.5-times higher compared to that calculated in the 1st half of 2004. However, one should note that in the 1st half of 2004 specific provisions were created based on different regulations, i.e. in accordance with the Decree of the Minister of Finance dated 10 December 2003 on providing for risks connected with banking activities. The implementation at this time of new principles of credit exposure classification and of creating specific provisions caused that the financial result was relatively high.

In the 1st half of 2005, the Bank's general administrative expenses amounted to PLN 1,747 million and were 0.8% lower compared to the 1st half of 2004.

7.1.4. Equity and capital adequacy ratio

Table 13. Equity of PKO BP SA (in PLN thousands)

Item	As at:		Dynamics
	30.06.2005	31.12.2004	
1	2	3	4
1. Share capital	1 000 000	1 000 000	0.0%
2. Other equity items	5 810 933	5 900 933	(1.5)%
3. Retained earnings	437 426	558 264	(21.6)%
4. Net profit	881 224	1 448 050	(39.1)%
Total equity	8 129 583	8 907 247	(8.7)%
Capital adequacy ratio	15.98%	18.70%	(2.72) p.p.

As at 30 June 2005, the equity of PKO BP SA amounted to PLN 8,130 million and was lower by PLN 778 million (8.7%) compared to the end of 2004. The decrease resulted mainly from the appropriation of PLN 1 billion to shareholders' dividend from the 2004 net profit.

The capital adequacy ratio as at 30 June 2005 was 15.98% and compared to the end of December 2004 decreased by 2.72 p.p.

The net profit of the Bank for the last 12 months resulted in the return on equity ratio (ROEnet)⁴ accounting for 18.29%.

7.2. Basic areas of the Bank's activities

Table 14. PKO BP SA deposits (in PLN millions)

Items	30.06.05	31.12.04	Change by:
1	2	3	4
Deposits:			
- retail banking	53 850.5	52 932.6	917.9
- housing deposits	7 890.3	7 327.8	562.5
- corporate deposits*	11 402.3	12 106.3	(704.0)
- other (treasury operations, capital investments, Brokerage House)	1 794.2	894.6	899.5
Total deposits	74 937.3	73 261.4	1 675.9

**) for comparison purposes, small and medium enterprises' deposits are included in the corporate market*

As at 30 June 2005, the Bank's deposits amounted to PLN 74.9 billion and from the beginning of the year increased by PLN 1.7 billion.

⁴ ROEnet calculated as relation of consolidated net financial result for the period 01.07.2004 - 30.06.2005 to arithmetic average of equity as at beginning and end of the period



Deposit growth was observed in retail and housing deposits.

Table 15. Gross interest bearing assets of PKO BP SA (in PLN millions)

Item	30.06.05	31.12.04	Change by:
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
I. Gross credits, of which:	44 138.2	41 108.8	3 029.4
- retailed banking	10 208.8	9 527.4	681.4
- housing market (new portfolio)	14 809.2	13 324.1	1 485.1
- housing loans	3 065.3	3 085.2	(19.9)
- corporate*	16 054.8	15 172.1	882.7
II. Securities and inter-bank placements	35 945.6	36 747.6	(802.0)
Gross interest bearing assets (I+II)	80 083.8	77 856.4	2 227.4

**) for comparison purposes, small and medium enterprises' deposits are included in the corporate market*

At the end of the 1st half of 2005, gross interest bearing assets of the Bank amounted to PLN 80.1 billion and were higher by PLN 2.3 billion (i.e. 2.9%) compared to 31 December 2004. Loans and advances accounted for 55.1% of total balance of interest rate assets and compared to the end of 2004 were higher by 2.3 pp., mainly as a result of better credit dynamics, which amounted to 107.4%.

As at 30 June 2005, the gross value of loans and credits of PKO SA amounted to PLN 44.1 billion and in the 1st half of 2005 increased by PLN 3.0 billion, mainly due to the high dynamics of housing and consumer credits.

Table 16. Bank accounts and bank cards of PKO BP SA (in thousands)

Item	30.06.05	30.06.04	Change by:
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
Total of bank accounts, of which:	5 774	5 512	262
- current accounts	5 271	5 148	123
- Inteligo accounts	503	364	139
Number of bank cards	5 784	5 443	341
of which: credit cards	467	327	140

In the 1st half of 2005, the number of Inteligo and current accounts increased by total of 262 thousand. As at 30 June 2005, the number of agreements concerning using electronic banking services amounted to over 456 thousand and almost all of them were signed in 2005, due to fact that the product was included in the Bank's offer in the middle of November 2004.

In 1st half of 2005, the number of bank cards increased by 341 thousand items, of which 140 thousand accounted for credit cards. The increase in the number of credit cards was due to promotion campaigns in this period.

7.2.1. Retail Banking

Individual Clients

Among the activities related to individual clients' services conducted in the 1st half of 2005, the most significant were as follows:

- introduction of a new loan product "Fast loan service", that changes the form of current cooperation with a client, which meant financing only defined client's needs, to targeted one, that allows flexible creation of customer relationship without focusing on a target of financing, and with keeping the same risk level simultaneously,
- discontinuation of granting the following types of loans: for the purchase of cars, technical equipment and consumer goods, due to their replacement with Quick Credit Service, which has all the functionalities of the above types of loans,



- information campaign directed to holders of bank savings- settlement accounts concerning PKO Inteligo services, among others, thanks to this campaign an increase in the bank's clients actively using electronic banking services was observed – in this period 366 thousand agreements were made for using the online service center, bank current accounts call center and current accounts, Partner type, were signed,
- expanding product offer by an annual structural deposit with guaranteed interest rate, which may be increased depending on the EUR/PLN exchange rate,
- subscription campaign for a new deposit product with the following features: term deposit (12 months), favourable interest rate, progressive structure,
- promotion campaign of MasterCard UEFA Champions League credit cards, issued on the occasion of UEFA Champions League 2005, over 47 thousand credit cards were issued during this campaign,
- first stage of the promotion campaign of PKO Diners Club cards took place; 5,217 cards were issued during this campaign, making a total number of cards issued 18,068,
- extension of the product offer with financial advisory services for private banking customers.

Small and medium enterprises (SMEs)

In the 1st half of 2005 the Bank's most significant activities relating to the cooperation with the SME sector were as follows:

- availability for the entrepreneurs of the Hipoteka Partner investment loan, financing activities relating to real estate market, before a mortgage on behalf of the Bank is established; the product is combined with the insurance of loan repayment, granted by PZU S.A.,
- modification of AUTO PARTNER investment loans designed for vehicle purchases – increase in the product's competitiveness,
- promotion campaign of AUTO PARTNER loan designed for Seat vehicles purchases, during the campaign loan agreements amounting to PLN 47.6 million were signed,
- promotion campaign of EURO BIZNES credit cards, during this campaign 18 thousand credit cards were sold to the SME sector.

7.2.2. Corporate banking

In the 1st half of 2005, the Bank focused on further strengthening of its market position and on creating an image of PKO BP SA as active financial institution on the corporate market.

In the 1st half of 2005, the Bank extended its product offer designed for corporate clients by the following new products:

- trust account, designed for gathering funds and making settlements between business partners specified in the agreement,
- conditional settlements account designed for gathering funds and making settlements between business parties specified in the contract,
- multi-purpose credit limit, under which the customer may benefit from different forms of financing, i.e. in different currencies depending on customer current needs.

Furthermore, in the area of structural financing in the first 6 months of 2005, the Bank:

- organized 11 issues of municipal bonds with a total amount of PLN 100.6 million, among others, for the city of Zamość (PLN 30 million) and for the city of Świnoujście (PLN 20 million),
- organized 3 contracts concerning corporate bonds issuance, including for an entity operating in the energy industry (for the amount of PLN 350 million with the guarantee to close the issue), for an entity operating in the financial sector (for the amount of PLN 100 million without no guarantee to close the issue) and for an entity operating in the food industry (for the amount of PLN 12.2 million with issue close guarantee),



- won tenders for the total amount of PLN 2.3 billion for extending loans to a government/local government entity,
- signed guarantee agreements with an entity operating in the field of oil products' manufacturing and processing for the total amount of PLN 230 million; as at 31 March 2005 the total value of contracts signed with this borrower was PLN 624 million,
- extended working capital and investment loan to a manufacturer of ceramic tiles for the total amount of PLN 140 million,
- signed a credit agreement with an entity operating in energy distribution sector for the total amount of PLN 100 million,
- organized working capital credit in the form of bank consortium for the total amount of USD 31 million to an entity operating in the shipyard industry (the share of PKO BP SA amounted to USD 15.5 million) – the credit is collateralized by the guarantee of the State Treasury,
- signed guarantee agreements with an entity operating in the field of oil products' manufacturing and processing for the total amount of PLN 60 million, an investment loan agreement for the amount of CZK 750 million and an overdraft agreement for the amount of PLN 100 million,
- signed an investment loan agreement with an indirect subsidiary, POMERANKA Ltd, operating in the construction industry for the amount of PLN 52.1 million; the transaction was carried out at arm's length.

7.2.3. Financing real estate

Housing loans (new portfolio)

In order to enhance the attractiveness of its product offer and tailor it to the clients' needs, the Bank:

- modified the institution of Escrow Housing Account (Mieszkaniowy Rachunek Powierniczy) by introducing 3 types of accounts tailored to the character of transactions carried out on the real estate market: open and closed account designed for investors and used for collecting funds from home buyers (i.e. home buyers' deposits) and transaction account designed for private clients, who purchase homes on the secondary market,
- extended its investment credit offer by implementing loan facility commitment,
- introduced new referential rates for products addressed to private clients, also an offer in the area of referential rates for investment credits was expanded.

Furthermore, in order to attract new clients and increase a total value of extended credit facilities:

- rules of cooperation with financial partners, real estate agencies and developers were improved,
- special financial programs were developed for home buyers from developers, with a particular emphasis on housing projects co-financed by PKO BP; these programs make it possible for home buyers to finance their housing investments using double formula: investment credit and credit for the purchase of housing property,
- promotional campaigns were carried out to attract new customers for the following types of housing loans: mortgage loan, WŁASNY KĄT and consolidated credit.

To minimize credit risk, appropriate regulations regarding controls over construction projects and rules for determining the value of real estate representing loan collateral, were implemented.

During the 1st half of 2005, sales of loans/credits of "new" portfolio reached a record-breaking level of PLN 3.5 billion. The highest volume of sales recorded in May and June amounted to PLN 632 million and PLN 788 million, respectively.

The analysis of sales structure in the 1st half of the current year shows that the share of foreign currency (mainly Swiss francs - CHF) credits/loans of a "new" portfolio increased on average from the level of 38% in 2004 to 61% in 2005.



Housing loans with the State Treasury guarantee

The fundamental aim of the Bank's activities concerning the possession in of credits with the State Treasury guarantee was to keep their very high level of repayment (approx. 99%). As a result of those activities a significant decrease in this debt of PLN 130 million (of 4.2%) was observed in the 1st half of 2005. The high repayment ratio was possible due to the realization by the State Treasury of its guarantee in respect of loan and credit receivables for the amount of PLN 0.6 million only.

Servicing deposits on house savings books

As at 30 June 2005, Bank PKO BP SA serviced approx. 2.1 million house savings books' accounts, of which: 1,666.3 thousand represented the accounts with premium guarantee and 471 thousand accounts – with no such guarantee.

In the 1st half of 2005, an increase was recorded for the following:

- house savings books without the right to guarantee premium of 96.2 thousand, which contributed to an overall increase in the value of deposits of PLN 726.1 million,
- house savings books with guarantee premium of 3.0 thousand, which contributed to an overall increase in the value of deposits of PLN 31.9 million.

Service of corporate clients of the housing market

As part of tailoring bank product and services offer to the needs of corporate clients of the housing market, as of 1 January 2005 a new investment loan with a BGK thermo-modernization premium, NOWY DOM Remont, was introduced to the Bank's product offer.

Corporate clients of the housing market (i.e. housing associations, housing communities and developers) have been granted a special, complex service. This product contains a comprehensive package of services offered to corporate clients, their boards, as well as to e.g. members of housing associations.

7.2.4. Money market activity

In the 1st half of 2005, the activities of PKO BP SA on the monetary market centred upon effective management of the Bank's investment portfolio, obtaining currency resources for financing its credit and trade operations on the inter-bank market and co-operation with the Bank's clients. The most important activities executed in this period were:

- adjusting the current investment policy to market trends - in the 1st half of 2005 high exposure on the interest rate risk continued,
- increasing investments in treasury and non-treasury securities denominated in foreign currencies,
- ensuring the long-term financing in CHF. In the 1st half of 2005 the amounts obtained in CHF increased from CHF 1.1 billion as at the end of 2004 to CHF 1.8 billion. An increase of CHF deficits resulted from high dynamics of housing loans sale and the amounts in CHF were obtained mainly through the long-term CIRS transactions,
- maintaining extensive activity on the treasury securities market (SPW). The Bank is one of the main market makers as for the Treasury bills and bonds and its activity in this field was rewarded with the 1st prize in the ranking of the best Dealer of Treasury Bills organised by the Ministry of Finance (in the 1st quarter of the current year, the Bank scored 91.5 points out of 108.5 points available). Moreover, the Bank's activity on the debt securities market was emphasised by participating in the introduction of futures transactions on the Warsaw Stock Exchange – these securities have been traded since the 1st quarter of 2005,
- developing transactions with non-banking clients. In the 1st half of 2005 there were works continued aimed at development of product offer for the customers of the Bank. As result of sales intensification there was an increase in turnovers by 47% in comparison to the comparative period of 2004.



7.2.5. Brokerage activity

In continuing the policy of strengthening its position on the capital market, Bankowy Dom Maklerski PKO BP SA realized in the 1st half of the current year the turnover sales of PLN 880 million on the bonds market (share of 38.45% - 1st place on the market in June of the current year) and the turnover of PLN 5.3 billion on the shares market (share of 7.2%), which ensured its IV place on this market in the 1st half of 2005.

As part of its activities on the primary market, in the 1st half of the current year, BDM, acting as the offerer, introduced to public trading shares of the following eight companies: Rolimpex, Alchemia, PGNiG, POLICE, Elektrownia Kozienice, Spray S.A., EMC Instytut Medyczny and EFH 6- as part of the program of issuance of bearer's mortgage debentures.

Additionally, BDM executed the public offering of the shares of Zakłady Tworzyw Sztucznych Ząbkowice, and as a member of consortium, participated in the primary market sale of Ciech and Comp as well as Zelmer, Polmos Białystok, LOTOS and Opoczno, organized by the Warsaw Stock Exchange.

At the end of June 2005, Bankowy Dom Maklerski acted as market maker and issuer market maker for 46 companies, and served the function of issue sponsor for 26 companies. In fulfilling its function of share issue sponsor, in the 1st half of the current year, BDM serviced the process of free of charge allocation of shares of BOT Kopalnia Węgla Brunatnego Bełchatów S.A. and of employee shares of PKO BP SA to persons with share vested rights.

7.3. Personnel of the Bank

The employment in PKO BP SA as at 30 June 2005 amounted to 34,681 full-time posts and was lower by 705 posts, i.e. 2% in comparison to 31 December 2004.

Remuneration system

The legal basis for the application of principles of remunerating the Bank's employees is the Collective Bargaining (Labour) Agreement dated 28 March 1994 (with subsequent amendments) and the resultant executive regulations, which have been developed in collaboration with trade union organizations.

In the 1st half of 2005, the work continued on increasing the competitiveness of the level of remuneration at the Bank as compared to the banking sector. Efforts continued to develop solutions allowing to combine employee level of remuneration with his work efficiency by re-developing the existing incentive system with a view to adjusting it to the new organizational and functional solutions at the Bank. The adopted solutions are aimed at strengthening the incentive effect of remuneration level on business activities and achieving better economic results and improving work effectiveness.

Employee training

In the 1st half of 2005, about 60 thousand persons participated in the group and individual training, including 55 thousand in the in-house training conducted by internal lecturers.

Training sessions were in particular aimed at:

- improving employees' selling abilities and pro-client attitudes,
- developing employees' specialist qualifications,
- improving professional knowledge and managerial skills.

In the 1st half of 2005, an "Integrated System of Human Resources Management at PKO BP SA" was launched, the realization of which will enable the Bank both to improve the existing and introduce new solutions relating to, among others, organization and functioning of personnel-payroll, social and training functionalities.



7.4. Branch network

Table 17. The Branch network of PKO BP as at 30 June 2005

Item	30.06.2005	31.12.2004	change:
1	2	3	4
Total number of branches	1 261	1 266	(5)
- Retail Market:	1 178	1 183	(5)
Regional Retail Branches	12	12	0
Independent branches	537	537	0
Subordinated branches	629	634	(5)
- Corporate Market:	83	83	0
Regional Corporate Branches	13	13	0
corporate client units	13	13	0
corporate centres	57	57	0
Number of agencies	2 620	2 725	(105)
Number of ATMs	1 863	1 785	78

At the end of June 2005, the Bank:

- had 1,261 branches and in relation to the end of 2004 there was a decrease by 5,
- co-operated with 2,620 agencies and since 31 December 2004 this figure decreased by 105 agencies, following the amendments to the principles of Bank's co-operation with agencies, as required by the amended Act on Bank Law (*Ustawa Prawo bankowe*), and as a consequence of liquidation of old type and ineffective agencies,
- owned 1,863 ATM cash dispensers (of which 838 had deposit facility), which accounted for 23%⁵ of all cash dispensers in Poland; in the 1st half of the current year, approximately 93 million transactions for the total amount of over PLN 22,1 million were executed using the PKO BP SA cash dispensers; in addition, the share of the operations made with bank cards of other drawers using the PKO BP SA cash dispensers amounted to 5%,
- had 222 self-service terminals operating in the PKO BP SA branches.

7.5. Other significant information

In accordance with the Bank's information, the shareholder with a direct or indirect share of at least 5% of the total number of votes at the Bank's Annual General Meeting is the State Treasury. According to the information announced to the public after the Ordinary Annual General Meeting held on 19 May 2005, the share of the State Treasury was 54.58%.

Acting on behalf of the Minister of the State Treasury, on 4 April 2005 the Bank made a public announcement that it commenced the allocation of 105 million (in words: one hundred and five million) free of charge shares, series B, to its employees with vested rights. The allocation of free of charge shares to the employees with vested rights, including signing appropriate contracts and issuance of deposit certificates confirming the transfer of ownership rights to the vested person, was carried out in places and at the dates specified separately for the employees with vested rights as well as to the beneficiaries of such employees. All these activities were carried out at Employee Share Distribution Points located in the Bank's branches.

⁵ Data: www.karty.pl – as at 24.06.2005



8. ACTIVITIES OF OTHER COMPANIES OF PKO BP SA CAPITAL GROUP

Bankowy Fundusz Leasingowy S.A.

The company offers operating and finance lease services in respect of vehicles, machinery, equipment and real estate as well as other financial agency services. Special services of the company include: BanCar Leasing, representing lease of passenger cars and trucks and Bankowy Wynajem- a long-term lease of motor vehicles.

- The value of the company's equity at the end of the 1st half of 2005 amounted to PLN 20,575 thousand.
- The company closed the 1st half of 2005 with a net profit of PLN 1,399 thousand.
- In the 1st half of 2005, the company realized lease agreements for a total amount of PLN 220 million. As regards the net value of leased assets, the company ranked 12th as at the end of the 1st half of 2005⁶.
- In the 1st half of 2005, the company commenced the program of selling lease services to small and medium sized enterprises, which took advantage of the EU structural funds.
- In the 1st half of 2005, the company introduced a new product to its offer - Ban Truck Leasing. The product is dedicated to entities operating in the transport services industry and deals with the lease of heavy hauling equipment.

Centrum Elektronicznych Usług Płatniczych eService S.A.

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

- The value of company's equity at the end of the 1st half of 2005 amounted to minus PLN 567 thousand.
- In the 1st half of 2005, the company improved its financial results compared to the previous years. At the end of June 2005, the company reported a net profit of PLN 2,713 thousand.
- The company's share in the payment card acceptance market as regards the number of eService terminals was at the end of the 1st half of 2005 26.5% (25.11% at the end of 2004). The number of eService terminals amounted to 25,577 pieces at the end of the 1st half of 2005.
- In the 1st half of 2005, 21,269 thousand transactions for a total amount of PLN 3,454,357 thousand were conducted using the eService terminals.

Centrum Finansowe Puławska Sp. z o.o.

The Company manages the building "Centrum Finansowe Puławska", located at Puławska 15 Street in Warsaw.

- The value of the company's equity at the end of the 1st half of 2005 amounted to PLN 191,854 thousand.
- At the end of the 1st half of 2005, the company reported a net loss of PLN 8,006 thousand. The loss resulted solely from recording foreign exchange losses on servicing currency loan/ credit.
- The rented office space and commercial area in the CFP building remained at an unchanged level and amounted to 98% at the end of the 1st half of 2005.

⁶ According to data published by *Rzeczpospolita* on 15 July 2005.



Inteligo Financial Services S.A.

The main area of business activities of Inteligo Financial Services S.A is provision of services in the field of Internet banking.

The company represents a platform for the development of electronic services in PKO BP SA in the field of keeping accounts and sale of other banking products using interactive distribution channels.

- The value of the company's equity at the end of the 1st half of 2005 amounted to PLN 29,636 thousand.
- In the 1st half of 2005 the company recorded a net profit amounting to PLN 13,028 thousand.
- The value of deposits of PKO BP SA client's using the Inteligo accounts in the 1st half of 2005 increased by PLN 112 million compared to the end of 2004.
- At the end of the 1st half of 2005, as regards to the number of users of e-banking, Inteligo was ranked 5th on the market with 418.9 thousand clients⁷.
- On 7 January 2005, the company was awarded a certificate of compliance with ISO 9001:2000 standard for designing software development, introduction of changes to the production environment, installation of changes and system maintenance.
- On 1 February 2005, the company received a VAT surplus return in the amount exceeding PLN 12.6 million.

Powszechne Towarzystwo Emerytalne BANKOWY S.A.

The main area of activities of Powszechne Towarzystwo Emerytalne BANKOWY ("PTE") is the management of open-end pension fund.

- The value of equity of the Capital Group PTE BANKOWY S.A. (PTE BANKOWY S.A and its subsidiary, Finanse Agent Transferowy Sp. z o.o.) as at 30 June 2005 amounted to PLN 63,710 thousand.
- The PTE BANKOWY S.A Capital Group closed the 1st half of 2005 with a net profit of PLN 8,839 thousand.
- In the 1st half of 2005, PTE reported a dynamic growth in the value of managed assets (gathered in Bankowy Otwarty Fundusz Emerytalny- "BOFE"). The value of BOFE assets increased by 16% compared to the end of 2004.
- At the end of the 1st half of 2005, the number of the accounts of BOFE members amounted to 432,229.
- As regards the value of assets and the number of accounts at the end of June 2005, BOFE was ranked 8th on the market of pension funds.
- In the 1st half of 2005, BOFE reported good investment performance. In the ranking of the rates of returns announced by the Insurance and Pension Funds Supervisory Commission (KNUiFE) in April 2005, BOFE 7 times running was ranked 1st in the listing of rates of return with the result of 45.759%, while the weighted average was 41.480%.

PKO Inwestycje Sp. z o.o.

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

Investment projects are undertaken either by the company itself or by its subsidiaries, set up together with specialized developers.

- The value of equity of the PKO Inwestycje Sp. z o.o. Capital Group (PKO Inwestycje Sp. z o.o. and its subsidiaries) as at 30 June 2005 amounted to PLN 116,771 thousand.
- The PKO Inwestycje Sp. z o.o. Capital Group closed the 1st half of 2005 with a net profit of PLN 2,061 thousand.

⁷ Publication: *Gazeta Prawna*, 12 July 2004



The Company's activity in 1st six months of 2005 focused on the following three development projects:

Project "Marina Mokotów"

The project has been carried out by the company's subsidiary, Fort Mokotów Sp. z o.o., in which PKO Inwestycje Sp. z o.o. holds 51% of shares. The project includes: construction and sale of private lodgings and commercial premises located in Warsaw, at Raclawicka 107 Street.

The realization of the project is progressing according to the plan.

Project "Miasteczko Wilanów"

The project has been carried out by a venture company, Wilanów Investments Sp. z o.o., which was set up in March 2004. PKO Inwestycje Sp. z o.o. holds 51% of shares. The project includes: construction and sale of private lodgings and commercial premises located in the prestigious Warsaw district, Wilanów.

As at the end of June 2005 the project was completed in 41.6%.

Project "Trzy Gracie"

The project includes: construction and sale of housing and commercial complex in Sopot, and it has been carried out directly by PKO Inwestycje Sp. z o.o. According to the plan, by the end of 2005 all private lodgings and commercial premises should be sold.

Project „Centrum Biznesu Fort Mokotów"

In the 1st half of 2005, the preparatory work continued to start the realization of the investment project "Centrum Biznesu Fort Mokotów".

Project "Pomeranka"

In March 2005, POMERANKA Sp. z o.o. was set up, in which PKO Inwestycje Sp. z o.o. has 100% shares. The main area of the company's business activities is carrying out housing investment projects.

Bankowe Towarzystwo Kapitałowe S.A.

In the 1st half of 2005, the Company carried out work relating to commencement of its activities in the field of venture capital.

- On 15 February 2005, the Securities and Exchange Commission issued, on the company's application, a decision cancelling permit to conduct brokerage activities by Dom Maklerski BROKER S.A. (former company's name). These activities were transferred to Bankowy Dom Maklerski PKO BP.
- Equity as at 30 June 2005 was PLN 19,393 thousand.
- The company closed the 1st half of 2005 with a net loss of PLN 353 thousand.

Kredyt Bank (Ukraine) S.A.

Kredyt Bank (Ukraine) S.A. in Lvov conducts banking activities in Ukraine.

- The value of equity of Kredyt Bank (Ukraine) S.A. as at 30 June 2005 amounted to UAH 125,622 thousand, with the shareholding structure as follows: PKO BP - 66.65%, EBOR - 28.25%, other shareholders - 5.1%.
- The company closed the 1st half of 2005 with a net profit of UAH 2,059 thousand.
- As at the end of the 1st half of 2005, Kredyt Bank (Ukraine) S.A. achieved 1.02% share in the Ukrainian banking services market as regards net assets, and was ranked 23rd among Ukrainian banks.
- In the 1st half of 2005, Kredyt Bank (Ukraine) S.A. remained classified to the Group II of the Ukrainian banks – "big banks", i.e. with assets' value exceeding UAH 1,300 million.
- Kredyt portfolio (gross) of Kredyt Bank (Ukraine) S.A. compared to the end of 2004 increased by UAH 166.6 million (i.e. by 16.2%).



- "A vista" deposits increased compared to the end of 2004 by UAH 100.9 million (i.e. by 41.6%).
- Term deposits of the clients, since the beginning of the year, increased by UAH 210.3 million (i.e. by 29.1%).
- In the 1st half of 2005, Kredyt Bank (Ukraine) S.A. entered into a Credit Agreement with PKO BP SA, whereby Kredyt Bank (Ukraine) S.A. was granted a revolving working capital credit in the amount of USD 18 million.
- In the 1st half of 2005, activities started with a view to PKO BP SA granting to Kredyt Bank (Ukraine) S.A. a subordinated loan, which is to be used mainly to provide finance to Polish-Ukrainian enterprises and to finance the co-operation between Ukrainian enterprises with the EU countries.

9. OTHER SIGNIFICANT ENTITIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A.

Business activities of PKO/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A. include setting up and management of investment funds.

- As at 30 June 2005, company's equity amounted to PLN 35,342 thousand.
- The company closed the 1st half of 2005 with a net profit of PLN 10,825 thousand.
- The value of assets managed by the company, compared to the end of 2004 increased by 5.67%, which gave the company 7.37% of the share of investment funds' market, and ranked it 4th among such companies.
- In April 2005, the company added to its product offer a new fund, Money Market Fund (*Fundusz Rynku Pieniężnego*).
- In May 2005, the company received a permission from the Securities and Exchange Commission to create a closed-end S-Collet Investment Fund (*S-Collet Fundusz Inwestycyjny Zamknięty*), which is a non-standardized securitization fund.

10. RISK MANAGEMENT

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

PKO BP SA has a well developed and coherent system of liquidity risk management. The Bank's main strength is stable deposits base and the portfolio of floating securities, which both ensure that the Bank has a high financial liquidity. The high volume of liquid assets in the Bank's balance sheet structure and stable sources of finance guarantee that the Bank's liquidity is not compromised.

10.1. Credit risk

The Bank's activity on the market of retail services, housing services, small and medium enterprises and corporate clients may be the source of credit, market and operational risk. For this reason, credit risk management is a crucial management sub-process, which has a significant impact on the Bank's competitiveness and overall market position.

The risk management system in PKO BP SA is subject to an ongoing improvement/enhancement process and tailoring to new sources and factors of banking risk.

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

- each loan transaction is subject to a comprehensive credit risk assessment, the result of which is loan internal rating or scoring,
- credit risk of potential or concluded loan transactions is measured on a regular basis and includes changing external conditions and changes in the financial situation of the borrowers,



- credit risk assessment is subject to an additional verification by independent units responsible for credit risk assessment,
- in PKO BP SA credit risk is diversified geographically, by industry, by product and by clients.

Monitoring and classification of loan exposures

An ongoing monitoring and diversification of loan exposures are crucial to credit risk management process. Monitoring is performed in accordance with external regulations on the basis of such criteria as: timeliness of repayment, clients' financial situation and quality of collateral.

Following the decision of the Annual General Meeting decision to draw the Bank's annual stand-alone financial statements in accordance with IFRS, the Bank recognizes potentially impaired loan exposures and creates impairment write-downs against such exposures in accordance with IAS 39.

Considering the significance of rating systems used for capital adequacy assessment, the Bank develops its own rating systems aiming at compliance with the advanced methods set forth in the New Capital Accord.

Portfolio credit risk management methods

In the 1st six months 2005, the Bank continued work aimed at fully implementing the solutions set out in the New Capital Accord and in the European Union Directive concerning capital adequacy measurement. In accordance with the assumption of gradual convergence to fulfil the requirements for capital adequacy measurement, the Bank has continued its work on developing portfolio credit risk measurement methods and expanding estimated credit metrics. A new project, aimed at determining the degree of the Bank's compliance with the requirements of the New Capital Accord has commenced.

IT systems supporting credit risk assessment

In the 1st quarter of 2005, the input of information about the new collateral to the new index of collaterals executed by subsidiaries was completed.

10.2. Financial risk

In the 1st half of 2005, the Annual General Meeting resolved that the Bank's financial statements would be prepared in accordance with the International Accounting Standards.

As a result, a reclassification of treasury bills from the "available for sale" (AFS portfolio) to the ALPL portfolio was made. Less liquid non-treasury debt securities remained in the AFS portfolio.

In the 1st half of 2005, the implementation of a specialist IT system supporting financial risk management was completed. This shall increase the Bank's operating efficiency, IT safety of financial risk management process, and increase the level of automation of calculations and contribute to their centralization. Currently, post-implementation work is underway with a view to accommodating the Bank's IT system to changing business environment.

In the 1st half of 2005, as in previous periods, the Bank sustained high PLN solvency, which throughout the whole year considerably exceeded minimum thresholds for all time horizons.

Interest rate risk metrics did not exceed binding limits or thresholds.

The Bank used derivatives for investment and balance sheet hedging purposes; it also held speculative positions with respect to interest rates and foreign currency.

In the 1st half 2005, the Bank verified the standing of financial institutions on a regular basis – through verification of granted credit and settlement limits.

10.3. Operating Risk

As part of a comprehensive operating risk management system, in the 2nd quarter of 2005, a review of internal Bank's regulations was carried out with a view to identifying operating risk in the internal Bank's regulations and assessing the level of identified risk. The applied methods of identification of operating risk in the Bank's internal regulations are compliant with the requirements of the New



Capital Accord (paragraph 663 and 737) and Recommendation "M" of the Commission for Banking Supervision (Recommendation No. 6).

11. MAJOR CAPITAL INVESTMENTS

Powszechna Kasa Oszczędności Bank Polski SA

The Bank took up and paid for the shares of Centrum Obsługi Biznesu Sp. z o.o. Its share in the share capital of this company and votes at shareholders' meeting was 41.44%.

The Bank made an additional payment to the share capital of PKO Inwestycje Sp. z o.o. in the amount of PLN 2,550 thousand for the realization of an investment project, "Miasteczko Wilanów" (Wilanów Investments Sp. z o.o.) and a capital injection of PLN 16,950 thousand to POMERANKA Ltd.

In the 1st half of 2005, PKO BP SA was active on the capital investment public market by purchasing and selling shares included in the portfolio supervised by the Department of Capital Investments (*Departament Inwestycji Kapitałowych*) and Bankowy Dom Maklerski. The total value of portfolios as at 30 June 2005 decreased by PLN 67.4 million as compared to 31 December 2004. The decrease resulted mainly from the sale of shares of KGHM "Polska Miedź" S.A. and shares of Bank Handlowy S.A. in Warsaw.

PKO Inwestycje Sp. z o.o.

The company took up and paid for the shares of a newly created company, POMERANKA Sp. z o.o. for a total amount of PLN 4 million; these shares represent 100% of the newly created company and give the same number of votes at the general annual meeting. Additionally, the company made an additional payment to the company in the amount of PLN 13 million for the purchase of real estate in Gdańsk Jelitkowo. The funds were from the additional payment to share capital of PKO Inwestycje Sp. z o.o. made by PKO BP SA.

Furthermore, the company made an additional payment to share capital of Wilanów Investments Ltd in the total amount of PLN 2 350 thousand. The funds were obtained from the additional payment to share capital of PKO Inwestycje Sp. z o.o. made by PKO BP SA.

12. RELATED PARTY TRANSACTIONS

In the 1st six months of 2005, PKO BP SA concluded transactions with the PKO BP SA Capital Group entities relating to:

- keeping bank accounts,
- accepting deposits,
- granting loans, including for lease activities,
- issuing debt securities,
- off-balance sheet liabilities in respect of loan facilities, guarantees and current foreign exchange operations.

The listing of the most significant transactions of PKO BP SA with the Group entities, including the balance of loan liabilities of these companies towards the Bank as at 30 June 2005, was presented in the additional notes and explanations to the consolidated financial statements of the PKO BP SA Capital Group.

13. INTERNATIONAL COOPERATION

European Bank for Reconstruction and Development (*Europejski Bank Odbudowy i Rozwoju*)

PKO BP SA participates in the "Loan Window" programme being a part of the "UE/EBRD SME Finance Facility" (on the basis of the Credit Facility Agreement of 21 February 2003 concluded by PKO BP SA and the European Bank for Reconstruction and Development for the financing of small and medium sized enterprises, PKO BP SA customers, with investment and working-capital loans). As at 30 June



2005, the Bank has signed 1,488 loan agreements. Out of this number, the Bank advanced 1,470 loans amounting to a total of EUR 27.2 million, while the balance of active loans was EUR 17 million.

Apart from granting loans from the funds provided by EBRD, cooperation under this programme also includes activities aimed at improving the process of financing SMEs by PKO BP SA.

Co-operation with other foreign institutions

- In the 1st half of 2005, PKO BP SA signed four framework ISDA agreements with foreign banks and annexed changes to the four previously signed ISDA agreements.
- As at 30 June 2005, PKO BP SA co-operates with foreign banks and has in correspondent banks 29 *nostro* accounts in 12 currencies, and keeps 30 *loro* accounts in three currencies for foreign banks.
- As part of the PKO BP SA credit card product, the Bank co-operates actively with international pay card organizations, Visa and MasterCard. The co-operation covers many areas, such as: card issue, card authorization and settlement of card accounts, product sale, as well as carrying out activities aimed at achieving higher safety on the credit cards market. Additionally, in association with Diners Club the Bank issues prestigious credit cards for the most affluent clients.
- Kredyt Bank (Ukraine) S.A. has 21 *nostro* accounts and 17 *loro* accounts. Due to the co-operation with its shareholders, PKO BP SA, European Bank for Reconstruction and Development, and the main correspondent banks, the Bank offers its clients services in the scope of realization of international operations.

14. PKO BP SA RATINGS

The Bank rating scores are currently assigned by four rating agencies: Moody's, Standard & Poor's, Capital Intelligence and Fitch Ratings. These are free of charge services made on the basis of generally available information such as annual reports, and on the basis of information provided by the Bank directly to the above agencies.

In the 1st half of year 2005, PKO BP SA rating did not change.

Table 18. PKO BP SA rating as at 30 June 2005

Rating Agency :	Fitch	Moody's Investors Service	Standard & Poor's	Capital Intelligence
Rating type :				
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
<i>Long-term (foreign/local)</i>		A2 (with stable perspective)	/BBBpi	BBB+ /
<i>Short-term (foreign/local)</i>		Prime-1 (with stable perspective)		A2 /
<i>Support</i>	2			2
<i>Financial Strength</i>		C- (with positive perspective)		BB+
<i>Outlook</i>				<i>Stable</i>

15. SERVICE PROMOTION AND IMAGE BUILDING

Promotional activities of PKO BP SA in the 1st six months of 2005 concentrated mainly upon the following:

- maintaining the leading position of the Bank on the retail market. As part of the retail products and services campaign, the Bank carried out amongst others: a multimedia campaign of the housing loan, „Własny Kąt” (“Own flat”), promoted as „Kredyt mieszkaniowy w 24 godziny” („Housing loan in 24 hours”); organized competitions for clients supporting the sale of subscribed deposits: BAWARSKA and CZESKA (Bavarian, Czech); carried out promotional campaign for AUTO PARTNER loan, in which the Bank's partner was SEAT, carried out TV-press campaign of the credit



card, MasterCard UEFA Champions League, organized a promotional lottery for personal account holders with a view to selling the PKO INTELIGO product, carried out a promotional campaign for the house savings book product,, which offered prize competition for new clients as well as QUICK CREDIT SERVICE campaign visualized on the Bank's branches,

- strengthening the Bank's position in the corporate market area; as part of the promotional activities, a press campaign supporting the European Program,
- realization of a marketing strategy for T-bonds. As part of the promotional activities, a multimedia campaign for T-bonds was carried out using a new graphic layout of the advertisements.

Bank's Image building support sponsorship and charity activities were aimed at supporting culture, sport, life- saving and health care.

Culture support

- the long-term program „PKO Bank Polski Kulturze Narodowej” (PKO Bank Polski for the national culture) continued - The Bank cooperated with the National Philharmonic, the National Museum in Warsaw (exposition of sculptures of W.Hasior) and the National Library. The Bank was also the main sponsor of the renovation of fresco replica “The last judgment”by MichaelAngelo fresco, which took part in the National Museum in Kraków, and ceremonial concerto “V Great Recital” for the 85th anniversary of Adam Mickiewicz at the University in Poznań, exhibition of manuscripts accompanying the 9th Easter Festival of Ludwig van Beethoven. The Bank was the general sponsor of Polskie Radio Music Festival, commemorating the 80th anniversary of Polskie Radio,
- as part of the „PKO Bank Polski Blisko Ciebie” program, the Bank became a sponsor of Przegląd Piosenki Aktorskiej in Wrocław (*Stage-play song competition*), jubilee concerto of Wanda Warska and Hanna Banaszak, „Rawa Blues” Festival in Rawa Mazowiecka and Andrzej Drawicz Reward.subsidised the continuation and promotion of two social events : “The whole Poland reads to children” („Cała Polska czyta dzieciom”) and educational program “Stay with us” (“Zostańcie z nami”) organized by Fundacja Tygodnika Polityka. Additionally, Bank sponsored summer holidays for children from poor and pathological families. The Bank was for the next time a sponsor of the cross-country skiing event “Bieg Piastów” and of the women's tennis tournament - “PKO BP Ursynów Cup”.

Sport support:

- cooperation with Polska Fundacja Olimpijska (Polish Olympic Foundation) was continued, in the area of the Polish Olympic team sponsoring,
- cooperation with Polish Fencing Committee was continued, relating to the sponsoring of women's foil team. The Bank sponsored two significant fencing events: World Cup in women's foil (“Dwój Artura PKO BP”) and Wołodyjowski's Sabre Tournament (“Turniej o Szablę Wołodyjowskiego”).

Life-saving and healthcare support:

- financing of, among the others: V Polish Competition in Economics, “Europe at School” competition, under patronage of MENiS, Foundation of Promotion and Accreditation of Economic Faculties of SGH (Warsaw School of Economics) – support in organisation of e-learning classroom, XXV Rajd Młodych Oszczędnych, EU Competition organised by European Center of the University of Szczecin,
- funds were transferred to the following life-saving and helathcare organisations: Fundacja Rozwoju Kardiologii - program of Polish artificial heart, Fundacja na rzecz Przeszczepów Wątroby i Wspierania Postępu w Chirurgii Przewodu Pokarmowego (liver transplant foundation), Fundacja Służby Zdrowia Samodzielnego Publicznego Wojewódzkiego Szpitala Zespołowego w Szczecinie, Śląską Akademią Medyczną (for the purchase of special apparatus for laparoscopic surgery), Szpital Uniwersytecki w Krakowie, Szpital Zachodni im. Jana Pawła II w Grodzisku Mazowieckim oraz Caritas Polska i PCK Zarząd Główny - for the victims of natural disasters in Asia.



Promotional activities of other Group companies in the 1st six months of 2005 concentrated on the following issue:

- securing marketing support for the sale of products, especially new products and services, and creating a positive image of the company (Kredyt Bank (Ukraina) S.A.),
- promotion of constructed housing estates; „Trzy Gracie” in Sopot, „Marina Mokotów” and „Nowy Wilanów” in Warsaw (PKO Inwestycje Sp. z o.o. and its subsidiaries),
- sponsoring significant cultural projects (including events taking place in Centrum Finansowe Puławska) as well as sport, educational and health-care projects (Centrum Finansowe Puławska Sp. z o.o.),
- activities supporting the image of Bankowy Fundusz Leasingowy S.A., including advertising campaign aimed at attracting small and medium sized enterprises, carried out under the working title “Do not oversleep” (“Nie zaśpij”),
- promotions and competitions directed to clients of Inteligo Financial Services S.A., including “I pay with Inteligo” product (“Płacę z Inteligo”),
- promoting the financial result of OFE Bankowy and services rendered to fund members.

Awards granted to PKO BP SA in the 1st half of 2005:

- “Debiut 2004 roku” on the Warsaw Stock Exchange – the award granted by the Stock Exchange Newspaper PARKIET for the last year privatization of PKO BP SA, the biggest one in the history of the Warsaw Stock Exchange (February 2005),
- “Superbrands Polska 2004” – the title granted to the Bank in recognition of the leading Polish brand in the financial sector (February 2005),
- “Tego, który zmienia polski przemysł” – the honours title granted to the President of PKO BP SA by Polskie Towarzystwo Wspierania Przedsiębiorczości, the Publisher of the economic monthly newspaper „Nowy Przemysł”) for completing the privatization of the Bank (February 2005),
- “Employer of the Year” – the title awarded by students’ organization, AIESEC (April 2005),
- European Medal – title awarded in “service” category for the “European program” in the 10th edition of the competition organized by BCC and the Committee of the European Integration (April 2005),
- “Dobroczyńca Roku 2004” (*Benefactor of 2004*) – two titles granted for PKO BP SA in annual competition organized by the Academy for the Development of Philanthropy in Poland; in the “culture and art” and “promotion of health care” categories – together with Inteligo Financial Services,
- Golden Rock 2004 – the prize awarded by MasterCard Europe system for the issuance of the 1st credit card PKO Euro Biznes, which is a system of MasterCard for small and medium companies (April 2005),
- Golden jubilee award – granted for the President of PKO BP SA by MasterCard Europe for a continued support of MasterCard Europe in Poland, particularly for acting as chairman of the Europay Forum Polska (April 2005),
- “Brand Worth of European Trust” (*“Marka Godna Europejskiego Zaufania”*) - title granted by „Reader’s Digest” in the current year edition of the European market research among the readers (April 2005),
- the 1st place in „Newsweek” ranking, “the most valuable company” (April 2005),
- “The Sponsor of the Year of Philharmonic” (“Sponsor Roku Filharmonii”) – the title granted for the last-year cooperation with the National Philharmonic (June 2005),
- Europroduct – a promotional title granted for the Bank’s products and services in the 8th edition of the competition organised by the Polish Trade Organisation (Polskie Towarzystwo Handlowe); in the “service” category – for the European Program and in the “product” category – Consolidated



Loan, "Nasz Remont" loan, STUDENT credit card, SUPERKONTO with INTELIGO package (June 2005),

- Diamond for the Golden Statue of the Polish Business Leader awarded by the Business Centre Club to the companies awarded previously the Polish Business Leader Statue; PKO Bank Polski received the Diamond for the third time (June 2005),
- award granted for PKO BP SA in Students' Ranking of Employers, KOMPAS, in the "financial institution" category (June 2005),
- award granted by Gazeta Bankowa in competition for the best IT project, i.e. implementation of AlgoSuite system,
- the 1st place in the competition "Now, the Internet" („Teraz Internet”) granted in the "company's corporate website" category for the Bank's Internet website (June 2005),
- "Za wprowadzenie na giełdę największej liczby nowych spółek w 2004 roku" - For launching of the greatest number of companies on the stock exchange market - award granted to PKO BP SA Bankowy Dom Maklerski by the President of the Management Board the Warsaw Stock Exchange,
- "Za największą aktywność w roli animatora rynku małych spółek w 2004 roku" (for the most significant activity as a SME market maker in 2004) – award granted to PKO BP SA Bankowy Dom Maklerski by the President of the Management Board the Warsaw Stock Exchange.

Awards granted to Centrum Elektronicznych Usług Płatniczych eService Joint Stock Company in the 1st half of 2005:

- ROCK AWARD 2004 – golden prize for the greatest achievement in the area of the development of payment card acceptance network, awarded by MasterCard Europe,
- European Medal for "Authorization of transactions conducted using payment cards" service, awarded by the Office of the Committee of European Integration and Business Center Club.

Awards granted to Kredyt Bank (Ukraine) S.A. in the 1st half of 2005:

- ranked 4th among financial institutions in the 4th national Ukrainian competition for the best periodic information for the year 2004 provided by joint - stock companies and enterprises, issuers of bonds, as part of the program "Your share – your capital" ("Wasza akcja – Wasz kapitał"), organised by the Securities and Exchange Commission of Ukraine.

16. MANAGEMENT AND SUPERVISORY BOARDS IN THE REPORTING PERIOD

The composition of the Management Board in the reporting period was as follows:

No.	Name	Function
1.	Andrzej Podsiadło	President
2.	Kazimierz Małecki	First Deputy President
3.	Danuta Demianiuk	Deputy President
4.	Piotr Kamiński	Member
5.	Jacek Obłękowski	Member
6.	Krystyna Szewczyk	Member

On 7th April 2005 the Supervisory Board of the Bank made resolutions appointing the following persons for the next term, starting from 19 May 2005, when the General Shareholders Meeting approved the financial statements for 2004:

- Mr Andrzej Podsiadło as a President of the Management Board,
- Mr Kazimierz Małecki as a Vice-President of the Management Board,
- Mr Jacek Obłękowski as a Member of the Management Board.



In the period from 1 January 2005 to 30 June 2005 there were no changes in the Management Board.

On 19 May 2005 the General Shareholders Meeting of the PKO BP SA gave the vote of approval for the performance of all the members of the Management Board.

On 19 May 2005, the Annual General Shareholders' Meeting of PKO BP SA appointed the Bank's Supervisory Board and as at 30 June 2005. The board consisted of the following members:

No.	Name	Function
1.	Bazył Samojlik	Chairman
2.	Urszula Pałaszek	Vice-chairman
3.	Krzysztof Zdanowski	Secretary
4.	Andrzej Giryn	Member
5.	Stanisław Kasiewicz	Member
6.	Ryszard Kokoszczyński	Member
7.	Jerzy Osiatyński	Member
8.	Czesława Siwek	Member
9.	Władysław Szymański	Member

Bank's shares held by the Members of Management and Supervisory Boards

As at 30 June 2005, the members of the Management Board owned a total of 3,419 of PKO BP SA shares, of which: Kazimierz Małecki – 2,502 shares, Jacek Obłękowski – 488 shares and Andrzej Podsiadło – 429 shares.

The number of PKO BP SA shares held by the Management Board Members has not changed since 31 December 2004.

As at 30 June 2005, the members of the Supervisory Board owned a total of 4,101 PKO BP SA shares, of which Czesława Siwek – 4,000 shares and Stanisław Kasiewicz – 101 shares.

Since 31 December 2004 the number of PKO BP SA shares owned by Members of the Supervisory Board has increased by 4,000 shares, which was due to appointing Czesława Siwek as a Supervisory Board member; Ms Siwek owns 4,000 shares.

Emoluments, allowances and other benefits for the members of Management and Supervisory Boards

Full information on emoluments, allowances and other benefits of members of the Bank's Management and Supervisory Boards in the reporting period has been presented in additional notes to the consolidated financial statements.

17. SIGNIFICANT POST BALANCE SHEET EVENTS

- On 29 July 2005, the PKO BP SA Management Board signed a letter of intent with Państwowe Przedsiębiorstwo Użyteczności Publicznej Poczta Polska (*Polish Post Office*), with its registered office in Warsaw, in which both parties expressed their intent to expand their cooperation with a view to the optimum utilizing of current potentials of both partners, so as to create a strategic alliance in the future.
- On 10 August 2005, UKRPOLINWESTYCJE Sp. z o.o. was entered in the Unified National Register of Enterprises and Organizations of the Ukraine (*Jednolity Państwowy Rejestr Przedsiębiorstw i Organizacji Ukrainy*). PKO Inwestycje Sp. z o.o., the Bank's subsidiary, took up 55% of shares in this company. The main area of the company's activities is the realization of investment projects in Kiev and other Ukrainian cities.
- On 17 August 2005 the Bank granted a subordinated loan, amounting to USD 7 million, to Kredyt Bank (Ukraine) S.A., located in Lwów (a subsidiary of the Bank), with 8 years maturity. The loan was granted in order to finance the development of operating activities of Kredyt Bank (Ukraine) S.A.



- On 1 September 2005, PKO BP SA paid out dividend in the total amount of PLN 1 billion (i.e. PLN 1 gross for 1 share).
- On 9 September 2005 a conditional agreement relating to a sale by PKO BP SA of 50,312,200 G-series shares (with a nominal value of PLN 1 each) of Wschodni Bank Cukrownictwa S.A., located in Lublin, to Getin Holding S.A., located in Wrocław.

18. THE MANAGEMENT BOARD REPRESENTATIONS

The Management Board of PKO BP SA declares to its best knowledge:

- the semi-annual consolidated financial statements and the comparative figures have been prepared in accordance with binding accounting policies and present truly and fairly the financial position and the result of PKO BP SA Group,
- the semi-annual Directors' Report provides a fair view of the development and achievements of the PKO BP SA Group, including the description of main risks and threats.

The Management Board of PKO BP SA declares that the audit company performing the review of the semi-annual consolidated financial statements, was appointed in line with the binding legal regulations. The above company and the certified auditors performing the review meet the requirements indispensable for issuing an objective and independent review report in line with the relevant provisions of national law.

This Directors' Report on the activities of the PKO BP SA Capital Group for the 1st half of 2005 consists of 36 consecutively numbered pages.

President of the Board
Andrzej Podsiadło

Vice-President of the Board
First Deputy President of the Board
Kazimierz Małecki

Vice-President of the Board
Danuta Demianiuk

Board Member
Piotr Kamiński

Board Member
Jacek Obłękowski

Board Member
Krystyna Szewczyk

**Independent Auditor's Review Report on the Consolidated Financial Statements
for the six month period ended 30 June 2005**

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

1. We have reviewed the attached half year consolidated financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Capital Group ("the Capital Group") where Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna is the dominant entity ("the Bank"), and is located at Puławska 15 Street, Warsaw, including:
 - the consolidated profit and loss account for the period from 1 January 2005 to 30 June 2005 with a net profit amounting to 887,356 thousand zlotys
 - the consolidated balance sheet as of 30 June 2005 with total assets amounting to 89,082,117 thousand zlotys,
 - the consolidated off-balance sheet items as of 30 June 2005 amounting to 275,200,790 thousand zlotys,
 - the consolidated statement of changes in shareholders' equity for the period from 1 January 2005 to 30 June 2005 with a net decrease of shareholders' equity amounting to 760,942 thousand zlotys,
 - the consolidated cash flow statement for the period from 1 January 2005 to 30 June 2005 with a net cash inflow amounting to 2,270,510 thousand zlotys and
 - the additional notes and explanations.
2. The truth and fairness¹ of the attached consolidated financial statements and the proper maintenance of the consolidation documentation are the responsibility of the Bank's Management Board. Our responsibility is to issue a report on these financial statements based on our review.
3. We conducted our review in accordance with the provisions of the law binding in Poland and auditing standards issued by the National Council of Statutory Auditors. These standards require that we plan and perform our review in such a way as to obtain moderate assurance as to whether the financial statements are free of material misstatement. The review was mainly based on applying analytical procedures to the financial data, review of documentation supporting the amounts and disclosures in the consolidated financial statements and discussions with the management of the Bank as well as its employees. The scope of work² of a review differs significantly from an audit of financial statements, the objective of which is to express an opinion on the truth and fairness³ of the financial statements. Accordingly, we do not express such an opinion on the attached financial statements.
4. Based on our review, nothing came to our attention that causes us to believe that the attached consolidated financial statements do not present truly and fairly⁴ in all material respects the financial position of the Capital Group as at 30 June 2005 and the financial result, for the 6 months ended 30 June 2005 in accordance with International Financial Reporting Standards, specifically IAS 34 "Interim financial reporting", as well as all International Accounting Standards, International Financial Reporting Standards and related interpretations that were published as European Commission regulations.

Certified Auditor
Registration No. 9707/7255

Dominik Januszewski

on behalf of
Ernst & Young Audit Sp. z o.o.
Emilii Plater St. 53, 00-113 Warsaw
Registration No. 130

Tomasz Bieske
Certified Auditor
Registration No. 9291/6975

Warsaw, 30 September 2005

¹ Translation of the following expression in Polish language: "prawidłowość, rzetelność i jasność"

² In Polish language two expressions are used ("zakres i metoda") that in English language translation are covered by one expression "the scope of work";

³ Translation of the following expression in Polish language: "prawidłowość, rzetelność i jasność"

⁴ Translation of the following expression in Polish language: "rzetelny, prawidłowy i jasny"

**Independent Auditor's Review Report on the Condensed Financial Statements
for the six month period ended 30 June 2005**

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

1. We have reviewed the attached half year financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the "Bank") located at Puławska 15 Street, Warsaw, including:
 - the condensed profit and loss account for the period from 1 January 2005 to 30 June 2005 with a net profit amounting to 881,224 thousand zlotys,
 - the condensed balance sheet as of 30 June 2005 with total assets amounting to 87,932,132 thousand zlotys,
 - the condensed off-balance sheet items as of 30 June 2005 amounting to 272,957,448 thousand zlotys,
 - the condensed statement of changes in shareholders' equity for the period from 1 January 2005 to 30 June 2005 with a net decrease of shareholders' equity amounting to 777,664 thousand zlotys,
 - the condensed cash flow statement for the period from 1 January 2005 to 30 June 2005 with a net cash inflow amounting to 2,233,456 thousand zlotys and
 - the selected explanatory notes, comprising a summary of significant accounting policies and other explanatory notes.
2. The truth and fairness¹ of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. Our responsibility is to issue a report on these financial statements based on our review.
3. We conducted our review in accordance with the provisions of the law binding in Poland and auditing standards issued by the National Council of Statutory Auditors. These standards require that we plan and perform our review in such a way as to obtain moderate assurance as to whether the financial statements are free of material misstatement. The review was mainly based on applying analytical procedures to the financial data, review of documentation supporting the amounts and disclosures in the condensed financial statements and discussions with the management of the Bank as well as its employees. The scope of work² of a review differs significantly from an audit of financial statements, the objective of which is to express an opinion on the truth and fairness³ of the financial statements. Accordingly, we do not express such an opinion on the attached financial statements
4. Based on our review, nothing came to our attention that causes us to believe that the attached condensed financial statements do not present truly and fairly⁴ in all material respects the financial position of the Bank as at 30 June 2005 and the financial result, for the 6 months ended 30 June 2005 in accordance with International Financial Reporting Standards, specifically IAS 34 "Interim financial reporting", as well as all International Accounting Standards, International Financial Reporting Standards and related interpretations that were published as European Commission regulations.

Certified Auditor
Registration No. 9707/7255

Dominik Januszewski

on behalf of
Ernst & Young Audit Sp. z o.o.
Emilii Plater St. 53, 00-113 Warsaw
Registration No. 130

Tomasz Bieske
Certified Auditor
Registration No. 9291/6975

Warsaw, 30 September 2005

1 Translation of the following expression in Polish language: "prawidłowość, rzetelność i jasność"

2 In Polish language two expressions are used ("zakres i metoda") that in English language translation are covered by one expression "the scope of work";

3 Translation of the following expression in Polish language: "prawidłowość, rzetelność i jasność"

4 Translation of the following expression in Polish language: "rzetelny, prawidłowy i jasny"