Ladies and Gentlemen,

I have the pleasure of introducing you to the 2008 Financial Statement of PKO Bank Polski and its Capital Group. In the year 2008 PKO BP regained its leading position in the Polish banking sector: we are again Poland's largest bank as regards the balance-sheet total and equity capital. Thanks to our conservative risk management strategy, we have consistently developed our business, generating high profits despite the financial crisis.

The turmoil in the international financial markets observed in 2008 has triggered unprecedented changes in the architecture of global finance. This fact has also significantly impacted the domestic financial system and business environment of PKO Bank Polski. The financial and economic crisis brings serious challenges and great unknowns, but at the same time opportunities. Above all, it is a period of additional special responsibility for the bank: responsibility to our customers and our shareholders. I am convinced that PKO Bank Polski will come through this turbulent period unscathed.

PKO Bank Polski has been building its development on three solid pillars, which have gained, rather than lost, importance since their presentation in mid 2008. These are: a strong capital base, stable and consistently developed deposit base and effective risk management.

As a result of these and other measures taken in the last months, PKO Bank Polski has further consolidated its market share. Deposits in the new Deposit Offer and the Savings Account enjoy enduring popularity among customers. The consistently built deposit base facilitates the prudent growth of our loan activity. Applying our conservative approach to credit risk assessment, we managed to increase our loan portfolio by 32% in the last year. This proves that with the right approach in place, it is possible to pursue ambitious goals even in difficult times of crisis.

The Bank constantly undergoes internal transformations whose ultimate objective is to ensure growing efficiency and quality of our services. These efforts are supported by the integrated IT system, which was fully implemented in 2008.

Our achievements and, of which I am assured, our future successes would not have been possible were it not for the involvement of all PKO BP employees, in particular those who work in the network of retail and corporate branches throughout Poland. It is thanks to their efforts that day by day we are better at identifying and responding to our customers' needs and expectations. I would like to express my deep gratitude to the employees.

PKO Bank Polski faces further important challenges. We will overcome them together.

Jerzy Pruski

President of the PKO Bank Polski Management Board

This document is a translation of a document originally issued in Polish. The only binding version is the original Polish version.

PKO BANK POLSKI
SPÓŁKA AKCYJNA

# Consolidated Financial Statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group for the year ended 31 December 2008

## SELECTED FINANCIAL DATA DERIVED FROM THE CONSOLIDATED FINANCIAL STATEMENTS

Selected financial data presented below constitute a part of notes to the consolidated financial statements of PKO BP SA Group for the year ended 2008.

| SELECTED FINANCIAL DATA | PLN thousand | | EUR thousand | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Net interest income | 6 127 315 | 4 646 567 | 1 734 751 | 1 230 292 |
| Net fee and commission income | 2 411 809 | 2 331 847 | 682 826 | 617 413 |
| Operating profit | 3 961 749 | 3 604 858 | 1 121 641 | 954 474 |
| Net profit (including minority interest) | 3 139 187 | 2 941 392 | 888 759 | 778 805 |
| Net profit | 3 120 674 | 2 903 632 | 883 518 | 768 807 |
| Equity attributable to the parent company | 13 951 800 | 11 920 949 | 3 343 831 | 3 328 015 |
| Total equity | 13 998 016 | 11 979 015 | 3 354 907 | 3 344 225 |
| Net cash flow from / used in operating activities | 3 250 104 | (9 085 833) | 920 162 | (2 405 696) |
| Net cash flow from / used in investing activities | (3 105 138) | 665 615 | (879 120) | 176 238 |
| Net cash flow from / used in financing activities | (1 107 039) | 3 518 328 | (313 422) | 931 563 |
| Total net cash flows | (962 073) | (4 901 890) | (272 380) | (1 297 895) |
| Earnings per share for the period - basic | 3.12 | 2.90 | 0.88 | 0.77 |
| Earnings per share for the period - diluted | 3.12 | 2.90 | 0.88 | 0.77 |
| Tier 1 capital | 11 265 718 | 8 449 415 | 2 700 057 | 2 358 854 |
| Tier 2 capital | 1 528 517 | 1 517 988 | 366 340 | 423 782 |
| Tier 3 capital | 91 048 | 15 997 | 21 821 | 4 466 |

Selected items of the consolidated financial statements were translated into EUR using the following rates:

- income statement and cash flow statement items – the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month of 2008 and 2007: EUR 1 = PLN 3.5321 and EUR 1 = PLN 3.7768 respectively;
- balance sheet items – average NBP rate as at balance date 31.12.2008: EUR 1 = PLN 4.1724; 31.12.2007: EUR 1 = PLN 3.5820.

*(in PLN thousand)*

## CONSOLIDATED INCOME STATEMENT
## for the years ended 31 December 2008 and 31 December 2007

| | Notes | 2008 | 2007 |
|---|---|---|---|
| **Continued operations** | | | |
| Interest and similar income | 4 | 9 033 781 | 6 559 333 |
| Interest expense and similar charges | 4 | (2 906 466) | (1 912 766) |
| **Net interest income** | | **6 127 315** | **4 646 567** |
| Fee and commission income | 5 | 3 144 760 | 3 083 416 |
| Fee and commission expense | 5 | (732 951) | (751 569) |
| **Net fee and commission income** | | **2 411 809** | **2 331 847** |
| Dividend income | 6 | 21 956 | 3 293 |
| Net income from financial instruments designated at fair value through profit and loss | 7 | (201 129) | (73 314) |
| Gains less losses from investment securities | 8 | (2 986) | 6 543 |
| Net foreign exchange gains | 9 | 739 757 | 529 779 |
| Other operating income | 10 | 522 425 | 514 566 |
| Other operating expenses | 10 | (230 727) | (256 936) |
| **Net other operating income and expense** | | **291 698** | **257 630** |
| Net impairment allowance | 11 | (1 130 396) | (56 643) |
| Administrative expenses | 12 | (4 296 275) | (4 040 844) |
| **Operating profit** | | **3 961 749** | **3 604 858** |
| Share of profit (loss) of associates and jointly controlled entities | 13 | 15 594 | 4 372 |
| **Profit before income tax** | | **3 977 343** | **3 609 230** |
| Income tax expense | 14 | (838 156) | (667 838) |
| **Net profit (including minority interest)** | | **3 139 187** | **2 941 392** |
| Net profit attributable to minority shareholders | | 18 513 | 37 760 |
| **Net profit attributable to the parent company** | | **3 120 674** | **2 903 632** |
| | | | |
| Earnings per share: | 15 | | |
| - basic earnings per share (PLN) | | 3.12 | 2.90 |
| - diluted earnings per share (PLN) | | 3.12 | 2.90 |
| Weighted average of ordinary shares during the period | | 1 000 000 000 | 1 000 000 000 |
| Weighted average (diluted) of ordinary shares during the period | | 1 000 000 000 | 1 000 000 000 |

**Discontinued operations:**
In years 2008 and 2007 the PKO BP SA Group did not carry out discontinued operations

*(in PLN thousand)*

## CONSOLIDATED BALANCE SHEET
## as at 31 December 2008 and 31 December 2007

| | Notes | 31.12.2008 | 31.12.2007 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with the central bank | 17 | 5 836 892 | 4 682 627 |
| Amounts due from banks | 18 | 3 363 599 | 5 261 236 |
| Trading assets | 19 | 1 496 147 | 1 202 919 |
| Derivative financial instruments | 20 | 3 597 670 | 1 556 736 |
| Financial assets designated at fair value through profit or loss | 21 | 4 555 544 | 8 314 444 |
| Loans and advances to customers | 22 | 101 107 891 | 76 417 149 |
| Investment securities available for sale | 23 | 8 614 913 | 5 716 238 |
| Investments in associates and jointly controlled entities | 24 | 247 145 | 178 584 |
| Inventories | 25 | 622 410 | 365 304 |
| Intangible assets | 26 | 1 352 778 | 1 183 491 |
| Tangible fixed assets | 27 | 2 964 659 | 2 820 103 |
| - including investment properties | | 24 170 | 32 767 |
| Current income tax receivables | 14 | 6 649 | 187 939 |
| Deferred income tax asset | 14 | 239 237 | 72 154 |
| Other assets | 28 | 630 452 | 578 676 |
| **TOTAL ASSETS** | | **134 635 986** | **108 537 600** |
| **EQUITY AND LIABILITIES** | | | |
| **Liabilities** | | | |
| Amounts due to the central bank | 29 | 2 816 | 1 279 |
| Amounts due to other banks | 30 | 6 988 603 | 4 703 114 |
| Derivative financial instruments | 20 | 6 150 337 | 1 279 925 |
| Amounts due to customers | 32 | 102 939 281 | 86 579 510 |
| Debt securities in issue | 33 | 211 573 | 178 860 |
| Subordinated liabilities | 34 | 1 618 755 | 1 614 885 |
| Other liabilities | 35 | 1 667 776 | 1 732 333 |
| Current income tax liabilities | 14 | 472 228 | 9 932 |
| Deferred income tax liability | 14 | 20 585 | 4 446 |
| Provisions | 36 | 566 016 | 454 301 |
| **TOTAL LIABILITIES** | | **120 637 970** | **96 558 585** |
| **Equity** | | | |
| Share capital | 37 | 1 000 000 | 1 000 000 |
| Other capital | 38 | 9 835 307 | 8 137 270 |
| Currency translation differences from foreign operations | | (57 413) | (47 761) |
| Retained earnings | 38 | 53 232 | (72 192) |
| Net profit for the period | | 3 120 674 | 2 903 632 |
| **Capital and reserves attributable to equity holders of the parent company** | | **13 951 800** | **11 920 949** |
| Minority interest | | 46 216 | 58 066 |
| **TOTAL EQUITY** | | **13 998 016** | **11 979 015** |
| **TOTAL EQUITY AND LIABILITIES** | | **134 635 986** | **108 537 600** |

| | | | |
|---|---|---|---|
| Capital adequacy ratio | 52 | 11.29 | 12.02 |
| Book value (TPLN) | | 13 998 016 | 11 979 015 |
| Number of shares | 1 | 1 000 000 000 | 1 000 000 000 |
| Book value per share (PLN) | | 14.00 | 11.98 |
| Diluted number of shares | | 1 000 000 000 | 1 000 000 000 |
| Diluted book value per share (PLN) | | 14.00 | 11.98 |

*(in PLN thousand)*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**for the years ended 31 December 2008 and 31 December 2007**

- **for the year ended 31 December 2008**

| for the year ended 31 December 2008 | Attributable to equity holders of the parent company | | | | | | | | Total | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Other capital | | | | Currency translation differences from foreign operations | Retained earnings | Net profit | | | |
| | | Reserve capital | Revaluation reserve | General banking risk fund | Other reserves | | | | | | |
| **As at 1 January 2008** | **1 000 000** | **5 592 311** | **(43 066)** | **1 070 000** | **1 518 025** | **(47 761)** | **(72 192)** | **2 903 632** | **11 920 949** | **58 066** | **11 979 015** |
| Net change in available for sale investments less deferred tax | - | - | 9 829 | - | - | - | - | - | 9 829 | - | **9 829** |
| Currency translation differences | - | - | - | - | - | (9 652) | - | - | (9 652) | (465) | **(10 117)** |
| **Total income/expenses recognized directly in equity** | **-** | **-** | **9 829** | **-** | **-** | **(9 652)** | **-** | **-** | **177** | **(465)** | **(288)** |
| Net profit for the period | - | - | - | - | - | - | - | 3 120 674 | 3 120 674 | 18 513 | **3 139 187** |
| **Total profit for the period** | **-** | **-** | **9 829** | **-** | **-** | **(9 652)** | **-** | **3 120 674** | **3 120 851** | **18 048** | **3 138 899** |
| Transfer of net profit from previous years | - | - | - | - | | - | 2 903 632 | (2 903 632) | - | - | **-** |
| Transfer from net profit to reserves | - | 1 682 406 | - | - | 5 802 | - | (1 688 208) | - | - | - | **-** |
| Transfer from net profit to dividends | - | - | - | - | - | - | (1 090 000) | - | (1 090 000) | (30 750) | **(1 120 750)** |
| Other | - | | - | - | - | - | - | - | - | 852 | **852** |
| **As at 31 December 2008** | **1 000 000** | **7 274 717** | **(33 237)** | **1 070 000** | **1 523 827** | **(57 413)** | **53 232** | **3 120 674** | **13 951 800** | **46 216** | **13 998 016** |

*(in PLN thousand)*

- **for the year ended 31 December 2007**

| for the year ended 31 December 2007 | Attributable to equity holders of the parent company | | | | | | | | Total | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Other capital | | | | Currency translation differences from foreign operations | Retained earnings | Net profit | | | |
| | | Reserve capital | Revaluation reserve | General banking risk fund | Other reserves | | | | | | |
| **As at 1 January 2007** | **1 000 000** | **4 529 920** | **3 834** | **1 070 000** | **1 505 943** | **(13 672)** | **(166 771)** | **2 149 052** | **10 078 306** | **102 274** | **10 180 580** |
| Net change in available for sale investments less deferred tax | - | - | (46 900) | - | - | - | - | - | (46 900) | - | **(46 900)** |
| Currency translation differences | - | - | - | - | - | (34 089) | - | - | (34 089) | (1 982) | **(36 071)** |
| **Total income/expenses recognized directly in equity** | **-** | **-** | **(46 900)** | **-** | **-** | **(34 089)** | **-** | **-** | **(80 989)** | **(1 982)** | **(82 971)** |
| Net profit for the period | - | - | - | - | - | - | - | 2 903 632 | 2 903 632 | 37 760 | **2 941 392** |
| **Total profit for the period** | **-** | **-** | **(46 900)** | **-** | **-** | **(34 089)** | **-** | **2 903 632** | **2 822 643** | **35 778** | **2 858 421** |
| Transfer of net profit from previous years | - | - | | - | | - | 2 149 052 | (2 149 052) | - | - | **-** |
| Transfer from net profit to reserves | - | 1 062 391 | - | | 12 082 | - | (1 074 473) | - | - | - | **-** |
| Transfer from net profit to dividends | - | - | - | - | - | - | (980 000) | - | (980 000) | (45 650) | **(1 025 650)** |
| Other | - | - | - | - | - | - | - | - | - | (34 336) | **(34 336)** |
| **As at 31 December 2007** | **1 000 000** | **5 592 311** | **(43 066)** | **1 070 000** | **1 518 025** | **(47 761)** | **(72 192)** | **2 903 632** | **11 920 949** | **58 066** | **11 979 015** |

*(in PLN thousand)*

## CONSOLIDATED CASH FLOW STATEMENT
## for the years ended 31 December 2008 and 31 December 2007

| | Notes | 2008 | 2007 |
|---|---|---|---|
| **Net cash flow from operating activities** | | | |
| Net profit | | 3 120 674 | 2 903 632 |
| Adjustments: | | 129 430 | (11 989 465) |
| Profit/loss of minority shareholders | | 18 513 | 37 760 |
| Amortisation and depreciation | | 429 904 | 382 165 |
| (Gains) losses on disposals of fixed assets | 43 | 45 | (72 004) |
| Interest and dividends | 43 | (241 794) | (207 290) |
| Change in amounts due from banks | 43 | (246 536) | 3 181 941 |
| Change in trading assets and other financial assets designated at fair value through profit or loss | | 3 465 672 | 2 999 977 |
| Change in derivative financial instruments (asset) | | (2 040 934) | (357 582) |
| Change in loans and advances to customers | 43 | (25 193 015) | (17 480 950) |
| Change in deferred income tax asset and income tax receivables | | 14 207 | (38 700) |
| Change in other assets | | (260 145) | (363 910) |
| Change in amounts due to other banks | 43 | 1 976 155 | (2 297 830) |
| Change in derivative financial instruments (liability) | | 4 870 412 | 182 119 |
| Change in amounts due to customers | 43 | 16 392 289 | 2 810 667 |
| Change in debt securities in issue | | 32 713 | 135 138 |
| Change in impairment allowances and provisions | 43 | 655 951 | (12 189) |
| Change in other liabilities | 43 | 136 644 | (447 308) |
| Income tax paid | | (539 539) | (878 148) |
| Current tax expense | | 1 001 835 | 717 120 |
| Other adjustments | 43 | (342 947) | (280 441) |
| **Net cash from / used in operating activities** | | **3 250 104** | **(9 085 833)** |
| **Net cash flow from investing activities** | | | |
| **Inflows from investing activities** | | **5 790 418** | **6 610 995** |
| Proceeds from sale of shares in associates | | 9 425 | 6 410 |
| Proceeds from sale of investment securities | | 5 738 733 | 6 513 022 |
| Proceeds from sale of intangible assets and tangible fixed assets | | 20 355 | 85 296 |
| Other investing inflows | | 21 905 | 6 267 |
| **Outflows from investing activities** | | **(8 895 556)** | **(5 945 380)** |
| Purchase of a subsidiary, net of cash acquired | | (93 128) | (175 177) |
| Purchase of shares in associates | | - | (5 000) |
| Purchase of investment securities | | (7 905 280) | (5 025 179) |
| Purchase of intangible assets and tangible fixed assets | | (897 148) | (740 024) |
| **Net cash from / used in investing activities** | | **(3 105 138)** | **665 615** |
| **Net cash flow from financing activities** | | | |
| Proceeds from debt securities in issue | | - | 1 597 374 |
| Redemption of debt securities in issue | | (111 152) | - |
| Dividends paid to the shareholders of the parent company | | (1 090 000) | (980 000) |
| Dividends paid to minority shareholders | | (30 750) | (16 250) |
| Long-term borrowings | | 1 141 846 | 3 440 121 |
| Repayment of long term loans | | (1 016 983) | (522 917) |
| **Net cash generated from financing activities** | | **(1 107 039)** | **3 518 328** |
| **Net cash inflow/ (outflow)** | | **(962 073)** | **(4 901 890)** |
| Cash and cash equivalents at the beginning of the period | | 9 232 316 | 14 134 206 |
| **Cash and cash equivalents at the end of the period** | 43 | **8 270 243** | **9 232 316** |
| of which restricted | 40 | 7 966 | 8 120 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## as at 31 December 2008

### 1. General information

The consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group ("the PKO BP SA Group", "the Group") have been prepared for the year ended 31 December 2008 and include comparative data for the year ended 31 December 2007. Data has been presented in PLN thousand.

The parent company of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group is Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ("PKO BP SA"; "the parent company"; "the Bank").

The parent company was established in 1919 as the Pocztowa Kasa Oszczędnościowa. Since 1950 the parent company operated as the Powszechna Kasa Oszczędności State-owned bank. Pursuant to the Decree of the Council of Ministers dated 18 January 2000 (Journal of Laws No. 5, item 55 with subsequent amendments) Powszechna Kasa Oszczędności (a state-owned bank) was transformed into a state-owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna with its head office in Warsaw, Puławska 15, 02-515 Warsaw, Poland.

On 12 April 2000 Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna was entered in the Register of Companies by the District Court for the capital city of Warsaw, Commercial Court XVI Registration Department. At present, the appropriate Court of Registration is the District Court for the capital city of Warsaw, XIII Economic Department of the National Court Register. The Bank was registered under entry No. KRS 0000026438 and was granted a statistical REGON No. 016298263. The Bank's paid share capital amounts to PLN 1 000 000 thousand.

The Bank's shareholding structure is as follows:

| Shareholder | Number of shares | Number of votes % | Nominal value of the share | % shareholding |
|---|---|---|---|---|
| *As at 31 December 2008* | | | | |
| The State Treasury | 512 435 409 | 51.24 | PLN 1 | 51.24 |
| Other shareholders | 487 564 591 | 48.76 | PLN 1 | 48.76 |
| **Total** | **1 000 000 000** | **100.00** | **---** | **100.00** |
| *As at 31 December 2007* | | | | |
| The State Treasury | 514 935 409 | 51.49 | PLN 1 | 51.49 |
| Other shareholders | 485 064 591 | 48.51 | PLN 1 | 48.51 |
| **Total** | **1 000 000 000** | **100.00** | **---** | **100.00** |

The Bank is a public company quoted on the Warsaw Stock Exchange. According to the Warsaw Stock Exchange Bulletin (Ceduła Giełdowa), the Bank is classified under the macro-sector "Finance", sector "Banks".

### Business activities

PKO BP SA is a universal commercial bank offering services to both domestic and foreign retail, corporate and other clients. PKO BP SA is licensed to perform a full range of foreign exchange services; open and hold bank accounts abroad and to deposit foreign exchange in these accounts.

The Bank operates in the United Kingdom through its Foreign Banking Services Center (Centrum Bankowości Zagranicznej) in Warsaw.

In addition, Group subsidiaries conduct activities relating to leasing, real estate development as well as render other financial services. The scope of activities of each of the Group entities is set out in this note, in the table "Structure of the PKP BP SA Group".

The Group operates in the Republic of Poland and through its subsidiaries, KREDOBANK SA and UKRPOLINWESTYCJE Sp. z o.o. – in Ukraine.

**Information on members of the Management and Supervisory Board of the Bank**

As at 31 December 2008, the Bank's Management Board consisted of:

- Jerzy Pruski — President of the Management Board
- Bartosz Drabikowski — Vice-President of the Management Board
- Krzysztor Dresler — Vice-President of the Management Board
- Tomasz Mironczuk — Vice-President of the Management Board
- Jarosław Myjak — Vice-President of the Management Board
- Wojciech Papierak — Vice-President of the Management Board
- Mariusz Zarzycki — Vice-President of the Management Board

During the year ended 31 December 2008, the following changes took place in the composition of the Management Board of the Bank:

– On 11 April 2008 the Supervisory Board of PKO BP SA appointed Jerzy Pruski to the position of acting President of the Management Board with effect from 20 May 2008 for a joint term of the Management Board, beginning that day. Supervisory Board appointed Jerzy Pruski to perform a function of the President of the Management Board of the Bank until the date of the approval of his appointment as President by the Financial Supervision Authority.

– On 17 June 2008 the Financial Supervision Authority agreed to the appointment of Jerzy Pruski as the President of the Management Board of PKO BP SA.

– On 20 May 2008 the Supervisory Board appointed:

  - Bartosz Drabikowski as Vice-President of the Management Board of the Bank as of 20 May 2008,
  - Mariusz Klimczak as Vice-President of the Management Board of the Bank as of 20 May 2008,
  - Tomasz Mironczuk as Vice-President of the Management Board of the Bank as of 20 May 2008,
  - Krzysztof Dresler as Vice-President of the Management Board of the Bank as of 1 July 2008,
  - Wojciech Papierak as Vice-President of the Management Board of the Bank as of 1 July 2008,
  - Mariusz Zarzycki as Vice-President of the Management Board of the Bank as of 1 September 2008.

The above named persons were authorized by appropriate resolutions of the Supervisory Board to constitute the Management Board from 20 May 2008.

– On 21 August 2008 Mariusz Klimczak submitted his resignation as Vice-President of the Management Board of PKO BP SA effective from 30 September 2008.

– On 9 December 2008, the Supervisory Board passed a resolution appointing Jarosław Myjak as Vice-President of the Management Board of PKO BP SA, effective as of 15 December 2008. According to the passed resolution Jarosław Myjak has been appointed to hold a function in PKO BP SA for a joint term of the Management Board beginning on 20 May 2008.

*(in PLN thousand)*

As at 31 December 2008, the Bank's Supervisory Board consisted of:

| | |
|---|---|
| • Marzena Piszczek | Chairman of the Supervisory Board |
| • Eligiusz Jerzy Krześniak | Vice-Chairman of the Supervisory Board |
| • Jan Bossak | Member of the Supervisory Board |
| • Jerzy Osiatyński | Member of the Supervisory Board |
| • Urszula Pałaszek | Member of the Supervisory Board |
| • Roman Sobiecki | Member of the Supervisory Board |
| • Ryszard Wierzba | Member of the Supervisory Board |

During the year ended 31 December 2008, the following changes took place in the composition of the Bank's Supervisory Board:

- On 25 February 2008 Urszula Pałaszek resigned from the post of Vice-President of the Supervisory Board of the Bank.

- On 26 February 2008, the following members of the Supervisory Board resigned from the post of Members of the Supervisory Board of the Bank:

  - Marek Głuchowski,
  - Agnieszka Winnik-Kalemba,
  - Tomasz Siemiątkowski,
  - Jerzy Michałowski.

- On 26 February 2008 the Extraordinary General Meeting of PKO BP SA removed Maciej Czapiewski with immediate effect from the post of Member of the Supervisory Board of PKO BP SA.

- On 26 February 2008 the Extraordinary General Meeting of PKO BP SA appointed the following persons to the Supervisory Board of the Bank:

  - Jan Bossak,
  - Eligiusz Jerzy Krześniak,
  - Roman Sobiecki,
  - Ryszard Wierzba,
  - Marzena Piszczek,
  - Jerzy Osiatyński.

In accordance with the appropriate resolutions, the above - named were appointed to constitute the Supervisory Board from 26 February 2008 until the end of the current term of office and for the subsequent term, with the exception of Urszula Pałaszek, who was appointed for the subsequent term only.

*(in PLN thousand)*

## Structure of the Group

The PKO BP SA Group consists of the following entities:

| No. | Entity name | Registered office | Activity | Share capital held by the Group (%) 31.12.2008 | Share capital held by the Group (%) 31.12.2007 |
|---|---|---|---|---|---|
| **PKO BP SA Group** | | | | | |
| | **Parent company** | | | | |
| **1** | **Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna** | | | | |
| | **Direct subsidiaries** | | | | |
| 2 | Powszechne Towarzystwo Emerytalne BANKOWY SA | Warsaw | Pension fund management | 100.00 | 100.00 |
| 3 | Centrum Finansowe Puławska Sp. z o.o. | Warsaw | Management and use of Centrum Finansowe Pulawska | 100.00 | 100.00 |
| 4 | PKO Inwestycje Sp. z o.o. | Warsaw | Real estate development | 100.00 | 100.00 |
| 5 | Inteligo Financial Services SA | Warsaw | Technical servicing of Internet banking | 100.00 | 100.00 |
| 6 | Centrum Elektronicznych Usług Płatniczych "eService" SA | Warsaw | Servicing and settlement of card transactions | 100.00 | 100.00 |
| 7 | Bankowy Fundusz Leasingowy SA | Łódź | Leasing services | 100.00 | 100.00 |
| 8 | Bankowe Towarzystwo Kapitałowe SA | Warsaw | Services, including financial services | 100.00 | 100.00 |
| 9 | PKO Towarzystwo Funduszy Inwestycyjnych SA | Warsaw | Investment fund management | 75.00 | 75.00 |
| 10 | KREDOBANK SA | Lviv, Ukraine | Financial services | 98.56 | 98.18 |
| 11 | PKO Finance AB | Stockholm, Sweden | Financial services | 100.00 | - |
| | **Indirect subsidiaries** | | | | |
| | **Subsidiaries of Inteligo Financial Services SA** | | | | |
| 12 | Finanse Agent Transferowy Sp. z o.o. [1] | Warsaw | Intemediary financial services | 80.33 | - |
| | **Subsidiaries of PKO Inwestycje Sp. z o.o.** | | | | |
| 13 | Wilanów Investments Sp. z o.o. | Warsaw | Real estate development | 100.00 | 100.00 |
| 14 | POMERANKA Sp. z o.o. | Warsaw | Real estate development | 100.00 | 100.00 |
| 15 | PKO Inwestycje – Międzyzdroje Sp. z o.o. (former ARKADIA Inwestycje Sp. z o.o.) | Międzyzdroje | Real estate development | 100.00 | 100.00 |
| 16 | UKRPOLINWESTYCJE Sp. z o.o. | Kiev, Ukraine | Real estate development | 55.00 | 55.00 |
| 17 | Fort Mokotów Sp. z o.o. | Warsaw | Real estate development | 51.00 | 51.00 |
| 18 | WISŁOK Inwestycje Sp. z o. o. | Rzeszów | Real estate development | 80.00 | - |
| 19 | Baltic Dom 2 Sp. z o. o. | Warsaw | Real estate development | 56.00 | - |
| | **Subsidiaries of Bankowy Fundusz Leasingowy SA** | | | | |
| 20 | Bankowy Leasing Sp. z o.o. | Łódź | Leasing services | 100.00 | 100.00 |
| 21 | BFL Nieruchomości Sp. z o.o. | Łódź | Leasing services | 100.00 | 100.00 |

[1] till 10 December 2008 Finanse Agent Transferowy Sp. z o.o. was a subsidiary of PTE BANKOWY SA; as at 31 December 2008 the share of PTE BANKOWY SA in the share capital of the company amounted to 19.67%

## Associates and jointly controlled entities included in the consolidated financial statements:

## Jointly controlled entities:

| No. | Name of Entity | Registered office | Activity | % Share capital held by the Group 31.12.2008 | % Share capital held by the Group 31.12.2007 |
|---|---|---|---|---|---|
| | **Direct jointly controlled entities** | | | | |
| 1 | CENTRUM HAFFNERA Sp. z o.o. | Sopot | Real estate development | 49.43 | 49.43 |
| 2 | Centrum Obsługi Biznesu Sp. z o.o. | Poznań | Construction and maintenance of a hotel | 41.44 | 41.44 |
| | **Indirect jointly controlled entities** | | | | |
| | **Subsidiaries of CENTRUM HAFFNERA Sp. z o.o. (indirect jointly controlled by PKO BP SA)** | | | | |
| 3 | Centrum Majkowskiego Sp. z o.o. | Sopot | Real estate development | 100.00 | 100.00 |
| 4 | Kamienica Morska Sp. z o.o. | Sopot | Real estate development | 100.00 | 100.00 |
| 5 | Sopot Zdrój Sp. z o.o. | Sopot | Real estate development | 100.00 | 100.00 |
| 6 | Promenada Sopocka Sp. z o.o. | Sopot | Real estate development | 100.00 | 100.00 |

## Associated entities:

*(in PLN thousand)*

| No. | Name of Entity | Registered office | Activity | % Share capital held by the Group 31.12.2008 | % Share capital held by the Group 31.12.2007 |
|---|---|---|---|---|---|
| | **Direct associates** | | | | |
| 1 | Bank Pocztowy SA | Bydgoszcz | Financial services | 25.0001 | 25.0001 |
| 2 | Kolej Gondolowa Jaworzyna Krynicka SA | Krynica Górska | Construction and operation of cable railway | 37.53 | 37.53 |
| 3 | Ekogips SA – in liquidation | Warsaw | Production of construction elements | 60.26 | 60.26 |
| 4 | Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | Poznań | Provision of sureties and guarantees | 33.33 | 33.33 |
| 5 | Agencja Inwestycyjna CORP SA | Warsaw | Office real estate management | 22.31 | 22.31 |
| | **Indirect associates** | | | | |
| | **Associates of Bankowe Towarzystwo Kapitałowe SA** | | | | |
| 6 | FINDER SA | Warsaw | Car location and fleet management services | - | 46.43 |

Information about changes in the parent's participation in the share capital of the subsidiaries is set out in Note 47 "Business combinations".

### Approval of financial statements

These consolidated financial statements have been approved for issue by the Management Board on 3 April 2009.

## 2. Summary of significant accounting policies

### 2.1. Compliance with accounting standards

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards endorsed by the EU (IFRS) as at 31 December 2008, and in the areas not regulated by these standards, in accordance with the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2002, no. 76, item 694 with subsequent amendments) and the respective secondary legislation issued on its basis, as well as the requirements relating to issuers of securities registered or applying for registration on an official quotations market.

Taking into consideration the scope of the Group's activities, the IFRS as adopted by the EU that are used by the Group do not differ from IFRS standards not adopted by the EU.

The subsidiaries of PKO BP SA in Poland maintain their books of account for the year ended 31 December 2008 in accordance with the International Financial Reporting Standards, except for Fort Mokotów Sp. z o.o., which maintains its books of account in accordance with accounting principles specified in the Accounting Act of 29 September 1994 with subsequent amendments ("the Accounting Act") and with regulations issued based on that Act ("Polish Accounting Standards"). Foreign entities of the Group keep their books of account in accordance with the relevant local regulations. The consolidated financial statements include adjustments in the respect of these entities which are not included in the books of account of the Group's companies; but which have been made in financial statements in order to ensure their compliance with IFRS.

### 2.2. Going concern

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 at least 12 months from the balance date of 31 December 2008.

As at the date of signing these financial statements, the 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 of the PKO BP SA Group for at least 12 months following the balance date as a result of any intended or compulsory withdrawal or significant limitation in the activities of the Bank or other entities from the PKO BP SA Group.

### 2.3. Basis of preparation of the financial statements

These financial statements have been prepared on a fair value basis in respect of financial assets and liabilities designated at fair value through profit or loss, including derivatives and financial assets available for sale, with the exception of those for which the fair value cannot be reliably estimated. Other financial assets and liabilities (including loans and advances) are measured at amortized cost with an allowance for impairment losses or at cost with an allowance for impairment losses.

Non-current assets are stated at acquisition cost less accumulated depreciation and impairment losses. The Group measures non-current assets (or groups of the said assets) classified as held for sale at the lower of their carrying amount and fair value less costs to sell.

### 2.4. Basis of consolidation

#### 2.4.1. Subsidiaries

Subsidiaries are entities (including entities which are not incorporated, such as general partnerships) controlled by the parent company, which means that the parent company has a direct or indirect impact on the financial and operating policy of the given entity in order to gain economic benefits from its operations.

Control is exercised when the parent company holds directly or indirectly more than one-half of the voting rights in a given entity unless in special circumstances it may be proven that such holdings do not lead to exercising control. Control is also exercised when the Bank has one-half or less voting rights in a given entity and when:

a. it has more than one-half of votes on the basis of agreements with other investors,
b. it is capable of managing the entity's financial and operational policy on the basis of the Memorandum of Association or an agreement,
c. it is capable of appointing and removing most of the Management Board or any equivalent management body where the Management Board or equivalent body exercises control over the entity, or
d. it has the majority of votes at the Management Board's or any equivalent management body's meetings where the Management Board or equivalent body exercises control over the entity.

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

The "full" method of consolidation requires the adding up of all full amounts of the individual items of balance sheet, income statement of the subsidiaries and of the Bank, and making appropriate consolidation adjustments and eliminations. The carrying amount of the Bank's investments in subsidiaries and the equity of these entities at the date of their acquisition are eliminated at consolidation. The following items are eliminated in full at consolidation:

a. inter-company receivables and payables, and any other settlements of a similar nature, between the consolidated entities,
b. revenue and costs arising from business transactions conducted between the consolidated entities,
c. gains or losses from business transactions conducted between consolidated entities, included in the carrying amount of the assets of the consolidated entities, except for losses indicating impairment,
d. dividends accrued or paid by the subsidiaries to the parent company and to other consolidated entities,
e. inter-company cash flows in the cash flow statement.

The consolidated cash flow statement was prepared on the basis of the consolidated balance sheet, consolidated income statement and the additional notes and explanations.

The parent company and consolidated subsidiary reporting periods for the financial statements are co-terminous. Consolidation adjustments are made in order to eliminate any differences in the accounting policies applied by the Bank and its subsidiaries.

### 2.4.2. Purchase method

The acquisition of subsidiaries by the Group is accounted for under the purchase method. The acquisition cost is determined as the fair value of the assets transferred, the equity instruments issued and the liabilities incurred or transferred as at the exchange date, plus the cost directly attributable to the acquisition. Identifiable assets and liabilities, and contingent liabilities acquired under a business combination transaction are initially measured at fair value as at the acquisition date, irrespective of the amount of the potential minority interest. The excess of acquisition cost over the fair value of the Group's share in the identifiable net assets acquired is recognized as goodwill. If the acquisition cost is lower than the fair value of net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

### 2.4.3. Associates and jointly controlled entities

Associates are entities (including entities which are not incorporated, such as general partnerships) on which the Group exerts significant influence but whose financial and operating policies it does not control, which usually accompanies having 20% to 50% of the total number of votes in the decision-making bodies of the entities.

Jointly controlled entities are trade companies or other entities, which are partly controlled by parent company or significant investor and other shareholders on the basis of the Articles of Association, company's statut and agreement concluded for period longer than one year.

Investments in associates and jointly controlled entities are accounted in accordance with the equity method and are initially stated at cost. The Group's investment in associates and jointly controlled entities includes goodwill (net of any potential accumulated impairment write-downs), determined as at the acquisition date.

The Group's share in the results of the associates and jointly controlled entities from the date of purchase has been recorded in the income statement and its share in movements in other equity items from the date of purchase has been recorded in other equity items. The carrying amount of investments is adjusted by the total movements in particular equity items from the date of their purchase. When the Group's share in the losses of an associate or jointly controlled entity becomes equal or higher than the Group's share in the associate or jointly controlled entity, which covers potential unsecured receivables, the Group discontinues recognizing further losses unless it has assumed the obligation or has made payments on behalf of the given associate or jointly controlled entity.

Unrealized gains on transactions between the Group and its associates and jointly controlled entities are eliminated in proportion to the Group's share in the said entities. Unrealized losses are also eliminated unless the transaction proves that the given asset transferred has been impaired.

*(in PLN thousand)*

At each balance date, the Group makes an assessment of whether there are any indicators of impairment in the value of investments in associates and jointly controlled entities. If any such indicators exist, the Group estimates the value in use of the investment or the fair value of the investment less costs to sale, depending on which of these values is higher; if carrying amount of the investment exceeds its value in use, the Bank recognizes an impairment loss in the income statement. The projection for the value in use requires making assumptions, e.g. about future cash flows that the Group may receive from dividends or the cash inflows from a potential disposal of the investment, less costs of the disposal. The adoption of different assumptions with reference to the projected cash flows could affect the carrying amount of certain investments.

### 2.5. Foreign currencies

#### 2.5.1. Functional and presentation currency

All items presented in the financial statements of the individual Group entities, including KREDOBANK SA and UKRPOLINWESTYCJE Sp. z o.o. are measured in functional currency i.e. in the currency of the basic economic environment in which the given entity operates. The functional currency of the parent company and other entities included in these financial statements, except for KREDOBANK SA and UKRPOLINWESTYCJE Sp. z o.o., is the Polish złoty. The functional currency of KREDOBANK SA and UKRPOLINWESTYCJE Sp. z o.o is the Ukrainian hrivna.

Consolidated financial statements are presented in the Polish zloty, which is the functional and presentation currency of the Group.

#### 2.5.2. Transactions and items denominated in foreign currency

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At the balance date items are translated using the following principles:

a. monetary assets denominated in foreign currency are translated into Polish zloty using a closing rate - the average NBP rate for a given currency prevailing at the balance date;

b. non-monetary assets valued at historical cost in foreign currency are translated into Polish zloty using exchange rates prevailing on a day of a particular transaction;

c. non-monetary assets designated at fair value through profit or loss in foreign currency are translated into Polish zloty using exchange rates as at the date of the determination fair value.

Gains and losses on settlements of these transactions and the balance sheet valuation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Foreign exchange differences on non-monetary financial assets such as equity instruments designated at fair value through profit or loss are recognized in the income statement. Foreign exchange differences on non-monetary financial assets such as carrying amount of equity instruments classified as financial assets available for sale are recognized in the revaluation reserve.

| UAH | 2008 | 2007 |
|---|---|---|
| Rate prevailing on the last day of the period | 0.3730 | 0.4814 |
| Rate representing the arithmetical mean of the rates prevailing on the last day of each month of the period | 0.4525 | 0.5456 |
| The highest rate in the period | 0.6102 | 0.6018* |
| The lowest rate in the period | 0.3009 | 0.4797* |

* change of presentation – the highest and the lowest exchange rate from average exchange rates announced by the National Bank of Poland during the year ended 31 December 2007

The functional currency of the Bank's subsidiaries: KREDOBANK SA and UKRPOLINWESTYCJE Sp. z o.o. is Ukrainian hryvna.

## 2.6. Financial assets and liabilities

### 2.6.1. Classification:

Financial assets are classified into the following categories: financial assets designated at fair value through profit or loss; financial assets available for sale; loans and receivables; financial assets held to maturity. Financial liabilities are classified as follows: financial liabilities designated at fair value through profit or loss and other financial liabilities. The classification of financial assets and liabilities is determined on initial recognition.

#### 2.6.1.1. Financial assets and liabilities designated at fair value through profit or loss

A financial asset or financial liability designated at fair value through profit or loss is a financial asset or financial liability that meets either of the following conditions:

1) it is classified as held for trading. Financial assets or financial liabilities are classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; is a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. A derivative is also classified as held for trading except for a derivative that is a designated and effective hedging instrument.
2) upon initial recognition it is designated as designated at fair value through profit or loss. The Group may use this designation only when:
    a. the designated financial asset or liability is a hybrid instrument which includes one or more embedded derivatives qualifying for separate recognition, and the embedded derivative financial instrument cannot significantly change the cash flows resulting from the host contract or its separation from the hybrid instrument is forbidden;
    b. it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases;
    c. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with the risk management or investment strategy of the Group.

#### 2.6.1.2. Financial assets available for sale

Financial assets available for sale are those non-derivative financial assets that are designated as available for sale or which are not a) financial assets designated at fair value through profit or loss upon initial recognition; b) financial assets held-to-maturity investments; or c) loans or receivables.

#### 2.6.1.3. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

1) those that the Group intends to sell immediately or in the near term, which are classified as held for trading, and those that the Group upon initial recognition designates as designated at fair value through profit or loss;
2) those that the Group upon initial recognition designates as available for sale; or

3) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

#### 2.6.1.4. Financial assets held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity other than: a) those that the Group upon initial recognition designates as designated at fair value through profit or loss; b) those that the Group designates as available for sale; and c) those that meet the definition of loans and receivables.

#### 2.6.1.5. Other financial liabilities

Other financial liabilities other than measured at fair value through profit or loss which have the nature of a deposit, or a loan or an advance received.

### 2.6.2. Accounting for transactions

Financial assets and financial liabilities, including forward transactions giving rise to an obligation or a right to acquire or sell in the future a given number of specified financial instruments at a given price, are recognized in the books of account under trade date, irrespective of the settlement date provided in the contract.

### 2.6.3. Derecognition of financial instruments

Financial assets are derecognized when contractual rights to the cash flows from the financial asset expire, or when the financial asset is transferred to another entity. The financial asset is transferred when:

1) the contractual rights to receive the cash flows from the financial asset is transferred, or
2) the Group retains the contractual rights to receive cash flows from the financial asset, but assumes a contractual obligation to pay cash flows to an entity outside the Group.

When the Group transfers a financial asset, it evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. In such cases:

1) if all the risks and rewards of ownership of the financial asset are substantially transferred, then the Group derecognises the financial asset,
2) if all the risks and rewards of ownership of the financial asset are substantially retained, then the financial asset continues to be recognised,
3) if substantially all the risks and rewards of ownership of the financial asset are neither transferred nor retained, then a determination is made as to whether control of the financial asset has been retained. If the Group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset; if control has not been retained, then the financial asset is derecognized.

The Group does not reclassify financial instruments to or from the category of measured at fair value through profit or loss while they are held or issued.

The Group removes a financial liability (or a part of a financial liability) from its balance sheet when the obligation specified in the contract is discharged or cancelled or expires.

Loans are derecognized when they have been forgiven, when they are expired, or when they are not recoverable. Loans, advances and other amounts due are written off against impairment allowances that were recognized for these accounts. In the case where no allowances were recognized against the account or the amount of the allowance is less than the amount of the loan or other receivable, the loan or receivable is written off after, the amount of the impairment allowance is increased by the difference between the value of the receivable and the amount of the allowances that have been recognized to date.

### 2.6.4. Valuation

When a financial asset or liability is initially recognised, it is measured at its fair value plus, in the case of a financial asset or liability not designated at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or liability.

Subsequent to the initial recognition financial instruments are valued as follows:

#### 2.6.4.1. Assets and liabilities designated at fair value through profit or loss:

Assets and liabilities designated at fair value through profit or loss are measured at fair value through profit or loss with the changes in fair value included in the "Net income from financial instruments designated at fair value through profit or loss".

#### 2.6.4.2. Financial assets available for sale

Financial assets available for sale (except for impairment allowances) are valued at fair value, and gains and losses arising from changes in fair value are recognised in the revaluation reserve. The amount included in revaluation reserve is reclassified to the income statement when the asset is sold or found to be impaired.

#### 2.6.4.3. Loans and advances and investments held to maturity

They are measured at amortized cost using the effective interest rate, with an allowance for impairment losses.

#### 2.6.4.4. Other financial liabilities

They are measured at amortized cost using the effective interest rate method. If the time schedule of cash flows from a financial instrument cannot be determined, and thus the effective interest rate cannot be determined fairly, the liability is measured at the amount of consideration due.

Debt instruments issued by the Group are recognized as liabilities and stated at amortized cost in consideration of the effective interest rate.

#### 2.6.4.5. Method of establishing fair value and amortized cost

Fair value of debt and equity financial instruments (designated at fair value through profit or loss and available for sale), for which there is an active market is calculated with reference to market value (bid price).

Fair value of debt and equity financial instruments (designated at fair value through profit or loss and available for sale), for which there is no active market is determined as follows:

1) equity instruments designated at fair value through profit or loss and available for sale:
   - price of the last transaction concluded on the market, unless in the period between the date of the transaction and the balance date there were significant changes in market conditions which might affect the price,

- at valuation performed by a specialized external entity providing services of this kind;

2) debt instruments designated at fair value through profit or loss:
   a. the reference asset value method,
   b. discounted cash flow method 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 date there were significant changes in market conditions which might affect the price;
3) debt instruments available for sale - according to one of the following methods: a) reference asset value method, b) discounted cash flow method based on market interest rates, adjusted for risk margin equal to the margin determined in the terms of the issue. Significant change of market interest rates is reflected in the change of fair value of these instruments.

If it is not possible to determine fair value, equity instruments are stated at acquisition cost less impairment losses.

Amortized cost is the amount at which the loan or advance was measured at the date of initial recognition, decreased by principal repayments, and increased or decreased by the cumulative amortization of any difference between that initial amount and the amount at maturity, and decreased by any impairment losses. Amortized cost is made using the effective interest rate - the rate that discounts the expected future cash flows to the net present value over the period to maturity or the date of next re-pricing, and which is the internal rate of return of the asset for the given period. The calculation of this rate includes payments received which affect financial characteristics of the instrument. Commissions, fees and transaction costs which constitute an integral part of the effective return on a loan or an advance, adjust their carrying amounts and are included in the calculation of the effective interest rate.

### 2.6.5. Derivative instruments

#### 2.6.5.1. Recognition and measurement

Derivative financial instruments are recognized at fair value from the trade date. A derivative instrument becomes an asset if its fair value is positive and it becomes a liability if its fair value is negative. The fair value of instruments that are actively traded on the market is their market price. In other cases, fair value is derived with the use of valuation models which use market observable data. Valuation techniques are based on discounted cash flow models, option models and yield curves.

Where the estimated fair value is lower or higher than the fair value as of the preceding balance date (for transactions concluded in the reporting period – initial fair value), the Group includes the difference, respectively, in the net income on financial instruments designated at fair value through profit or loss or in the foreign exchange gains (for transactions FX swap, FX forward and CIRS transactions), in correspondence with “Derivative financial instruments”.

The result of the ultimate settlement of derivative instrument transactions is reflected in the result from financial instruments designated at fair value through profit or loss or in the foreign exchange gains.

The notional amount of the underlying instruments is presented in off-balance sheet items from the date of the transaction until maturity.

### 2.6.5.2. Embedded derivative instruments

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract (both of a financial or non-financial nature), with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

An assessment of whether a given contract contains an embedded derivative instrument is made at the date of first becoming a party to a contract. A reassessment can only be made when there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract.

Embedded derivative instruments separated from host contracts and recognized separately and accounting records are valued at fair value. Valuation is presented in the balance sheet under "Derivative Financial Instruments". Changes in the fair value of derivative instruments are recorded in the income statement under the "Net income from financial instruments designated at fair value through profit or loss".

Derivative instruments are recognized separately from the host contract, if all of the following conditions are met:

1) the hybrid (combined) instrument is not measured at fair value; changes of fair value are not recognized in the income statement,
2) the economic characteristics and risks of the embedded derivative instrument are not closely related to the economic characteristics and risks of the host contract,
3) a separate instrument with the same characteristics as the embedded derivative would meet the definition of a derivative.

In the case of contracts which are not financial instruments and which include an instrument which fulfils the above conditions, profits and losses from embedded derivatives are recorded in the income statement under the "Net income from financial instruments designated at fair value through profit or loss".

### 2.6.6. Offsetting of financial instruments

A financial asset or liability may only be offset when the Group has a valid legal title to offset it and the settlement may be on a net basis, or the asset and liability are realized at the same time.

## 2.7. Transactions with a commitment to sell or buy back

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

Repo transactions are recognized 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 recognized under amounts due from banks or loans and advances to customers, depending on the counterparty.

Repo and reverse-repo transactions and sell-buy back, buy-sell back transactions are measured at amortised cost, whereas securities which are an element of a repo transaction are not derecognized in the balance sheet and are measured at the terms and conditions specified for particular securities portfolios. The difference between the sale price and the repurchase price is recognized as interest expense/income, as appropriate, and it is amortized over the term of the contract using the effective interest rate.

### 2.8. Impairment of financial assets

#### 2.8.1. Assets measured at amortized cost

At each balance date, an assessment is made of whether there is objective evidence that a given financial asset or a group of financial assets is impaired. If such evidence exists, the Group determines the amounts of impairment losses. An impairment loss is incurred when there is objective evidence of impairment due to events that occurred after the initial recognition of the asset ("a loss event"), when the loss has a reliably measurable impact on the expected future cash flows from the financial asset or group of financial assets.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following events:

1) significant financial difficulties of the issuer or the debtor,
2) breach of a contract by the issuer or the debtor, such as a default or a delinquency in contracted payments of interest or principal,
3) granting of a concession by the lender to the issuer or the borrower, for economic or legal reasons relating to the borrower's financial difficulty, that the lender would not otherwise consider,
4) high probability of bankruptcy or other financial reorganization of the issuer or the debtor,
5) disappearance of an active market for a given financial asset on the active market due to financial difficulties of the issuer or the debtor,
6) evidence that there is a measurable reduction in the estimated future cash flows from a group of financial assets, including collectability of these cash flows.

The Group firstly assesses impairment on an individual basis for significant receivables. 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.

Loan and lease receivables are classified by the Group on the basis of the amount of exposure into the individual and group portfolios.

In the individual portfolio, each individual loan or lease exposure is tested for impairment. If the asset is found to be impaired, an allowance is recognized 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 impairment of financial assets classified as loans and receivables, finance lease receivables or investments held to maturity, the amount of the impairment allowance is the difference between the carrying amount of the asset and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred), discounted using the original effective interest rate from the date on which the financial asset was found to be impaired.

The calculation of the present value of estimated cash flows relating to financial assets for which there is held collateral takes into account cash flows arising from the realisation of the collateral, less costs to possess 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 data 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 currently non-relevant factors.

In subsequent periods, if the amount of impairment loss is reduced because of an event subsequent to the impairment being recognized (e.g. improvement in debtor's credit rating), the impairment loss that was previously recognized is reversed by making an appropriate adjustment to impairment allowances. The amount of the reversal is recorded in the income statement.

The Group plans that the adopted methodology used for estimating impairment allowances will be developed in line with the further accumulations of historic impairment data from the existing information systems and applications. As a consequence, new data obtained by the Group could affect the level of impairment allowances in the future. The methodology and assumptions used in the estimates are reviewed on a regular basis to minimize the differences between the estimated and actual loss amounts.

### 2.8.2. Assets available for sale

At each balance date, the Group makes an assessment, whether there is objective evidence that a given financial assets or group of financial assets available for sale is impaired. If such evidence exists, the Group determines the amounts of impairment losses.

Objective evidence that a financial asset or group of assets available for sale is impaired includes following events:

1) significant financial difficulties of the issuer,
2) breach of a contract by the issuer, such as a delinquency in contracted payments of interest or principal,
3) granting of a concession by the lender to the issuer, for economic or legal reasons relating to the borrower's financial difficulty, that the lender would not otherwise consider,
4) deterioration of the borrower's financial condition,
5) high probability of bankruptcy or other financial reorganization of the issuer,
6) increase of risk of a certain industry, in which the borrower operates, reflected in the industry being qualified as "high risk industry".

The Group firstly assesses impairment on an individual basis for significant receivables. 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.

If there is objective evidence of impairment on financial assets classified as debt securities available for sale not issued by the State Treasury, an impairment allowance is calculated as the difference between the asset's carrying amount and the present fair value estimated as value of future cash flows discounted using the zero coupon curve based on yield curves for Treasury bonds.

An impairment loss of a financial asset classified as available for sale is recognised in the income statement, which results in the necessity to transfer the effects of the downward valuation from the revaluation reserve to the income statement.

In subsequent periods, if the fair value of debt securities increases, and the increase may be objectively related to an event subsequent to the impairment being recognized, the impairment loss is reversed and the amount of the reversal is recorded in the income statement.

Impairment losses recognized against non-quoted equity instruments are not reversed through profit or loss.

## 2.9. Leasing

The Group is a party to lease agreements, based on which it conveys in return for payment to use and take profits (the lessor) from tangible and intangible assets during a fixed period (the rights).

The Group is also a party to lease agreements, based on which it receives tangible fixed assets for an agreed period of time (the lessee).

The classification of leases is based on the extent to which risks and rewards incidental to ownership of an asset lie with the lessor or the lessee.

### 2.9.1. The Group as a lessor

In case of finance lease agreements, the Group, as a lessor, has receivables of the present value of the lease payments, increased by a possible unguaranteed residual value assigned to the lessor, fixed at the date of the lease agreement. These receivables are disclosed under “Loans and advances to customers”. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

In operating leases, initial direct costs that are incremental and directly attributable to negotiating and arranging a lease, are added to the carrying value of the leased asset during the period fixed in the lease agreement, on the same basis as in the case of contracts for hire. Conditional lease payments constitute income when they are due. Lease payments due from agreements, which do not meet the finance lease criteria (operational lease agreements) constitute income and are recognised on a straight-line basis during the lease term.

### 2.9.2. The Group as a lessee

Lease payments under an operating lease are recognised as an expense in the income statement and are recognized on a straight-line basis over the lease term.

## 2.10. Tangible fixed assets and intangible assets

### 2.10.1. Intangible assets

Intangible assets are identifiable non-monetary assets which do not have a physical form.

#### 2.10.1.1. Goodwill arising

Goodwill arising on acquisition of a business entity is initially recognized at acquisition cost, being the excess of the costs of acquiring control over the share of the acquirer in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following the recognition, goodwill is stated at the acquisition cost less any cumulative impairment losses.

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

The test for goodwill 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. Where the recoverable amount of the cash-generating unit is lower than its carrying amount, an impairment charge is recognized.

#### 2.10.1.2. Software

Acquired computer software licenses are capitalized in the amount of costs incurred on the purchase and preparing the software for use, taking into consideration accumulated amortisation and impairment losses.

Further expenditure related to the maintenance of the computer software is recognized in costs when incurred.

#### 2.10.1.3. Other intangible assets

Other intangible assets acquired by the Group are recognized at acquisition or production cost, less accumulated amortization and impairment losses.

#### 2.10.1.4. Development costs

The Group identifies the costs of completed development work as intangible assets in connection with future economic benefits and meeting specific terms and conditions, i.e. the Group intends and has the possibility to complete and use the internally generated intangible asset, has proper technical and financial resources to finish the development and to use the asset and it is able to measure reliably the expenditure attributable to the intangible asset during its development which can be directly associated to the creation of the intangible asset.

### 2.10.2. Tangible fixed assets

Tangible fixed assets are stated at acquisition cost or cost of production, less accumulated depreciation and impairment losses.

### 2.10.3. Depreciation/amortisation

Depreciation is charged on all 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/amortisation method is reviewed on an annual basis.

Depreciation of tangible fixed assets and amortization of intangible assets begins on the first day of the month following the month in which the asset has been brought into 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 asset is found to be missing, or
5) it is found - as a result of verification - that the expected residual value of the asset exceeds its (net) carrying amount.

For fixed 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 when it is possible to determine the value of the asset on this market.

Depreciation/amortization periods for basic groups of tangible fixed assets, investement property and intangible assets applied by the PKO BP SA Group:

| Tangible assets | Periods |
|---|---|
| Buildings, premises, cooperative rights to premises | 2-60 years |
| Leaseholds improvements (buildings, premises) | 2-60 years<br>(or term of the lease if shorter) |
| Plant and machinery | 3-15 years |
| Computer hardware | 2-10 years |
| Motor vehicles | 3-5 years |
| **Intangible assets** | **Periods** |
| Software | 2-10 years |
| Other intangible assets | 1-5 years |

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

#### 2.10.4. Impairment losses of non-financial assets

At each balance date, the Group makes an assessment of whether there are any indicators of impairment of any of its non-financial assets (or cash-generating units). If any such indicators exist, the Group estimates the recoverable amount, being the higher of the fair value less costs to sell and the value in use of a non-current asset (or a cash-generating unit); if the carrying amount of a non-current asset exceeds its recoverable amount, the Group recognizes an impairment loss in the income statement. The projection for the value in use requires making assumptions, e.g. about the expected future cash flows that may be received from the continued use or disposal of the non-current asset (or a cash-generating unit). The adoption of different assumptions with reference to the projected cash flows could affect the carrying amount of certain non-current assets.

If the carrying amount of an asset exceeds its recoverable amount, impairment is recognized.

If there are indications for impairment for group of assets which do not generate cash flows irrespectively of other assets or asset groups, and the recoverable amount of a single asset included in common assets cannot be determined, the Group determines the recoverable amount at the level of the cash generating unit to which the asset belongs.

An impairment loss is recognized if the book value of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

Impairment losses in respect of cash generating units first and foremost reduce the goodwill relating to those cash generating units (groups of units), and then they reduce proportionally the book value of other assets in the unit (group of units).

Impairment write-downs in respect of goodwill cannot be reversed. In respect of other assets, the write-down may be reversed if there was a change in the estimates used to determine the recoverable amounts. An impairment loss may be reversed only to the level at which the book value of an asset does not exceed the book value – less depreciation – which would be determined should the impairment write-down not have been recorded.

## 2.11. Other balance sheet items

### 2.11.1. Fixed assets held for sale and discontinued operations

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

Fixed assets held for sale are stated at the lower of their carrying amount and fair value less costs to sell. Impairment allowances for non-current assets held for sale are recognized in the income statement for the period, in which these allowances are made. These assets are not depreciated.

Discontinued operations are an element of the Group's business which has been sold or which is qualified as held for sale, and which also constitutes an important area of the operations or its geographical area, or is a subsidiary acquired solely with the intention of resale. Operations may be classified as discontinued only when the operations are sold or when they meet the criteria of operations held for sale, whichever occurs earlier. A group for sale which is to be retired may also qualify as discontinued operations.

### 2.11.2. Inventories

Inventories related mainly to real estate development activities of the Group are valued at the lower of two values: the purchase price/cost of production and net realizable value.

Expenses incurred in bringing the inventories to their present location and condition are treated as follows: Finished goods (housing and service premises) and work in progress (housing and service premises in progress and land held for development) – as direct expenses and part of indirect costs of production. In the case of long-term preparatory or production periods, cost or purchase price is increased by finance charges specifically incurred for such purchases.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories is assigned by using the first-in, first-out (FIFO) method.

### 2.11.3. Accruals and deferred income

Accruals and deferred income mainly comprise fee and commission income recognized using the straight-line method and other income received in advance, which will be recognized in the income statement in future reporting periods.

Accruals include accruals for the cost of services performed for the Group by counterparties, which will be recognized in following periods, and accruals for amounts due to employees (e.g. bonuses, rewards and unused holiday payments). Accruals and deferred income are shown in the balance sheet under "Other liabilities".

Prepayments and deferred costs include particular kinds of expenses which will be recognized in the income statement in future reporting periods. Prepayments and deferred costs are shown in the balance sheet under "Other assets".

### 2.12. Provisions

Provisions are liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

If the effect of the time value of money is material, the amount of the provision is determined by discounting the forecast future cash flows to their present value, using the discount rate before tax which reflects the current market assessments of the time value of money and the potential risk related to a given obligation.

### 2.13. Restructuring provision

A restructuring provision is set up when general criteria for recognizing provisions are met and detailed criteria relating to the obligation to set up provisions for restructuring costs specified in IAS 37. Specifically, the constructive restructuring obligation arises only when the Group has a detailed, official restructuring plan and has raised justified expectations of the parties to which the plan relates that it will carry out restructuring by starting to implement the plan or by announcing the key elements of the plan to the said parties. A detailed restructuring plan specifies at least the operation or part of the operation to which the plan relates, the basic locations covered by the plan, the place of employment, functions and estimated number of employees who would have to be compensated due to their voluntary job contract termination, the amount of expenditure which is to be incurred and the date when the plan will be implemented. The restructuring provision covers only such direct expenditures arising as a result of the restructuring which at the same time

a) necessarily follow from the restructuring;

b) are not related to the Group's on-going business operations.

The restructuring provision does not cover future operating expenses.

### 2.14. Employee benefits

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

The provision for retirement and pension benefits and anniversary bonuses is created individually for each employee on the basis of an actuarial valuation performed at the balance date by an independent actuary. The basis for calculation of these provisions are internal regulations, and especially the Collective Labour Agreement ("Zakładowy Układ Zbiorowy Pracy") being in force at the Bank. Valuation of the employee benefit provisions is performed using actuarial techniques and assumptions. The calculation of the provision includes all bonuses and retirement benefits expected to be paid in the future. The provision was created on the basis of a list including all the necessary details of employees, in particular the length of their service, age and gender. The provisions calculated amount to discounted future payments, taking into account staff turnover, and relate to the service period ending on the balance date. Gains or losses resulting from actuarial calculations are recognized in the income statement.

The Group creates provisions for future liabilities arising from unused annual leave (taking into account all outstanding unused holiday days), from damages and severance payments made to those employees whose employment contracts are terminated for reasons independent of the employee, and for the costs incurred in the current period which will be invoiced in future periods..

### 2.15. Contingent liabilities and commitments

The Group enters into transactions, which, at the time of their inception, are not recognized in the balance sheet as assets or liabilities; however they give rise to contingent liabilities and commitments. A contingent liability or commitment is:

1) a possible obligation that arises from past events and whose existence will be confirmed only at the time of occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group,
2) a present obligation resulting from past events, but not recognized in the balance sheet, because it is not probable that an outflow of cash or other assets will be required to fulfil the obligation, or the amount of the obligation cannot be measured reliably.

For contingent liabilities and commitment granted which carry the risk of default by the commissioning party, provisions are recognized in accordance with IAS 37.

Credit lines and guarantees are the most significant items of contingent liabilities and commitment granted.

At inception, a financial guarantee is stated at fair value. Following the initial recognition, the financial guarantee is measured at the higher of:

1) the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
2) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 Revenue.

### 2.16. Shareholders' equity

Shareholders' equity comprises capital and the other funds of the Group entities in accordance with the relevant legal regulations and the Articles of Association. Shareholders' equity also includes retained earnings and accumulated losses from previous years. A portion of shareholders' equity of subsidiaries, other than share capital, corresponding to the interest attributable to the parent company, is added to appropriate components of the equity of the parent company. The shareholders' equity of the Group includes only a portion of the shareholders' equity of the subsidiaries that was created after the acquisition date. This particularly applies to a change in equity due to acquired profits or incurred losses as well as revaluation of financial assets available for sale.

#### 2.16.1. Share capital

Share capital comprises solely the share capital of the parent company and is stated at nominal value in accordance with Articles of Association and entry to the Register of Entrepreneurs.

#### 2.16.2. Reserve capital

Reserve capital is created according to the Articles of Association of the Group entities, from the appropriation of net profits and from share premium and it is to cover the potential losses of Group entities.

#### 2.16.3. Revaluation reserve

Revaluation reserve comprises the effects of remeasurement of financial assets available for sale and the amount of the related deferred tax. In the balance sheet, the revaluation reserve is presented in the net amount.

#### 2.16.4. General banking risk fund

General banking risk fund in PKO BP SA is created from profit after tax according to "The Banking Act" dated 29 of August 1997 (Journal of Laws 2002, No. 72, item 665 with subsequent amendments) and it is to cover unidentified risks of the Bank.

#### 2.16.5. Other reserves

Other reserves are created by appropriation of net profits. The only aim of other reserves is to cover the potential losses.

#### 2.16.6. Currency transaction differences from foreign operations

Capital component – currency translation differences resulting from the translation of the net result of a foreign entity using the rate calculated arithmetic mean of average NBP rates prevailed as at the last day of each month of the balance sheet period as well as currency translation differences resulting from valuation of net assets in a foreign entity.

Shareholders' equity also includes:

1) net profit (loss) of the period prior to the approval of the shareholder's meeting under the approval process less dividends declared up to balance date,
2) dividends declared after the balance date but not paid.

Net profit (loss) for the period comprises profit (loss) before income tax generated (incurred) in the current year, adjusted by corporate income tax expense and profit (loss) attributable to the minority shareholders.

### 2.17. Financial result

The Group recognizes all significant expenses and income in accordance with the following policies: accrual basis, matching principle, policies for recognition and valuation of assets and liabilities; policies for recognition of impairment losses.

#### 2.17.1. Interest income and expense

Interest income and expense comprise interest, including premium and discount in respect of financial instruments measured at amortized cost and instruments at fair value, with the exception of derivative financial instruments classified as held for trading.

Interest income and interest expenses are recognized on an accrual basis using the effective interest rate method.

Interest income/expense in respect of derivative financial instruments classified as held for trading are recognized in "Net income from financial instruments designated at fair value through profit or loss".

Interest income also includes fee and commission received and paid, which are part of the effective interest rate of the financial instrument.

### 2.17.2. Fee and commission income and expense

Fee and commission income is generally recognized on an accrual basis at the time when the related service is performed. Fee 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 Group for services performed over a period exceeding 3 months, which are recognized on a straight-line basis. Fee and commission income also includes fee and commission recognized on a straight-line basis, received on loans granted with unspecified repayment schedule.

### 2.17.3. Dividend income

Income from dividends is recognized in the income statement of the Group at the date on which the Group rights to receive the dividend have been established.

### 2.17.4. Net income from financial instruments designated at fair value through profit or loss

The result on financial instruments designated at fair value through profit or loss includes gains and losses arising from the disposal of financial instruments classified as financial assets/liabilities designated at fair value through profit or loss as well as the effect of their fair value measurement.

### 2.17.5. Gains less losses from investment securities

Gains less losses from investment securities include gains and losses arising from disposal of financial instruments classified as available for sale.

### 2.17.6. Foreign exchange gains

Foreign exchange gains comprise foreign exchange gains and losses, both realized and unrealized, resulting from daily revaluation of assets and liabilities denominated in foreign currency using the NBP average exchange rates at the balance date, and from the fair value valuation of outstanding derivatives (FX forward, FX swap, CIRS).

The balance sheet and off-balance sheet monetary assets and liabilities denominated in foreign currency are translated into PLN using the average NBP rate prevailing for a given currency as at the balance date. Impairment allowances for loan exposures and other receivables denominated in foreign currencies, which are created in Polish zloty, are updated in line with a change in the valuation of the foreign currency assets for which these impairment allowances are created. Realized and unrealized foreign exchange differences are recorded in the income statement.

### 2.17.7. Other operating income and expense

Other operating income and expense includes income and expense not related directly to banking activity. Other operating income mainly includes gains from sale or liquidation of non-current assets and assets possessed in exchange for debts, recovered bad debts, legal damages, fines and penalties, income from lease/rental of properties and income from reversal of provisions for claims under dispute and assets possessed in exchange for debts. Other operating expense mainly includes losses from sale or liquidation of non-current assets, including assets possessed in exchange for debts, costs of debt collection, costs of provisions recognized for claims under dispute and donations.

Other operating income and expense in relation to subsidiaries include also income from sale of finished goods, goods for resale and raw materials, and the corresponding costs of their production.

Income from construction services (real estate development activities) is recognized on a completed contract basis, which involves recognition of all construction costs that incurred during the period of construction as work-in-progress. Payments received on account of a purchase of apartments are shown within deferred income.

### 2.18. Income tax

The income tax expense is classified into current and deferred income tax. The current income tax is recognized in the income statement. Deferred income tax, depending on the source of the temporary differences, is recorded in the income statement or in equity.

#### 2.18.1. Current income tax

Current income tax is calculated on the basis of gross accounting profit adjusted by non-taxable income; taxable income that does not constitute accounting income; non-tax deductible expenses and tax costs which are not accounting costs, in accordance with tax regulations. These items mainly include income and expenses relating to accrued interest receivable and payable and provisions for receivables, contingent liabilities and commitments and other assets.

In calculating taxable income, the Bank took into account the Decree of the Minister of Finance dated 28 March 2003. The Decree extends deadlines for advances and payments of corporate income tax. Such extensions are granted to banks that participate in a programme of construction and development loans with the use of funds from the Mortgage Fund (Journal of Laws No. 58, item 511).

#### 2.18.2. Deferred income tax

The amount of deferred tax is calculated as the difference between the tax base and book value of assets and liabilities. The Group recognises deferred income assets and liabilities. An amount of deferred tax is determined using the balance sheet method – as a change in the balance sheet amounts of deferred income tax and liabilities. Deferred tax assets and deferred tax liabilities are presented in the balance sheet respectively as assets or liabilities. The change in the balance of a deferred tax liability or a deferred tax asset is included in income tax expense, except for the effects of valuation of financial assets recognized 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.

The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured using tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

The Group uses the 19% tax rate for entities operating on the territory of Poland, and a 25% tax rate for entities operating in Ukraine.

Deferred tax assets are offset with deferred tax liabilities only when there exists enforceable legal entitlement to offset current tax receivables with current tax liabilities and deferred tax is related to the same tax payer and the same tax authority.

### 2.19. Critical estimates

In preparing financial statements in accordance with IFRS, the Group makes certain estimates and assumptions, which have a direct influence on both the financial statements presented and the notes to the financial statements.

The estimates and assumptions that are used by the Group in determining the value of its assets and liabilities as well as revenues and costs, are made based on historical data and other factors which are available and are considered to be proper in the given circumstances. Assumptions regarding the future and the data available are used for assessing carrying amounts of assets and liabilities which cannot be determined unequivocally using other sources. In making assessments the Group takes into consideration the reasons and sources of the uncertainties that are anticipated at the balance date. Actual results may differ from estimates.

Estimates and assumptions made by the Group are subject to periodic reviews. Adjustments to estimates are recognized in the periods in which the estimates were adjusted, provided that these adjustments affect only the given period. If the adjustments affect both the period in which the adjustment was made as well as future periods, they are recognized in the period in which the adjustments were made and in the future periods.

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

#### 2.19.1. Impairment of loans and advances

An impairment loss is incurred when there is objective evidence of impairment due to events that occurred after the initial recognition of the asset ("a loss event"), when the loss has a reliably measurable impact on the expected future cash flows from the financial asset or group of financial assets. Future cash flows are assessed by the Group on the basis of estimates based on historical parameters. The adopted methodology used for estimating impairment allowances will be developed in line with the further accumulations of historic impairment data from the existing information systems and applications. As a consequence, new data obtained by the Group could affect the level of impairment allowances in the future. The methodology and assumptions used in the estimates are reviewed on a regular basis to minimize the differences between the estimated and actual loss amounts. In the case of a ± 10% change in the present value of estimated cash flows for the loan portfolio individually determined to be impaired, the impairment allowance will increase by PLN 221 million or decrease by PLN 97 million respectively. This estimate was made for the loan portfolio assessed for impairment on an individual basis, i.e. on the basis of individual analysis of future cash flows arising both from own payments and realisation of the collateral ('Receivables valued using the individual method').

#### 2.19.2. Impairment of investments in associates and jointly controlled entities

At each balance date, the Group makes an assessment of whether there are any indicators of impairment in the value of investments in associates and jointly controlled entities. If any such indicators exist, the Group estimates the value in use of the investment or the fair value of the investment less costs to sale, depending on which of these values is higher; if carrying amount of the investment exceeds its value in use, the Bank recognizes an impairment loss in the income statement. The projection for the value in use requires making assumptions, e.g. about future cash flows that the Group may receive from dividends or the cash inflows from a potential disposal of the investment, less costs of the disposal. The adoption of different assumptions with reference to the projected cash flows could affect the carrying amount of certain investments.

### 2.19.3. Valuation of derivatives and non-quoted 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 expected to be received from the given financial instrument. Options are valued using option pricing models. The variables and assumptions used in a valuation include any available data derived from observable markets. In the valuation of non-quoted 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 in these assumptions could affect the valuation of the above-mentioned instruments.

The valuation techniques used by the Group for non-option derivative instruments are based on yield curve based on available market data (deposit margins on interbank market, IRS quotations). The Group conducted a simulation to asses the potential influence of change of the yield curve on the transaction valuation. Upwards move of yield curve by 50 bp. would result in increase of non-option derivative instruments valuation by PLN 29 724 thousand. Analogous move downwards would result in valuation decrease by PLN 30 645 thousand.

Debt securities available for sale neither listed on a regulated market nor issued by the State Treasury are measured at fair value using valuation models. The variables and assumptions used in valuation are reviewed periodically with reference to market bid and purchase prices of these instruments in transactions concluded by the Bank with not related parties.

As at the end of 2008, the Bank made a one-off fair value revaluation of the portfolio of debt securities available for sale neither listed on a regulated market nor issued by the State Treasury. This resulted from significant profitability increase (margin above the reference rate) of all debt securities not issued by the State Treasury traded in the Polish financial market, observed by the Bank in the period.

As assessed by the Bank, the profitability increase as at the end of the period derives from change in the overall conditions in the financial markets, mainly with reference to liquidity. A separate analysis conducted by the Bank does not indicate on the increased level of credit risk of debt securities not issued by the State Treasury in the Bank's portfolio.

Estimation of profitability increase level for debt securities available for sale neither listed on a regulated market nor issued by the State Treasury was conducted separately for debt securities issued by local government bodies and corporate entities.

In the case of a significant and long-term margin increase for debt securities available for sale, the estimated amount of fair value adjustment for this securities portfolio would amount to PLN 21.9 million in case of a 50% lower than expected increase and PLN 65.7 million in case of a 50% higher than expected increase.

### 2.19.4. Calculation of provision for retirement and pension benefits and anniversary bonuses

The calculation of the provision includes all jubilee bonuses and retirement benefits expected to be paid in the future. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period ending on the balance date. An important factor affecting the amount of the provision is the adopted discount rate. Change in the discount rate of ± 0,75 pp. will contribute to an increase/decrease of the amount of the provision for retirement and pension benefits and jubilee bonuses of approx. PLN 20 million.

### 2.19.5. Useful economic lives of tangible fixed assets, intangible assets and investment properties

In estimating useful lives of particular types of tangible fixed assets, intangible assets and investment property, the Group considers a number of factors, including the following:

1) expected physical wear and tear, estimated based on the average period of use recorded to date, reflecting the normal physical wear and tear rate, intensity of use etc.,
2) technical or market obsolescence,
3) legal and other limitations on the use of the asset,
4) expected use of the asset assessed based on the expected production capacity or volume,
5) other factors affecting useful lives of such assets.

When the period of use of a given asset results from a contract term, the useful life of such an asset corresponds to the period defined in the contract; if, however, the estimated useful life is shorter than the period defined in the contract, the estimated useful life is applied.

## 2.20. Changes in accounting policies

Set out below are the new or revised IFRSs regulations and the new interpretation of the International Financial Reporting Interpretations Committee (IFRIC). In the year ended 31 December 2008, the Group did not opt for early adoption of any of these standards and interpretations.

*(in PLN thousand)*

***New standards and interpretations, which have been published and are currently effective as of 1 January 2008***

| **Standard/ interpretation** | **Introduction date** | **Application date** | **Approved by the European Union** | **Description of potential changes** |
|---|---|---|---|---|
| IFRIC 11 - Group and Treasury Share Transactions | November 2006 | financial year starting on or after 1 March 2007 | Yes | The interpretation relates to share issue within a Group and share-based payments. |
| IFRIC 12 - Service Concession Arrangements | November 2006 | financial year starting on or after 1 January 2008 | No | This interpretation includes guidance on implementation of existing standards by operators for public-to-private service concession arrangements. IFRIC 12 applies to the arrangements, where the grantor controls or regulates what services the operator must provide within the infrastructure, to whom it must provide them, and at what price. |
| IFRIC 14 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | July 2007 | financial year starting on or after 1 January 2008 | Yes | This interpretation includes basic guidance on how to determine (in accordance with IAS 19) the limit of surplus of the asset fair value over the current value of defined benefit liability, which can be recognized as an asset. Moreover, IFRIC 14 describes how statutory or contractual minimum funding requirements can affect the measurement of the defined benefit asset or liability. |

The above-mentioned interpretations do not have a material effect on the financial statements of the Group.

**Amendments to published standards and interpretations effective as of 1 July 2008**

| **Standard/ interpretation** | **Introduction date** | **Application date** | **Approved by the European Union** | **Description of potential changes** |
|---|---|---|---|---|
| Amendments to IAS 39 - Financial Instruments: Recognition and Measurement and IFRS 7 - Financial Instruments: Disclosures | July 2008 | 1 July 2008 | No | The amendments specify the date, when reclassification of financial instruments from ‘designated at fair value through profit or loss’ to ‘available for sale’ categories is permitted in limited circumstances described in amendments to IAS 39 published in 2008. The above-mentioned amendments are applicable from 1 July 2008 and any reclassification should not be applied retrospectively. Any reclassification of a financial asset made in periods beginning on or after 1 November 2008 will take effect only from the date when the reclassification is made and should not be applied retrospectively. |

*(in PLN thousand)*

The Group will not take advantage of possibility of reclassification of financial instruments to other categories on the basis of amendments to IAS 39 and IFRS 7 effective as of 1 July 2008.

***New standards and interpretations and amendments to existing standards and interpretations, which have been published, but are not yet effective***

The International Accounting Standards Board and the International Financial Reporting Interpretations Committee have issued the following standards and amendments to existing standards, which are not yet effective:

| **Standard/ interpretation** | **Introduction date** | **Application date** | **Approved by the European Union** | **Description of potential changes** |
|---|---|---|---|---|
| IFRS 1 – First-time Adoption of International Financial Reporting Standards and IAS 27 - Consolidated and Separate Financial Statements | May 2008 | financial year starting on or after 1 January 2009<br>Earlier application possible | Yes | The amendments allow to use a deemed cost option for determining the cost of an investment in a subsidiary, jointly controlled entity or associate either as fair value at the entity's date of transition to IFRSs or the previous GAAP carrying amount at that date. Moreover, the definition of the cost method was removed and replaced by cost method in accounting for post acquisition dividends from investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. |
| IFRS 2 - Share-based Payment | January 2008 | financial year starting on or after 1 January 2009 | Yes | The amendment refers to two aspects: it explains that vesting conditions are service condition and performance condition only. Other features of a share-based payment are not vesting conditions. The standard explains that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. |
| IFRS 3 (R) - Business Combinations<br>IAS 27 - Consolidated and Separate Financial Statements | January 2008 | financial year starting on or after 1 July 2009 | No | Amendments to IFRS 3 relate to the scope of the standard, the measurement model (fair value measurement model), acquisition method (additional application guidelines), new terminology and additional disclosures.<br>The amendments to IAS 27 relate to the aspects of changes in shareholdings in a subsidiary, allocating losses of a subsidiary, loss of control over a subsidiary. |
| IFRS 8 – Operating Segments | November 2006 | financial year starting on or after 1 January 2009 | Yes | IFRS 8 replaces IAS 14 Segment Reporting. IFRS 8 introduces new requirements concerning disclosures on segment reporting as well as products and services, geographical areas in which the entity operates and major customers. IFRS 8 requires management approach to reporting on financial results about operating segments. |

*(in PLN thousand)*

| Standard/ interpretation | Introduction date | Application date | Approved by the European Union | Description of potential changes |
|---|---|---|---|---|
| IAS 1 - Presentation of Financial Statements | September 2007 | financial year starting on or after 1 January 2009 | Yes | The main amendments relate to the statement of changes in equity including only transactions with the owners, whereas transactions with other parties are presented as total comprehensive income. Moreover, the standard introduces changes in the names of financial statement components. |
| IAS 23 - Borrowing Costs | March 2007 | financial year starting on or after 1 January 2009 | Yes | The amendment relates to borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that take a substantial period of time to get ready for use or sale. Within the amendment the option of immediately recognising borrowing costs as an expense in the period in which they were incurred was removed. According to the amendment these costs should be capitalized. |
| IAS 32 - Financial Instruments: Presentation and IAS 01 - Presentation of Financial Statements | February 2008 | financial year starting on or after 1 January 2009 | Yes | The amendments relate to selected financial instruments, which are similar to equity instruments, but classified as financial liabilities. According to new requirement, financial instruments, such as puttable instruments and instruments that impose on the entity an obligaton to deliver to another party a pro rata share of the net assets of the entity only on liquidation, after meeting given conditions are classified as equity. |
| IAS 39 - Financial Instruments: Recognition and Measurement - Criteria for Hedge Accounting | July 2008 | financial year starting on or after 1 July 2009 | No | The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item for a financial instrument should be applied in particular situations. The amendment clarifies that an entity may not designate an inflation component of issued or acquired fixed-rate debt in a fair value hedge. Amendments do not permit also to include the time value of a one-sided risk when options are designated as a hedging instrument. |
| IFRS 7 - Financial Instruments: Disclosures | March 2009 | financial year starting on or after 1 January 2009 | No | The amendments establish a three-level hierarchy for disclosing fair value measurements and a requirement of additional disclosures of relative credibility of fair value valuation. Moreover, the amendments clarify and widen the existing requirements on disclosures about liquidity risk. |

*(in PLN thousand)*

| **Standard/ interpretation** | **Introduction date** | **Application date** | **Approved by the European Union** | **Description of potential changes** |
|---|---|---|---|---|
| IFRIC 13 - Customer Loyalty Programmes | June 2007 | financial year starting on or after 1 July 2008 | Yes | The interpretation determines accounting for loyalty programmes by the entities which offer them. |
| IFRIC 15 - Agreements for the construction of real estate | July 2008 | financial year starting on or after 1 January 2009 | No | IFRIC 15 provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue and, accordingly, when revenue from the construction should be recognized. Moreover, IFRIC 15 indicates the timing of revenue recognition form construction contracts. |
| IFRIC 16 - Hedges of a net investment in a foreign operation | July 2008 | financial year starting on or after 1 October 2009 | No | The interpretation provides guidance on whether risk arises from the foreign currency exposure to the functional currencies of the foreign operation and the parent entity, and the presentation currency of the parent entity's consolidated financial statements. |
| IFRIC 17 - Distributions of Non-cash Assets to Owners | November 2008 | financial year starting on or after 1 July 2009 | No | The interpretation provides guidance on when a dividend payable should be recognized, how an entity should measure the dividend payable and how it should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. |
| IFRIC 18 Transfers of Assets from Customers | January 2009 | financial year starting on or after 1 July 2009 | No | The interpretation provides guidance on transfers of assets from customers, namely the circumstances in which the definition of an asset is met, the identification of the separately identifiable services (one or more services in exchange for the transferred asset), the recognition of revenue and the accounting for transfers of cash from customers. |
| IFRS improvements: Amendments to 20 standards | | | Yes | The amendments include changes in presentation, recognition and valuation as well as terminology and edition changes. Most of the amendments will apply to annual periods starting on 1 January 2009. |

The Management Board does not expect the introduction of the above-mentioned standards and interpretations to have a significant effect on the accounting policies applied by the Group. The Group intends to apply them in the periods indicated in the relevant standards and interpretations (without early adoption).

## 3. Segment reporting

The primary basis of the PKO BP SA Group reporting scheme is business segments. A business segment comprises activities of providing products and services that are characterized by the similar risk and rewards – different from other business segments. As an additional reporting scheme, the Group uses geographical business segmentation, which provides information about products and services rendered in a specified business area. Such area is subject to separate analysis taking into account risks and returns which are different than in other business areas.

The PKO BP SA Group typically settles inter-segment transactions as if they were concluded between unrelated parties, using internal settlement rates. Internal fund transfer between the Bank's parties is based on transfer rates (based on market interest rates). The transactions between business segments are conducted on arm's length.

Disclosed values of assets, liabilities, income and expenses of a particular segment are based on internal management information. Certain assets and liabilities and their related income and expenses have been assigned to each segment.

### Business segments

Business segments have been determined using customer groups and product criteria. Such an allocation is congruent with the way the business is managed by the Group. Segmentation by business is as follows:

- **The retail segment** comprises transactions of the parent entity with retail clients, small and medium-sized enterprises and mortgage market clients, as well as activities of the following subsidiaries: KREDOBANK SA, the Powszechne Towarzystwo Emerytalne BANKOWY SA, PKO Towarzystwo Funduszy Inwestycyjnych SA, Inteligo Financial Services SA, Centrum Elektronicznych Usług Płatniczych eService SA, and the PKO Inwestycje Sp. z.o.o. Group. This segment comprises, among others, the following products and services: current and saving accounts, deposits, private banking services, investment products, credit and debit cards, consumer and mortgage loans, corporate loans for small and medium-sized enterprises and housing market customers.
- **The corporate segment** includes transactions of the parent entity with large corporate clients, as well as activities of the Bankowy Fundusz Leasingowy SA Group. This segment comprises, among others, the following products and services: current and saving accounts, deposits, depositary services, currency and derivative products, sell buy back and buy sell back transactions, investment loans and leases. Within the segment, the Bank also enters, individually or in consortium with other banks, into loan agreements financing large investment projects.
- **The investment segment** comprises investing and brokerage activities, inter-bank transactions, derivative instruments and debt securities transactions, as well as activities of BTK SA.
- **Other activity** comprises items not allocated to any of the other segments, as well as activities of Centrum Finansowe Puławska Sp. z o.o.

Assets and liabilities of a given segment represent assets and liabilities used by the segment in its operating activities. Administrative expenses of a particular business segment comprise expenses which can be directly attributed to the segment, as well as expenses which can be attributed to the segment on the basis of rational criteria.

*(in PLN thousand)*

The tables below present data relating to results of individual business segments of the PKO BP SA Group for the periods ended 31 December 2008 and 31 December 2007, and selected assets and liabilities as at 31 December 2008 and 31 December 2007.

Begining from January 2008, the PKO BP SA Group changed the method of business segment result calculation. It also changed the manner and scope of business segment categorization in a way that each segment is now determined by the group of customers. As a result, the housing segment (comprising mainly mortgage loans) presented so far, is currently a part of the retail segment. The financial data for the year 2007 was restated for comparability purposes.

| For the year ended 31 December 2008 | Continued activity | | | |
|---|---|---|---|---|
| | Retail segment | Corporate segment | Investment segment | Total activity of the Group |
| **Net interest income** | **5 563 243** | **419 247** | **144 825** | **6 127 315** |
| **Net fee and commission income** | **2 119 328** | **198 448** | **94 033** | **2 411 809** |
| **Other net income** | **781 871** | **171 797** | **(104 372)** | **849 296** |
| Result from financial operations | 697 | 15 589 | (220 401) | (204 115) |
| Foreign exchange result | 501 719 | 146 729 | 91 309 | 739 757 |
| Dividend income | - | - | 21 956 | 21 956 |
| Net other operating income | 253 455 | 35 479 | 2 764 | 291 698 |
| Income/expenses relating to internal customers | 26 000 | (26 000) | - | - |
| **Net impairment allowance allocated to segments** | **(811 929)** | **(311 444)** | **(15 944)** | **(1 139 317)** |
| **Net impairment allowance not allocated to segments** | | | | **8 921** |
| **Administrative expenses, of which:** | **(3 906 530)** | **(283 317)** | **(106 428)** | **(4 296 275)** |
| Amortization and depreciation | (387 302) | (34 417) | (8 185) | (429 904) |
| **Share in profit of associates and jointly controlled entities** | **-** | **-** | | **15 594** |
| **Segment gross profit** | **3 745 983** | **194 731** | **12 114** | **3 977 343** |
| Income tax expense | - | - | - | **(838 156)** |
| Profit attributable to minority shareholders | - | - | - | **18 513** |
| **Net profit (loss) attributable to the parent entity** | **3 745 983** | **194 731** | **12 114** | **3 120 674** |

| 31.12.2008 | Retail segment | Corporate segment | Investment segment | Total activity of the Group |
|---|---|---|---|---|
| Impairment allowances recognised during the period | (1 516 289) | (478 246) | (77 512) | (2 072 047) |
| Impairment allowances reversed during the period | 704 360 | 166 802 | 61 568 | 932 730 |
| **Net impairment allowance at the end of the period allocated to segments** | **(811 929)** | **(311 444)** | **(15 944)** | **(1 139 317)** |
| Impairment allowances recognised during the period | - | - | - | (86 136) |
| Impairment allowances reversed during the period | - | - | - | 95 057 |
| **Net impairment allowance at the end of the period not allocated to segments** | **-** | **-** | **-** | **8 921** |

*(in PLN thousand)*

| As at 31 December 2008 | Continued activity | | | |
|---|---|---|---|---|
| | Retail segment | Corporate segment | Investment segment | Total activity of the Group |
| **ASSETS** | **87 212 981** | **32 366 023** | **15 056 982** | **134 635 986** |
| investments in associates and jointly controlled entities | - | - | - | 247 145 |
| capital expenditure | 778 794 | 91 104 | 19 464 | 889 362 |
| **LIABILITIES** | **89 980 263** | **21 918 299** | **8 739 408** | **120 637 970** |

| For the year ended 31 December 2007 | Continued activity | | | |
|---|---|---|---|---|
| | Retail segment | Corporate segment | Investment segment | Total activity of the Group |
| **Net interest income** | **4 131 418** | **258 111** | **257 038** | **4 646 567** |
| **Net fee and commission income** | **2 075 309** | **139 541** | **116 997** | **2 331 847** |
| **Other net income** | **571 193** | **71 309** | **81 429** | **723 931** |
| Result from financial operations | 3 933 | 6 220 | (76 924) | (66 771) |
| Foreign exchange result | 305 597 | 72 595 | 151 587 | 529 779 |
| Dividend income | - | - | 3 293 | 3 293 |
| Net other operating income | 238 798 | 15 359 | 3 473 | 257 630 |
| Income/expenses relating to internal customers | 22 865 | (22 865) | - | - |
| **Net impairment allowance allocated to segments** | **(189 383)** | **82 386** | **292** | **(106 705)** |
| **Net impairment allowance not allocated to segments** | - | - | - | **50 062** |
| **Administrative expenses, of which:** | **(3 793 769)** | **(186 426)** | **(60 649)** | **(4 040 844)** |
| Amortization and depreciation | (356 468) | (21 587) | (4 110) | (382 165) |
| **Share in profit of associates and jointly controlled entities** | **-** | **-** | **-** | **4 372** |
| **Segment gross profit** | **2 794 768** | **364 921** | **395 107** | **3 609 230** |
| Income tax expense | - | - | - | **(667 838)** |
| Minority interest | - | - | - | **37 760** |
| **Net profit (loss) attributable to the parent entity** | **2 794 768** | **364 921** | **395 107** | **2 903 632** |

| 31.12.2007 | Retail segment | Corporate segment | Investment segment | Total activity of the Group |
|---|---|---|---|---|
| Impairment allowances recognised during the period | (652 117) | (580 486) | (5 908) | (1 238 511) |
| Impairment allowances reversed during the period | 462 734 | 662 872 | 6 200 | 1 131 806 |
| **Net impairment allowance at the end of the period allocated to segments** | **(189 383)** | **82 386** | **292** | **(106 705)** |
| Impairment allowances recognised during the period | - | - | - | (57 166) |
| Impairment allowances reversed during the period | - | - | - | 107 228 |
| **Net impairment allowance at the end of the period not allocated to segments** | **-** | **-** | **-** | **50 062** |

*(in PLN thousand)*

| As at 31 December 2007 | Continued activity | | | |
|---|---|---|---|---|
| | Retail segment | Corporate segment | Investment segment | Total activity of the Group |
| **ASSETS** | **66 046 631** | **22 357 809** | **20 133 160** | **108 537 600** |
| investments in associates and jointly controlled entities | - | - | - | 178 584 |
| capital expenditure | 579 001 | 193 371 | 10 354 | 782 726 |
| **LIABILITIES** | **75 280 739** | **15 061 339** | **6 216 507** | **96 558 585** |

## Geographical segments

The PKO BP SA Group activity is also conducted in Ukraine – via KREDOBANK SA and Ukrpolinwestycje Sp. z o.o.

| For the year ended 31 December 2008 | Poland | Ukraine | Total activity of the PKO BP SA Group |
|---|---|---|---|
| **Net interest income** | **5 983 870** | **143 445** | **6 127 315** |
| **Net fee and commission income** | **2 368 449** | **43 360** | **2 411 809** |
| **Other net income** | **852 750** | **(3 454)** | **849 296** |
| Administrative expenses | (4 153 602) | (142 673) | (4 296 275) |
| Net impairment allowance | (866 457) | (263 939) | (1 130 396) |
| **Share in profit of associates and jointly controlled entities** | - | **-** | **15 594** |
| Segment gross profit | 4 185 010 | (223 261) | 3 977 343 |
| **Net profit attributable to the parent entity** | **3 277 342** | **(172 262)** | **3 120 674** |

| As at 31 December 2008 | Poland | Ukraine | Total activity of the PKO BP SA Group |
|---|---|---|---|
| Assets of the segment | 132 777 717 | 1 858 269 | **134 635 986** |
| Liabilities of the segment | 119 220 032 | 1 417 938 | **120 637 970** |

| For the year ended 31 December 2007 | Poland | Ukraine | Total activity of the PKO BP SA Group |
|---|---|---|---|
| **Net interest income** | **4 529 874** | **116 693** | **4 646 567** |
| **Net fee and commission income** | **2 293 859** | **37 988** | **2 331 847** |
| **Other net income** | **738 769** | **(14 838)** | **723 931** |
| Administrative expenses | (3 941 768) | (99 076) | (4 040 844) |
| Net impairment allowance | (39 613) | (17 030) | (56 643) |
| **Share in profit of associates and jointly controlled entities** | - | - | **4 372** |
| Segment gross profit | 3 581 121 | 23 737 | 3 609 230 |
| **Net profit attributable to the parent entity** | **2 881 351** | **17 909** | **2 903 632** |

| As at 31 December 2007 | Poland | Ukraine | Total activity of the PKO BP SA Group |
|---|---|---|---|
| Assets of the segment | 106 566 506 | 1 971 094 | **108 537 600** |
| Liabilities of the segment | 94 808 497 | 1 750 088 | **96 558 585** |

*(in PLN thousand)*

## 4. Interest income and expense

### Interest and similar income

| | 2008 | 2007 |
|---|---|---|
| Income from loans and advances to customers [1)] | 7 776 107 | 5 231 586 |
| Income from securities designated at fair value through profit or loss | 444 426 | 561 346 |
| Income from placements with other banks[1)] | 388 768 | 491 078 |
| Income from investment securities[1)] | 345 130 | 245 352 |
| Income from trading securities | 64 046 | 24 527 |
| Other[1)] | 15 304 | 5 444 |
| **Total** | **9 033 781** | **6 559 333** |

### Interest expense and similar charges

| | 2008 | 2007 |
|---|---|---|
| Interest expense on customers[2)] | (2 655 044) | (1 697 116) |
| Interest expense on debt securities in issue[2)] | (131 721) | (28 711) |
| Interest expense on deposits from other banks[2)] | (49 465) | (106 678) |
| Other | (70 236) | (80 261) |
| **Total** | **(2 906 466)** | **(1 912 766)** |

In the year ended 31 December 2008 the total amount of interest and similar income, calculated using the effective interest rate method and arising from financial assets not valued at fair value through profit or loss, amounted[*)] to PLN 8 525 309 thousand (in the year ended 31 December 2007: PLN 5 973 460 thousand). In the year ended 31 December 2008, interest expense, calculated using the effective interest rate method and arising from financial liabilities which are not valued at fair value through profit or loss, amounted[**)] to PLN (2 836 425) thousand. In the year ended 31 December 2007 interest expense amounted to PLN (1 833 504) thousand.

### Net gains and losses from financial assets and liabilities measured at amortised cost

| | 2008 | 2007 |
|---|---|---|
| **Net gains and losses from financial assets and liabilities measured at amortized cost** | **7 457 576** | **5 865 284** |
| Interest income from loans and advances to customers | 7 776 107 | 5 231 586 |
| Interest income from placements with other banks | 388 768 | 491 078 |
| Fee and commission income from loans and advances to customers | 315 641 | 267 169 |
| Net impairment allowance on loans and advances to customers and amounts due from other banks | (1 018 075) | (127 954) |
| Net impairment allowance on finance lease receivables | (4 865) | 3 405 |
| **Losses from financial liabilities valued at amortized cost** | **(2 836 230)** | **(1 832 505)** |
| Interest expense on amounts due to customers | (2 655 044) | (1 697 116) |
| Interest expense on amounts due to banks | (49 465) | (106 678) |
| Interest expense on debt securities in issue | (131 721) | (28 711) |
| **Net result** | **4 621 346** | **4 032 779** |

[*)] the total amount of the items marked with [1)]

[**)] the total amount of the items marked with [2)], increased by the premium of debt securities available for sale, presented in “Other” line, amounted to PLN (195) thousand as at 31 December 2008 and PLN (999) thousand as at 31 December 2007.

*(in PLN thousand)*

## 5. Fee and commission income and expense

### Fee and commission income

| | 2008 | 2007 |
|---|---|---|
| **Income from financial assets, which are not valued through profit or loss, of which:** | **315 641** | **267 169** |
| Income from loans and advances | 315 641 | 267 169 |
| **Other fee and commissions** | **2 828 063** | **2 815 040** |
| Income from payment cards | 851 370 | 703 023 |
| Income from maintenance of bank accounts | 805 449 | 770 642 |
| Income from portfolio and other management fees | 448 071 | 630 190 |
| Income from loan insurance intermediary and other services | 225 063 | 202 260 |
| Income from cash transactions | 188 345 | 204 077 |
| Income from securities transactions | 43 845 | 87 742 |
| Income from foreign mass transactions servicing | 41 181 | 36 878 |
| Income from sale and distribution of marks of value | 21 738 | 28 523 |
| Other* | 203 001 | 151 705 |
| **Income from trust servicing** | **1 056** | **1 207** |
| **Total** | **3 144 760** | **3 083 416** |

* Included in "Other" are: commissions received: for public offering services, for servicing bond sale transactions, for home banking and revenues from arrangement fees and other similar operations.

### Fee and commission expense

| | 2008 | 2007 |
|---|---|---|
| Expenses on payment cards | (309 766) | (254 078) |
| Expenses on acquisition services | (134 773) | (129 005) |
| Expenses on loan insurance intermediary and other services | (94 140) | (152 205) |
| Expenses on portfolio and other management fees | (73 719) | (126 606) |
| Expenses on fee and commissions for operating services granted by other banks | (8 118) | (9 264) |
| Expenses on fee and commissions paid to PPUP | (5 240) | (5 735) |
| Other* | (107 195) | (74 676) |
| **Total** | **(732 951)** | **(751 569)** |

* Included in "Other" are: fee and expenses paid by brokerage division to Warsaw Stock Exchange (GPW) and the National Depository for Securities (KDPW), costs of currency turnover, accounting and clearing services and fee and commissions paid to sales agents and intermediaries.

## 6. Dividend income

| | 2008 | 2007 |
|---|---|---|
| **Dividend income from the issuers of:** | | |
| Securities classified as available for sale | 21 905 | 3 272 |
| Securities classified as held for trading | 51 | 21 |
| **Total** | **21 956** | **3 293** |

## 7. Net income from financial instruments designated at fair value through profit or loss

| | 2008 | 2007 |
|---|---|---|
| Derivative instruments | (159 232) | 261 210 |
| Debt securities | (36 254) | (337 105) |
| Equity instruments | (5 716) | 2 589 |
| Other | 73 | (8) |
| **Total** | **(201 129)** | **(73 314)** |

*(in PLN thousand)*

| 2008 | Gains | Losses | Net result |
|---|---|---|---|
| Trading assets | 11 968 527 | (12 132 884) | (164.357) |
| Financial assets designated upon initial recognition at fair value through profit or loss | 162 863 | (199 635) | (36.772) |
| **Total** | **12.131.390** | **(12 332 519)** | **(201.129)** |

| 2007 | Gains | Losses | Net result |
|---|---|---|---|
| Trading assets | 5 963 271 | (5 710 748) | 252 523 |
| Financial assets designated upon initial recognition at fair value through profit or loss | 125 065 | (450 902) | (325 837) |
| **Total** | **6 088 336** | **(6 161 650)** | **(73 314)** |

The total change in fair values of financial instruments designated at fair value through profit or loss determined with use of valuation models (where no quotations from active market were available) in the year ended 31 December 2008 amounted to PLN (159 159) thousand (in the year ended 31 December 2007: PLN 261 202 thousand).

### Fair value changes in hedge accounting

During the year ended 31 December 2008 and 31 December 2007, the PKO BP SA Group did not apply hedge accounting.

## 8. Gains less losses from investment securities

| Financial assets available for sale | 2008 | 2007 |
|---|---|---|
| Gains recognised directly to equity | 12 049 | - |
| Losses recognised directly to equity | - | (69 212) |
| **Total amount recognised directly to equity** | **12 049** | **(69 212)** |
| Gains recognised from equity | 2 836 | 7 579 |
| Losses recognised from equity | (5 822) | (1 036) |
| **Total amount recognised from equity** | **(2 986)** | **6 543** |
| **Total** | **9 063** | **(62 669)** |

## 9. Net foreign exchange gains

| | 2008 | 2007 |
|---|---|---|
| Foreign exchange differences resulting from financial instruments designated at fair value through profit or loss | (2 206 584) | 255 445 |
| Foreign exchange differences | 2 946 341 | 274 334 |
| **Total** | **739 757** | **529 779** |

*(in PLN thousand)*

## 10. Other operating income and expense

| | 2008 | 2007 |
|---|---|---|
| **Other operating income** | | |
| Net income from sale of goods, commodities and materials | 213 073 | 324 824 |
| Recovery of expired and written-off receivables | 31 150 | 19 469 |
| Sundry income | 25 162 | 25 257 |
| Sales and disposal of tangible fixed assets, intangible assets, and assets held for sale | 15 065 | 24 702 |
| Damages, penalties and fines received | 14 228 | 20 122 |
| Sale of shares in subordinates | 13 171 | 1 101 |
| Other* | 210 576 | 99 091 |
| **Total** | **522 425** | **514 566** |

* Included in “Other” are: reversal of accruals (e.g. for costs of servicing computer hardware and software), costs of consulting and advisory services, refund of costs of debt collection proceedings.

| | 2008 | 2007 |
|---|---|---|
| **Other operating expenses** | | |
| Costs of sale of goods, commodities and materials | (81 114) | (123 602) |
| Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale | (28 321) | (23 636) |
| Sundry expenses | (5 570) | (4 224) |
| Donations | (5 245) | (8 348) |
| Costs of tangible fixed assets construction and intangible assets development - not capitalized | (426) | (4 013) |
| Other* | (110 051) | (93 113) |
| **Total** | **(230 727)** | **(256 936)** |

* Included in “Other” are: legal costs and bailiffs advances,.

*(in PLN thousand)*

## 11. Net impairment allowance

| For the year ended 31 December 2008 | Impairment allowances at the beginning of the period | Increases | | | Decreases | | | | Impairment allowances made at the end of period | Net impairment allowances |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Impairment allowances made during the period | Foreign exchange differences | Other | Decrease in impairment allowances due to derecognition of assets, not impacting the income statement | Impairment allowances reversed during the period | Foreign exchange differences | Other | | |
| **Financial assets available for sale, including:** | **26 849** | **11 486** | **-** | **51** | **2 470** | **9 272** | **880** | **73** | **25 691** | **(2 214)** |
| carried at fair value through equity (not listed on stock exchange) | 18 620 | 11 486 | - | 51 | - | 9 272 | 880 | 73 | 19 932 | (2 214) |
| valued at cost (unquoted equity instruments and related derivative instruments) | 8 229 | - | - | - | 2 470 | - | - | - | 5 759 | - |
| **Loans and advances to customers and amounts due from other banks valued at amortised cost** | **2 415 879** | **1 890 219** | **-** | **33 095** | **473 856** | **867 279** | **52 071** | **-** | **2 945 987** | **(1 022 940)** |
| Non-financial sector | 2 296 320 | 1 872 417 | - | 5 028 | 473 856 | 857 863 | 49 826 | - | 2 792 220 | (1 014 554) |
| consumer loans | 654 328 | 872 143 | - | - | 358 173 | 448 722 | 3 923 | - | 715 653 | (423 421) |
| mortgage loans | 493 525 | 267 288 | - | - | 49 088 | 167 433 | 8 579 | - | 535 713 | (99 855) |
| corporate loans | 1 148 467 | 732 986 | - | 5 028 | 66 595 | 241 708 | 37 324 | - | 1 540 854 | (491 278) |
| Financial sector | 50 580 | 11 610 | - | 28 067 | - | 2 376 | 2 245 | - | 85 636 | (9 234) |
| amounts due from banks | 276 | - | - | 28 067* | - | 232 | | - | 28 111 | 232 |
| corporate loans | 50 304 | 11 610 | - | - | - | 2 144 | 2 245 | - | 57 525 | (9 466) |
| Budget sector | 29 184 | 1 327 | - | - | - | 7 040 | - | - | 23 471 | 5 713 |
| corporate loans | 29 184 | 1 327 | - | - | - | 7 040 | - | - | 23 471 | 5 713 |
| Finance lease receivables | 39 795 | 4 865 | - | - | - | - | - | - | 44 660 | (4 865) |
| **Tangible fixed assets** | **3 053** | **532** | **-** | **-** | **477** | **1 073** | **-** | **-** | **2 035** | **541** |
| **Intangible assets** | **15 373** | **76 360** | **-** | **-** | **-** | **-** | **-** | **-** | **91 733** | **(76 360)** |
| **Investments in entities valued using equity method** | **64 814** | **1 152** | **-** | **-** | **38** | **61 568** | **-** | **-** | **4 360** | **60 416** |
| **Other** | **138 861** | **178 434** | **-** | **2 623** | **604** | **88 595** | **2 641** | **8 529** | **219 549** | **(89 839)** |
| **Total** | **2 664 829** | **2 158 183** | **-** | **35 769** | **477 445** | **1 027 787** | **55 592** | **8 602** | **3 289 355** | **(1 130 396)** |

* the value of PLN 28 067 thousand refers to impairment allowances on a foreign bank receivable. The impairment allowance was recognised in other positions of the income statement: "Net income from financial instruments designated at fair value through profit or loss" and "Net foreign exchange gains".

*(in PLN thousand)*

| For the year ended 31 December 2007 | Impairment allowances at the beginning of the period | Increases | | | Decreases | | | | Impairment allowances made at the end of period | Net impairment allowances |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Impairment allowances made during the period | Foreign exchange differences | Other | Decrease in impairment allowances due to derecognition of assets, not impacting the income statement | Impairment allowances reversed during the period | Foreign exchange differences | Other | | |
| **Financial assets available for sale, including:** | **30 051** | **6 024** | **-** | **-** | **-** | **8 503** | **6** | **717** | **26 849** | **2 479** |
| carried at fair value through equity (not listed on stock exchange) | 14 937 | 5 992 | - | - | - | 2 303 | 6 | - | 18 620 | (3 689) |
| valued at cost (unquoted equity instruments and related derivative instruments) | 15 114 | 32 | - | - | - | 6 200 | - | 717 | 8 229 | 6 168 |
| **Loans and advances to customers and amounts due from other banks valued at amortised cost** | **2 447 351** | **1 211 765** | **-** | **-** | **143 006** | **1 087 216** | **13 015** | **-** | **2 415 879** | **(124 549)** |
| Non-financial sector | 2 325 650 | 1 182 121 | - | - | 140 517 | 1 058 820 | 12 114 | - | 2 296 320 | (123 301) |
| consumer loans | 504 697 | 457 714 | - | - | 83 603 | 223 893 | 587 | - | 654 328 | (233 821) |
| mortgage loans | 531 772 | 186 285 | - | - | - | 223 997 | 535 | - | 493 525 | 37 712 |
| corporate loans | 1 289 181 | 538 122 | - | - | 56 914 | 610 930 | 10 992 | - | 1 148 467 | 72 808 |
| Financial sector | 43 439 | 14 756 | - | - | 2 489 | 4 225 | 901 | - | 50 580 | (10 531) |
| amounts due from banks | 329 | - | - | - | - | 53 | - | - | 276 | 53 |
| corporate loans | 43 110 | 14 756 | - | - | 2 489 | 4 172 | 901 | - | 50 304 | (10 584) |
| Budget sector | 35 062 | 14 888 | - | - | - | 20 766 | - | - | 29 184 | 5 878 |
| corporate loans | 35 062 | 14 888 | - | - | - | 20 766 | - | - | 29 184 | 5 878 |
| Finance lease receivables | 43 200 | - | - | - | - | 3 405 | - | - | 39 795 | 3 405 |
| **Tangible fixed assets** | **51 219** | **1 574** | **-** | **80** | **-** | **49 820** | **-** | **-** | **3 053** | **48 246** |
| **Intangible assets** | **31 681** | **-** | **-** | **-** | **-** | **16 308** | **-** | **-** | **15 373** | **16 308** |
| **Investments in entities valued using equity method** | **62 186** | **5 876** | **-** | **-** | **410** | **-** | **-** | **2 838** | **64 814** | **(5 876)** |
| Other | 150 937 | 70 438 | 16 | 269 | 3 424 | 77 187 | 2 188 | - | 138 861 | 6 749 |
| **Total** | **2 773 425** | **1 295 677** | **16** | **349** | **146 840** | **1 239 034** | **15 209** | **3 555** | **2 664 829** | **(56 643)** |

*(in PLN thousand)*

## 12. Administrative expenses

| | 2008 | 2007 |
|---|---|---|
| Staff costs | (2 429 394) | (2 288 712) |
| Overheads | (1 356 437) | (1 288 548) |
| Depreciation and amortisation expense | (429 904) | (382 165) |
| Taxes and other charges | (63 803) | (67 737) |
| Contribution and payments to Banking Guarantee Fund | (16 737) | (13 682) |
| **Total** | **(4 296 275)** | **(4 040 844)** |

## Wages and salaries / Employee benefits

| | 2008 | 2007 |
|---|---|---|
| Wages and salaries | (2 023 863) | (1 841 549) |
| Insurance | (304 878) | (375 679) |
| Other employee benefits | (100 653) | (71 484) |
| **Total** | **(2 429 394)** | **(2 288 712)** |

## 13. Share of profit (loss) of associates and jointly controlled entities

| Entity | 2008 | 2007 |
|---|---|---|
| **Jointly controlled entities** | | |
| Centrum Obsługi Biznesu Sp. z o.o. | 414 | (3 678) |
| Grupa Kapitałowa Centrum Haffnera Sp. z o.o. | (4) | 1 963 |
| **Associates** | | |
| Bank Pocztowy SA | 11 327 | 5 875 |
| Kolej Gondolowa Jaworzyna Krynicka SA | 3 827 | - |
| Agencja Inwestycyjna „CORP" SA | 41 | 150 |
| Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | (11) | 28 |
| **Subsidiaries of Bankowe Towarzystwo Kapitałowe SA** | | |
| FINDER SA* | - | 34 |
| **Total** | **15 594** | **4 372** |

* shares of the entity were sold on 15 September 2008

Additional information on jointly controlled entities and associates is presented in Note 1 "General Information" and Note 47 "Business combinations".

## 14. Income tax expense

| | 2008 | 2007 |
|---|---|---|
| **Consolidated income statement** | | |
| Current income tax expense | (1 001 835) | (716 704) |
| Deferred income tax related to temporary differences | 163 679 | 48 866 |
| **Tax expense disclosed in the consolidated income statement** | **(838 156)** | **(667 838)** |
| Tax expense disclosed in the consolidated equity | (12 735) | 11 001 |
| **Total** | **(850 891)** | **(656 837)** |

*(in PLN thousand)*

| | 2008 | 2007 |
|---|---|---|
| **Profit before income tax** | **3 977 343** | **3 609 230** |
| Corporate income tax calculated using the enacted tax rate 19% (2007: 19%) | (755 695) | (685 753) |
| Effect of other tax rates of foreign entities* | (2 338) | (1 424) |
| **Permanent differences between accounting gross profit and taxable profit, of which:** | **(84 280)** | **21 065** |
| Recognition of an impairment loss not constituting taxable income (KREDOBANK SA) | (67 659) | - |
| Reversed provisions and positive revaluation not constituting taxable income | (56 084) | 31 051 |
| Other non-tax-deductible expenses | 33 164 | (23 431) |
| Dividend income | 21 140 | 9 711 |
| Other non-taxable income | 2 330 | 3 363 |
| Other | (17 171) | 371 |
| **Other differences between gross financial result and taxable income, including donations** | **(1 196)** | **(7 573)** |
| **Tax loss settlement** | **5 353** | **5 847** |
| **Income tax disclosed in the consolidated income statement** | **(838 156)** | **(667 838)** |
| **Effective tax rate** | **21.07%** | **18.50%** |
| Temporary difference due to the deferred tax presented in the consolidated income statement | 163 679 | 48 866 |
| **Current income tax expense disclosed in the consolidated income statement, of which:** | **(1 001 835)** | **(716 704)** |
| Corporate income tax calculated using the enacted tax rate 19% (2007: 19%) | (1 001 824) | (714 881) |
| Effect of other tax rates of foreign entities | (11) | (1 823) |

* Current income tax charge of KREDOBANK SA as at 31 December 2008 amounted to an equivalent of PLN 0 (as at 31 December 2007: PLN 7 597 thousand).

## Current income tax liabilities/ receivables

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Current income tax receivables | 6 649 | 187 939 |
| Current income tax liability | 472 228 | 9 932 |

The Group entities are subject to corporate income tax. The amount of current tax liability is transferred to the appropriate tax authorities. The final settlement of the corporate income tax liabilities of the Group entities for the year 2008 was made within the statutory deadline of 31 March 2009.

Tax authorities can verify the correctness of income tax settlements within 5 years from the end of the accounting year in which the tax declaration was submitted.

*(in PLN thousand)*

## Deferred tax asset/liability

| | Consolidated balance sheet | | Consolidated income statement | |
|---|---|---|---|---|
| | **31.12.2008** | **31.12.2007** | **2008** | **2007** |
| **Deferred tax liability** | | | | |
| Interest accrued on receivables (loans) | 100 892 | 99 944 | 948 | 4 314 |
| Capitalised interest on mortgage loans | 258 759 | 277 827 | (19 068) | (16 633) |
| Interest on securities | 44 113 | 28 126 | 15 987 | (7 895) |
| Valuation of securities, of which: | 11 486 | 1 901 | - | - |
| transferred to income statement | 6 365 | 705 | 5 660 | (2 535) |
| transferred to equity | 5 121 | 1 196 | - | - |
| Difference between book value and tax value of tangible assets | 196 000 | 133 926 | 62 074 | 61 133 |
| Other taxable temporary positive differences | 34 612 | 7 250 | - | - |
| transferred to income statement | 23 662 | 7 382 | 16 280 | (9 714) |
| transferred to equity | 10 950 | (132) | - | - |
| **Gross deferred tax liability** | **645 862** | **548 974** | **-** | **-** |
| transferred to income statement | 629 791 | 547 910 | 81 881 | 28 670 |
| transferred to equity | 16 071 | 1 064 | - | - |
| **Deferred tax assets** | | | | |
| Interest accrued on liabilities | 223 004 | 138 252 | 84 752 | (5 097) |
| Valuation of securities, of which: | 27 825 | 33 217 | - | - |
| transferred to income statement | 14 759 | 22 065 | (7 306) | 3 008 |
| transferred to equity | 13 066 | 11 152 | - | - |
| Valuation of derivative instruments | 77 734 | 62 331 | 15 403 | 18 300 |
| Provision for anniversary bonuses and retirement benefits | 110 037 | 88 874 | 21 163 | 5 219 |
| Impairment allowances on credit exposure | 159 789 | 79 193 | 80 596 | 32 646 |
| Adjustment to valuation at amortized cost | 166 449 | 149 499 | 16 950 | 16 620 |
| Other temporary negative differences, of which: | 99 676 | 65 316 | - | - |
| transferred to income statement | 99 318 | 65 316 | 34 002 | 6 837 |
| transferred to equity | 358 | - | - | - |
| **Gross deferred income tax asset, of which:** | **864 514** | **616 682** | **-** | **-** |
| transferred to income statement | 851 090 | 605 530 | 245 560 | 77 533 |
| transferred to equity | 13 424 | 11 152 | - | - |
| **Deferred tax impact on the income statement** | **(218 652)** | **(67 708)** | **-** | **-** |
| transferred to income statement | (221 299) | (57 620) | - | - |
| transferred to equity | 2 647 | (10 088) | - | - |
| **Deferred income tax asset (presented in the balance sheet)** | **239 237** | **72 154** | **-** | **-** |
| **Deferred tax liability (presented in the balance sheet)** | **20 585** | **4 446** | **-** | **-** |
| **Net deferred tax impact on the income statement** | **-** | **-** | **(163 679)** | **(48 866)** |

As at 31 December 2008, the unsettled tax loss of the Group entities amounted to PLN 18 451 thousand. This loss may be utilized by the end of 2013.

Out of the above-mentioned amounts of tax losses none was recognized as a deferred tax asset as at 31 December 2008.

## 15. Earnings per share

### Basic earnings per share

The basic earnings per share ratio is calculated on the basis of profit or loss attributable to ordinary shareholders of the Bank, by dividing the respective profit or loss by the weighted average number of ordinary shares outstanding during a given period.

### Earnings per share

| | 2008 | 2007 |
|---|---|---|
| Profit per ordinary shareholder (PLN thousand) | 3 120 674 | 2 903 632 |
| Weighted average number of shares during the period (thousand) | 1 000 000 | 1 000 000 |
| Profit per share (PLN per share) | 3.12 | 2.90 |

### Earnings per share from discontinued operations

In the years ended 31 December 2008 and 31 December 2007, the Group did not report any material income or expenses from discontinued operations.

### Diluted earnings per share

The diluted earnings per share ratio is calculated on the basis of profit attributable to ordinary shareholders, by dividing the respective profit by the weighted average number of ordinary shares outstanding during a given period, adjusted for the effect of all potential dilutive ordinary shares.

There were no dilutive instruments in the Bank in the year ended 31 December 2008 nor in the year ended 31 December 2007.

### Diluted earnings per share from discontinued operations

In the years ended 31 December 2008 and 31 December 2007 the Bank did not report any material income or expenses from discontinued operations.

## 16. Dividends paid and declared

Dividends declared after the balance date are not recognized by the Bank as liabilities existing as at the balance date.

In the resolution of as 1 December 2008 the Management Board of the Bank declared to come forward to General Shareholders' Meeting with a proposal to freeze dividend payout for 2008.

On 29 April 2008 by way of Resolution No. 3 the Annual General Meeting of PKO Towarzystwo Funduszy Inwestycyjnych SA declared a dividend of PLN 92 250 thousand and 30 750 thousand respectively to PKO BP SA and minority interests.

On 17 June 2008, the Annual General Shareholders' Meeting of Centrum Finansowe Puławska Sp. z o.o. adopted Resolution no. 4 on earmarking the Company's profit for 2007 of PLN 7 942 thousand to the payment of dividend to PKO BP SA, and Resolution no. 5 on earmarking the Company's profit for 2006 of PLN 8 685 thousand to the payment of dividend to PKO BP SA.

*(in PLN thousand)*

## 17. Cash and balances with the central bank

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Current account with the central bank | 3 419 832 | 2 972 067 |
| Cash | 2 415 016 | 1 708 906 |
| Other funds | 2 044 | 1 654 |
| **Total** | **5 836 892** | **4 682 627** |

During the course of the working day, the Bank may use funds from the obligatory reserve account for ongoing payments, on the basis of an instruction submitted to the Central Bank of Poland (NBP). However, the Bank must ensure that the average monthly balance on this account complies with the requirements set in the obligatory reserve declaration.

Funds on the obligatory reserve account bear interest of 0.9 of the rediscount rate for bills of exchange. As at 31 December 2008, this interest rate was 4.73%.

As at 31 December 2008 and 31 December 2007, there were no further restrictions as regards the use of these funds.

## 18. Amounts due from banks

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Deposits with other banks | 2 106 309 | 4 676 670 |
| Receivables due from repurchase agreements | 603 200 | 14 397 |
| Current accounts | 383 847 | 183 784 |
| Loans and advances | 290 475 | 372 282 |
| Cash in transit | 7 879 | 14 379 |
| **Total** | **3 391 710** | **5 261 512** |
| Impairment allowances, of which: | (28 111) | (276) |
| - Impairment allowances on exposure to foreign bank | (28 111) | - |
| **Net total** | **3 363 599** | **5 261 236** |

As at 31 December 2008, the nominal value of placements with other banks with a fixed interest rate amounted to PLN 725 086 thousand (as at 31 December 2007: PLN 4 596 601 thousand). The majority of those placements were short-term placements. The nominal value of placements with other banks with a floating interest rate amounted to PLN 1 377 925 thousand as at 31 December 2008 (PLN 200 thousand as at 31 December 2007). As at 31 December 2008, the total value of accrued interests of placements with other banks amounted to PLN 3 298 thousand (as at 31 December 2007: PLN 79 869 thousand).

Details on risk related to amounts due from banks was presented in Note 52 "Objectives and principles of risk management related to financial instruments".

## 19. Trading assets

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Debt securities | 1 491 524 | 1 193 255 |
| issued by the State Treasury | 1 491 398 | 1 193 129 |
| issued by local government bodies | 126 | 126 |
| Shares in other entities - listed on stock exchange | 4 623 | 9 664 |
| **Total trading assets** | **1 496 147** | **1 202 919** |

*(in PLN thousand)*

**Trading assets (carrying amount) by maturity as at 31 December 2008 and as at 31 December 2007** (nominal values at the contract maturity date, interest, premium, discount up to 1 month):

| As at 31 December 2008 | up to 1 month | 1 - 3 months | 3 months - 1 year | 1 year - 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| **Debt securities** | **184 104** | **107 913** | **1 044 291** | **136 930** | **18 286** | **1 491 524** |
| issued by the State Treasury | 184 104 | 107 913 | 1 044 165 | 136 930 | 18 286 | **1 491 398** |
| issued by local government bodies | - | - | 126 | - | - | **126** |
| **Shares in other entities - listed on stock exchange** | **4 623** | - | - | - | - | **4 623** |
| **Total** | **188 727** | **107 913** | **1 044 291** | **136 930** | **18 286** | **1 496 147** |

The average yield on debt securities issued by the State Treasury as at 31 December 2008 amounted to 5.70% for PLN and 3.80% for EUR. The portfolio of debt securities held for trading as at 31 December 2008 comprised the following securities carried at their nominal values:

- Treasury bills 797 400
- Treasury bonds 701 495
- Bonds denominated in EUR 18 776
- Municipal bonds 124

| As at 31 December 2007 | up to 1 month | 1 month - 3 months | 3 months - 1 year | 1 year - 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| **Debt securities** | **55 507** | **65 310** | **206 577** | **516 795** | **349 066** | **1 193 255** |
| issued by the State Treasury | 55 507 | 65 310 | 206 451 | 516 795 | 349 066 | **1 193 129** |
| issued by local government bodies | - | - | 126 | - | - | **126** |
| **Shares in other entities - listed on stock exchange** | **9 664** | - | - | - | - | **9 664** |
| **Total** | **65 171** | **65 310** | **206 577** | **516 795** | **349 066** | **1 202 919** |

The average yield on debt securities issued by the State Treasury as at 31 December 2007 amounted to 5.97% for PLN, 4.38% for EUR. The portfolio of debt securities held for trading as at 31 December 2007 comprised the following securities carried at their nominal values:

- Treasury bills 61 780
- Treasury bonds 1 108 839
- Bonds denominated in EUR 7 164
- Municipal bonds 123

*(in PLN thousand)*

## 20. Derivative financial instruments

### Derivative instruments used by the Group

The Bank and other entities within the Group use various types of derivatives in order to manage risk involved in its business activities. As at 31 December 2008 and 31 December 2007, the Group held the following derivative instruments:

| Type of contract | 31.12.2008 | | 31.12.2007 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| IRS | 2 599 375 | 2 554 343 | 882 368 | 814 180 |
| FRA | 128 673 | 124 489 | 146 575 | 144 704 |
| FX Swap | 22 350 | 359 114 | 73 193 | 67 132 |
| CIRS | 56 289 | 2 391 272 | 410 927 | 200 717 |
| Forward | 204 356 | 135 645 | 28 109 | 36 375 |
| Options | 574 434 | 585 414 | 15 528 | 16 424 |
| Other | 12 193 | 60 | 36 | 393 |
| **Total** | **3 597 670** | **6 150 337** | **1 556 736** | **1 279 925** |

The majority of the derivatives used by the Bank are forward contracts and the most frequently used types of derivatives are: IRS, FRA, FX Swap, CIRS and Forwards. The remaining entities in the Group may enter into transactions in derivatives exclusively for the purpose of hedging against the risk resulting from their core activities (the banking portfolio).

*(in PLN thousand)*

## Derivative financial instruments as at 31 December 2008

## Nominal amounts of underlying instruments 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 | over 5 years | Total | Fair value (negative) | Fair value (positive) |
|---|---|---|---|---|---|---|---|---|
| **Currency transactions** | | | | | | | | |
| FX swap | 8 412 022 | 5 912 134 | - | - | - | **14 324 156** | 359 114 | 22 350 |
| Purchase | 4 119 551 | 2 881 423 | - | - | - | **7 000 974** | - | - |
| Sale | 4 292 471 | 3 030 711 | - | - | - | **7 323 182** | - | - |
| FX forward | 2 169 940 | 1 461 216 | 2 257 988 | 71 982 | - | **5 961 126** | 135 645 | 204 356 |
| Purchase | 1 092 233 | 722 149 | 1 158 628 | 38 634 | | **3 011 644** | - | - |
| Sale | 1 077 707 | 739 067 | 1 099 360 | 33 348 | - | **2 949 482** | - | - |
| Options | 2 700 929 | 3 127 560 | 9 114 775 | 2 787 136 | - | **17 730 400** | 585 414 | 574 434 |
| Purchase | 1 341 215 | 1 584 392 | 4 592 486 | 1 395 541 | - | **8 913 634** | - | - |
| Sale | 1 359 714 | 1 543 168 | 4 522 289 | 1 391 595 | - | **8 816 766** | - | - |
| Cross Currency IRS | - | 514 182 | 2 757 368 | 23 967 698 | 7 884 073 | **35 123 321** | 2 391 272 | 56 289 |
| Purchase | - | 234 032 | 1 312 617 | 11 206 796 | 3 660 398 | **16 413 843** | - | - |
| Sale | - | 280 150 | 1 444 751 | 12 760 902 | 4 223 675 | **18 709 478** | - | - |
| **Interest rate transactions** | | | | | | | | |
| Interest Rate Swap (IRS) | 14 720 690 | 21 432 000 | 81 076 130 | 147 666 718 | 17 983 432 | **282 878 970** | 2 554 343 | 2 599 375 |
| Purchase | 7 360 345 | 10 716 000 | 40 538 065 | 73 833 359 | 8 991 716 | **141 439 485** | - | - |
| Sale | 7 360 345 | 10 716 000 | 40 538 065 | 73 833 359 | 8 991 716 | **141 439 485** | | |
| Forward Rate Agreement (FRA) | 16 326 000 | 17 354 000 | 31 410 000 | 2 300 000 | - | **67 390 000** | 124 489 | 128 673 |
| Purchase | 7 790 000 | 9 300 000 | 15 400 000 | 1 150 000 | - | **33 640 000** | - | - |
| Sale | 8 536 000 | 8 054 000 | 16 010 000 | 1 150 000 | - | **33 750 000** | - | - |
| **Other transactions** | | | | | | | | |
| Credit Default Swaps (CDS) | - | - | - | 207 326 | - | **207 326** | | 11 624 |
| Purchase | - | - | - | 207 326 | | **207 326** | - | - |
| Other (stock market index derivatives) | - | 12 962 | 155 | - | - | **13 117** | 60 | 569 |
| Purchase | - | 12 158 | 6 | - | - | **12 164** | - | - |
| Sale | - | 804 | 149 | - | - | **953** | - | - |
| **Total derivative instruments** | **44 329 581** | **49 814 054** | **126 616 416** | **177 000 860** | **25 867 505** | **423 628 416** | **6 150 337** | **3 597 670** |

*(in PLN thousand)*

**Derivative financial instruments as at 31 December 2007**

**Nominal amounts of underlying instruments 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 | over 5 years | Total | Fair value (negative) | Fair value (positive) |
|---|---|---|---|---|---|---|---|---|
| **Currency transactions** | | | | | | | | |
| FX swap | 2 729 270 | 643 248 | 845 554 | - | - | **4 218 072** | 67 132 | 73 193 |
| Purchase | 1 356 838 | 324 984 | 432 144 | - | - | **2 113 966** | - | - |
| Sale | 1 372 432 | 318 264 | 413 410 | - | - | **2 104 106** | - | - |
| FX forward | 966 764 | 1 004 944 | 906 335 | 71 852 | - | **2 949 895** | 36 375 | 28 145 |
| Purchase | 486 809 | 499 958 | 448 069 | 35 229 | - | **1 470 065** | - | - |
| Sale | 479 955 | 504 986 | 458 266 | 36 623 | - | **1 479 830** | - | - |
| Options | 195 247 | 445 795 | 614 253 | 135 922 | - | **1 391 217** | 16 424 | 15 324 |
| Purchase | 95 177 | 152 629 | 338 580 | 71 110 | - | **657 496** | - | - |
| Sale | 100 070 | 293 166 | 275 673 | 64 812 | - | **733 721** | - | - |
| Cross Currency IRS | - | 1 095 785 | 1 397 535 | 10 545 309 | 8 866 607 | **21 905 236** | 200 717 | 410 927 |
| Purchase | - | 555 435 | 705 155 | 5 317 678 | 4 471 031 | **11 049 299** | - | - |
| Sale | - | 540 350 | 692 380 | 5 227 631 | 4 395 576 | **10 855 937** | - | - |
| **Interest rate transactions** | | | | | | | | |
| Interest Rate Swap (IRS) | 10 336 000 | 12 814 000 | 78 651 500 | 132 577 610 | 15 266 352 | **249 645 462** | 814 180 | 882 368 |
| Purchase | 5 168 000 | 6 407 000 | 39 325 750 | 66 288 805 | 7 633 176 | **124 822 731** | - | - |
| Sale | 5 168 000 | 6 407 000 | 39 325 750 | 66 288 805 | 7 633 176 | **124 822 731** | - | - |
| Forward Rate Agreement (FRA) | 18 709 142 | 32 714 000 | 68 050 000 | 16 950 000 | - | **136 423 142** | 144 704 | 146 575 |
| Purchase | 9 600 000 | 16 710 000 | 37 400 000 | 10 150 000 | - | **73 860 000** | - | - |
| Sale | 9 109 142 | 16 004 000 | 30 650 000 | 6 800 000 | - | **62 563 142** | - | - |
| **Other transactions** | | | | | | | | |
| Bond forward | 10 856 | 9 636 | 5 310 | 2 686 | - | **28 488** | - | - |
| Purchase | 5 428 | 4 818 | 2 531 | 1 343 | - | **14 120** | - | - |
| Sale | 5 428 | 4 818 | 2 779 | 1 343 | - | **14 368** | - | - |
| Credit Default Swaps (CDS) | - | - | - | 109 575 | 121 750 | **231 325** | 376 | - |
| Purchase | - | - | - | 109 575 | 121 750 | **231 325** | - | - |
| Other (stock market index derivatives) | 281 | 8 002 | 1 940 | - | - | **10 223** | 17 | 204 |
| Purchase | 281 | 2 034 | - | - | - | **2 315** | - | - |
| Sale | - | 5 968 | 1 940 | - | - | **7 908** | - | - |
| **Total derivative instruments** | **32 947 560** | **48 735 410** | **150 472 427** | **160 392 954** | **24 254 709** | **416 803 060** | **1 279 925** | **1 556 736** |

## 21. Financial assets designated at fair value through profit or loss

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Debt securities** | **4 555 544** | **8 292 362** |
| - issued by the State Treasury | 4 373 621 | 7 353 033 |
| - issued by other banks | 172 876 | 764 018 |
| - issued by other financial entities | - | 129 142 |
| - issued by non-financial entities | 9 047 | 46 169 |
| **Shares in other entities** | **-** | **22 082** |
| not listed on stock exchange | - | 22 082 |
| **Total** | **4 555 544** | **8 314 444** |

As at 31 December 2008 and 31 December 2007, the portfolio of securities designated at fair value through profit or loss comprised of the following:

| According to nominal amount | 31.12.2008 | | 31.12.2007 | Currency |
|---|---|---|---|---|
| **In the parent company:** | | | | |
| Treasury bills | 2 100 000 | PLN thousand | - | PLN thousand |
| Treasury bonds | 2 255 500 | PLN thousand | 6 271 400 | PLN thousand |
| USD bonds | 118 472 | PLN thousand | 587 424 | PLN thousand |
| including issued by banks | 118 472 | PLN thousand | 234 349 | PLN thousand |
| EUR bonds | 95 965 | PLN thousand | 1 271 610 | PLN thousand |
| including issued by banks | 96 965 | PLN thousand | 555 210 | PLN thousand |
| **In subsidiaries:** | | | | |
| Treasury bonds | - | | 100 587 | UAH thousand |
| investment certificates | - | | 10 000 | UAH thousand |
| bonds of other entities | 33 589 | UAH thousand | 95 833 | UAH thousand |
| Treasury bonds | - | | 79 250 | UAH thousand |
| Treasury bills | - | | 2 290 | UAH thousand |
| equity instruments | - | | 20 409 | UAH thousand |

As at 31 December 2008, the average yield on debt securities issued by the State Treasury and included in the portfolio of other financial instruments designated at fair value through profit or loss was 5.65% for PLN. As at 31 December 2007, the average yield on such securities was as follows: 5.96% for PLN, 5.52% for EUR, 4.57% for USD.

*(in PLN thousand)*

**Financial assets designated at fair value through profit or loss (carrying amount), by maturity** (nominal values at the contract maturity date, interest, premium, discount up to 1 month, impairment – from 1 to 3 months) :

| As at 31 December 2008 | up to 1 month | from 1 to 3 months | from 3 months to 1 year | from 1 to 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| **Debt securities** | **997 473** | **99 355** | **2 425 146** | **1 010 540** | **23 030** | **4 555 544** |
| - issued by other banks | - | - | - | 150 190 | 22 686 | **172 876** |
| - issued by non-financial entities | - | - | - | 8 703 | 344 | **9 047** |
| - issued by the State Treasury | 997 473 | 99 355 | 2 425 146 | 851 647 | - | **4 373 621** |
| **Total** | **997 473** | **99 355** | **2 425 146** | **1 010 540** | **23 030** | **4 555 544** |

| As at 31 December 2007 | up to 1 month | from 1 to 3 months | from 3 months to 1 year | from 1 to 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| **Debt securities** | **370** | **118** | **2 044 138** | **4 449 588** | **1 798 148** | **8 292 362** |
| issued by the State Treasury | 355 | - | 2 039 128 | 3 835 108 | 1 478 442 | **7 353 033** |
| issued by other banks | - | - | - | 505 390 | 258 628 | **764 018** |
| issued by other financial institutions | 15 | - | - | 72 118 | 57 009 | **129 142** |
| issued by non-financial entities | - | 118 | 5 010 | 36 972 | 4 069 | **46 169** |
| **Shares in other entities - listed and not listed on stock exchanges** | **-** | **-** | **-** | **-** | **22 082** | **22 082** |
| **Total** | **370** | **118** | **2 044 138** | **4 449 588** | **1 820 230** | **8 314 444** |

*(in PLN thousand)*

## 22. Loans and advances to customers

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Loans and advances** | | |
| Receivables valued using the collective method (IBNR) | 97 203 517 | 74 158 998 |
| Receivables valued using the individual method | 2 220 283 | 1 403 662 |
| Receivables valued using the portfolio method | 2 205 414 | 1 619 194 |
| Finance lease receivables | 2 396 553 | 1 650 898 |
| **Loans and advances - gross** | **104 025 767** | **78 832 752** |
| Allowance for impairment on exposures with portfolio impairment | (1 398 065) | (1 363 864) |
| Allowance for impairment on exposures with individual impairment | (758 070) | (536 271) |
| Allowance for impairment on exposures with collective impairment (IBNR) | (717 081) | (475 673) |
| Allowance for impairment on finance lease receivables | (44 660) | (39 795) |
| **Total impairment allowances** | **(2 917 876)** | **(2 415 603)** |
| **Loans and advances - net** | **101 107 891** | **76 417 149** |

Details on risk related to loans and advances to customers was presented in Note 52 "Objectives and principles of risk management related to financial instruments".

### Finance and operating lease agreements

### Finance lease - lessor

The Group conducts lease activities through the subsidiary, Bankowy Fundusz Leasingowy SA.

The value of gross investments in leases and the minimum lease payments resulting from finance lease agreements amounted to:

As at 31 December 2008

| Finance lease receivables | Gross lease investment | Present value of the minimal lease payments | Unearned interest |
|---|---|---|---|
| **Gross lease investment value and minimal lease payments** | | | |
| Gross lease receivables: | | | |
| up to 1 year | 923 231 | 762 597 | 160 634 |
| from 1 to 5 years | 1 650 145 | 1 425 035 | 225 110 |
| over 5 years | 265 728 | 208 921 | 56 807 |
| **Total** | **2 839 104** | **2 396 553** | **442 551** |
| Impairment allowances | (44 660) | (44 660) | - |
| **Total, including impairment allowances** | **2 794 444** | **2 351 893** | **442 551** |

| Net lease investment | |
|---|---|
| Present value of the minimal lease payments, of which: | 2 396 553 |
| non guaranteed final amounts due to the lessor | 2 341 |

*(in PLN thousand)*

As at 31 December 2007

| Finance lease receivables | Gross lease investment | Present value of the minimal lease payments | Unearned interest |
|---|---|---|---|
| **Gross lease investment value and minimal lease payments** | | | |
| Gross lease receivables: | | | |
| up to 1 year | 619 742 | 517 024 | 102 718 |
| from 1 to 5 years | 1 174 457 | 1 031 024 | 143 433 |
| over 5 years | 124 481 | 102 850 | 21 631 |
| **Total** | **1 918 680** | **1 650 898** | **267 782** |
| Impairment allowances | (39 795) | (39 795) | - |
| **Total, including impairment allowances** | **1 878 885** | **1 611 103** | **267 782** |

| Net lease investment | |
|---|---|
| Present value of the minimal lease payments, of which | 1 650 898 |
| non guaranteed final amounts due to the lessor | 24 501 |

### Operating lease - lessee

Operating lease agreements, under which the lessor retains substantially the risk and rewards incidental to the ownership of an asset, are classified as operating lease agreements. Lease payments under operating leases are recognized as expenses in the income statement, on a straight-line basis over the lease term.

Rental and tenancy agreements concluded by the Group in the course of its normal operating activities meet the criteria of operating leases. All agreements are concluded at arm's length.

The table below presents data on operating lease agreements concluded by the Group entities:

| Total value of future lease payments under non-cancellable operating lease | 31.12.2008 | 31.12.2007 |
|---|---|---|
| For period: | | |
| up to 1 year | 91 899 | 80 108 |
| from 1 year to 5 years | 149 484 | 132 277 |
| above 5 years | 49 496 | 24 104 |
| **Total** | **290 879** | **236 489** |

Lease and sub-lease payments recognized as an expense in the period from 1 January 2008 to 31 December 2008 amounted to PLN 108 595 thousand (in the period from 1 January 2007 to 31 December 2007: PLN 72 520 thousand).

### Operating lease - lessor

As at the balance date the total value of future lease payments under operating lease are as follows:

| Total value of future lease payments under non-cancellable operating lease | 31.12.2008 | 31.12.2007 |
|---|---|---|
| For period: | | |
| up to 1 year | 1 967 | 7 613 |
| from 1 year to 5 years | 4 239 | 23 253 |
| above 5 years | 20 838 | 14 663 |
| **Total** | **27 044** | **45 529** |

The average agreement period for operating lease agreements where the Group is a lessor amounts to 36 months. The lessee bears service and insurance costs.

*(in PLN thousand)*

As at the balance date the assets in lease under operating lease are as follows:

| **Means of transport** | **2008** | **2007** |
|---|---|---|
| Gross value as at the beginning of the period | 21 088 | 19 269 |
| Changes in the period | (814) | 1 819 |
| Gross value at the end of the period | 20 274 | 21 088 |
| Accumulated depreciation as at the beginning of the period | (6 497) | (2 726) |
| Depreciation for the period | (3 508) | (4 504) |
| Other changes in depreciation | 3 901 | 733 |
| Accumulated depreciation at the end of the period | (6 104) | (6 497) |
| Impairment allowances as at the beginning of the period | (33) | (2) |
| Impairment allowances recognized during the period | - | (31) |
| Reversal of impairment allowances | 33 | - |
| Impairment allowances at the end of the period | - | (33) |
| **Net book value** | **14 170** | **14 558** |

## 23. Investment securities available for sale

| | **31.12.2008** | **31.12.2007** |
|---|---|---|
| **Debt securities available for sale** | **8 544 543** | **5 650 578** |
| - issued by the central bank | 2 673 729 | 2 633 505 |
| - issued by other banks | 46 756 | - |
| - issued by other financial institutions | 74 427 | 33 |
| - issued by non-financial institutions | 815 210 | 639 863 |
| - issued by the State Treasury | 3 516 322 | 1 201 129 |
| - issued by local government bodies | 1 418 099 | 1 176 048 |
| Allowance for impairment on debt securities available for sale | (19 932) | (18 620) |
| **Total debt securities available for sale** | **8 524 611** | **5 631 958** |
| Equity securities - available for sale | 96 061 | 92 509 |
| Allowance for impairment on equity securities available for sale | (5 759) | (8 229) |
| **Total net equity securities - available for sale** | 90 302 | 84 280 |
| **Total net investment securities** | **8 614 913** | **5 716 238** |

Change in investment securities:

| | **2008** | **2007** |
|---|---|---|
| **Investment securities available for sale** | | |
| **Balance at the beginning of the period** | **5 716 238** | **6 763 188** |
| Foreign exchange differences | 42 269 | (1 626) |
| Increases | 8 661 642 | 3 397 449 |
| *of which: change in impairment allowance* | *1 158* | *3 202* |
| Decreases (redemption) | (5 814 299) | (4 380 104) |
| Change in the fair value | 9 063 | (62 669) |
| **Balance at the end of the period** | **8 614 913** | **5 716 238** |

Details on risk related to investment securities available for sale was presented in Note 52 “Objectives and principles of risk management related to financial instruments”.

*(in PLN thousand)*

## Investment securities available for sale (nominal values presented at contractual dates; interests, premium, discount presented in one month bracket; impairment allowance presented in one to three month bracket):

| As at 31 December 2008 | up to 1 month | from 1 to 3 months | from 3 months to 1 year | from 1 to 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| **Investment securities available for sale** | | | | | | |
| issued by the central bank | - | - | - | 2 673 729 | - | **2 673 729** |
| issued by other banks | 49 933 | - | - | 46 756 | - | **96 689** |
| issued by other financial institutions | 424 | - | 74 426 | 19 468 | 11 | **94 329** |
| issued by non-financial instititutions | 359 826 | 108 290 | 43 097 | 295 109 | 9 423 | **815 745** |
| issued by the State Treasury | - | 7 351 | 20 215 | 2 957 352 | 531 404 | **3 516 322** |
| issued by local government bodies | - | 8 361 | 95 239 | 652 493 | 662 006 | **1 418 099** |
| **Total** | **410 183** | **124 002** | **232 977** | **6 644 907** | **1 202 844** | **8 614 913** |

The average yield of available-for-sale securities as at 31 December 2008 amounted to 4.94%. As at 31 December 2008, the portfolio of debt securities available for sale, at nominal values, comprised the following:

### In the parent company:

| | |
|---|---|
| • corporate bonds in PLN | 749 000 |
| • corporate bonds in EUR | 32 824 |
| • municipal bonds | 1 427 563 |
| • Treasury bonds | 3 005 000 |
| • bonds issued by the central bank, NBP | 2 551 112 |
| • Treasury bonds in EUR | 271 206 |
| • Treasury bonds in USD | 88 854 |

### In subsidiaries:

| | |
|---|---|
| • Treasury bonds | 215 884 |
| • Treasury bills | 4 300 |
| • investment funds participation units | 21 409 |
| • corporate bonds | 53 698* |
| • Treasury bonds | 40 566* |
| • shares and investments | 97* |

*UAH

*(in PLN thousand)*

| As at 31 December 2007 | up to 1 month | from 1 to 3 months | from 3 months to 1 year | from 1 to 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| **Investment securities available for sale** | | | | | | |
| issued by the central bank | - | - | - | 2 633 505 | - | **2 633 505** |
| issued by other banks | - | - | - | 55 377 | - | **55 377** |
| issued by other financial institutions | - | - | - | - | 437 | **437** |
| issued by non-financial institutions | 136 030 | 107 292 | 6 546 | 394 154 | 5 720 | **649 742** |
| issued by the State Treasury | 156 | - | 69 600 | 650 695 | 480 678 | **1 201 129** |
| issued by local government bodies | 2 617 | 5 501 | 124 669 | 556 492 | 486 769 | **1 176 048** |
| **Total** | **138 803** | **112 793** | **200 815** | **4 290 223** | **973 604** | **5 716 238** |

The average yield of available-for-sale securities as at 31 December 2007 amounted to 6.05%.

As at 31 December 2007, the portfolio of debt securities available for sale, at nominal values comprised the following:

**In the parent company:**

- bills of exchange 2 150
- corporate bonds in PLN 596 668
- corporate bonds in EUR 24 723
- municipal bonds 1 171 442
- Treasury bonds 1 125 000
- bonds issued by the central bank, NBP 2 551 112

**in subsidiaries:**

- Treasury bonds 111 740

As at 31 December 2008 and 31 December 2007, the PKO BP SA Group did not have any securities in the held-to-maturity portfolio.

*(in PLN thousand)*

## 24. Investments in associates and jointly controlled entities

a) The value of the Bank's investments in jointly controlled entities (i.e. the acquisition cost adjusted for the Bank's share in the change in the entity's net assets after acquisition date and allowances for impairment losses)

| Entity name | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Centrum Obsługi Biznesu Sp. z o.o | 10 934 | 10 519 |
| Grupa Kapitałowa Centrum Haffnera Sp. z o.o. | 45 748 | 45 752 |
| **Total** | **56 682** | **56 271** |

b) The value of the Bank's investments in associates (i.e. the acquisition cost adjusted for the Bank's share in the change in the entities net assets and allowances for impairment losses)

| Entity name | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Bank Pocztowy SA | 175 871 | 113 000 |
| Kolej Gondolowa Jaworzyna Krynicka SA | 13 851 | - |
| Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | 463 | 1 626 |
| Agencja Inwestycyjna CORP SA | 278 | 301 |
| FINDER SA | - | 7 386 |
| **Total** | **190 463** | **122 313** |

### Selected data on associated entities accounted for using the equity method

| Entity name | Total assets | Total liabilities | Total revenues | Net profit (loss) | % share |
|---|---|---|---|---|---|
| **31.12.2008** | | | | | |
| Bank Pocztowy SA | 2 697 837 | 2 414 068 | 248 485 | 27 014 | 25.0001% |
| Kolej Gondolowa Jaworzyna Krynicka SA | 44 648 | 7 794 | 13 408 | 3 714 | 37.53% |
| Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | 15 614 | 18 | 379 | 10 017 | 33.33% |
| Agencja Inwestycyjna CORP SA | 3 899 | 2 290 | 13 128 | 451 | 22.31% |
| **Total** | **2 761 998** | **2 424 170** | **275 400** | **41 647** | **X** |
| **31.12.2007** | | | | | |
| Bank Pocztowy SA | 3 100 593 | 2 851 637 | 253 816 | 30 431 | 25.0001% |
| Kolej Gondolowa Jaworzyna Krynicka SA | 36 860 | 2 792 | 11 726 | 1 602 | 37.53% |
| Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | 14 653 | 9 575 | 312 | 42 | 33.33% |
| Agencja Inwestycyjna CORP SA | 4 027 | 2 486 | 14 471 | 315 | 22.31% |
| **Total** | **3 156 133** | **2 866 490** | **280 325** | **32 390** | **X** |

The financial information presented above is derived from the Group entities' financial statements prepared in accordance with Polish Accounting Standards. According to the Group's estimates, differences between the above-mentioned financial statements and the statements prepared in accordance with IFRS are not significant from the perspective of the consolidated financial statements of the Group. The 2007 figures are derived from audited financial statements.

As at 31 December 2008, the Group had no share in contingent liabilities and commitments of associates acquired jointly with other investors.

**Selected data on jointly controlled entities accounted for using the equity method:**

| Entity name | Total assets | Total liabilities | Total revenues | Net profit (loss) | % share |
|---|---|---|---|---|---|
| **31.12.2008** | | | | | |
| Centrum Obsługi Biznesu Sp. z o.o | 138 954 | 107 083 | 23 151 | 2 758 | 41.44% |
| Grupa Centrum Haffnera Sp. z o.o. | 265 732 | 172 191 | 11 966 | (92) | 49.43% |
| **Total** | **404 686** | **279 274** | **35 117** | **2 666** | **X** |
| **31.12.2007** | | | | | |
| Centrum Obsługi Biznesu Sp. z o.o | 124 103 | 93 224 | 20 903 | (4 401) | 41.44% |
| Grupa Centrum Haffnera Sp. z o.o. | 176 952 | 83 896 | 2 729 | 1 961 | 49.43% |
| **Total** | **301 055** | **177 120** | **23 632** | **(2 440)** | **X** |

The information presented in the above table for Centrum Obsługi Biznesu Sp. z o.o. is derived from financial statements prepared in accordance with the Polish Accounting Standards, and the information for Centrum Haffnera Sp. z o.o. is derived from consolidated financial statements prepared in accordance with Polish Accounting Standards. According to the Group's estimates, differences between the above-mentioned financial statements and the statements prepared in accordance with IFRS are not significant from the perspective of the consolidated financial statements of the Group. The information for the both companies for the year 2007 is derived from audited financial statements.

In the consolidated financial statements for the year ended 31 December 2008, all associates and jointly controlled entities are accounted for using the equity method.

| | 2008 | 2007 |
|---|---|---|
| **Investments in associates at the beginning of the period** | **122 313** | **122 176** |
| Share of profit | 15 184 | 6 087 |
| Dividends paid | (64) | (74) |
| Share in changes in equity | (7 386) | - |
| sale of FINDER SA shares | (7 386) | - |
| acquisition of P.L.ENERGIA SA shares | - | 4 999 |
| sale of P.L.ENERGIA SA shares | - | (4 999) |
| Change in impairment allowances of investment | 60 416 | (5 876) |
| **Investment in associates at the end of the period** | **190 463** | **122 313** |

In the year of 2008 the Group has reversed some allowances for impairment on investments in associates, valuated under the equity method: on Bank Pocztowy SA in the amount of PLN 51 544 thousand and on Kolej Gondolowa Jaworzyna Krynicka SA in the amount of PLN 10 024 thousand, as a result of the reversal of loss events. Such reversal of loss events enabled the Bank to recognize its share in the associates' profits: 11 327 PLN thousand from Bank Pocztowy SA and PLN 3 827 thousand from Kolej Gondolowa Jaworzyna Krynicka SA.

| | 2008 | 2007 |
|---|---|---|
| **Investments in jointly controlled entities at the beginning of the period** | **56 271** | **57 986** |
| Share of profit (loss) | 411 | (1 715) |
| **Investments in jointly controlled entities at the end of the period** | **56 682** | **56 271** |

As at 31 December 2008 and 31 December 2007, the parent company had no share in contingent liabilities and commitments of associates acquired jointly with other investors.

In the year ended 31 December 2008, PKO BP SA did not make any direct investments in jointly controlled entities or associates.

*(in PLN thousand)*

## 25. Inventories

| Carrying amount of inventories | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Work-in-progress* | 403 175 | 344 378 |
| Finished goods | 100 270 | 10 551 |
| Supplies | 113 533 | 9 910 |
| Materials | 5 432 | 465 |
| **Total** | **622 410** | **365 304** |

* The balance relates mainly to real estate development, which constitute the core business of some of the Group entities.

At 31 December 2008, the short-term portion of inventories amounted to PLN 479 181 thousand, whereas the long-term portion amounted to PLN 143 229 thousand (at 31 December 2007, PLN 113 717 thousand and PLN 251 587 thousand, respectively).

In the years ended 31 December 2008 and 31 December 2007, the Group did not record any allowances for impairment of inventories, and none of the inventories were pledged as collateral.

## 26. Intangible assets

| For the year ended 31 December 2008 | Development costs | Software | Goodwill acquired as a result of business combinations (including subsidiaries' goodwill) | Other, including capitalised expenses | Total |
|---|---|---|---|---|---|
| **Net carrying amount as at 1 January 2008** | **2 539** | **828 946** | **234 066** | **117 940** | **1 183 491** |
| Purchase of shares of subsidiaries | - | - | 7 014 | - | **7 014** |
| Purchases | 4 294 | 9 576 | - | 366 476 | **380 346** |
| Sales and disposals | - | (138) | - | (2) | **(140)** |
| Impairment allowances | - | - | (76 360) | - | **(76 360)** |
| Foreign exchange differences on revaluation of foreign entities' operations results into the presentation currency | - | (2 057) | - | (254) | **(2 311)** |
| Transfers | - | 285 737 | - | (285 737) | **-** |
| Amortisation | - | (145 501) | - | (3 095) | **(148 596)** |
| Other value changes | 90 | (5 337) | - | 14 581 | **9 334** |
| **Net carrying amount** | **6 923** | **971 226** | **164 720** | **209 909** | **1 352 778** |
| *As at 1 January 2008* | | | | | |
| Purchase price (gross carrying amount) | 2 539 | 1 634 511 | 234 066 | 132 271 | **2 003 387** |
| Accumulated amortisation and impairment allowances | - | (805 565) | - | (14 331) | **(819 896)** |
| **Net carrying amount** | **2 539** | **828 946** | **234 066** | **117 940** | **1 183 491** |
| *As at 31 December 2008* | | | | | |
| Purchase price (gross carrying amount) | 6 923 | 1 828 366 | 241 080 | 314 458 | **2 390 827** |
| Accumulated amortisation and impairment allowances | - | (857 140) | (76 360) | (104 549) | **(1 038 049)** |
| **Net carrying amount** | **6 923** | **971 226** | **164 720** | **209 909** | **1 352 778** |

The most significant item of capital expenditure of the Group relates to outlays on the Integrated Information System (ZSI). The cumulative capital expenditures incurred for the ZSI system during the years 2003 – 2008 amounted to PLN 864 500 thousand (during the years 2003 – 2007, they amounted to PLN 704 010 thousand). As at 31 December 2008, the carrying amount of outlays on the Integrated Information System (ZSI) amounted to PLN 577 925 thousand.

The expected useful life of the ZSI system is 10 years. At 31 December 2008, the remaining useful life is 8 years.

*(in PLN thousand)*

| For the year ended 31 December 2007 | Development costs | Software | Goodwill aquired as a result of entities' business combinations (including subsidiaries' goodwill) | Other, including capitalised expenses | Total |
|---|---|---|---|---|---|
| **Net carrying amount as at 1 January 2008** | **-** | **623 278** | **205 655** | **115 095** | **944 028** |
| Purchase of shares of subsidiaries | - | - | 28 408 | - | **28 408** |
| Purchases | - | 9 813 | - | 296 124 | **305 937** |
| Sales and disposals | - | (33) | - | (2) | **(35)** |
| Impairment allowances | - | 16 308 | - | - | **16 308** |
| Foreign exchange differences on revaluation of foreign entities' operations results into the presentation currency | - | (999) | - | - | **(999)** |
| Transfers | - | 292 754 | - | (292 754) | **-** |
| Amortisation | - | (111 469) | - | (2 526) | **(113 995)** |
| Other value changes | 2 539 | (706) | 3 | 2 003 | **3 839** |
| **Net carrying amount** | **2 539** | **828 946** | **234 066** | **117 940** | **1 183 491** |
| *As at 1 January 2007* | | | | | |
| Purchase price (gross carrying amount) | - | 1 340 482 | 205 655 | 129 593 | **1 675 730** |
| Accumulated amortisation and impairment allowances | - | (717 204) | - | (14 498) | **(731 702)** |
| **Net carrying amount** | **-** | **623 278** | **205 655** | **115 095** | **944 028** |
| *As at 31 December 2007* | | | | | |
| Purchase price (gross carrying amount) | 2 539 | 1 634 511 | 234 066 | 132 271 | **2 003 387** |
| Accumulated amortisation and impairment allowances | - | (805 565) | - | (14 331) | **(819 896)** |
| **Net carrying amount** | **2 539** | **828 946** | **234 066** | **117 940** | **1 183 491** |

The Group does not produce any software internally. In the period from 1 January 2008 to 31 December 2008, the PKO BP SA incurred capital expenditures for the purchase of tangible fixed assets and intangible assets in the amount of PLN 889 362 thousand (in the period from 1 January 2007 to 31 December 2007: PLN 782 726 thousand).

The table below presents data concerning goodwill included in the Group's financial statements as at 31 December 2008 and 31 December 2007.

| Net goodwill | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Powszechne Towarzystwo Emerytalne BANKOWY SA | 51 158 | 51 158 |
| Centrum Finansowe Puławska Sp. z o.o | 7 785 | 7 785 |
| KREDOBANK SA | - | 76 360 |
| Wilanów Investment Sp. z o.o. | 49 412 | 49 412 |
| PKO Towarzystwo Funduszy Inwestycyjnych SA | 49 351 | 49 351 |
| Baltic Dom 2 Sp. z o.o. | 7 014 | - |
| **Total net goodwill** | **164 720** | **234 066** |

Additional information on goodwill arising on the acquisition of subsidiaries in the year of 2008 is presented in Note 47 "Business Combinations".

As at 31 December 2008, the Group conducted mandatory goodwill impairment tests in accordance with the model developed on the basis of the guidelines included in IAS 36 taking into consideration the specific nature of operations of particular entities. Test models (with the exception of PTE BANKOWY SA) are based on discounted cash flows and on the assumptions that the shares will be held in the future. The forecasts related to cash flows are developed on the basis of financial plans of entities covering a period of 3 to 5 years, using differentiated discount rates tailored to the specific nature of operations of the particular entities. The goodwill impairment testing model of PTE BANKOWY SA was developed using the *embedded value* method, according to which the value in use of the Bank's share in the value of the company was determined.

Global financial crisis contributed to fierce economic slowdown in Ukraine. High correlation between economic growth in Ukraine, including banking sector, and foreign capital inflow deepened the crisis in Ukraine.
In November 2008, the International Monetary Fund granted Ukraine stabilizing funds provided the flexibility improvements are implemented to the currency system. In the last months of 2008, constraining of central

bank interventions, along with the deepening process of foreign capital outflow as well as currency purchase by domestic entities caused fierce depreciation of the Ukrainian hryvna.
Banking crisis in Ukraine and the following decrease of trust to the banks resulted in withdrawal of bank deposits in the last months of 2008; higher increase rate of loans than deposits resulted in aggravating liquidity difficulties.

The above-mentioned negative factors led to increase in share of non-performing loans in the banks' loan portfolios. Due to high inflation rate, depreciation of collaterals established by the Bank was recognized. The deterioration of the bank loan portfolios was also affected by defaults of some of the borrowers.[1]

Activities of KREDOBANK SA were also affected by difficult economic situation in the Ukrainian banking sector. For the twelve-month period of 2008 KREDOBANK SA recognized net loss in the amount of PLN 196 293 thousand. This loss resulted mainly from impairment losses recognized on the loan portfolio during the period.

As at the balance date, the Bank carried out a goodwill impairment test on goodwill of subsidiary company KREDOBANK SA. As a result of the test, the Bank estimated the recoverable goodwill as the higher of the fair value less costs to sell and the value in use.

The Bank made the valuation using the comparative method, using market quotations of other comparative entities on East European Stock Exchanges.

The value in use was estimated on the level of the whole entity on the basis of analysis of projected cash flows for KREDOBANK SA considering the time value of money, using the discount rate which reflects the risk of the Ukrainian market and investment in a bank operating in this market. The cash flow projection was prepared on the basis of updated budget plans for KREDOBANK SA that had been adjusted to the current economic conditions in the Ukrainian market.

As a result of the test, both fair value and recoverable value was estimated as approx. nil as at the balance date. As a consequence, the Bank decided to recognise a 100% write-down on goodwill arising from KREDOBANK SA in the amount of PLN 76 360 thousand as at 31 December 2008.

[1] Detailed information on macroeconomic situation in Ukraine was described in the PKO BP SA Group Directors' Report for the year 2008.

*(in PLN thousand)*

## 27. Tangible fixed assets

| For the year ended 31 December 2008 | Land and buildings | Machinery and equipment | Means of transport | Assets under construction | Investment properties | Other | Total |
|---|---|---|---|---|---|---|---|
| **Gross value of tangible assets as at the beginning of the period** | **2 311 780** | **2 597 324** | **76 508** | **341 461** | **39 012** | **413 820** | **5 779 905** |
| **Increases, of which:** | **2 821** | **21 643** | **21 046** | **501 435** | **-** | **2 311** | **549 256** |
| Purchases and other changes | 2 821 | 21 643 | 21 046 | 501 435 | - | 2 311 | 549 256 |
| **Decreases, of which:** | **(28 951)** | **(332 879)** | **(17 744)** | **(78 829)** | **(7 003)** | **(30 855)** | **(496 261)** |
| Disposals and sales | (10 167) | (317 421) | (14 139) | - | (23) | (20 660) | (362 410) |
| Transfer of tangible assets to lease | - | - | - | (45 960) | - | - | (45 960) |
| Foreign exchange differences | (17 592) | (13 350) | (1 332) | (10 402) | - | (7 630) | (50 306) |
| Other | (1 192) | (2 108) | (2 273) | (22 467) | (6 980) | (2 565) | (37 585) |
| **Transfers from assets under construction to tangible fixed assets** | **60 537** | **96 409** | **2 043** | **(203 748)** | **-** | **44 759** | **-** |
| **Gross value of fixed assets at the end of the period** | **2 346 187** | **2 382 497** | **81 853** | **560 319** | **32 009** | **430 035** | **5 832 900** |
| **Accumulated depreciation as at the beginning of the period** | **(557 596)** | **(2 048 262)** | **(26 617)** | **-** | **(6 245)** | **(318 029)** | **(2 956 749)** |
| **Increases, of which:** | **(80 131)** | **(163 718)** | **(12 058)** | **-** | **(1 594)** | **(25 747)** | **(283 248)** |
| Depreciation for the period | (78 967) | (162 998) | (12 002) | - | (1 594) | (25 747) | (281 308) |
| Other | (1 164) | (720) | (56) | | | - | (1 940) |
| **Decreases, of which:** | **8 897** | **327 768** | **12 004** | **-** | **-** | **25 122** | **373 791** |
| Disposal and sales | 4 728 | 314 652 | 10 159 | - | - | 20 372 | 349 911 |
| Other | 1 627 | 8 286 | 1 216 | - | - | 1 541 | 12 670 |
| Foreign exchange differences | 2 542 | 4 830 | 629 | - | - | 3 209 | 11 210 |
| **Accumulated depreciation at the end of the period** | **(628 830)** | **(1 884 212)** | **(26 671)** | **-** | **(7 839)** | **(318 654)** | **(2 866 206)** |
| **Impairment allowances** | | | | | | | |
| Opening balance | (1 257) | (126) | - | (1 670) | - | - | (3 053) |
| Decreases | 41 | 7 | - | 970 | - | - | 1 018 |
| Closing balance | (1 216) | (119) | - | (700) | - | - | (2 035) |
| **Net book value** | **1 716 141** | **498 166** | **55 182** | **559 619** | **24 170** | **111 381** | **2 964 659** |
| **Opening balance** | **1 752 927** | **548 936** | **49 891** | **339 791** | **32 767** | **95 791** | **2 820 103** |
| **Closing balance** | **1 716 141** | **498 166** | **55 182** | **559 619** | **24 170** | **111 381** | **2 964 659** |

As at 31 December 2008, the carrying value of machinery and equipment used under finance lease agreements and operating leases with purchase options contracts amounted to PLN 3 623 thousand (as at 31 December 2007: PLN 13 310 thousand). In the years ended 31 December 2008 and 31 December 2007, respectively, there were no restrictions on the Group's right to use its tangible fixed assets as a result of pledges.

*(in PLN thousand)*

| For the year ended 31 December 2007 | Land and buildings | Machinery and equipment | Means of transport | Assets under construction | Investment properties | Other | Total |
|---|---|---|---|---|---|---|---|
| **Gross value of tangible assets as at the beginning of the period** | **2 294 280** | **2 621 780** | **60 553** | **294 632** | **41 135** | **384 774** | **5 697 154** |
| **Increases, of which:** | **22 410** | **34 474** | **32 943** | **1 561 105** | **-** | **16 179** | **1 667 111** |
| Purchases and other changes | 22 410 | 34 474 | 32 943 | 1 561 105 | - | 16 179 | 1 667 111 |
| **Decreases, of which:** | **(46 417)** | **(259 357)** | **(18 042)** | **(1 230 105)** | **(2 123)** | **(28 316)** | **(1 584 360)** |
| Disposals and sales | (23 574) | (247 129) | (15 823) | (47 333) | (1 509) | (21 739) | (357 107) |
| Transfer of tangible assets to lease | - | - | - | (1 120 639) | - | - | (1 120 639) |
| Foreign exchange differences | (11 751) | (8 983) | (1 010) | (8 084) | - | (4 970) | (34 798) |
| Other | (11 092) | (3 245) | (1 209) | (54 049) | (614) | (1 607) | (71 816) |
| **Transfers from assets under construction to tangible fixed assets** | **41 507** | **200 427** | **1 054** | **(284 171)** | | **41 183** | **-** |
| **Gross value of fixed assets at the end of the period** | **2 311 780** | **2 597 324** | **76 508** | **341 461** | **39 012** | **413 820** | **5 779 905** |
| **Accumulated depreciation as at the beginning of the period** | **(495 454)** | **(2 137 360)** | **(31 743)** | **-** | **(4 649)** | **(321 688)** | **(2 990 894)** |
| **Increases, of which:** | **(73 777)** | **(162 927)** | **(10 306)** | **-** | **(1 596)** | **(21 503)** | **(270 109)** |
| Depreciation for the period | (73 092) | (161 880) | (10 226) | - | (1 596) | (21 376) | (268 170) |
| Other | (685) | (1 047) | (80) | - | - | (127) | (1 939) |
| **Decreases, of which:** | **11 635** | **252 025** | **15 432** | **-** | **-** | **25 162** | **304 254** |
| Disposals and sales | 9 218 | 246 006 | 14 332 | - | - | 21 483 | 291 039 |
| Foreign exchange differences | 1 419 | 2 941 | 464 | - | - | 1 909 | 6 733 |
| Other | 998 | 3 078 | 636 | - | - | 1 770 | 6 482 |
| **Accumulated depreciation at the end of the period** | **(557 596)** | **(2 048 262)** | **(26 617)** | **-** | **(6 245)** | **(318 029)** | **(2 956 749)** |
| **Impairment allowances** | | | | | | | |
| Opening balance | (50 405) | (79) | - | (700) | - | (35) | (51 219) |
| Increases | - | (126) | - | (970) | - | - | (1 096) |
| Decreases | 49 148 | 79 | - | - | - | 35 | 49 262 |
| Closing balance | (1 257) | (126) | - | (1 670) | - | - | (3 053) |
| **Net book value** | **1 752 927** | **548 936** | **49 891** | **339 791** | **32 767** | **95 791** | **2 820 103** |
| **Opening balance** | **1 748 421** | **484 341** | **28 810** | **293 932** | **36 486** | **63 051** | **2 655 041** |
| **Closing balance** | **1 752 927** | **548 936** | **49 891** | **339 791** | **32 767** | **95 791** | **2 820 103** |

In the years 2008 and 2007, the Group did not recognise in the income statement any significant compensation from third parties due to impairment or loss of tangible fixed assets.

*(in PLN thousand)*

The tangible assets item “Land and buildings, including investment properties” includes land which is not subject to depreciation. In the group of tangible assets “Investment properties”, the largest item is the perpetual usufruct right to a plot of land in Warsaw with the carrying amount of PLN 24 047 thousand, whose fair value estimated by an independent expert (on 16 October 2008) exceeded its carrying amount by approximately PLN 114 500 thousand. There are no restrictions on the Bank's rights to sell these properties, nor any contractual liabilities relating to these assets.

The amounts of income/expenses connected with investment properties of the Group are presented below:

| | 2008 | 2007 |
|---|---|---|
| Direct operating costs concerning the investment properties (including maintenance and repair costs) that in the given period did not bring rental income | 1 500 | 1 439 |
| **Total** | **1 500** | **1 439** |

## 28. Other assets

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Trade receivables | 218 234 | 225 762 |
| Settlements of payment cards transactions | 123 732 | 149 114 |
| Accruals and prepaymets | 115 454 | 31 117 |
| Receivables relating to foreign exchange activities | 8 628 | 15 892 |
| Receivables from the state budget due to distribution of marks of value | 8 883 | 8 373 |
| Settlements of investment securities turnover | 7 255 | 6 614 |
| Fixed assets held for trade and discontinued operations | - | 5 716 |
| Receivables from other banks | - | 3 753 |
| Other* | 148 266 | 132 335 |
| **Total** | **630 452** | **578 676** |

* Included in “Other” are mainly interbank and inter-branch settlements, receivables arising from internal operations, receivables arising from other transactions with financial, non-financial and public entities.

### Tangible assets held for sale

| **Tangible assets held for sale, by kind of asset** | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Assets held for sale | - | 5 059 |
| Lease objects | - | 657 |
| Other | - | - |
| **Total** | - | **5 716** |

## 29. Amounts due to the central bank

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Up to 1 month | 2 816 | 1 279 |
| **Total amount due to the central bank** | **2 816** | **1 279** |

## 30. Amounts due to other banks

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Other bank deposits | 2 835 727 | 1 436 694 |
| Loans and advances | 3 943 895 | 3 128 706 |
| Current accounts | 93 810 | 94 212 |
| Other money market deposits | 115 171 | 43 502 |
| **Total amounts due to other banks** | **6 988 603** | **4 703 114** |

*(in PLN thousand)*

## 31. Other financial liabilities designated at fair value through profit or loss

As at 31 December 2008 and 31 December 2007 the PKO BP SA Group had no other financial liabilities valued at fair value through profit or loss.

## 32. Amounts due to customers

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Amounts due to corporate entities** | **19 332 897** | **15 639 541** |
| Current accounts and overnight deposits | 7 215 707 | 6 798 584 |
| Term deposits | 11 582 684 | 8 267 334 |
| Loans and advances | 378 009 | 413 770 |
| Other | 156 497 | 159 853 |
| **Amounts due to state budget entities** | **7 283 578** | **4 691 218** |
| Current accounts and overnight deposits | 3 873 868 | 3 549 004 |
| Term deposits | 3 360 986 | 1 035 165 |
| Other | 48 724 | 107 049 |
| **Amounts due to retail clients** | **76 322 806** | **66 248 751** |
| Current accounts and overnight deposits | 29 247 846 | 29 012 938 |
| Term deposits | 46 778 479 | 37 113 090 |
| Other | 296 481 | 122 723 |
| **Total amounts due to customers** | **102 939 281** | **86 579 510** |

## 33. Debt securities in issue

As at 31 December 2008 and 31 December 2007, the Group had the following liabilities from debt securities in issue:

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Debt securities in issue** | | |
| Bonds issued by: | | |
| BFL SA | 183 594 | 166 823 |
| KREDOBANK SA | 27 979 | 12 037 |
| **Total** | **211 573** | **178 860** |

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Debt securities in issue by maturity:** | | |
| Up to 1 month | 79 404 | 53 427 |
| From 1 month to 3 months | 74 721 | 102 198 |
| From 3 months to 1 year | 29 469 | 11 198 |
| From 1 year to 5 years | 27 979 | 12 037 |
| **Total** | **211 573** | **178 860** |

As at 31 December 2008, the average interest rate of securities issued by KREDOBANK was 13.07% and of securities issued by BFL – 7.23%. As at 31 December 2007, the average interest rate of securities issued by KREDOBANK and BFL amounted to 13.75% and 5.65%, respectively.

## 34. Subordinated liabilities

In 2007, the Bank issued subordinated bonds with 10-year maturities, of a total value of PLN 1 600 700 thousand. The interest on these bonds accrues on a semi-annual basis. Interest on the bonds is calculated on the nominal value of the bonds using a variable interest rate equal to WIBOR 6M plus a margin of 100 base points per annum.

*(in PLN thousand)*

As at 31 December 2008

| Subordinated liabilities | Nominal value | Currency | Interest rate (%) | Maturity date | Balance |
|---|---|---|---|---|---|
| Subordinated bonds | 1 600 700 | PLN | 7.88% | 30.10.2017 | 1 618 755 |

As at 31 December 2007

| Subordinated liabilities | Nominal value | Currency | Interest rate (%) | Maturity date | Balance |
|---|---|---|---|---|---|
| Subordinated bonds | 1 600 700 | PLN | 6.35% | 30.10.2017 | 1 614 885 |

Change in subordinated liabilities

| | 2008 | 2007 |
|---|---|---|
| **As at the beginning of the period** | **1 614 885** | **-** |
| **Increases, of which:** | **115 022** | **1 618 211** |
| issue of subordinated bonds | - | 1 600 700 |
| accrued interest | 115 022 | 17 511 |
| Decreases, of which: | **(111 152)** | **(3 326)** |
| repayment of interest | (111 152) | - |
| commission paid | - | (3 326) |
| **Subordinated liabilities as at the end of the period** | **1 618 755** | **1 614 885** |

## 35. Other liabilities

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Accounts payables | 237 520 | 220 330 |
| Deferred income | 262 867 | 321 273 |
| **Other liabilities relating to:** | **1 167 389** | **1 190 730** |
| inter-bank and inter-branch settlements | 241 922 | 124 650 |
| liabilities relating to settlements of security transactions | 205 896 | 323 286 |
| liabilities due to suppliers | 146 745 | 136 426 |
| liabilities due to legal settlements | 123 448 | 137 888 |
| liabilities arising from foreign currency activities | 76 854 | 64 176 |
| liabilities relating to investment activities and internal operations | 52 059 | 34 266 |
| liabilities arising from repayment obligation of advances from borrowers related with debt forgiveness from the State Treasury | 39 226 | 33 341 |
| settlement of acquisition of machines, materials, works and services regarding construction of tangible assets | 35 862 | 58 328 |
| liabilities due to UOKiK (the Competition and Consumer Protection Office) | 22 310 | 16 597 |
| liabilities arising from transactions with non-financial institutions | 14 534 | 83 642 |
| liabilities arising from other settlements | 8 271 | 32 782 |
| liabilities relating to payment cards | 1 663 | 38 348 |
| liabilities relating to payments of benefits | - | 9 225 |
| other* | 198 599 | 97 775 |
| **Total** | **1 667 776** | **1 732 333** |

* Item “other” includes: liabilities from sale of Treasury stamps, liabilities arising from bank transfers and other payment orders, balances arising from services provided by Poczta Polska, payables to insurance companies and balances arising from settlement of funds allocated by customers for the purchase of investment fund units.

As at 31 December 2008 and 31 December 2007, none of the Group entities had overdue contractual liabilities.

*(in PLN thousand)*

## 36. Provisions

| For the year ended 31 December 2008 | Provision for legal claims | Provisions for anniversary bonuses and retirement benefits | Provisions for liabilities and guarantees granted | Other provisions* | Total |
|---|---|---|---|---|---|
| **As at 1 January 2008, including:** | **7 558** | **320 857** | **28 063** | **97 823** | **454 301** |
| **short term portion** | **7 558** | **40 987** | **28 063** | **97 823** | **174 431** |
| **long term portion** | **-** | **279 870** | **-** | **-** | **279 870** |
| Increase/reassessment | 1 171 | 46 706 | 136 582 | 30 891 | **215 350** |
| Use | (317) | (7) | - | (14 702) | **(15 026)** |
| Release | (1 208) | (2 425) | (86 224) | (784) | **(90 641)** |
| Foreign exchange differences | - | - | (126) | - | **(126)** |
| Other changes and reclassifications | 2 148 | 55 | (45) | - | **2 158** |
| **As at 31 December 2008, including:** | **9 352** | **365 186** | **78 250** | **113 228** | **566 016** |
| **short term portion** | **9 352** | **46 648** | **78 250** | **113 228** | **247 478** |
| **long term portion** | **-** | **318 538** | **-** | **-** | **318 538** |

*Included in “Other provisions” is: restructuring provision amounting to PLN 74 779 thousand and provision for potential claims on receivables sold amounting PLN 25 350 thousand.

| For the year ended 31 December 2007 | Provision for legal claims | Provisions for anniversary bonuses and retirement benefits | Provisions for liabilities and guarantees granted | Other provisions* | Total |
|---|---|---|---|---|---|
| **As at 1 January 2007, including** | **7 680** | **317 560** | **18 650** | **84 310** | **428 200** |
| **short term portion** | **7 680** | **54 441** | **18 650** | **84 310** | **165 081** |
| **long term portion** | **-** | **263 119** | **-** | **-** | **263 119** |
| Increase/reassessment | 2 688 | 3 368 | 50 285 | 69 761 | **126 102** |
| Use | (2 064) | - | - | (435) | **(2 499)** |
| Release | (756) | - | (41 073) | (55 813) | **(97 642)** |
| Foreign exchange differences | - | - | (72) | - | **(72)** |
| Other changes and reclassifications | 10 | (71) | 273 | - | **212** |
| **As at 31 December 2007, including:** | **7 558** | **320 857** | **28 063** | **97 823** | **454 301** |
| **short term portion** | **7 558** | **40 987** | **28 063** | **97 823** | **174 431** |
| **long term portion** | **-** | **279 870** | **-** | **-** | **279 870** |

* Included in “Other provisions” is: restructuring provision amounting to PLN 79 129 thousand and provision for potential claims on receivables sold amounting PLN 9 894 thousand

Provisions for disputes were recognized in the amount of expected outflow of economic benefits.

## 37. Share capital

In the years ended 31 December 2008 and 31 December 2007 there were no changes in the amount of the share capital of the parent company.

As at 31 December 2008, the share capital of PKO BP SA amounted to PLN 1 000 000 thousand and consisted of 1 000 000 thousand ordinary shares with nominal value of PLN 1 each (the same as at 31 December 2007). All issued shares of PKO BP SA are common shares.

The structure of the Bank’s share capital:

| Series | Type | Number | Nominal value of 1 share | Issue value (PLN) |
|---|---|---|---|---|
| Series A | ordinary, registered shares | 510 000 000 | PLN 1 | 510 000 000 |
| Series B | ordinary, registered shares | 105 000 000 | PLN 1 | 105 000 000 |
| Series C | oridinary, bearer shares | 385 000 000 | PLN 1 | 385 000 000 |
| **Total** | --- | **1 000 000 000** | --- | **1 000 000 000** |

On 10 November 2004, based on a Resolution dated 30 August 1996 on commercialization and privatization (Journal of Laws 2002, No. 171, item 1397 with subsequent amendments) and Par. 14.1, Resolution of the Ministry of the State Treasury dated 29 January 2003 on specific rules for

*(in PLN thousand)*

categorization of employees into groups, setting a number of shares to be allocated on each of such groups, and procedures for acquiring shares by authorized employees (Journal of Laws No. 35, item 303), the parent company of the Group has issued its shares to its employees. As a result, the parent company's employees received 105 000 000 shares, which constitute 10.5% of the share capital of the parent company.

As at 31 December 2008, 487 565 thousand shares were subject to public trading (as at 31 December 2007: 485 065 thousand shares).

As at 31 December 2008 and 31 December 2007, the subsidiaries, jointly controlled entities and associates of the Bank did not hold shares of PKO BP SA.

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

## 38. Other capital and retained earnings

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Reserve capital | 7 274 717 | 5 592 311 |
| Revaluation reserve | (33 237) | (43 066) |
| General banking risk fund | 1 070 000 | 1 070 000 |
| Other reserves | 1 523 827 | 1 518 025 |
| **Total other capital** | **9 835 307** | **8 137 270** |
| Retained earnings | 53 232 | (72 192) |
| **Total** | **9 888 539** | **8 065 078** |

## 39. Transferred financial assets which do not qualify for derecognition

As at 31 December 2008 and 31 December 2007, the Group did not hold any significant transferred financial assets in such a way that part or all of the financial assets would not qualify for derecognition.

## 40. Pledged assets

The PKO BP SA Group had the following pledged assets:

### Liabilities from sell-buy-back transactions (SBB)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Treasury bonds:** | | |
| nominal value | 135 565 | 158 911 |
| carrying amount | 140 748 | 160 943 |
| **Treasury bills:** | | |
| nominal value | 14 990 | 2 360 |
| carrying amount | 14 717 | 2 281 |

### Bank deposit guarantee fund

PKO BP SA contributes to a fund for the guarantee of retail deposits in accordance with Article 25 of the Act on the Bank Guarantee Fund (Bankowy Fundusz Gwarancyjny) dated 14 December 1994 (Journal of Laws 2007, No. 70, item 474; Journal of Laws 2008, No. 196, item 1214 and No. 209, item 1315).

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Deposits guarantee fund as contributed by the Bank | 238 273 | 202 824 |
| Nominal value of the pledge | 240 000 | 201 000 |
| Type of the pledge | NBP bonds | Treasury bonds |
| Maturity of the pledge | 01.03.2012 | 24.06.2008 |
| Carrying value of the pledged asset | 251 535 | 206 872 |

The Bank's contribution to the Fund is secured by Treasury bonds with maturities sufficient to secure their carrying amount over the period defined by the above Act. The Fund is increased or decreased on 1 July of each year, in proportion to the amount providing the basis for calculation of mandatory reserve deposits.

### Stock exchange guarantee fund

Cash pledged as collateral for securities' transactions conducted by DOM MAKLERSKI PKO BP SA are deposited in the National Depository for Securities (KDPW), as part of the Stock exchange guarantee fund.

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Stock exchange guarantee fund | 7 966 | 8 120 |

Each direct participant which holds the status of settlements-making participant is obliged to make payments to the settlement fund which guarantees a proper settlement of the stock exchange transactions covered by that fund. The amount of the payments depends on the value of transactions made by each participant, and is updated by KDPW SA on a daily basis.

In addition, KREDOBANK SA, an entity consolidated using the full method, had the following pledged assets:

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Cash pledged as collateral for loans from foreign financial institutions** | | |
| UAH thousand | - | 149 837 |
| PLN thousand | - | 72 132 |
| **Cash pledged as collateral for loans from other Ukrainian banks** | 160 160 | - |
| UAH thousand | 59 740 | - |
| PLN thousand | | |
| **Bonds issued by the Ukraine Ministry of Finance, pledged as collateral for loans received from other financial institutions** | | |
| UAH thousand | - | 60 000 |
| PLN thousand | - | 28 884 |

*(in PLN thousand)*

## 41. Contingent liabilities

### Underwriting programs

As at 31 December 2008, the Bank's underwriting agreements covered the following securities:

| 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 | **498 400** | 2009-12-31 | Bonds Issue Agreement* |
| **Company B** | commercial bills | **300 000** | 2009-12-31 | Commercial Bill Issue Agreement PKO BP SA |
| **Company C** | corporate bonds | **200 000** | 2012-01-02 | Bonds Issue Agreement* |
| **Company D** | corporate bonds | **50 000** | 2018-12-31 | Bonds Issue Agreement* |
| **Total** | | **1 048 400** | | |

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

As at 31 December 2007, the Bank's underwriting agreements covered the following securities:

| 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 | **725 517** | 2009-12-31 | Bonds Issue Agreement* |
| **Company B** | commercial bills | **299 529** | 2009-12-31 | Commercial Bill Issue Agreement PKO BP SA |
| **Entity A** | municipal bonds | **213 000** | 2011-12-31 | Bonds Issue Agreement* |
| **Company D** | corporate bonds | **94 534** | 2011-11-30 | Bonds Issue Agreement* |
| **Company E**** | corporate bonds | **17 792** | 2009-12-30 | Bonds Issue Agreement* |
| **Total of others, whose separate values do not exceed PLN 15 million each** | municipal bonds | **49 839** | | Bonds Issue Agreement* |
| **Total** | | **1 400 211** | | |

* Relates to the Agreement for Organization, Conducting and Servicing of the Bond Issuance Program
** Debt securities denominated in EUR after translation into PLN

No securities under the underwriting program have limited transferability; are quoted on the stock exchange or traded on a regulated OTC market.

### Contractual commitments

As at 31 December 2008 amount of contractual commitments, concerning intangible assets amounted to PLN 84 284 thousands.

### Loan commitments

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Total loan commitments to:** | **26 141 444** | **24 346 666** |
| financial sector | 635 344 | 564 551 |
| non-financial sector | 25 084 434 | 23 551 708 |
| public sector | 421 666 | 230 407 |
| of which: irrevocable loan commitments | 7 712 824 | 8 860 369 |

*(in PLN thousand)*

## Guarantees issued

| Guarantees | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Financial sector | 4 871 | 8 520 |
| Non-financial sector | 4 093 755 | 3 614 258 |
| Public sector | 204 073 | 262 494 |
| **Total** | **4 302 699** | **3 885 272** |

In the years ended 31 December 2008 and 31 December 2007, the Group did not issue any guarantees in respect of loans or advances and did not issue any guarantees to a single entity or a subsidiary thereof with a total value accounting for 10% of the Bank's equity.

Information on provisions for contingent guarantees and financial liabilities is included in Note 36 "Provisions".

## Contingent liabilities by maturity as at 31 December 2008

| | Up to 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| Financial liabilities | 13 720 195 | 157 146 | 3 512 534 | 4 231 245 | 4 520 324 | **26 141 444** |
| Guarantee liabilities issued | 1 436 768 | 169 003 | 1 086 418 | 1 489 656 | 120 854 | **4 302 699** |
| **Total** | **15 156 963** | **326 149** | **4 598 952** | **5 720 901** | **4 641 178** | **30 444 143** |

## Contingent liabilities by maturity as at 31 December 2007

| | Up to 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | over 5 years | Total |
|---|---|---|---|---|---|---|
| Financial liabilities | 5 996 907 | 846 343 | 7 967 694 | 7 405 452 | 2 130 270 | **24 346 666** |
| Guarantee liabilities issued | 724 128 | 98 931 | 977 951 | 1 960 497 | 123 765 | **3 885 272** |
| **Total** | **6 721 035** | **945 274** | **8 945 645** | **9 365 949** | **2 254 035** | **28 231 938** |

## Contingent assets

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Received** | **4 928 425** | **5 063 779** |
| 1. financial | 753 118 | 899 453 |
| 2. guarantees | 4 175 307 | 4 164 326 |

## Assets pledged as collateral for contingent liabilities

As at 31 December 2008 and 31 December 2007 the Group had no assets pledged as collateral for contingent liabilities.

## Right to sell or pledge collateral established for the Group

As at 31 December 2008 and 31 December 2007, there was no collateral established for the Group which the Group was entitled to sell or encumber with another pledge in the event of fulfilment of all obligations by the owner of the collateral.

## 42. Legal claims

As 31 December 2008, the total value of court proceedings in which the Bank is a defendant was PLN 319 543 thousand (as at 31 December 2007: PLN 177 916 thousand), while the total value of court proceedings in which the Bank is the plaintiff was PLN 74 981 thousand (as at 31 December 2007: PLN 73 891 thousand).

The most significant disputes of the PKO BP SA are described below:

### a) Unfair competition proceedings

The Bank is a party to proceedings initiated on the basis of a decision dated 23 April 2001 of the President of the Competition and Consumer Protection Office (Urząd Ochrony Konkurencji i Konsumentów - UOKiK) upon request of the Polish Trade and Distribution Organization (Polska Organizacja Handlu i Dystrybucji - Związek Pracodawców) against the operators of the Visa and Europay payment systems and the banks issuing Visa and Europay/Eurocard/Mastercard banking cards. The claims under these proceedings relate to the use of practices limiting competition on the market of banking card payments in Poland, consisting of applying pre-agreed "interchange" fees for transactions made using Visa and Europay/Eurocard/Mastercard cards as well as limiting access to this market by external entities. On 29 December 2006, UOKiK decided that the practices, consisting of joint establishment of interchange fee, did limit market competition and ordered that any such practices should be discontinued, and imposed a fine on, among others, PKO BP SA, in the amount of PLN 16 597 thousand. As at 31 December 2007, the Bank recognized a liability for the above amount. On 19 January 2007, the Bank filed an appeal from the decision of the President of UOKiK to the regional court. At the end of October 2007, the President of UOKiK referred the case to the Regional Court in Warsaw, the Court for Competition and Consumer Protection, including the appeals of the banks against Settlement of the Decision; the banks' complaints against the immediate enforcement clause issued for the Decision as well as the banks' complaints against the costs of the proceedings. The Court has commenced the activities stipulated by the Code of Civil Procedure and issued a call to the parties to provide their reply to the appeals. On 21 January 2008 the Regional Court in Warsaw, the Court for Competition and Consumer Protection issued a resolution (in case of the Bank's appeal to the Decision of UOKiK President No. DAR 15/2006 as of 29 December 2006), in which it decided to suspend execution of the Decision above in article I (a court order to abandon joint establishing interchange fee rates). On 12 November 2008, the District Court in Warsaw, the Competition and Consumers Protection Court issued a verdict changing sections I, II, III and IV of the Decision appealed against. The Court ruled that the banks participating in the proceedings, including PKO BP SA, had not committed an act of unfair competition by being party to an agreement restricting competition on the market of acquiring outsourcing services associated with the settlement of the consumers' liabilities to acceptors with respect to payment for goods and services purchased by the consumers with the use of credit and debit cards in the territory of Poland. The agreement in question set out common interchange fees on transactions concluded with the use of VISA and MasterCard cards in Poland. On 12 January 2009, the President of the Office for Competition and Consumer Protection (UOKiK) appealed against the verdict of the Court of Competition and Consumer Protection reversing the decisions of the UOKiK President. The Bank submitted the reply to the appeal on 13 February 2009.

With reference to the Decision of UOKiK President as of 12 December 2008 imposing a fine on PKO BP SA for the unfair advertisment of the "Max Lokata" term deposit, as at the balance date the Bank recognised a provision in the amount of PLN 5 712 thousand. The decision of the UOKiK is not final and the Bank appealed against the verdict on 2 January 2009.

### b) Re-privatization claims relating to properties held by the Group

As at the date of these financial statements, four administrative proceedings are pending to invalidate decisions issued by public administration authorities with respect to properties held by the Bank. These proceedings, in the event of an unfavourable outcome for the Bank, may result in re-privatization claims being raised against the Bank. Given the current status of these proceedings, it is not possible to assess their potential negative financial effects for the Bank. Moreover, with respect to two properties claims were submitted by their former owners (court proceedings are pending), and with respect to the third property, the Bank is in the process of negotiations in order to settle the legal status. Until 31 December 2008 there had been no further developments with respect to this issue. The financial statements for the year ended 31 December 2008 do not contain any provisions in respect of the potential liabilities resulting from re-privatization claims.

*(in PLN thousand)*

In the opinion of the Management Board of PKO BP SA, the probability of significant claims arising against the Bank in relation to the above mentioned proceedings is remote.

## 43. Supplementary information to the cash flow statement

### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash on nostro accounts with the National Bank of Poland, current amounts due from other banks, as well as other cash equivalents with maturities up to three months from the date of acquisition. These amounts are presented in their nominal values.

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Cash and balances with the central bank | 5 836 892 | 4 682 627 |
| Current receivables from other financial institutions | 2 433 351 | 4 549 689 |
| **Total** | **8 270 243** | **9 232 316** |

### Cash flow from interests and dividends, both received and paid

| Interest income - received | 2008 | 2007 |
|---|---|---|
| Income from loans and advances | 6 979 839 | 6 917 465 |
| Income from securities designated at fair value through profit or loss | 441 731 | 441 161 |
| Income from placements with other banks | 325 136 | 326 340 |
| Income from investment securities | 272 155 | 282 313 |
| Income from trading securities | 62 151 | 62 151 |
| Other | 1 081 671 | 1 083 013 |
| **Total** | **9 162 683** | **9 112 443** |

| Dividend income - received | 2008 | 2007 |
|---|---|---|
| Dividend income from subsidiaries, associates and jointly controlled entities | 108 940 | 48 825 |
| Dividend income from other entities | 21 956 | 3 288 |
| **Total** | **130 896** | **52 113** |

| Interest expense – paid | 2008 | 2007 |
|---|---|---|
| Interest expense on deposits | (1 625 085) | (1 630 732) |
| Interest expense on loans and advances | (184 920) | (122 129) |
| Interest expense on debt securities in issue | (114 326) | (112 427) |
| Other interest expense (mainly premium from debt securities, interest expense on cash collaterals liabilities, interest expense on current account of special purpose funds) | (892 533) | (893 147) |
| **Total** | **(2 816 864)** | **(2 758 435)** |

*(in PLN thousand)*

| Dividend expense - paid | 2008 | 2007 |
|---|---|---|
| Dividend paid to shareholders of the parent company | (1 090 000) | (980 000) |
| Dividend paid to minority shareholders | (30 750) | (16 250) |
| **Total** | **(1 120 750)** | **(996 250)** |

## Cash flow from operating activities - other adjustments

| | 2008 | 2007 |
|---|---|---|
| Interest accrued, discount, premium – on available for sale debt securities decreased by deferred tax | (433 088) | (296 021) |
| Disposal and impairment allowances for tangible fixed assets and intangible assets | 133 001 | (59 959) |
| Valuation, impairment allowances for investments in jointly controlled entities and associates | (33 208) | 109 628 |
| Currency translation differences from foreign operations | (9 652) | (34 089) |
| **Total** | **(342 947)** | **(280 441)** |

## Reconciliation of differences between the balance sheet changes and the cash flow statement changes of items presented under operating activities in the cash flow statement

| Gains (losses) on disposal of fixed assets | 2008 | 2007 |
|---|---|---|
| Income from sale and disposal of tangible fixed assets and intangible assets | (6 226) | (83 684) |
| Costs of sale and disposal of tangible fixed assets and intangible assets | 6 271 | 11 680 |
| **Gains (losses) on disposal of fixed assets - total** | **45** | **(72 004)** |

| Interests and dividends | 2008 | 2007 |
|---|---|---|
| Interest from investment securities of the available for sale portfolio, presented in the investing activities | (283 330) | (202 603) |
| Dividends received, presented in the investing activities | (21 905) | (6 267) |
| Interest paid from loans granted, presented in financing activities | 63 441 | 1 580 |
| **Total interests and dividends** | **(241 794)** | **(207 290)** |

| Change in amounts due from banks | 2008 | 2007 |
|---|---|---|
| Change in the balance sheet's amount | 1 897 637 | 8 138 271 |
| Change in impairment allowances on amounts due from banks | (27 835) | 53 |
| Exclusion of the change in the balance of cash and cash equivalents | (2 116 338) | (4 956 383) |
| **Total change** | **(246 536)** | **3 181 941** |

| Change in loans and advances to customers | 2008 | 2007 |
|---|---|---|
| Change in the balance sheet's amount | (24 690 742) | (17 510 542) |
| Change in the impairment allowances on amounts due from customers | (502 273) | 29 592 |
| **Total change** | **(25 193 015)** | **(17 480 950)** |

*(in PLN thousand)*

| **Change in other assets** | **2008** | **2007** |
|---|---|---|
| Change in the balance sheet's amount | (308 882) | (363 910) |
| Transfer of prepayment | 48 737 | - |
| **Total change** | **(260 145)** | **(363 910)** |

| **Change in amounts due to other banks** | **2008** | **2007** |
|---|---|---|
| Change in the balance sheet's amount | 2 287 026 | 351 398 |
| Transfer of loans and advances received from other banks/repayment of these loans and advances - to financing activities | (310 871) | (2 649 228) |
| **Total change** | **1 976 155** | **(2 297 830)** |

| **Change in amounts due to customers** | **2008** | **2007** |
|---|---|---|
| Change in the balance sheet's amount | 16 359 771 | 3 103 418 |
| Transfer of loans and advances received from non-financial entities/repayment of these loans and advances - to financing activities | 32 518 | (292 751) |
| **Total change** | **16 392 289** | **2 810 667** |

| **Change in allowances and provisions** | **2008** | **2007** |
|---|---|---|
| Change in the balance sheet's amount | 127 854 | 6 625 |
| Change in impairment allowances on amounts due from banks | 27 835 | (53) |
| Change in impairment allowances on loans and advances to customers | 502 273 | (29 592) |
| Change in the balance of deferred tax provisions related to valuation of the available-for-sale portfolio included in deferred income tax | (2 011) | 10 831 |
| **Total change** | **655 951** | **(12 189)** |

| **Change in other liabilities** | **2008** | **2007** |
|---|---|---|
| Change in the balance sheet's amount | (64 557) | (488 014) |
| Transfer of repayment of interest on loans and advances to non-financial entities, presented in financing activities | 90 049 | 23 195 |
| Interest on subordinated liabilities | 111 152 | 17 511 |
| **Total change** | **136 644** | **(447 308)** |

## 44. Transactions with the State Treasury and related entities

Receivables, securities and liabilities arising from transactions conducted with the State Treasury and other state budgetary agencies are disclosed in the Group's balance sheet. All of the above are arm's length transactions.

In accordance with the 30 November 1995 Act in relation to State support in the repayment of certain housing loans (Journal of Laws, 2003; No. 119, item 1115 with subsequent amendments) PKO BP SA receives payments from the State budget in respect of interest receivable on those loans.

| | **2008** | **2007** |
|---|---|---|
| Income due to temporary redemption by the State budget of interest on housing loans from the "old" portfolio recognized for this period | 93 754 | 122 183 |
| Income due to temporary redemption by the State budget of interest on housing loans from the "old" portfolio received in cash | 152 024 | 107 348 |
| Difference between income recognized for this period and income received in cash – "Loans and advances to customers" | 58 270 | 14 835 |

*(in PLN thousand)*

PKO BP SA receives commission for settlements relating to redemption of interest on housing loans (Journal of Laws 2000, No.122, item 1310).

| | 2008 | 2007 |
|---|---|---|
| Fee and commission income | 4 527 | 5 168 |

The Act on the coverage of repayment of certain housing loans by State Treasury guarantees was passed on 29 November 2000 and came into force on 1 January 2001. The coverage of the so called „old portfolio" housing loan receivables by the guarantees of the State Treasury resulted in the neutralization of the default risk on these loans. The State Treasury guarantees are realized 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 nature and is effective if the recovery of the unpaid part of principal and interest which the Bank is obliged to commence, before the Bank lays claims to the State Treasury, becomes ineffective. The above-mentioned law covers 90% of unpaid loans taken out by housing cooperatives. As a consequence of the realization of the State Treasury's responsibilities as guarantor, the State Treasury itself enters into the rights of the satisfied creditor (the Bank) and thus becomes a creditor towards the borrower, in line with the concept of guarantee.

As of 1 January 1996 the Bank became the general distributor of duty stamps. The amount received in this respect from the State Treasury was recognized in full by the Bank under "Fee and commission income".

| | 2008 | 2007 |
|---|---|---|
| Fee and commission income | 21 738 | 28 523 |

In the year ended 31 December 2008, the Bank also recognized fee and commission income of PLN 36 thousand (in the year ended 31 December 2007: PLN 74 thousand) in respect of its fees for servicing compensation payments made to pensioners who lost, in 1991, certain supplements to their pensions working conditions hardship and to public sector employees whose salaries were not revised in the second half of 1991 and in the first half of 1992.

| | 2008 | 2007 |
|---|---|---|
| Fee and commission income | 36 | 74 |

Dom Maklerski PKO BP SA (the brokerage house of PKO BP SA) performs the role of an agent for the issue of retail Treasury bonds under an agreement signed between the Ministry of Finance as the issuer and the Bank on 11 February 2003. Under this agreement, Dom Maklerski PKO BP SA receives a fee for providing the services of an agent for the issue of bonds.

| | 2008 | 2007 |
|---|---|---|
| Fee and commission income | 63 168 | 33 604 |

*(in PLN thousand)*

## Significant transactions of PKO BP SA with the State Treasury's related entities

The transactions were concluded at arm's length.

| Entity | 31.12.2008 | | | | | | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Total receivables** | **Total liabilities** | **Contingent liabilities and committments** | **Interest income*** | **Fee and commission income*** | **Other income*** | **Interest expenses*** | **Other expenses*** | **Total receivables** | **Total liabilities** | **Contingent liabilities and commitments** |
| **Entity 1** | 655 219 | - | 393 730 | 5 899 | 253 | - | (356) | - | 305 456 | - | 484 204 |
| **Entity 2** | 30 983 | - | 208 517 | 220 | 3 | - | (134) | - | 110 | - | 575 038 |
| **Entity 3** | 208 237 | - | 222 355 | 6 891 | 408 | - | (1 854) | - | 128 395 | 133 387 | 316 550 |
| **Entity 4** | 126 667 | - | 438 578 | 168 | 125 | - | (568) | - | - | - | 577 300 |
| **Entity 5** | 98 693 | - | 80 000 | 5 276 | 4 | - | (1 125) | - | 109 345 | - | 92 219 |
| **Entity 6** | 90 575 | 12 432 | - | 3 322 | 2 | - | (968) | - | 102 651 | 13 240 | 40 597 |
| **Entity 7** | 72 817 | 68 522 | - | 4 766 | 2 | - | (5 831) | - | 91 021 | - | - |
| **Entity 8** | 70 000 | 50 141 | 180 000 | 1 897 | 9 | - | (1 072) | (1 050) | - | - | - |
| **Entity 9** | 69 593 | 75 456 | 12 402 | 1 302 | 27 | - | (3 777) | - | - | 76 653 | 80 123 |
| **Entity 10** | 51 945 | - | - | 1 997 | 1 | - | (37) | - | 60 912 | - | - |
| **Entity 11** | 41 724 | - | - | 1 470 | 4 | 626 | (5) | (625) | 35 820 | - | - |
| **Entity 12** | 27 408 | - | - | 2 256 | 6 | 471 | (159) | (291) | 36 062 | 2 490 | - |
| **Entity 13** | 24 999 | 5 872 | 30 714 | 910 | 45 | - | (41) | - | 11 912 | - | 39 587 |
| **Entity 14** | 24 769 | - | 231 | - | - | - | - | - | - | - | - |
| **Entity 15** | 21 787 | - | 5 497 | 1 171 | 1 730 | - | (24) | - | 9 373 | - | 29 777 |
| **Other entities' significant exposures** | 163 083 | 1 149 491 | 288 088 | 3 507 | 803 | 64 | (34 920) | - | 1 042 601 | 1 808 455 | 1 046 255 |
| **Total** | **1 778 499** | **1 361 914** | **1 860 112** | **41 052** | **3 422** | **1 161** | **(50 871)** | **(1 967)** | **1 933 658** | **2 034 225** | **3 281 650** |

* lack of 2007 comparable figures

In 2008 no impairment charges were recognised for the above-mentioned receivables.

*(in PLN thousand)*

## 45. Related party transactions

**Transactions of the parent company with jointly controlled entities and associates accounted for using the equity method.**

All transactions with entities related by capital and personal relationships were arm's length transactions. Repayment terms are within a range from 1 month to 10 years.

**31 December 2008**

| Entity | Net receivables | including gross loans | Liabilities | Total revenues | including interest and fee and commission income | Total costs | including interest and fee and commission costs | Contingent liabilities and commitments |
|---|---|---|---|---|---|---|---|---|
| Sopot Zdrój Sp. z o.o. | 154 192 | 151 656 | 3 175 | 3 681 | 3 681 | 20 | 20 | 80 421 |
| Centrum Majkowskiego Sp. z o.o. | - | - | 8 812 | 4 | 4 | 318 | - | - |
| Kamienica Morska Sp. z o.o. | - | - | 1 139 | 12 | 11 | 14 | - | 3 755 |
| Promenada Sopocka Sp. z o.o. | 29 083 | 28 605 | 395 | 700 | 700 | 10 | 10 | 20 996 |
| Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | - | - | - | - | - | - | - | - |
| Agencja Inwestycyjna „CORP" SA | - | - | 47 | 509 | - | 139 | - | - |
| CENTRUM HAFFNERA Sp. z o.o. | - | - | 1 183 | 17 | 17 | 54 | 54 | 4 172 |
| Centrum Obsługi Biznesu Sp z o.o. | 33 752 | 33 598 | 27 226 | 2 316 | 2 311 | 622 | 622 | - |
| Bank Pocztowy SA | - | - | 197 | 7 | - | 2 102 | 2 102 | - |
| Kolej Gondolowa Jaworzyna Krynicka SA | 1 361 | 1 361 | 1 | 36 | 36 | 8 | 8 | 139 |
| **Total** | **218 388** | **215 220** | **42 175** | **7 282** | **6 760** | **3 287** | **2 816** | **109 483** |

**31 December 2007**

| Entity | Net receivables | including gross loans | Liabilities | Total revenues | including interest and fee and commission income | Total costs | including interest and fee and commission costs | Contingent liabilities and commitments |
|---|---|---|---|---|---|---|---|---|
| Sopot Zdrój Sp. z o.o. | 49 400 | 48 696 | 1 033 | 678 | 678 | 10 | 10 | 131 833 |
| Centrum Majkowskiego Sp. z o.o. | - | - | 15 834 | 475 | 475 | 6 | 6 | - |
| Kamienica Morska Sp. z o.o. | - | - | 782 | 45 | 45 | 9 | 9 | 3 224 |
| Promenada Sopocka Sp. z o.o. | 15 204 | 15 013 | 1 066 | 285 | 285 | 15 | 15 | 27 617 |
| Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | - | - | 10 155 | 1 | 1 | 223 | 223 | - |
| Agencja Inwestycyjna „CORP" SA | 468 | - | 10 | 1 255 | - | 2 340 | - | - |
| CENTRUM HAFFNERA Sp. z o.o. | - | - | 4 842 | 18 | 18 | 325 | 325 | 3 582 |
| Centrum Obsługi Biznesu Sp z o.o. | 30 057 | 29 891 | 544 | 1 292 | 1 292 | 76 | 38 | 1 001 |
| Bank Pocztowy SA | 2 | - | 3 539 | 41 | 30 | 710 | 326 | 1 834 |
| Kolej Gondolowa Jaworzyna Krynicka SA | 996 | - | 4 | 91 | 91 | 35 | - | 508 |
| **Total** | **96 127** | **93 600** | **37 809** | **4 181** | **2 915** | **3 749** | **952** | **169 599** |

## 46. Remuneration – parent company key management

a) Short-term employee benefits

**Remuneration received from PKO BP SA:**

| | 2008 | 2007 |
|---|---|---|
| **The Management Board of the Bank** | | |
| Short-term employee benefits | 2 491 | 1 655 |
| **The Supervisory Board of the Bank** | | |
| Short-term employee benefits | 253 | 272 |
| **Total** | **2 744** | **1 927** |

*(in PLN thousand)*

**Remuneration received from related companies (other than from State Treasury and related entities):**

| | 2008 | 2007 |
|---|---|---|
| **The Management Board of the Bank** | | |
| Short-term employee benefits | 1 096 | 833 |
| **The Supervisory Board of the Bank** | | |
| Short-term employee benefits | 91 | 287 |
| **Total** | **1 187** | **1 120** |

b) Post-employment benefits

In the years ended 31 December 2008 and 31 December 2007 no post-employment benefits were paid.

c) Other long-term benefits

In the years ended 31 December 2008 and 31 December 2007 no “other long-term benefits” were paid.

d) Benefits due to termination of employment

In the years ended 31 December 2008 and 31 December 2007 no benefits were paid due to termination of employment.

e) Share-based payments

In the years ended 31 December 2008 and 31 December 2007 no benefits were paid in the form of share-based payments.

**Loans, advances and guarantees provided by the Bank to the management and other employees:**

| | 2008 | 2007 |
|---|---|---|
| Employees | 1 217 814 | 850 624 |
| The Management Board members | 150 | 5 036 |
| The Supervisory Board members | 71 | 513 |
| **Total** | **1 218 035** | **856 173** |

Interest and repayment periods of the above items are set at arm’s length.

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

| | 2008 | 2007 |
|---|---|---|
| **The Management Board** | | |
| Short-term employee benefits | 11 643 | 9 091 |
| **The Supervisory Board** | | |
| Short-term employee benefits | 3 616 | 1 294 |
| **Total** | **15 259** | **10 385** |

## 47. Business combinations

The information below concerns share purchase transactions with subsidiaries, which were concluded within the year of 2008.

### a) concerning KREDOBANK SA

On 31 December 2008, PKO BP SA acquired 13 044 501 852 shares within the capital increase of KREDOBANK SA with total nominal value of UAH 130 445 thousand. The price of acquired shares, including additional costs amounted to PLN 48 737 thousand.

As a result of above-mentioned acquisition PKO BP SA increased its share in share capital and voting rights on General Shareholders' Meeting from 98.1815% to 98.5619%.

In connection with the obligation to inform the Financial Supervision Authority (KNF) about the change in the exposure of PKO BP SA to KREDOBANK SA shares, the above-mentioned shares, which are treated as a structural item for the purposes of the calculation of capital requirement with respect to foreign exchange risk and are excluded from the balance of foreign currency items as at 31 December 2008, have been disclosed in the balance sheet of PKO BP SA as "Other assets".

Due to the deterioration of the financial situation in Ukraine the Bank carried out an impairment test for the capital investment in KREDOBANK SA. As a result of the test conducted as at 31 December 2008, the Bank recognized impairment loss for the exposure in the subsidiary company KREDOBANK SA in the amount of PLN (356 101) thousand, i.e. PLN 307 364 thousand for capital investment and PLN 48 737 thousand for capital contribution to KREDOBANK SA due to the XVIII share issue, presented in the balance sheet as at 31 December 2008 as "Other assets".

### b) concerning PKO Finance AB

According to the contract signed by PKO BP SA and Svenska Standardbolag AB (Sweden) on 27 June 2008, the Bank acquired 5 000 shares of Aktiebolaget Grundstenen 108756 (Sweden) with a nominal value of SEK 500 000 (PLN 170 000).

The acquired shares constituted 100% of the share capital and 100% of voting rights. The acquisition price with all additional costs amounted to SEK 505 thousand (PLN 172 thousand).

On 17 July 2008, the Swedish Registry Office (Bolagsverket) registered the change of the name from Aktiebolaget Grundstenen 108756 to PKO Finance AB.

The Company's activity is to rise funds for PKO BP SA deriving from issue of eurobonds.

As at 31 December 2008, PKO Finance AB was consolidated in the consolidated financial statements of the PKO BP SA Group using the full method.

### c) concerning Bankowy Fundusz Leasingowy SA

On 30 September 2008, an increase of share capital of Bankowy Fundusz Leasingowy SA of PLN 30 000 thousand was registered with the National Court Register (KRS).

All additional shares were acquired by PKO BP SA. Following the above-mentioned issue, PKO BP SA holds 100% of the share capital and 100% of votes on the General Shareholders' Meeting.

As at 31 December 2008 and as at 31 December 2007, Bankowy Fundusz Leasingowy SA was consolidated in the consolidated financial statements of the PKO BP SA Group using the full method.

**d) relating to the PKO Inwestycje Sp. z o.o. Group**

On 18 January 2008, PKO Inwestycje Sp. z o.o. made a capital contribution to ARKADIA Inwestycje Sp. z o.o. in the amount of PLN 4 075 thousand .

On 3 July 2008, a change of the name from ARKADIA Inwestycje Sp. z o.o. to PKO Inwestycje – Międzyzdroje Sp. z o.o. was registered with the National Court Register (KRS).

On 22 August 2008, an increase of the share capital of PKO Inwestycje – Międzyzdroje Sp. z o.o. (former ARKADIA Inwestycje Sp. z o.o.) of PLN 1 500 thousand was registered with the National Court Register (KRS). All additional shares were acquired by PKO Inwestycje Sp. z o.o. Following the above-mentioned issue, PKO Inwestycje Sp. z o.o. held 100% of the share capital and 100% of the voting rights on Shareholders' Meeting.

On 24 January 2008, WISŁOK Inwestycje Sp. z o.o. with its seat in Rzeszów was registered in the National Court Register. The entity share capital amounts to PLN 500 thousand and consists of 5 000 shares, each of PLN 100 par value.

The entity's shareholders are PKO Inwestycje Sp. z o.o., which acquired 4 000 shares with a total value of PLN 400 thousand and Jedynka SA, which took up 1 000 shares with a total value of PLN 100 thousand. The shares acquired by PKO Inwestycje Sp. z o.o. represent 80% of the Company's share capital and carry 80% of voting rights at the Shareholders' Meeting.

In 2008 (on 4 July 2008, 13 August and 18 December 2008) PKO Inwestycje Sp. z o.o. made a capital injection into WISŁOK Inwestycje Sp. z o.o. in the amount of PLN 2 400 thousand.

WISŁOK Inwestycje Sp. z o.o. was formed in order to execute a housing project in Rzeszów called “Osiedle Wisłok”.

On 28 January 2008, PKO Inwestycje Sp. z o.o. concluded 2 transactions in which it purchased a total of 50 shares in Baltic Dom 2 Sp. z o.o. with a total nominal value of PLN 25 thousand, representing 50% of the entity's share capital and entitling to 50% of votes at the Shareholders' Meeting. The price for the acquired shares including additional fees was PLN 6 009 thousand .

On 27 August 2008, PKO Inwestycje Sp. z o.o. purchased 6 shares of Baltic Dom 2 Sp. z o.o., with a nominal value of PLN 3 000. The purchase price including additional costs amounted to PLN 610 thousand .

As a result of the above-mentioned transaction, PKO Inwestycje held shares constituting 56% of the share capital and 56% of votes on Shareholders' Meeting.

The entity carries out works related to the execution of a housing project “Sarnia Dolina” in Jankowo near Gdańsk.

The information below concerns goodwill arising as a result of acquiring shares in Baltic Dom 2 Sp. z o.o.

*(in PLN thousand)*

**Baltic Dom 2 Sp. z o.o.**

| **Acquisition date** | **28.01.2008** | **27.08.2008** | **Total as at 31.12.2008** |
|---|---|---|---|
| Share in the entity's capital | 50.00% | 6.00% | 56.00% |
| Purchase value | 6 009 | 610 | |
| Book value of the entity's net assets on the acquisition date | (670) | (995) | |
| PKO Inwestycje Sp. z o.o. share in fair value of the entity's net assets on acquisition date | (335) | (60) | |
| **Entity's goodwill on the acquisition date** | **6 344** | **670** | **7 014** |

On 30 June 2008, PKO Inwestycje Sp. z o.o. returned to PKO BP SA a capital contribution received for an execution of investment projects of PLN 5 500 thousand.

On 3 July 2008, a change of the name from ARKADIA Inwestycje Sp. z o.o. to PKO Inwestycje – Międzyzdroje Sp. z o.o. was registered with the National Court Register (KRS).

As at 31 December 2008 and 31 December 2007, PKO Inwestycje was consolidated in the consolidated financial statements of the PKO BP SA Group, using the full method. As at 31 December 2008, new subsidiaries of PKO Inwestycje Sp. z o.o. were consolidated using the entity accounting method in the consolidated financial statements of the PKO BP SA Group.

**e) relating to Finanse Agent Transferowy Sp. z o.o.**

On 14 February 2008, Powszechne Towarzystwo Emerytalne BANKOWY SA – a subsidiary of PKO BP SA – made a capital contribution to Finanse Agent Transferowy Sp. z o.o. ("Finat") of PLN 1 500 thousand.

On 11 December 2008, an increase of share capital of Finanse Agent Transferowy Sp. z o.o. of PLN 7 600 thousand was registered with the National Court Register (KRS).

All shares were acquired by Inteligo Financial Services SA – the PKO BP SA subsidiary at nominal value of shares.

As a result of increase of share capital the shareholders of Finanse Agent Transferowy Sp. z o.o. are PKO BP SA's subsidiaries, including:

- Inteligo Financial Services SA, which holds 80.33% of share capital and 80.33% of voting rights on General Shareholders' Meeting,

- Powszechne Towarzystwo Emerytalne BANKOWY SA, which holds 19.67% of share capital and 19.67% of voting rights on General Shareholders' Meeting.

As at 31 December 2008 and 31 December 2007, Powszechne Towarzystwo Emerytalne BANKOWY SA and Finanse Agent Transferowy Sp. z o.o. were consolidated using the full method in the consolidated financial statements of the PKO BP SA Group.

**f) relating to Bankowe Towarzystwo Kapitałowe SA**

On 15 September 2008, Bankowe Towarzystwo Kapitałowe SA (a PKO BP SA's subsidiary) sold 285 125 shares of FINDER SA with a total value of PLN 1 140 thousand. According to the sale agreement, the price of one share varied in each month from August 2008 to March 2009, depending on the date of cash inflow onto the entity's account. As at 31 December 2008 the value of the shares sold was PLN 9 425 thousand.

All of the shares under the sale agreement constituted 46.42% of the share capital and gave 46.42% of votes on Shareholders' Meeting of FINDER SA. Following the sale, BTK SA has no longer any shares of FINDER SA.

As at 31 December 2008 and 31 December 2007, Bankowe Towarzystwo Kapitałowe SA was consolidated in the consolidated financial statements of the PKO BP SA Group using the full method.

As at 31 December 2007 FINDER SA was consolidated in the consolidated financial statements of the PKO BP SA Group using the equity method.

## 48. Fair value of financial assets and financial liabilities

The Group holds certain financial instruments which are not stated at fair value in the balance sheet.

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.

Where there is no market value of financial instruments available, their fair values have been estimated using various valuation techniques. The fair value of financial instruments was measured using a model based on estimating the present value of future cash flows by discounting them using relevant interest rates. Such a model includes certain simplifying assumptions and therefore is sensitive to those assumptions. Set out below is a summary of the main methods and assumptions used for estimation of fair values of financial instruments which are not presented at fair values.

For certain categories of financial instruments it has been assumed that their carrying amount equals approximately their fair values, which is due to lack of expected material differences between their carrying amount and their fair value resulting from the features of these groups (such as short term character, high correlation with market parameters, unique character of the instrument). This applies to following groups of financial instrument:

- loans and advances to customers: loans with a maturity of up to 1 year, a portion of the housing loans portfolio (the so-called “old portfolio”), loans with no specified repayment schedule, which are due at the moment of valuation and for which the fair value equals their carrying amount,
- amounts due to clients: liabilities with no specified payment schedule, negotiable deposits with interest rates based on market reference rates, other specific products for which no active market exists, such as housing plan passbooks and bills of savings.
- deposits and interbank placements with maturity date up to 7 days or with a variable interest rate,
- loans and advances granted and taken at a variable interest rate (change of interest rate maximum on a three month basis),
- cash and balances with the central bank and amounts due to the central bank,
- other financial assets and liabilities,
- debt securities in issue (at variable interest rate), issued by KREDOBANK SA and BFL.

With regards to loans and advances to clients, the fair value of these instruments has been calculated using discounted future cash flows, and applying current interest rates plus a risk margin and relevant scheduled repayment dates. The current margin level has been established based on transactions with similar credit risk executed during the last half year ended as of the balance date.

*(in PLN thousand)*

The fair value of deposits and other amounts due to clients, which have set maturities has been calculated using the discounted expected future cash flows and applying current interest rates for given deposit products.

The fair value of the subordinated debt of the Bank has been estimated based on the expected future cash flows discounted using the zero-coupon yield curve.

The fair value of interbank placements and deposits has been estimated based on the expected future cash flows discounted using the current interbank interest rate.

The fair value of finance lease liabilities has been estimated based on expected cash flows discounted using internal rate of return for lease transactions of the same kind, concluded by the Group in the period directly preceding the balance date.

The table below shows a summary of the carrying amounts and fair values for the individual groups of financial instruments which have not been presented at fair value in the Group's balance sheets as at 31 December 2008 and 31 December 2007:

| | **31.12.2008** | | **31.12.2007** | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| Cash and balances with the central bank | 5 836 892 | 5 836 892 | 4 682 627 | 5 836 892 |
| Amounts due from banks | 3 363 599 | 3 363 674 | 5 261 236 | 5 256 436 |
| Loans and advances to customers (including finance lease receivables) | 101 107 891 | 100 820 797 | 76 417 149 | 76 816 457 |
| *consumer loans* | 20 203 045 | 20 251 908 | 17 842 564 | 17 854 497 |
| *mortgage loans* | 45 401 651 | 45 289 143 | 32 886 600 | 33 215 145 |
| *corporate loans* | 35 503 195 | 35 279 746 | 25 687 985 | 25 746 815 |
| Other financial assets | 366 732 | 366 732 | 415 224 | 415 224 |
| Amounts due to the central bank | 2 816 | 2 816 | 1 279 | 1 279 |
| Amounts due to other banks | 6 988 603 | 6 989 408 | 4 703 114 | 4 702 821 |
| Amounts due to clients | 102 939 281 | 102 920 807 | 86 579 510 | 86 585 091 |
| *due to corporate entities* | 19 332 897 | 19 333 054 | 15 639 541 | 15 639 595 |
| *due to state budget entities* | 7 283 578 | 7 283 590 | 4 691 218 | 4 691 253 |
| *due to retail clients* | 76 322 806 | 76 304 163 | 66 248 751 | 66 254 243 |
| Debt securities in issue | 211 573 | 211 573 | 178 860 | 178 860 |
| Subordinated liabilities | 1 618 755 | 1 629 537 | 1 614 885 | 1 619 115 |
| Other financial liabilities | 1 667 776 | 1 667 776 | 1 732 333 | 1 732 333 |

## 49. Trustee activities

The Bank is a direct participant in the National Depository for Securities (*Krajowy Depozyt Papierów Wartościowych*) and the Securities Register (at the National Bank of Poland). The Bank maintains customer investment accounts, services transactions made on the domestic and foreign markets, and provides custody services for pension and investment funds. Due to a trustee or a similar relationship, these assets are not assets of the Bank, and therefore they are not included in these financial statements. As a member of the Council of Depositary Banks and the Council of Non-treasury Debt Securities by the Polish Bank Association, PKO BP SA takes part in developing regulations and market standards.

## 50. Sale of impaired loan portfolios

The Bank did not enter any securitization transactions, although:

– in 2008, three transactions of sale of balance sheet and off balance sheet receivables classified as lost were concluded. One of these transactions was concluded with a securitization fund, and two were concluded with loan collection companies. Approx. 140 thousand receivables with a total value of PLN 1.22 billion were sold.

*(in PLN thousand)*

– during the years 2005 – 2006, the Bank sold a number of receivables classified as default (both balance sheet and off-balance sheet receivables) which were due to the Bank from corporate entities and retail clients. About 137 000 receivables were sold in total, with a total value of approximately PLN 2 billion. Due to the fact that the buyers are allowed to raise claims with regard to the receivables sold to them within the deadlines set out in the respective debt sale agreements, the Bank recognized provisions for potential claims. In 2007 the Bank did not sell any portfolios of receivables.

– the total carrying amount of securitization provisions created in connection with sale transactions as at 31 December 2008 was PLN 25 350 thousand (as at 31 December 2007: PLN 9 894 thousand).

## 51. Description of differences between the previously published financial statements and these financial statements

Presented below is the summary of significant changes included in the prior published data, restated for comparability purposes:

**INCOME STATEMENT**
**OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP**

| **Title** (in relation to changed positions) | **2007** presented previously | **2007** comparative data | **Difference** | |
|---|---|---|---|---|
| Interest and similar income | 6 582 391 | 6 559 333 | (23 058) | 1), 5) |
| Interest expense and similar charges | (1 938 663) | (1 912 766) | 25 897 | 1) |
| Fee and commission income | 3 022 036 | 3 083 416 | 61 380 | 1), 6) |
| Fee and commission expense | (686 837) | (751 569) | (64 732) | 1), 3), 6) |
| Net income from financial instruments designated at fair value through profit or loss | (74 269) | (73 314) | 955 | 1), 2) |
| Gains less losses from investment securities | 9 382 | 6 543 | (2 839) | 5) |
| Other operating income | 657 245 | 514 566 | (142 679) | 1), 2), 4), 6) |
| Other operating expenses | (360 284) | (256 936) | 103 348 | 1), 2), 4), 6), 7) |
| Administrative expenses | (4 082 572) | (4 040 844) | 41 728 | 3), 7) |

1) Change in the presentation of chosen revenues and expenses of the brokerage house, Dom Maklerski PKO BP SA.
2) Change in the presentation of chosen revenues and expenses from financing activities.
3) Change in the presentation of expenses from KIR, BIK, SWiFT services.
4) Change in the presentation resulting from netting off change of products in developer companies.
5) Change in the presentation of income on investment securities.
6) Change in the presentation of revenues and costs in respect of managing the Open Pension Fund (OFE).
7) Change in the presentation of non planned amortisation and depreciation.

**BALANCE SHEET**
**OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP**

| **Item** (relates to restated items) | **31.12.2007** presented previously | **31.12.2007** comparative data | **Difference** | |
|---|---|---|---|---|
| Amounts due from banks | 5 292 319 | 5 261 236 | (31 083) | 8) |
| Amounts due to customers | 86 610 593 | 86 579 510 | (31 083) | 8) |

8) Change in presentation due to netting off selected balance sheet items of the Bank's units

**CASH FLOW STATEMENT**
**OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP**

| **Item** (relates to restated items) | **31.12.2007** presented previously | **31.12.2007** comparative data | **Difference** | |
|---|---|---|---|---|
| Cash at the end of the period | 9 263 399 | 9 232 316 | (31 083) | 8) |

8) Change in presentation due to netting off selected balance sheet items of the Bank's units

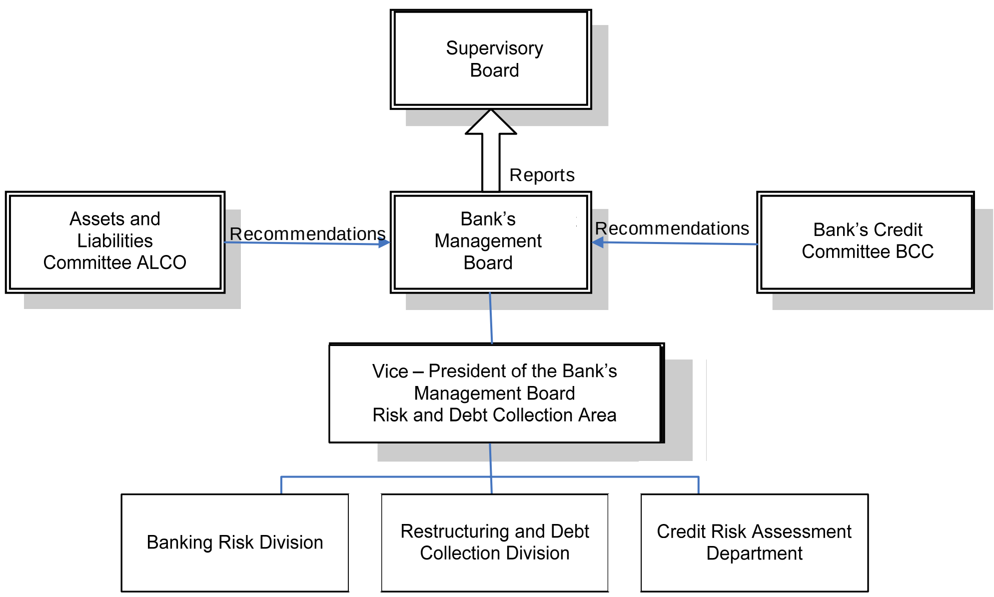
## 52. Objectives and principles of risk management

Banking activity is exposed to a number of risks, including credit risk, market risk, operational risk and business risk. Controlling the impact of these risks on the operations of the PKO BP SA Group is one of the most important objectives in the management of both the Bank and the Group. The level of the risks plays an important role in the planning process.

Risk management in the Bank is based on the following principles:

- full organisational independence of the risk and debt collection function from the business function,
- risk management is integrated with planning and controlling processes,
- the risk and debt collection function provides an ongoing support for meeting business objectives while keeping risk at an acceptable level,
- level of risk is controlled on an ongoing basis,
- the risk management model is adjusted on a ongoing basis to reflect new risk factors and risk sources.

**Organisational risk management model**




Banking risk management process in the Group consists of the following actions:

- identification of the risk – determination of both the actual and the potential risk factors, resulting from current and planned activity of the Bank,
- measuring of the risk,
- making decisions about acceptable level of risk, planning of activities, giving recommendations and instructions, building procedures and supporting tools,
- monitoring of the risk – full-time supervision at the risk level based on accepted methods of measuring the risk,
- reporting to management on a cyclical basis – about exposure to risk and steps taken to mitigate that risk.

The risk management process is supervised by the Supervisory Board of the Bank, which is informed on a regular basis about the risk profile of the Bank and of the PKO BP SA Group as well as of the most important activities taken in the area of risk management.

The Management Board is responsible for the risk management strategy, including supervising and monitoring of activities taken by the Bank in the area of risk management. The Management Board approves the most important decisions affecting the risk profile of the Bank and internal regulations defining the risk management system. Operational risk management is conducted by organizational units of the Bank (within the scope of their authorizations), which are grouped into the Banking Risk Division, the Restructuring and Debt Collection Division and the Credit Risk Assessment Department.

Tasks of the Banking Risk Division include development and implementation of comprehensive solutions in the area of management of credit risk, operational risk, compliance risk, market and strategic risk, as well as capital adequacy management.

The task of the Restructuring and Debt Collection Division is to ensure an effective and efficient debt collection and restructuring of doubtful and defaulted receivables.

The task of the Credit Risk Assessment Department is to assess and review estimated credit risk arising from individual loan exposures which require particular attention due to their size or their level of risk.

Market risk management and portfolio credit risk management in the Bank are supported by the following two committees, which are chaired by the Vice-President of the Bank's Management Board who is in charge of the Risk and Debt Collection Area:

- Assets & Liabilities Committee (ALCO),
- Credit Committee (CC).

ALCO makes decisions and issues recommendations to the Bank's Management Board with regard to market risk management, portfolio credit risk management and asset and liability management.

CC makes loan decisions with regard to significant individual loan exposures, or issues recommendations in this respect to the Bank's Management Board. There are also other credit committees operating at various levels of the Bank. They are responsible for issuing recommendations with regard to loan decisions which are significant due to the level of the risk involved or the size of the loan exposure.

The Bank supervises activities of the individual subsidiaries of the Group PKO BP SA. As part of this supervision, the Bank sets out and approves their development strategies, including risk management strategies. The Bank also supervises the entities' risk management systems and provides support in the development of these systems. Additionally, it reflects business risk of the particular Group entities in the risk reporting and risk monitoring system of the entire Group.

**Influence of the global crisis on bank risk management**

In the second half of 2008 the financial crisis in the high developed countries (mainly United States and Western Europe countries) began to affect negatively the economic situation in Poland, the level of exchange rates and interest rates as well as the condition of the Polish financial sector and mutual trust of entities operating on the interbank market.

In order to counteract the negative influence of these factors on the financial standing of PKO BP SA, the Bank modified its risk management policy. The priority of the Bank became to hold a strong capital position and a stable deposit base, which determine the increase of the Bank's loan portfolio.
As a consequence, in the 4th quarter, the Bank:

- undertook intensive actions aimed at gaining new deposits from retail clients,
- issued a recommendation to retain the whole net profit for the year 2008 in the Bank,
- reflected the economic conditions deriving from the financial crisis in the banking risk measurement methods (among others in respect of stress test scenarios, liquidity contingency plans, interest rate and currency risk measures, implementation of Early Warning System),

- expanded scope and frequency of management reports in respect of risk presented for the Management Board
- adjusted the credit policy to the amended market conditions (among others, the Bank tightened criteria concerning granting loans denominated in foreign currency to retail customers, increased the amount of the required client's own contribution with respect to mortgage loans, introduced restrictions on crediting clients with high credit risk and increased credit risk margins for new corporate and consumer loans).

Moreover, in order to react on the dynamically changing situation in the financial markets, the Bank appointed a special working group, which reports to Management Board members on a cyclical basis.

Apart from the above-mentioned actions resulting from the financial crisis, the Bank conducted standard cyclical banking risk monitoring and, in accordance with the prior assumptions, developed the adopted risk measurement methods.

The undertook action resulted in holding a safe level of risk borne by the Bank, which was reflected in, among others, no necessity to take advantage of supervisory instruments supporting the liquidity of the banking sector (lombard loan, financing operations in foreign currencies).

**Credit risk**

Credit risk is defined as a risk of occurrence of losses due to a counterparty's default of payments to the Bank or as a risk of decrease in economic value of amounts due to the Bank as a result of deterioration of a counterparty's ability to repay amounts due to the Bank.

The Bank and the Group entities apply the following principles of credit risk management:

- each loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk relating to potential and concluded loan transactions is measured on a cyclical basis, taking into consideration changes in external conditions and in the financial standing of the borrowers,
- credit risk assessment of exposures which are significant due to their risk levels is subject to additional verification by credit risk assessment teams, which are independent of the business teams,
- terms of loan contracts that are offered to a client depend on the credit risk generated by the contract,
- loan granting decisions are made only by authorised persons, within their authority,
- credit risk is diversified by geographical location, by industry, by product and by clients,
- expected credit risk is mitigated by setting appropriate credit margins and appropriate allowances for credit losses.

The above-mentioned policies are executed by the Bank through the use of advanced credit risk management methods, both on the level of individual exposures and on the level of the whole credit portfolio of the Bank. These methods are verified and developed to ensure compliance with the internal ratings based requirements.

**Rating and scoring methods**

The Bank assesses the risk of individual credit transactions with the use of scoring and rating methods, which are created, developed and supervised by the Banking Risk Division. The assessment methods are supported by specialist central application software.

The Bank assesses the credit risk of retail clients on two levels: the client's borrowing capacity and his creditworthiness. The assessment of borrowing capacity involves an examination of the client's financial situation, whereas the creditworthiness assessment involves scoring and evaluating the client's credit history obtained from external sources and internal records of the Bank. In 2008, the

Bank continued developing such credit risk assessment methods relating to retail clients. Among other things, it extended the behavioural scoring system by adding more revolving facilities offered by the Bank to retail clients, such as credit cards and Inteligo revolving loans. In this period, the Bank also updated the minimum values of the parameters used for assessing the borrowing capacity of retail clients applying for consumer loans, mortgage loans, credit cards, revolving loans. The changes in the parameter values involved increasing, among others, the minimum fixed expenses of a household and its outgoings on consumption.

Credit risk relating to the financing of corporate clients is assessed on two levels: the client and the transaction (excluding corporate clients treated as a part of the retail market, who are assessed in a simplified manner). These assessments are based on the ratings of the client and the transaction. The so-called cumulative rating is a synthetic measure of credit risk for the Bank.

The information about ratings and scoring is widely used at the Bank for the purposes of credit risk management, the system of credit decision-making powers, determining the amounts above which independent credit assessment services are activated, and the reporting system.

Due to the financial crisis, the parent entity carries out additional analyses and stress-tests concerning the potential impact of changes in macroeconomic environment on the quality of the loan portfolio; additional reporting to the Bank's Management was also introduced. Above-mentioned information enables identification and undertaking actions constraining negative effects of the impact on the Bank's result.

At the same time, in 2008, the Bank implemented the Early Warning System, aimed at identification of potential increase of credit risk or risk associated with impairment of the collateral for exposures to corporate clients.

Due to increased volatility in financial markets (mainly on the currency market) and signals generated within the Early Warning System (EWS), the Bank reassessed the level of credit risk of the Bank's credit clients who concluded derivative instruments transactions, both with the Bank and other banks.

As a result of inquiry on derivative instruments exposure aimed at corporate clients (116 customers in total), in some cases deterioration of the client standing has been observed due to concluding hedge transactions for the same currency flows with many banks simultaneously or asymmetric option structures.

Within the verification of the clients' situation as at 31 December 2008 and till today the Bank identified a group of clients, whose financial standing may deteriorate due to concluded treasury transactions and significant negative valuation as well as clients for whom the rating was decreased of who defaulted.

**Early Warning System (EWS)**

The Early Warning System (EWS) has been in place at the Bank since February 2008. The system is aimed at early identification of potential increases of credit risk or risk associated with impairment of the collateral of loans granted to corporate clients, small and medium enterprises, institutional clients active on the housing market, as well as at taking actions to prevent such risks from materializing or mitigate losses on loans. Early identification of threats makes it possible to update credit risk assessment and assessment of recoverable amounts from collateral on an ongoing basis.

EWS covers the clients who meet the conditions defined by the Bank's Management Board and involves in particular:

- ongoing observation of clients and registration of warning signals at the moment of their identification;
- evaluation of the importance of the warning signals registered and choice of actions to prevent materialization of risk or impairment of collateral;
- prompt execution of the above-mentioned tasks;
- monitoring the performance of the tasks.

**Portfolio risk measurement**

In order to assess the level of credit risk and profitability of loan portfolios, the Bank uses different credit risk measurement and valuation methods, including:

- Probability of Default (PD);
- Expected Loss (EL);
- Credit Value at Risk (CVaR);
- Effectiveness measures used in scoring methodologies (Accuracy Ratio);
- Share and structure of non-performing loans;
- Share and structure of exposures for which an individual loss of value has been determined.

The Bank regularly extends the scope of credit risk measures used, taking account of the internal rating-based method (IRB) requirements, and extends the use of risk measures to cover the whole loan portfolio with these methods.

The portfolio credit risk measurement methods make it possible, among other things, to reflect the credit risk in the price of services; determine the optimum cut-off levels and determine impairment allowances.

**Collateral policy**

Group collateral management is meant to secure properly the interests of the Group by way of establishing collateral that will ensure the highest possible level of recovery in the event of realisation of collateral. Group policies regarding legal collateral measures are included in the internal regulations of the Group subsidiaries.

The type of collateral depends on the product and the type of the client.

With regard to real estate financing products, collateral is required to be established on the property. Until a mortgage is effectively established (depending on the type and amount of loan), a higher credit margin is used or a security is accepted in the form of transfer of receivables resulting from a construction contract, a bill of exchange, a guarantee or insurance of receivables.

With regard to retail banking products, usually personal guarantees are used (a civil law surety/guarantee, a bill of exchange) or collateral is established on the client's bank account, his car or securities.

With regard to loans for the financing of small and medium enterprises and corporate clients, collateral can be established on: trade receivables, bank accounts, movable property, real estate or securities.

The Bank follows the following rules with respect to accepting legal collateral for loans:

- In the case of substantial loans (in terms of value), several types of collateral are established. If possible, personal guarantees are combined with collateral established on assets;

- Liquid types of collateral (i.e. collateral established on liquid assets, which the Bank is likely to dispose of quickly for a price approximating the value of the assets put up as collateral) are preferred;
- Types of collateral which are exposed to a risk of significant adverse fluctuations of value are treated as auxiliary collateral;
- When an asset is accepted as collateral, an assignment of rights from the insurance policy relating to this asset or the insurance policy issued to the Bank are accepted as additional collateral;
- Effective establishment of collateral in compliance with the loan agreement is necessary to make the funds available.

Collateral is monitored on a periodic basis in order to determine the current credit risk level of a transaction. The following aspects are monitored:

- The financial standing of the entity which provided the personal guarantee;
- The condition and value of assets put up as collateral;
- Other factors affecting the Bank's ability to recover the receivable.

Collateral in the form of mortgage on real estate is subject to special scrutiny. The Bank monitors such real estate on a periodic basis (taking into account the LtV – loan to value ratio). It also monitors prices on the real estate market. Should such an analysis show a significant drop in real estate prices, the Bank will undertake additional steps to regularise the position.

With regard to lease contracts, BFL SA, as the owner of leased assets, treats them as collateral of the transaction. Should the liquidity (demand for a given kind of fixed asset on secondary markets), rate of impairment of an asset, or financial standing of the client be unacceptable according to internal procedures, additional legal collateral measures are used in the form accepted by banks. These include: mortgages, registered pledges, transfer of ownership, repurchase agreements concluded with suppliers with respect to leased assets, and the following forms of financial security: transfers of receivables, liens on bank accounts and deposits.

**Credit risk management tools**

Basic credit risk management tools used by the Bank include:

- The principles of defining credit availability, including cut-offs – the minimum number of points awarded in the process of creditworthiness assessment with the use of a scoring system (for retail clients) or the client's rating class or cumulative rating class (for corporate clients), which a client must obtain to receive a loan;
- Minimum transaction requirements determined for a given type of transaction (e.g. minimum LtV, maximum loan amount, required collateral);
- Minimum credit margins – credit risk margins relating to a given credit transaction concluded by the Bank with a given corporate client; the interest rate offered to a client cannot be lower than the reference rate plus credit risk margin;
- Concentration limits – the limits defined in §71, clause 1 of the Banking Law, sector limits and limits relating to real estate financing;
- Competence limits – they define the maximum level of credit decision-making powers with regard to the Bank's clients; the limits depend primarily on the amount of the Bank's exposure to a given client (or a group of related clients) and the loan transaction period; the competence limit depends on the credit decision-making level (in the Bank's organizational structure).

*(in PLN thousand)*

### Credit risk reporting

The Bank prepares monthly and quarterly credit risk reports for ALCO, the Credit Committee, the Management Board and the Supervisory Board. The reports contain information about the historical credit risk amounts and credit risk forecasts. In addition to the information concerning the Bank, the reports also contain information about the credit risk level for two Group companies, KREDOBANK SA and BFL SA, which have significant credit risk levels.

### Credit risk management at the Group subsidiaries

The Group companies, which have significant credit risk levels (KREDOBANK SA, BFL SA) manage their credit risk individually, but the methods used by them for credit risk assessment and measurement are adjusted to the methods used by PKO BP SA, taking into account the specific nature of the activities of these companies.

Any changes to the solutions used by the Group companies are agreed with the Bank's units responsible for risk management.

BFL SA and KREDOBANK SA measure credit risk regularly, and the results of such measurements are submitted to the Bank.

KREDOBANK SA and BFL SA have units responsible for risk in their organizational structures, which are in particular responsible for:

- Developing methods of credit risk assessment, recognizing provisions and allowances;
- Controlling and monitoring credit risk during the lending process;
- The quality and effectiveness of restructuring and enforcement of the amounts due from clients.

In these companies, the credit decision limits depend primarily on: the amount of the Bank’s exposure to a given client, the amount of an individual credit transaction and the period of credit transaction.

The process of credit decision-making at KREDOBANK SA and BFL SA is supported by credit committees, which are involved in the case of transactions which generate increased credit risk.

Appropriate organizational units of the Banking Risk Area participate in managing the credit risk in the Group companies by giving their opinions on projects and periodically reviewing internal regulations of the companies relating to the assessment of credit risk and preparation of recommendations relating to amendments in the drafts of regulations. The Bank supports implementation of the recommended changes in principles for assessing credit risk in the Group companies.

### Group’s exposure to risk

| **Amounts due from banks** | **Exposure** | |
|---|---|---|
| | **31.12.2008** | **31.12.2007** |
| Amounts due from banks impaired | 28 486 | 276 |
| *of which assessed on an individual basis* | *28 486* | *276* |
| Amounts due from banks not impaired | **3 363 224** | **5 261 236** |
| *neither past due nor impaired* | 3 361 761 | 5 261 231 |
| *past due but not impaired* | 1 463 | 5 |
| **Gross total** | **3 391 710** | **5 261 512** |
| **Impairment allowances** | **(28 111)** | **(276)** |
| **Net total (carrying amount)** | **3 363 599** | **5 261 236** |

*(in PLN thousand)*

| Loans and advances to customers | Exposure | |
|---|---|---|
| | 31.12.2008 | 31.12.2007 |
| Loans and advances impaired | 3 820 011 | 2 511 873 |
| *of which assessed on an individual basis* | 1 932 692 | 969 903 |
| Loans and advances not impaired | 100 205 756 | 76 320 879 |
| *neither past due nor impaired* | 94 476 168 | 74 503 779 |
| *past due but not impaired* | 5 729 588 | 1 817 100 |
| **Gross total** | **104 025 767** | **78 832 752** |
| **Impairment allowances** | **(2 917 876)** | **(2 415 603)** |
| **Net total (carrying amount)** | **101 107 891** | **76 417 149** |

| Investment securities available for sale – debt securities | Exposure | |
|---|---|---|
| | 31.12.2008 | 31.12.2007 |
| Debt securities impaired | **22 245** | **34 631** |
| *of which assessed on an individual basis* | 22 245 | 34 631 |
| Debt securities not impaired | **8 522 298** | **5 615 947** |
| *not past due* | 8 522 298 | 5 615 947 |
| *with an external rating* | 6 252 835 | 3 834 637 |
| *with an internal rating* | 2 195 036 | 1 781 310 |
| *without rating* | 74 427 | - |
| **Gross total** | **8 544 543** | **5 650 578** |
| **Impairment allowances** | **(19 932)** | **(18 620)** |
| **Net total (carrying amount)** | **8 524 611** | **5 631 958** |

| Other assets | Exposure | |
|---|---|---|
| | 31.12.2008 | 31.12.2007 |
| Other assets impaired | 55 955 | 36 897 |
| Other assets not impaired | 366 215 | 415 208 |
| *neither past due nor impaired* | 352 425 | 413 023 |
| *past due but not impaired* | 13 790 | 2 185 |
| **Gross total** | **422 170** | **452 105** |
| **Impairment allowances** | **(55 438)** | **(36 881)** |
| **Net total (carrying amount)** | **366 732** | **415 224** |

*(in PLN thousand)*

## Maximum exposure to credit risk

The table below presents maximum exposure to credit risk of the Group as at 31 December 2008 and as at 31 December 2007.

| Balance sheet items | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Current account with the central bank** | **3 419 832** | **2 972 067** |
| **Amounts due from banks** | **3 363 599** | **5 261 236** |
| **Trading assets – debt securities** | **1 491 524** | **1 193 255** |
| issued by the State Treasury | 1 491 398 | 1 193 129 |
| issued by local government bodies | 126 | 126 |
| **Derivative financial instruments** | **3 597 670** | **1 556 736** |
| **Other financial instruments designated at fair value through profit or loss - debt securities** | **4 555 544** | **8 292 362** |
| issued by the State Treasury | 4 373 621 | 7 353 033 |
| issued by other banks | 172 876 | 764 018 |
| issued by other financial institutions | - | 129 142 |
| issued by other non-financial institutions | 9 047 | 46 169 |
| **Loans and advances to customers** | **101 107 891** | **76 417 149** |
| Financial entities (other than banks) | 2 058 724 | 1 132 850 |
| corporate loans | 2 058 724 | 1 132 850 |
| Non-financial entities | 95 857 248 | 71 634 005 |
| consumer loans | 20 203 045 | 17 842 564 |
| mortgage loans | 45 401 651 | 32 886 600 |
| corporate loans | 30 252 552 | 20 904 841 |
| State budget entities | 3 191 919 | 3 650 294 |
| corporate loans | 3 191 919 | 3 650 294 |
| **Investment securities available for sale - debt securities** | **8 524 611** | **5 631 958** |
| issued by central banks | 2 673 729 | 2 633 505 |
| issued by other banks | 46 756 | - |
| issued by other financial institutions | 74 427 | - |
| issued by other non-financial institutions | 795 278 | 621 274 |
| issued by the State Treasury | 3 516 322 | 1 201 132 |
| issued by local government bodies | 1 418 099 | 1 176 047 |
| **Other assets - other financial assets** | **366 732** | **415 224** |
| **Total** | **126 427 403** | **101 739 987** |

| Off-balance sheet items | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Irrevocable liabilities granted | 7 712 824 | 8 860 369 |
| Guarantees granted | 3 239 802 | 1 867 608 |
| Letters of credit granted | 241 892 | 562 155 |
| Guarantees of issue (underwriting) | 821 005 | 1 455 509 |
| **Total** | **12 015 523** | **12 745 641** |

*(in PLN thousand)*

**Quality of financial assets, neither past due nor impaired**

Taking into account the nature of the Group's activities and the Group's loan and lease receivables' volume, the most significant portfolios are managed by the Bank and Bankowy Fundusz Leasingowy SA (BFL SA). The table below presents information on credit quality of loans and advances granted by the Bank and BFL SA.

Exposures to corporate clients which are not considered to be individually impaired are classified by the Bank with the use of an internal rating scale from A (first rate) to F (acceptable).

The following loan portfolios are covered by the rating system:

- corporate clients,
- housing market clients,
- small and medium enterprises (excluding certain product groups which are assessed in a simplified manner).

| Financial assets neither past due nor impaired | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Amounts due from banks** | **3 361 761** | **5 261 231** |
| of which: | | |
| with rating | 2 000 824 | 4 676 670 |
| without rating | 1 360 937 | 584 561 |
| **Loans and advances to customers** | **94 476 168** | **74 503 779** |
| with rating | 90 537 000 | 62 198 399 |
| without rating | 3 939 168 | 12 305 380 |
| PKO BP | 91 518 783 | 71 414 932 |
| With rating – financial, nonfinancial and budget sector (corporate loans) | 29 794 715 | 15 187 064 |
| A (first rate) | 1 184 628 | 389 843 |
| B (very good) | 2 474 397 | 2 008 431 |
| C (good) | 3 604 643 | 2 864 276 |
| D (satisfactory) | 9 373 219 | 4 370 414 |
| E (average) | 6 811 983 | 3 699 164 |
| F (acceptable) | 6 345 845 | 1 854 936 |
| With rating – nonfinancial sector (consumer and mortgage loans) | 58 560 511 | 45 718 387 |
| A (first rate) | 12 909 565 | 18 764 198 |
| B (very good) | 14 809 811 | 15 755 337 |
| C (good) | 23 649 272 | 7 629 870 |
| E (average) | 4 382 491 | 2 526 869 |
| F (acceptable) | 2 809 372 | 1 042 113 |
| without rating – non-financial sector clients (other consumer and mortgage loans) | 3 163 557 | 10 509 481 |
| BFL SA Group | 2 181 774 | 1 292 948 |
| A2 (first rate) | 29 611 | 1 591 |
| A3 (very good) | 92 934 | 44 752 |
| A4 (good) | 370 121 | 238 240 |
| A5 (satisfactory) | 461 886 | 339 237 |
| A6 (average) | 765 075 | 322 268 |
| B1 (acceptable) | 344 707 | 254 636 |
| B2 (weak) | 82 426 | 70 990 |
| C (mean) | 34 872 | 12 609 |
| D (bad) | 142 | 8 625 |
| without rating – non-financial and financial sector clients of the Group enitites | 775 611 | 1 795 899 |
| **Other assets – other financial assets** | **352 425** | **413 023** |
| **Total** | **98 190 354** | **80 178 033** |

*(in PLN thousand)*

Loans and advances to customers which are not individually determined to be impaired and are not rated, are characterized with low level of the credit risk. It concerns, in particular retail loans (including mortgage loans) which are not individually significant and thus do not create significant credit risk.

Within the portfolio managed by BFL SA, exposures below a certain threshold are assessed in a simplified manner, without granting ratings.

Structure of investment securities available for sale – debt securities and interbank deposits, neither past due nor impaired by external rating class:

### 31 December 2008

| Rating/ portfolio | held for trading | | designated at fair value through profit or loss | | | | available for sale | | | | | Interbank deposits |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | issued by the State Treasury | issued by local government bodies | issued by the State Treasury | issued by other banks | issued by other financial entities | issued by other non-financial entities | issued by the State Treasury | issued by central banks | issued by other banks | issued by other financial entities | issued by other non-financial entities | |
| AAA | - | - | - | - | - | - | - | - | - | - | - | - |
| AA- to AA+ | - | - | - | 23 943 | - | - | - | - | - | - | - | 900 319 |
| A- to A+ | 1 491 398 | - | 4 373 621 | 148 933 | - | - | 3 516 322 | 2 673 729 | 12 567 | - | - | 838 752 |
| BBB- to BBB+ | - | - | - | - | - | - | - | - | 34 189 | - | - | 257 658 |
| BB- to BB+ | - | - | - | - | - | - | - | - | - | - | - | - |
| B- to B+ | - | - | - | - | - | - | - | - | - | - | - | 194 |
| without rating | - | 126 | - | - | - | - | - | - | - | 74 427 | - | 105 485 |
| financial assets with different ratings in the Group's entities | - | - | - | - | - | 9 047 | - | - | - | - | 16 028 | 3 901 |
| **Total** | **1 491 398** | **126** | **4 373 621** | **172 876** | **-** | **9 047** | **3 516 322** | **2 673 729** | **46 756** | **74 427** | **16 028** | **2 106 309** |

### 31 December 2007

| Rating/ portfolio | held for trading | | designated at fair value through profit or loss | | | | available for sale | | | | | Interbank deposits |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | issued by the State Treasury | issued by local government bodies | issued by the State Treasury | issued by other banks | issued by other financial entities | issued by other non-financial entities | issued by the State Treasury | issued by central banks | issued by other banks | issued by other financial entities | issued by other non-financial entities | |
| AAA | - | - | - | - | - | - | - | - | - | - | - | 237 300 |
| AA- to AA+ | - | - | - | 542 259 | - | - | - | - | - | - | - | 3 099 167 |
| A- to A+ | 1 193 129 | - | 7 353 033 | 221 759 | - | - | 1 201 132 | 2 633 505 | - | - | - | 1 263 508 |
| BBB- to BBB+ | - | - | - | - | - | - | - | - | - | - | - | 72 603 |
| BB- to BB+ | - | - | - | - | - | - | - | - | - | - | - | - |
| B- to B+ | - | - | - | - | - | - | - | - | - | - | - | - |
| without rating | - | 126 | - | - | 116 299 | - | - | - | - | - | - | - |
| financial assets with different ratings in the Group's entities | - | - | - | - | 12 843 | 46 169 | - | - | - | - | - | 4 092 |
| **Total** | **1 193 129** | **126** | **7 353 033** | **764 018** | **129 142** | **46 169** | **1 201 132** | **2 633 505** | **-** | **-** | **-** | **4 676 670** |

Structure of other debt securities issued by other financial entities, non-financial entities and local governments by internal rating class:

| Entities with rating | 31.12.2008 | 31.12.2007 |
|---|---|---|
| | carrying amount | carrying amount |
| A (first rate) | 21 313 | 97 430 |
| B (very good) | 448 931 | 320 840 |
| C (good) | 998 091 | 417 791 |
| D (satisfactory) | 391 905 | 309 841 |
| E (average) | 153 571 | 530 570 |
| F (acceptable) | 181 225 | 104 838 |
| **TOTAL** | **2 195 036** | **1 781 310** |

*(in PLN thousand)*

**Concentration of credit risk within the Group**

The Group defines credit concentration risk as one of arising from a considerable exposure to single entities or to group of entities whose repayment capacity depends on a common risk factor. The Group analyses the risk of credit risk concentration in respect of:

- the largest borrowers,
- the largest capital groups,
- industries,
- geographical regions,
- currencies.

**Concentration by the biggest business entities**

The Banking Law specifies maximum concentration limits for the Bank, and effectively for the Group. According to Article 71.1 of the Banking Law, the total value of the Bank's exposures, off-balance sheet liabilities and commitments granted or shares held by the Bank directly or indirectly in another entity, additional payments into a limited liability company as well as contributions or limited partnership sums - whichever higher - in a limited partnership or limited joint-stock partnership with a risk of one entity or a group of entities related by capital or management, cannot exceed 20% of the Bank's consolidated own funds if any of these entities is related to the Bank, or 25% of the Bank's consolidated own funds if any such entity is unrelated to the Bank.

Furthermore, according to the Article 71.2 of the Banking Law, the aggregate amount of the Bank's exposures equal or in excess of 10% of its own funds towards individual entities, shall not exceed the large exposure limit, which is 800% of the Bank's own funds.

As at 31 December 2008 and 31 December 2007, those concentration limits had not been exceeded.

As at 31 December 2008, the level of concentration risk of the Group with respect to individual exposures was low – the biggest exposure to a single entity was equal to 5.11% of the consolidated own funds.

The 20 largest borrowers of the Group include only clients of PKO BP SA.

Total exposure of the Group towards the 20 largest non-banking sector clients:

| 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|
| **No.** | **Exposure*** | **Share in the loan portfolio**** | **No.** | **Exposure*** | **Share in the loan portfolio**** |
| 1. | 656 139 | 0.62% | 1. | 522 063 | 0.66% |
| 2. | 592 759 | 0.56% | 2. | 411 531 | 0.52% |
| 3. | 457 525 | 0.44% | 3. | 307 286 | 0.39% |
| 4. | 412 857 | 0.39% | 4. | 304 498 | 0.38% |
| 5. | 334 019 | 0.32% | 5. | 291 115 | 0.37% |
| 6. | 305 746 | 0.29% | 6. | 273 340 | 0.34% |
| 7. | 292 682 | 0.28% | 7. | 268 399 | 0.34% |
| 8. | 243 106 | 0.23% | 8. | 264 861 | 0.33% |
| 9. | 242 046 | 0.23% | 9. | 259 316 | 0.33% |
| 10. | 235 382 | 0.22% | 10. | 255 336 | 0.32% |
| 11. | 235 221 | 0.22% | 11. | 204 178 | 0.26% |
| 12. | 233 201 | 0.22% | 12. | 201 004 | 0.25% |
| 13. | 231 369 | 0.22% | 13. | 190 227 | 0.24% |
| 14. | 230 981 | 0.22% | 14. | 179 210 | 0.23% |
| 15. | 218 941 | 0.21% | 15. | 176 649 | 0.22% |
| 16. | 218 030 | 0.21% | 16. | 175 053 | 0.22% |
| 17. | 217 275 | 0.21% | 17. | 170 245 | 0.21% |
| 18. | 215 637 | 0.21% | 18. | 169 608 | 0.21% |
| 19. | 201 442 | 0.19% | 19. | 162 951 | 0.20% |
| 20. | 197 176 | 0.19% | 20. | 152 094 | 0.19% |
| **Total** | **5 971 534** | **5.68%** | **Total** | **4 938 964** | **6.21%** |

*Total exposure includes loans, advances, purchased debts, discounts on bills of exchange, realized guarantees and interest receivable.
**The value of the loan portfolio does not include off-balance sheet and capital exposures.

*(in PLN thousand)*

### Concentration of credit risk by the largest groups

The greatest exposure of the PKO BP SA Group towards a group of borrowers amounted to 1.58% of portfolio value and was due to a consolidation process of companies from the power supply industry. The 5 biggest groups include only clients of PKO BP SA.

Total exposure of the Group towards the 5 biggest capital groups:

| 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|
| **No.** | **Exposure*** | **Share in the loan portfolio**** | **No.** | **Exposure*** | **Share in the loan portfolio**** |
| 1 | 1 654 951 | 1.58% | 1 | 2 119 387 | 2.67% |
| 2 | 1 402 841 | 1.34% | 2 | 1 426 492 | 1.79% |
| 3 | 1 315 589 | 1.25% | 3 | 1 116 920 | 1.40% |
| 4 | 1 283 533 | 1.22% | 4 | 1 095 926 | 1.38% |
| 5 | 792 757 | 0.75% | 5 | 787 510 | 0.99% |
| **Total** | **6 449 671** | **6.14%** | **Total** | **6 546 235** | **8.23%** |

*Total exposure includes loans, advances, purchased debts, discounts on bills of exchange, realized guarantees, interest receivable, debt securities, off-balance sheet and capital exposures.
**The value of the loan portfolio does not include off-balance sheet and capital exposures.

As at 31 December 2008, concentration of credit risk by the largest capital groups was low - the greatest exposure of the Bank towards a capital group amounted to 12.9% of the Group's own funds and was due to a consolidation process of companies from the power supply industry.

### Concentration of credit risk by industry

The Group applies industry limits in order to mitigate credit risk related to corporate clients operating in selected industries characterized by a high level of credit risk, as well as to avoid excessive concentration of exposure to individual industries.

Analysis of exposure to industry segments is presented in the table below:

| **Section** | **Description** | **31.12.2008** | | **31.12.2007** | |
|---|---|---|---|---|---|
| | | **Exposure** | **Number of entities** | **Exposure** | **Number of entities** |
| D | Industrial processing | 26.73% | 13.86% | 24.70% | 15.67% |
| G | Wholesale and retail trade. repair of motor vehicles and personal and household goods | 18.61% | 30.70% | 17.52% | 31.68% |
| K | Property management. lease and services related to the running of business activities | 12.81% | 10.70% | 10.50% | 9.09% |
| L | Public administration and national defense. obligatory social security and public health insurance | 8.01% | 0.55% | 12.92% | 0.58% |
| F | Construction | 6.29% | 12.41% | 4.98% | 10.18% |
| E | Electricity. gas and water production and supply | 3.16% | 0.23% | 4.20% | 0.29% |
| Other exposure | | 24.38% | 31.55% | 25.18% | 32.51% |
| **Total** | | **100.00%** | **100.00%** | **100.00%** | **100.00%** |

The Group's exposure increased compared with 31 December 2007 with respect to all sectors by PLN 11 billion. Combined exposure towards three largest sectors: "Industrial processing", "Wholesale and retail trade" and "Property management, lease and services related to the running of business activities" constitutes 58.2% of the total portfolio of loans granted to business entities.

*(in PLN thousand)*

### Concentration of credit risk by geographical regions

| Region | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Poland** | | |
| mazowiecki | 18.17% | 17.65% |
| śląsko-opolski | 12.40% | 13.24% |
| wielkopolski | 10.06% | 10.52% |
| małopolsko-świętokrzyski | 9.12% | 8.93% |
| dolnośląski | 7.56% | 8.00% |
| lubelsko-podkarpacki | 6.50% | 6.91% |
| zachodnio-pomorski | 7.05% | 7.01% |
| łódzki | 6.12% | 6.67% |
| pomorski | 6.97% | 6.46% |
| kujawsko-pomorski | 5.13% | 5.61% |
| warmińsko-mazurski | 3.47% | 3.69% |
| podlaski | 3.08% | 3.19% |
| other | 2.48% | 0.06% |
| **Ukraine** | **1.89%** | **2.06%** |
| **Total** | **100.00%** | **100.00%** |

The Bank's loan portfolio is diversified by geographical location.

The Bank has the biggest loan portfolio concentration in the mazowiecki region. More than half of the Bank's loan portfolio is concentrated in four regions: mazowiecki, śląsko-opolski, wielkopolski and małopolsko-świętokrzyski. A significant proportion of the population and economy of Poland is also concentrated in these regions.

### Concentration of credit risk by currency

As at 31 December 2008, the share of currency exposures, other than PLN, in the total credit portfolio of the Group amounted to 29%. The greatest parts of currency exposures are those in CHF and they relate to the credit portfolio of the Bank. In case of particular Group entities, the case is different, i.e. for BFL SA, the greatest currency exposures are those in EUR (63.5% of currency credit portfolio), and for KREDOBANK SA – in USD (USD denominated loans account for nearly 80.5% of the currency credit portfolio and 53.5% of the total credit portfolio of the bank).

### Concentration of credit risk by currency (%)

| Currency | 31.12.2008 | 31.12.2007 |
|---|---|---|
| PLN | 70.96% | 78.41% |
| Foreign currencies, of which: | 29.04% | 21.59% |
| CHF | 21.42% | 15.08% |
| EUR | 4.47% | 3.88% |
| USD | 2.51% | 1.64% |
| UAH | 0.63% | 0.99% |
| GBP | 0.01% | 0.00% |
| **Total** | **100.00%** | **100.00%** |

Share increase of loans denominated in foreign currencies in 2008 results from increased sales of mortgage loans denominated in foreign currencies as well as increase in foreign exchange rates in the second half of 2008.

### Other types of concentration

In accordance with the Recommendation S of the Banking Supervision Authority, the Bank implemented internal limits with regard to loans granted to individual clients for purchase of properties. In 2008 these limits had not been exceeded.

### Renegotiated receivables

The purpose of the restructuring activity of the Group is to maximize the effectiveness of non-performing loans management. The aim is to receive the highest possible recoveries and, at the same time, incur the minimal possible costs relating to these recoveries which, in the case of debt collection activities, are very high.

*(in PLN thousand)*

The restructuring activities include a change in payment terms which is individually agreed on an each contract basis. Such changes may concern:

1) repayment deadline,
2) repayment schedule,
3) interest rate,
4) payment recognition order,
5) collateral,
6) amount to be repaid (reduction of the amount).

As a result of signing a restructuring agreement the loan being restructured is reset from overdue to current.

Evaluation of the ability of a debtor to fulfil the restructuring agreement conditions (debt repayment according to the agreed schedule) constitutes an element of the restructuring process. Active restructuring agreements are monitored by the Bank on an on-going basis.

**Financial assets whose terms had been renegotiated (or otherwise they would be considered as past due or impaired) include the following loans and advances granted:**

| Financial assets | Carrying amount | |
|---|---|---|
| | 31.12.2008 | 31.12.2007 |
| **Loans and advances to customers (gross)** | **104 025 767** | **78 832 752** |
| of which renegotiated | **112 883** | **231 541** |
| Financial entities (other than banks) | - | 90 |
| corporate loans | - | 90 |
| Non-financial entities | 110 868 | 229 508 |
| consumer loans | 19 579 | 25 043 |
| mortgage loans | 20 169 | 53 341 |
| corporate loans | 71 120 | 151 124 |
| State budget entities | 2 015 | 1 943 |
| corporate loans | 2 015 | 1 943 |

## Past due financial assets

Financial assets which are past due at the reporting date but not impaired include the following loans and advances granted:

| Financial assets | 31.12.2008 | | | 31.12.2007 | | |
|---|---|---|---|---|---|---|
| | up to 3 months | over 3 months | Total | up to 3 months | over 3 months | Total |
| Financial assets designated at fair value through profit or loss | - | - | **-** | 40 | - | **40** |
| Loans and advances to customers: | **5 666 692** | **62 896** | **5 729 588** | **1 781 469** | **35 631** | **1 817 100** |
| *financial sector* | 1 273 | - | 1 273 | 426 | - | **426** |
| *public sector* | 478 318 | - | 478 318 | 109 653 | - | **109 653** |
| *non-financial sector* | 5 187 101 | 62 896 | 5 249 997 | 1 671 390 | 35 631 | **1 707 021** |
| Other assets - other financial assets | 13 790 | - | 13 790 | 2 185 | - | **2 185** |
| **Total** | **5 680 482** | **62 896** | **5 743 378** | **1 783 694** | **35 631** | **1 819 325** |

Collateral for the above receivables includes: mortgages, registered pledges, transfers of property rights, account lock-ups, loan exposure insurances, warranties and guarantees.

*(in PLN thousand)*

**Individually determined to be impaired financial assets (gross)**

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Amounts due from banks | 28 486 | 276 |
| **Loans and advances to customers** | **1 932 692** | **969 903** |
| Financial entities | 42 735 | 49 128 |
| corporate loans | 42 735 | 49 128 |
| Non-financial entities | 1 880 418 | 911 146 |
| consumer loans | 18 525 | 6 850 |
| mortgage loans | 311 097 | 131 862 |
| corporate loans | 1 550 796 | 772 434 |
| State budget entities | 9 539 | 9 629 |
| corporate loans | 9 539 | 9 629 |
| Financial assets available for sale | 23 862 | 42 056 |
| issued by financial entities | 2 599 | 2 674 |
| issued by non-financial entities | 21 263 | 39 382 |
| **Total** | **1 985 040** | **1 012 235** |

As at 31 December 2008, financial assets individually determined to be impaired were secured by the following collaterals established for the Group:

- for loans and advances to customers: ceiling mortgages and ordinary mortgages, registered pledges, promissory notes, transfers of receivables and rights to cash - with a total amount of PLN 1 250 019 thousand,
- for financial assets available for sale: blank promissory notes, registered pledges on the bank account and on debtor's shares with a total nil value.

In determining impairment allowances for the above assets, the Group considered the following factors:

- delay in payment of the amounts due by the debtor,
- the debt being declared as due and payable,
- enforcement proceedings against the debtor,
- declaration of the debtor's bankruptcy or filling a petition to declare bankruptcy,
- the amount of the debt being challenged by the debtor,
- commencement of corporate recovery proceedings against the debtor,
- establishing imposed administration over the debtor or suspending the debtor's activities,
- a decline in debtor's rating to a level indicating a significant threat to the repayment of debt ("H" rating),
- additional impairment indicators identified for exposures to housing cooperatives arising from housing loans of the so called "old portfolio", covered by State Treasury guarantees,
- expected future cash flows from the exposure and the related collateral,
- expected future economic and financial standing of the client,
- the extent of execution of forecasts by the client.

*(in PLN thousand)*

## Credit risk of financial institutions

As at 31 December 2008, the greatest exposures of PKO BP SA on the interbank market were as follows:

| Inter-bank portfolio* | | | | | |
|---|---|---|---|---|---|
| Counterparty | Instrument type | | | | Total |
| | Deposits | Securities | Credit Default Swap | Other derivatives | |
| Counterparty 1 | 228 059 | - | - | - | 228 059 |
| Counterparty 2 | 222 135 | - | - | - | 222 135 |
| Counterparty 3 | 196 098 | - | - | - | 196 098 |
| Counterparty 4 | 168 084 | - | - | 2 480 | 170 564 |
| Counterparty 5 | 159 803 | - | - | 8 700 | 168 503 |
| Counterparty 6 | 154 077 | - | - | (17 350) | 154 077 |
| Counterparty 7 | - | - | 118 472 | (193 941) | 118 472 |
| Counterparty 8 | 114 029 | - | - | - | 114 029 |
| Counterparty 9 | 100 000 | - | - | (3 401) | 100 000 |
| Counterparty 10 | - | - | 88 854 | (78 015) | 88 854 |
| Counterparty 11 | - | 83 448 | - | - | 83 448 |
| Counterparty 12 | - | - | - | 70 308 | 70 308 |
| Counterparty 13 | 63 856 | - | - | - | 63 856 |
| Counterparty 14 | - | - | - | 61 528 | 61 528 |
| Counterparty 15 | 26 656 | - | - | 33 994 | 60 650 |
| Counterparty 16 | - | - | - | 54 085 | 54 085 |
| Counterparty 17 | 50 000 | - | - | - | 50 000 |
| Counterparty 18 | - | 41 724 | - | (104) | 41 724 |
| Counterparty 19 | - | 20 862 | - | - | 20 862 |
| Counterparty 20 | 9 655 | - | - | (40 332) | 9 655 |

* Excluding exposure to the State Treasury and the National Bank of Poland

The table below presents the greatest exposures of the PKO BP SA Group on the interbank market as at 31 December 2007:

| Interbank portfolio* | | | | | |
|---|---|---|---|---|---|
| Counterparty** | Instrument type | | | | Total |
| | Deposit | Securities | Credit Default Swap | Other derivatives | |
| Counterparty 21 | 379 100 | - | - | 14 974 | 394 074 |
| Counterparty 22 | 335 965 | - | - | - | 335 965 |
| Counterparty 23 | 300 000 | - | - | 5 890 | 305 890 |
| Counterparty 24 | 293 280 | - | - | - | 293 280 |
| Counterparty 25 | 276 889 | - | - | 3 | 276 892 |
| Counterparty 26 | 232 386 | - | - | 15 464 | 247 850 |
| Counterparty 19 | 219 040 | 17 910 | - | - | 236 950 |
| Counterparty 27 | - | - | 158 275 | 46 333 | 204 608 |
| Counterparty 15 | 204 155 | - | - | (5 664) | 204 155 |
| Counterparty 4 | 179 100 | - | - | (331) | 179 100 |
| Counterparty 28 | 100 000 | - | - | 65 231 | 165 231 |
| Counterparty 29 | 150 000 | - | - | 12 373 | 162 373 |
| Counterparty 30 | 150 000 | - | - | (496) | 150 000 |
| Counterparty 31 | - | 150 451 | (24 350) | - | 126 101 |
| Counterparty 32 | 100 000 | - | - | 25 792 | 125 792 |
| Counterparty 14 | 100 000 | - | - | 25 307 | 125 307 |
| Counterparty 33 | 108 746 | - | - | 5 286 | 114 032 |
| Counterparty 7 | - | - | 73 050 | 34 790 | 107 840 |
| Counterparty 34 | 100 000 | - | - | - | 100 000 |
| Counterparty 35 | 100 000 | - | - | - | 100 000 |

* Excluding exposure to the State Treasury and the National Bank of Poland

** Counterparty names (expressed as numbers) presented in the above table are consistent with counterparty names presented in the table "the greatest exposures of the PKO BP SA Group on the interbank market" as at 31 December 2008.

(in PLN thousand)

For the purpose of determining exposures, placements and securities issued by the counterparties as well as the CDS transactions are stated at nominal values, while the other derivative instruments are stated at market values (recent bid price). Total exposure to each counterparty ("Total") is the sum of exposures arising from placements and securities, increased (in case of counterparties from whom the Bank purchased a loan protection for issuers of securities in the Bank portfolio) or decreased (if the credit risk of the given entity has been transferred under the CDS transaction to another entity) by the exposure arising from CDS transactions and exposure arising from other derivative instruments if it is positive (otherwise the exposure arising from other derivatives is not included in total exposure). Exposure arising from instrument is calculated from the moment of entering into transaction.

All of the 12 counterparties listed in the table above as at 31 December 2008, with whom the Bank carried out derivative instrument transactions, signed master agreements with the Bank. Master agreements allow for offsetting of mutual liabilities in the event of bankruptcy of any of the parties to the transaction. As at 31 December 2008 PKO BP SA had 23 master agreements signed with domestic banks and 31 with foreign banks and lending institutions. In addition to this, the Bank was a party to 17 CSA (Credit Support Annex) agreements which enable it to hedge its exposure from derivative instruments and 2 ISMA (International Securities Market Association) agreements which allow for an offsetting of liabilities arising from REPO and BSB/SBB transactions.

5 out of the 20 counterparties generating the largest exposures for the Group as at 31 December 2007 were also included in the population of the largest exposures as at 31 December 2008.

### Geographical localization of counterparties

The counterparties generating the 20 largest exposures on the interbank market as at 31 December 2008 and 31 December 2007 come from the following countries (classified by location of registered office):

| No. | Country | Counterparty |
|---|---|---|
| 1. | Austria | Counterparty 4, Counterparty 30, Counterparty 32, Counterparty 34 |
| 2. | Belgium | Counterparty 25 |
| 3. | Denmark | Counterparty 33 |
| 4. | France | Counterparty 26, Counterparty 29 |
| 5. | Spain | Counterparty 19 |
| 6. | Ireland | Counterparty 22 |
| 7. | Holland | Counterparty 27 |
| 8. | Germany | Counterparty 21, Counterparty 23, Counterparty 28, Counterparty 35 |
| 9. | Poland | Counterparty 3, Counterparty 6, Counterparty 9, Counterparty 11, Counterparty 12, Counterparty 14, Counterparty 15, Counterparty 16, Counterparty 17 |
| 10. | Portugal | Counterparty 2, Counterparty 24 |
| 11. | USA | Counterparty 31 |
| 12. | Switzerland | Counterparty 5 |
| 13. | Ukraine | Counterparty 1, Counterparty 8, Counterparty 13 |
| 14. | Hungary | Counterparty 18 |
| 15. | United Kingdom | Counterparty 7, Counterparty 10, Counterparty 20 |

### Counterparty structure by rating

Counterparty structure by rating is presented in the table below. The ratings were determined based on external ratings granted by Moody's, Standard&Poor's and Fitch (when a rating was granted by two agencies, the lower rating was applied, whereas when a rating was granted by three agencies, the middle rating was applied).

*(in PLN thousand)*

| Rating | Counterparty |
|---|---|
| AA | Counterparty 7, Counterparty 10, Counterparty 20, Counterparty 22, Counterparty 25, Counterparty 26, Counterparty 27, Counterparty 28, Counterparty 29, Counterparty 31, Counterparty 33, Counterparty 34 |
| A | Counterparty 2, Counterparty 4, Counterparty 5, Counterparty 6, Counterparty 14, Counterparty 15, Counterparty 16, Counterparty 19, Counterparty 21, Counterparty 23, Counterparty 24, Counterparty 30, Counterparty 32, Counterparty 35 |
| BBB | Counterparty 17, Counterparty 18 |
| B | Counterparty 1, Counterparty 8, Counterparty 13 |
| Without rating | Counterparty 3, Counterparty 9, Counterparty 11, Counterparty 12 |

**Management of foreclosed collateral**

Foreclosed collateral as a result of restructuring or debt collection activities is either used by the Group for internal purposes or designated for sale. Details of the foreclosed assets are analyzed in order to determine whether they can be used by the parent company for internal purposes. All of the assets taken over as a result of restructuring and debt collection activities in the years ended 31 December 2008 and 31 December 2007, respectively, were designated for sale.

Activities undertaken by the Group are aimed at selling foreclosed assets as soon as possible. In individual cases, assets may be withheld from sale. This occurs only if circumstances, which are beyond the control of the Group, indicate that the sale of the assets at a later date is likely to generate greater financial benefits. The primary procedure for a sale of assets is open auction. Other procedures are acceptable in cases where they provide a better chance of finding a buyer and generate higher proceeds for the Group.

The Group takes steps to broadly disseminate to the public the information about assets being sold by publishing it on the Group's website; placing announcements in the national press; using internet portals (e.g. to carry out internet auctions), sending offers directly to potentially interested entities from a given type of industry. In addition, PKO BP SA cooperates with external firms operating all over Poland in respect of collection, transportation, storage and intermediation in the sale of assets taken over by the Group as a result of restructuring and debt collection activities. The Group has also entered into cooperation agreements with external companies, which perform valuations of the movable and immovable properties that the Group has foreclosed or would like to foreclose in the course of realization of collateral.

The carrying amounts of assets taken over in exchange for debts as at 31 December 2008 and 31 December 2007 are presented in Note 28, "Other assets", in line item "Non-current assets held for sale".

**Market risk**

Market risk is understood as a risk of incurring a loss due to adverse changes in market parameters, such as interest rates and foreign exchange rates or volatility of these parameters, as well as liquidity risk. Market risk includes: interest rate risk, currency risk, derivatives risk and liquidity risk.

**Interest rate risk**

The objective of interest rate risk management is to identify areas of interest rate risk and to shape the structure of the balance sheet and contingent liabilities and commitments in a way to maximise the value of net assets and interest income within the adopted interest rate risk profile.

In the process of interest rate risk management, the Bank uses the Value at Risk (VaR) model, stress testing and interest income sensitivity measures.

Value at Risk (VaR) is defined as the potential loss resulting from a change in the present value of the future cash flows from a financial instrument, while keeping an assumed level of confidence and holding period. The Bank adopts a variance-covariance method with a confidence level of 99% for the purpose of determining VaR. In its interest rate risk management the Bank uses, among others, VaR determined for particular financial instruments and for the Bank's portfolios.

Stress-tests are used to estimate potential losses arising from an interest rate position under market conditions that cannot be described in a standard manner using statistical measures. Two types of scenarios are used by the Bank:

1) hypothetical scenarios – which are based on arbitrary interest rate fluctuations: a parallel move in interest rate curves for the following currencies: PLN, EUR, USD, CHF and GBP by ±50 basis points and by ±200 basis points,
2) historical scenarios – in which interest rate fluctuations are adopted based on the behaviour of interest rates in the past, including: the highest historical change, a bend of a profit curve along with portfolio positions, a bend of profit curve of peak and twist types.

The main tools used in interest rate risk management include:

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

The Bank has set limits and thresholds for interest rate risk including: price sensitivity, interest income sensitivity, loss limits and limits for instruments sensitive to changes in interest rates. These limits were set in consideration of the Bank's particular portfolios.

Methods of interest rate risk management in the other Group entities are defined by internal regulations implemented by those Group entities which are characterized by significant values of interest rate risk measure outcomes. These regulations are developed after consultation with the Bank and take into account recommendations issued by the Bank for Group entities.

The Group uses the following measures in the process of interest rate risk management:

1) measures of interest rate risk set for the individual Group entities and for the Bank,
2) measures of interest rate gap and price sensitivity (BPV), set for the Group,
3) crash tests assuming parallel moves in interest rates for the following currencies: PLN, EUR, USD, CHF and GBP by ±200 basis points.

Measures of interest rate gap and price sensitivity are determined for particular Group entities using similar methods to those used for determining the interest rate gap and price sensitivity for the Bank itself, taking into account the specific nature of the entities.

| Repricing Gap | 0-1 month | 1-3 months | 3-6 months | 6-12 months | 1-2 years | 2-5 years | >5 years | Total |
|---|---|---|---|---|---|---|---|---|
| **PLN (PLN thousand)** | | | | | | | | **31.12.2008** |
| The Group periodic gap | (5 137 382) | 6 674 699 | 11 206 058 | 1 378 098 | (7 154 984) | (769 779) | 38 592 | **6 235 301** |
| The Group cumulative gap | (5 137 382) | 1 537 317 | 12 743 375 | 14 121 472 | 6 966 488 | 6 196 709 | 6 235 301 | **-** |
| **PLN (PLN thousand)** | | | | | | | | **31.12.2007** |
| The Group periodic gap | (14 351 137) | 28 907 893 | 3 872 802 | (8 663 100) | (1 277 801) | (269 576) | 175 471 | **8 394 552** |
| The Group cumulative gap | (14 351 137) | 14 556 756 | 18 429 558 | 9 766 458 | 8 488 657 | 8 219 081 | 8 394 552 | **-** |

| USD (USD thousand) | | | | | | | | 31.12.2008 |
|---|---|---|---|---|---|---|---|---|
| The Group periodic gap | (1 378) | (237 592) | (87 697) | (3 281) | 18 347 | 79 262 | 126 272 | **(106 067)** |
| The Group cumulative gap | (1 378) | (238 970) | (326 667) | (329 948) | (311 601) | (232 338) | (106 067) | - |

| USD (USD thousand) | | | | | | | | 31.12.2007 |
|---|---|---|---|---|---|---|---|---|
| The Group periodic gap | (316 854) | 148 960 | (63 449) | (79 846) | 22 940 | 64 645 | 45 389 | **(178 215)** |
| The Group cumulative gap | (316 854) | (167 894) | (231 343) | (311 189) | (288 249) | (223 604) | (178 215) | - |

| EUR (EUR thousand) | | | | | | | | 31.12.2008 |
|---|---|---|---|---|---|---|---|---|
| The Group periodic gap | (340 028) | (18 827) | 33 410 | 36 954 | (5 625) | 63 539 | (13 035) | **(243 612)** |
| The Group cumulative gap | (340 028) | (358 855) | (325 445) | (288 491) | (294 116) | (230 577) | (243 612) | - |

| EUR (EUR thousand) | | | | | | | | 31.12.2007 |
|---|---|---|---|---|---|---|---|---|
| The Group periodic gap | 205 583 | 41 711 | (24 425) | (27 655) | 15 250 | 20 184 | (45 832) | **184 816** |
| The Group cumulative gap | 205 583 | 247 294 | 222 869 | 195 214 | 210 464 | 230 648 | 184 816 | - |

| CHF (CHF thousand) | | | | | | | | 31.12.2008 |
|---|---|---|---|---|---|---|---|---|
| The Group periodic gap | 4 970 312 | (4 895 972) | 1 292 | (1 577) | (97) | - | 3 092 | **77 049** |
| The Group cumulative gap | 4 970 312 | 74 340 | 75 632 | 74 054 | 73 958 | 73 958 | 77 049 | - |

| CHF (CHF thousand) | | | | | | | | 31.12.2007 |
|---|---|---|---|---|---|---|---|---|
| The Group periodic gap | 3 152 465 | (3 155 375) | (1 091) | (2 374) | - | (330) | 3 005 | **(3 700)** |
| The Group cumulative gap | 3 152 465 | (2 910) | (4 001) | (6 375) | (6 375) | (6 705) | (3 700) | - |

The repricing gap presents the difference between the current value of an asset and liabilities exposed to interest rate risk, which are subject to repricing in a given time period, whereas assets and liabilities are recognized on the day of the transaction.

At the end of 2008 and at the end of 2007, the exposure of the PKO BP SA Group to the interest rate risk mainly comprised of the exposure of the Bank. Interest rate risk generated by the other Group entities with regard to PLN, EUR and CHF did not have a significant effect on the interest rate risk of the entire Group and therefore did not significantly affect its risk profile. Interest rate risk with regard to USD was significantly changed by exposure of the Group, in which the biggest part has the exposure of KREDOBANK SA.

Exposure of the Group to interest rate risk was within accepted limits.

VaR of the Bank and stress testing analysis of the Group's exposure to the interest rate risk are presented in the following table:

| Name of sensitivity measure | 31.12.2008 | 31.12.2007 |
|---|---|---|
| VaR for a 10-day time horizon (PLN thousand)* | 72 337 | 36 300** |
| Parallel move of interest rate curves by +200 base points (PLN thousand) | 589 954 | 155 877 |

* Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk (BFL and KREDOBANK SA) as well as a the specific nature of the market in which they operate, the Bank does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. KREDOBANK SA uses the 10-day interest rate VaR for the main currencies, which amounted to PLN 17 788 thousand as of 31 December 2008 and PLN 3 459 thousand as of 31 December 2007, respectively.

** VaR calculated as at 31.12.2007 reflects the changes in the VaR methodology introduced in 2008. VaR calculated according to the methodology used on 31.12.2007 amounted to PLN 10 521 thousand.

As at 31 December 2008, the interest rate VaR for the holding period of 10 days (10-day VaR) amounted to PLN 72 337 thousand, which accounted for approximately 0.60% of the value of the Bank's own funds[2]. As at 31 December 2007, VaR for the Bank amounted to PLN 36 300 thousand, which accounted to approximately 0.33% of the Bank's own funds. The interest rate risk was generated mainly by the risk of a mismatch between the repricing dates of assets and liabilities and basis risk.

Due to the aggravating crisis in the financial market, the Bank took steps aimed at increased monitoring of risk types constituting the interest rate risk, which normally might have been assessed as immaterial. As a result of the conducted review, the special emphasis was placed on monitoring of basis risk, along with a simultaneous modification of VaR methodology in this respect and implementation of additional stress test scenarios.

**Currency risk**

The objective of currency risk management is to identify the areas of currency risk and to take measures to reduce the currency risk to acceptable levels.

The Bank measures currency risk using the Value at Risk model and stress tests.

Currency risk of the Bank is monitored and reported on daily basis. The currency positions, generated in basic banking activity are transferred to the dealing activity of the Bank, where they are managed within limits and threshold values for this activity.

The Bank adopts a variance-covariance method with a confidence level of 99% for the purpose of determining VaR. In its currency risk management the Bank determines VaR by type of activity.

Stress-testing and worst case scenarios are used to estimate potential losses arising from currency position under extraordinary market conditions that cannot be described in a standard manner using statistical measures. Two types of scenarios are used by the Bank:

1) hypothetical scenarios – which assume a hypothetical appreciation or depreciation of currency rates (by 15% and 50%),
2) historical scenarios – based on the behaviour of currency rates observed in the past.

The main tools used in currency risk management include:

1) written procedures for currency risk management,
2) limits and thresholds for currency risk,

[2] Own funds calculated in accordance with regulations governing calculation of the capital adequacy ratio.

3) defining allowable transactions in foreign currencies and the exchange rates used in such transactions.

The Bank sets limits and threshold values for the following items: currency positions, Value at Risk calculated for a 10-day time horizon and daily loss from transactions on currency market.

Methods of currency risk management in the particular Group entities are defined by internal regulations implemented by these entities. The regulations are developed by the Group entities, which are characterized by high level of currency risk measure outcomes. The regulations are issued after consultation with the Bank and take into account recommendations issued by the Bank to the Group entities.

In the process of currency risk management, the Group uses the following measures:

1) measures of currency risk set for the Bank,
2) measures of currency risk set for the individual Group entities by the Bank,
3) stress tests assuming 15% appreciation or depreciation of currency rates set for the Group.

Measures of currency position are determined for the particular Group entities using similar methods to those used for determining the currency position for the Bank itself, taking into account the specific nature of the business conducted by the Group entities.

VaR of the Bank and stress-testing of the Group financial assets exposed to currency risk are stated cumulatively in the table below:

| Name of sensitivity measure | 31.12.2008 | 31.12.2007 |
|---|---|---|
| VaR for a 10-day time horizon (PLN thousand)* | 11 297** | 1 646 |
| Change of PLN +15% (PLN thousands)*** | 13 222 | 10 679 |

* Due to the nature of the activities carried out by the other Group entities generating significant currency risk (BFL and KREDOBANK SA) as well as a the specific nature of the market in which they operate, the Bank does not calculate consolidated VaR. These companies apply their own risk measures in the currency risk management. KREDOBANK SA uses the 10-day interest rate VaR which amounted to PLN 809 thousand as of 31.12.2008 and PLN 183 thousand as of 31.12.2007.
**VaR as at 31 December 2008 resulted mainly from USD position due to the acquisition of KREDOBANK SA shares, registered on 31 December 2008.
***In 2008, stress-test analyses were changed by replacing the 10% PLN appreciation or depreciation scenario with the 15% PLN appreciation or depreciation scenario. The data for 2007 was brought to comparability.

The level of the currency risk was low both in 2008 and 2007.

The Group's currency positions are presented in the table below:

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| | Currency position (PLN thousand) | Currency position (PLN thousand) |
| USD | (128 288) | (46 614) |
| EUR | 17 728 | (29 759) |
| CHF | (14 865) | 38 944 |
| GBP | (1 459) | (3 166) |
| Other (Global Net) | 38 661 | 18 494 |

The volume of currency positions is a key factor determining the level of currency risk on which the Bank is exposed (except for volatility of foreign exchange rates). The level of currency positions is determined by all foreign currency transactions, which are concluded by the Bank, both balance sheet (such as loans) and off-balance sheet (such as derivatives, CIRS transactions in particular). In accordance with the currency risk management principles at the Bank, the daily currency position opened by the Bank within the banking book (such as disbursement of loans denominated in foreign currency in PLN, repayment of loans denominated in foreign currency by the clients, exposure currency conversion) is closed every day, also using derivative instruments. This means that the currency position of the Bank at the end of the day may constitute only of generated new position in banking book on this day and currency position in trading book within the limits, which results in a low exposure of the Bank to currency risk (with reference to own funds, VaR for a 10-day time horizon for the Bank's currency position amounted to approx. 0.09%).

*(in PLN thousand)*

## Currency structure

In the 2008 and 2007, the level of currency risk was low. The tables below present currency exposure by the specific types of assets, liabilities and contingent liabilities and commitments.

| | ***Currency translated to PLN – 31.12.2008*** | | | | |
|---|---|---|---|---|---|
| | **PLN** | **EUR** | **CHF** | **Other** | **Total** |
| **ASSETS, of which:** | | | | | |
| Cash and balances with the central bank | 5 440 804 | 170 503 | 17 720 | 207 865 | **5 836 892** |
| Amounts due from banks | 1 091 618 | 1 540 624 | 82 160 | 677 308 | **3 391 710** |
| Loans and advances to customers | 74 473 200 | 4 414 600 | 22 509 669 | 2 628 298 | **104 025 767** |
| Securities | 14 071 879 | 384 793 | - | 235 623 | **14 692 295** |
| Tangible assets | 8 281 546 | - | - | 193 348 | **8 474 894** |
| Other assets and derivatives | 4 983 045 | 114 017 | 393 | 101 108 | **5 198 563** |
| TOTAL ASSETS (GROSS) | 108 342 092 | 6 624 537 | 22 609 942 | 4 043 550 | **141 620 121** |
| DEPRECIATION / AMORTISATION / IMPAIRMENT | (6 529 624) | (125 160) | (32 485) | (296 866) | **(6 984 135)** |
| TOTAL ASSETS (NET) | **101 812 468** | **6 499 377** | **22 577 457** | **3 746 684** | **134 635 986** |
| **EQUITY AND LIABILITIES, of which** | | | | | |
| Amounts due to the central bank | 2 816 | - | - | - | **2 816** |
| Amounts due to other banks | 3 327 901 | 318 137 | 2 808 188 | 534 377 | **6 988 603** |
| Amounts due to customers | 95 807 697 | 3 689 313 | 111 145 | 3 331 126 | **102 939 281** |
| Debt securities in issue | 183 594 | - | - | 27 979 | **211 573** |
| Provisions | 565 549 | 305 | - | 162 | **566 016** |
| Subordinated liabilities | 1 509 178 | - | - | 109 577 | **1 618 755** |
| Other liabilities and derivatives and deferred tax liabilities | 7 939 345 | 271 776 | 7 409 | 92 396 | **8 310 926** |
| Equity | 13 998 016 | - | - | - | **13 998 016** |
| TOTAL EQUITY AND LIABILITIES | **123 334 096** | **4 279 531** | **2 926 742** | **4 095 617** | **134 635 986** |
| **CONTINGENT LIABILITIES GRANTED** | **25 464 318** | **3 077 170** | **1 121 951** | **780 704** | **30 444 143** |

*(in PLN thousand)*

| | Currency translated to PLN – 31.12.2007 | | | | |
|---|---|---|---|---|---|
| | **PLN** | **EUR** | **CHF** | **Other** | **Total** |
| **ASSETS, of which:** | | | | | |
| Cash and balances with the central bank | 4 376 155 | 129 366 | 7 665 | 169 441 | **4 682 627** |
| Amounts due from banks | 2 449 511 | 2 204 206 | 158 323 | 449 472 | **5 261 512** |
| Loans and advances to customers | 62 160 389 | 2 705 382 | 11 982 981 | 1 984 000 | **78 832 752** |
| Investment securities | 13 276 311 | 1 272 759 | - | 711 380 | **15 260 450** |
| Tangible assets | 7 763 830 | - | - | 211 321 | **7 975 151** |
| Other assets and derivatives | 2 587 877 | 152 322 | 1 717 | 98 826 | **2 840 742** |
| TOTAL ASSETS (GROSS) | 92 614 073 | 6 464 035 | 12 150 686 | 3 624 440 | **114 853 234** |
| DEPRECIATION / AMORTISATION / IMPAIRMENT | (6 164 341) | (16 482) | (20 990) | (113 821) | **(6 315 634)** |
| TOTAL ASSETS (NET) | **86 449 732** | **6 447 553** | **12 129 696** | **3 510 619** | **108 537 600** |
| **EQUITY AND LIABILITIES, of which:** | | | | | |
| Amounts due to the central bank | 1 279 | - | - | - | **1 279** |
| Amounts due to other banks | 1 305 400 | 984 161 | 2 129 743 | 283 810 | **4 703 114** |
| Amounts due to customers | 78 692 455 | 1 100 716 | 28 752 | 6 757 587 | **86 579 510** |
| Debt securities in issue | 166 823 | - | - | 12 037 | **178 860** |
| Provisions | 453 333 | 750 | - | 218 | **454 301** |
| Subordinated liabilities | 1 614 885 | - | - | - | **1 614 885** |
| Other liabilities, derivatives and deferred tax liabilities | 2 812 512 | 85 468 | 10 654 | 118 002 | **3 026 636** |
| Equity | 11 979 015 | - | - | - | **11 979 015** |
| TOTAL EQUITY AND LIABILITIES | **97 025 702** | **2 171 095** | **2 169 149** | **7 171 654** | **108 537 600** |
| **CONTINGENT LIABILITIES GRANTED** | **24 433 087** | **2 666 719** | **640 513** | **491 619** | **28 231 938** |

Currency risk of the Bank is monitored and reported on daily basis. The currency positions, generated in basic banking activity are transferred to the dealing activity of the Bank, where they are managed within limits and threshold values for this activity. Individual currency positions of significant values in all currencies are systematically closed within limits for dealing activity of the Bank.

### Derivative instrument risk

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

The Bank measures the derivative instrument risk using, among others, the Value at Risk (VaR) model described in the section on interest rate risk or currency risk, depending on the risk factor which affects the value of the instrument.

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

1) written procedures for derivative risk management,
2) limits and thresholds set for the risk related to derivative instruments,
3) master agreements (ISDA – International Swaps and Derivatives Accociation, ZBP – Polish Bank Association) specifying, among others, settlement mechanisms.

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

Master agreements concluded by the Bank with the major business partners based on the standards developed by the Polish Bank Association (domestic banks) and ISDA (foreign banks and credit institutions), which allow offsetting of mutual liabilities, both due (mitigation of settlement risk) and not yet due (mitigation of pre-settlement risk), are particularly important for mitigating the risk associated with derivative instruments. Additional collateral for exposures, resulting from derivative instruments are collateral deposits escrowed by counterparties as a part of CSA agreement (Credit Support Annex).

Methods of derivative risk management in the other Group entities are defined by internal regulations implemented by these entities which take positions in derivative instruments or plan to take positions in such instruments. These regulations are developed after consultation with the Bank and take into account the recommendations issued by the Bank for the Group entities.

The Group uses the following measures in the process of derivative risk management:

1) measures of derivative risk set for the individual Group entities and for the Bank,
2) positions taken by the Group entities in particular derivative instruments, defined by the Bank.

Positions taken by the other Group entities in particular derivative instruments are determined using similar methods to those used for positions taken by the Bank in such instruments, taking into account the specific nature of the business conducted by the Group entities.

In the current year, the Group's sole company (apart from the Bank) which used derivative financial instruments to manage market risk was Bankowy Fundusz Leasingowy.

**Liquidity risk**

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

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

The Bank makes use of the following liquidity risk measures:

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

The main tools for liquidity risk management in the PKO BP SA Group are as follows:

1) written procedures for liquidity risk management,
2) limits and thresholds mitigating liquidity risk,
3) deposit, investment and derivative transactions, including structural currency transactions and transactions for sale or purchase of securities,
4) transactions ensuring long-term financing of lending activities.

To ensure an adequate liquidity level, the Bank and the other Group entities accepted limits and thresholds for liquidity risk. The limits and thresholds were set for both current liquidity measures and medium and long-term liquidity measures.

Methods of liquidity risk management in the other Group entities are defined by internal regulations implemented by those Group entities which are characterized by high levels of liquidity risk measure outcomes. These regulations are developed after consultation with the Bank and take into account recommendations issued by the Bank.

The Group uses the following measures in the process of liquidity risk management:

1) measures of liquidity risk set for the individual Group entities and for the Bank,
2) measure of the contractual liquidity gap, determined for the Group.

Measure of the liquidity gap is determined for the Group as the sum of the of the Bank’s gap in real terms and contractual liquidity gaps of the remaining entities of the Group using similar methods to those used for determining the contractual liquidity gap for the Bank itself, taking into account the specific nature of the Group entities.

Liquidity gaps presented below include: adjustments to real terms concerning permanent balances on deposits from non-financial institutions and their maturity, adjustments to real terms concerning permanent balance on loans in current account of non-financial subjects and their maturity, liquid securities and their maturity.

| | a'vista | 0 – 1 month | 1 - 3 months | 3 - 6 months | 6 - 12 months | 12 - 36 months | 36 - 60 months | over 60 months |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | **31.12.2008** |
| The Group adjusted gap | 4 610 491 | 5 668 033 | (3 379 392) | (1 983 388) | 2 146 647 | 3 864 988 | 2 630 081 | **(13 557 460)** |
| The Group - cumulative adjusted gap | 4 610 491 | 10 278 524 | 6 899 132 | 4 915 744 | 7 062 391 | 10 927 379 | 13 557 460 | **-** |
| | | | | | | | | **31.12.2007*** |
| The Group - adjusted gap | 3 256 014 | 14 189 249 | 3 110 063 | 2 956 860 | 5 672 326 | 8 740 459 | 2 518 933 | **(40 443 905)** |
| The Group - cumulative adjusted gap | 3 256 014 | 17 445 264 | 20 555 327 | 23 512 187 | 29 184 513 | 37 924 972 | 40 443 905 | **-** |

* The amounts have been brought to comparability in accordance with the methodology of liquidity gap realignment in force as at 31 December 2008.

In all time horizons, the Group's cumulative[3] liquidity gap as at 31 December 2008 and 31 December 2007 was positive. This means a surplus of assets receivable over liabilities payable.

The table below presents liquidity reserve as at 31 December 2008 and 31 December 2007.

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Liquidity reserve to 1 month* (PLN million) | 6 666 | 9 248 |

*Liquidity reserve equals the gap between the most liquid assets and expected and potential liabilities which mature in a given period of time. Due to differences in methodologies in measuring liquidity risk in particular Group companies, the Bank did not consolidate the particular liquidity provisions.

On 15 December 2008 the Bank introduced new deposit products. As at 10 January 2009 liquidity reserve to 1 month amounted to PLN 8 390 million.

As at 31 December 2008, the approx. level of permanent balances on deposits from non-financial entities constituted approximately 94% of all deposits of the Bank's non-financial clients, while as at 31 December 2007 the level of permanent balances on deposits constituted approximately 96% of all deposits of the Bank's non-financial clients.

Financial crisis observed in the market significantly affected the environment in which the banks operate, which refers also to Polish banks. The main problem related to the crisis constituted limited trust in the interbank market, which resulted in limited liquidity of this market. This contributed to the necessity of gaining deposits by the banks from non-financial clients, which inevitably led to the increase of the offered interest rates paid.

Due to the aggravating crisis, the Bank's Management Board took steps to mitigate the possible risks to materialize. The parent company appointed a special working group, whose objective was to assess the current situation in the financial market, to report to the Bank's Management Board members on a daily basis and to discuss the situation during the Bank's Management Board meetings on a weekly basis.

In the crisis situation in financial markets the parent company took actions aimed at effective liquidity risk management, which may be confirmed by the following facts:

– no limits for supervisory liquidity measures of the Bank were exceeded,

[3] The Group's liquidity gap in real terms has been determined as the sum of the Bank's gap in real terms and contractual liquidity gaps of the remaining entities of the Group.

- the parent company did not have any difficulties with holding the obligatory funds to cover the obligatory reserve at the National Bank of Poland (NBP) without the need of taking a lombard loan,
- the parent company did not take advantage of the supporting operations and financing operations in foreign currencies offered by the National Bank of Poland (NBP).

The above-mentioned extraordinary actions were accompanied by standard risk monitoring as well as development of risk measurement methods, along with their adjustment to the observed market conditions, such as modification of structure of limits and thresholds for liquidity risk with reference to the minimal liquidity reserve held by the Bank.

In order to reduce the risk within the Group and due to the deeper crisis in the Ukrainian market, the Bank granted financial support to its subsidiary company KREDOBANK SA.

**Market risk reporting**

The market risk reporting system is based on the following reports:

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

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

Other entities in the PKO BP SA Group which, due to the nature of their activities, are characterized by a significant level of market risk have their own internal regulations (submitted to the Bank for consultation) for management of the risk. These regulations define, among others, a procedure for market risk reporting to the Management of these entities.

*(in PLN thousand)*

## Non-current and current assets and liabilities of the Group as at 31 December 2008

| | Short term | Long term | Impairment allowances | Total carrying amount |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances with the central bank | 5 836 892 | - | - | **5 836 892** |
| Amounts due from banks | 3 191 876 | 199 834 | (28 111) | **3 363 599** |
| Trading assets | 1 340 931 | 155 216 | - | **1 496 147** |
| Derivative financial instruments | 3 597 670 | - | - | **3 597 670** |
| Other financial instruments designated at fair value through profit or loss | 3 521 974 | 1 033 570 | - | **4 555 544** |
| Loans and advances to customers | 21 784 191 | 82 241 576 | (2 917 876) | **101 107 891** |
| Investment securities available for sale | 772 921 | 7 847 751 | (5 759) | **8 614 913** |
| Inventories | 479 181 | 143 229 | - | **622 410** |
| Other assets | 3 407 883 | 2 233 311 | (200 274) | **5 440 920** |
| **TOTAL ASSETS** | **43 933 519** | **93 854 487** | **(3 152 020)** | **134 635 986** |
| **Liabilities** | | | | |
| Amounts due to the central bank | 2 816 | - | - | **2 816** |
| Amounts due to other banks | 3 127 387 | 3 861 216 | - | **6 988 603** |
| Derivative financial instruments | 6 150 337 | - | - | **6 150 337** |
| Amounts due to customers | 91 457 004 | 11 482 277 | - | **102 939 281** |
| Debt securities in issue | 183 594 | 27 979 | - | **211 573** |
| Subordinated liabilities | - | 1 618 755 | - | **1 618 755** |
| Other liabilities | 2 228 722 | 497 883 | - | **2 726 605** |
| **TOTAL LIABILITIES** | **103 149 860** | **17 488 110** | **-** | **120 637 970** |
| **EQUITY** | **-** | **13 998 016** | **-** | **13 998 016** |
| **TOTAL LIABILITIES AND EQUITY** | **103 149 860** | **31 486 126** | **-** | **134 635 986** |

## Non-current and current assets and liabilities of the Group as at 31 December 2007

| | Short term | Long term | Impairment allowances | Total carrying amount |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances with the central bank | 4 682 627 | - | - | **4 682 627** |
| Amounts due from banks | 5 225 409 | 36 103 | (276) | **5 261 236** |
| Trading assets | 337 058 | 865 861 | - | **1 202 919** |
| Derivative financial instruments | 1 556 736 | - | - | **1 556 736** |
| Other financial instruments designated at fair value through profit or loss | 2 044 626 | 6 269 818 | - | **8 314 444** |
| Loans and advances to customers | 22 371 094 | 56 461 658 | (2 415 603) | **76 417 149** |
| Investment securities available for sale | 479 260 | 5 263 827 | (26 849) | **5 716 238** |
| Inventories | 113 717 | 251 587 | - | **365 304** |
| Other assets | 2 438 501 | 2 745 624 | (163 178) | **5 020 947** |
| **TOTAL ASSETS** | **39 249 028** | **71 894 478** | **(2 605 906)** | **108 537 600** |
| **Liabilities** | | | | |
| Amounts due to the central bank | 1 279 | - | - | **1 279** |
| Amounts due to other banks | 1 785 723 | 2 917 391 | - | **4 703 114** |
| Derivative financial instruments | 1 279 925 | - | - | **1 279 925** |
| Amounts due to customers | 85 085 358 | 1 494 152 | - | **86 579 510** |
| Debt securities in issue | 166 823 | 12 037 | - | **178 860** |
| Subordinated liabilities | - | 1 614 885 | - | **1 614 885** |
| Other liabilities | 1 734 988 | 466 024 | - | **2 201 012** |
| **TOTAL LIABILITIES** | **90 054 096** | **6 504 489** | **-** | **96 558 585** |
| **EQUITY** | **-** | **11 979 015** | **-** | **11 979 015** |
| **TOTAL LIABILITIES AND EQUITY** | **90 054 096** | **18 483 504** | **-** | **108 537 600** |

*(in PLN thousand)*

## Outstanding contractual maturities of the Group as at 31 December 2008

| | Up to 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | Over 5 years | Contractual value | Carrying amount |
|---|---|---|---|---|---|---|---|
| **Liabilities:** | | | | | | | |
| Amounts due to the central bank | 2 816 | - | - | - | - | 2 816 | **2 816** |
| Amounts due to other banks | 2 465 018 | 707 941 | 303 961 | 3 658 612 | 173 577 | 7 309 111 | **6 988 603** |
| Amounts due to customers | 61 955 089 | 17 672 964 | 11 820 792 | 12 536 123 | 376 525 | 104 361 493 | **102 939 281** |
| Debt securities in issue | 79 851 | 75 710 | 30 905 | 39 703 | - | 226 170 | **211 573** |
| Subordinated liabilities | - | - | 126 135 | 506 893 | 2 121 604 | 2 754 632 | **1 618 755** |
| Other liabilities | 564 141 | 260 184 | 794 266 | 32 196 | 16 989 | 1 667 776 | **1 667 776** |
| Derivative financial instruments | 6 476 728 | 5 399 820 | 7 228 909 | 21 651 941 | 5 876 889 | 46 634 287 | **6 150 337** |
| Off-balance sheet liabilities – financial liabilities granted | 13 720 195 | 157 146 | 3 512 534 | 4 231 245 | 4 520 324 | 26 141 444 | |
| Off-balance sheet liabilities – guarantee liabilities issued | 1 436 768 | 169 003 | 1 086 418 | 1 489 656 | 120 854 | 4 302 699 | |

## Outstanding contractual maturities of the Group as at 31 December 2007

| | Up to 1 month | 1 - 3 months | 3 months - 1 year | 1 - 5 years | Over 5 years | Contractual value | Carrying amount |
|---|---|---|---|---|---|---|---|
| **Liabilities:** | | | | | | | |
| Amounts due to the central bank | 1 279 | - | - | - | - | 1 279 | **1 279** |
| Amounts due to other banks | 1 049 449 | 650 638 | 165 126 | 3 143 266 | 41 436 | 5 049 915 | **4 703 114** |
| Amounts due to customers | 61 885 041 | 9 882 068 | 13 414 008 | 1 440 699 | 334 031 | 86 955 847 | **86 579 510** |
| Debt securities in issue | 53 827 | 103 256 | 11 651 | 17 027 | | 185 762 | **178 860** |
| Subordinated liabilities | - | - | 102 244 | 408 138 | 2 130 822 | 2 641 204 | **1 614 885** |
| Other liabilities | 975 236 | 657 996 | 52 719 | 20 878 | 25 504 | 1 732 333 | **1 732 333** |
| Derivative financial instruments | 3 224 597 | 2 105 843 | 6 298 003 | 14 551 912 | 6 236 867 | 32 417 222 | **1 279 925** |
| Off-balance sheet liabilities – financial liabilities granted | 5 996 907 | 846 343 | 7 967 694 | 7 405 452 | 2 130 270 | 24 346 666 | |
| Off-balance sheet liabilities – guarantee liabilities issued | 724 128 | 98 931 | 977 951 | 1 960 497 | 123 765 | 3 885 272 | |

**Operational risk and compliance risk**

**Operational risk management objectives and policies**

Operational risk is defined as the risk of occurrence of a loss due to non-compliance or unreliability of internal processes, people and systems or external events. The purpose of operational risk management is to optimize operational efficiency by reducing operating losses, costs streamlining and improving the timing and adequacy of the response of the Group to events which are beyond its control.

The Bank's internal regulations determine unambiguously the segregation of competencies in the area of operational risk management. According to these regulations, the entirety of issues connected to operational risk management is supervised by the Management Board, which:

- sets goals of operational risk management,
- establishes operational risk policy,
- approves operational risk reports.

Operational risk management is performed through systemic solutions as well as regular ongoing management of the risk.

Systemic management of operational risk includes building internal regulations and using other tools related to operational risk, in the scope of:

- human resources,
- organization of the Bank,
- accounting,
- communication and IT technologies,
- security,
- internal processes,
- customer service processes,
- outsourcing of banking activities.

Systemic operational risk management is centralised at the Bank's head office level. Each business and support line has a designated unit which is responsible for identification and monitoring of operational threats and taking adequate steps to ensure an acceptable level of operational risk.

The ongoing operational risk management consists of:

- prevention of operational threats arising at a stage of product development - both in internal processes and systems,
- undertaking steps aimed at limiting the number and scale of occurring threats ('operational events'),
- eliminating negative effects of operational events,
- registering data on operational events.

The ongoing operational risk management is conducted by every organizational unit of the Bank.

A vital role in the process of operational risk management is fulfilled by the Banking Risk Division, which coordinates identification, measurement, reporting and monitoring of operational risk in the PKO BP SA Group.

In order to limit exposure to operational risk, the Bank applies solutions of various kinds, such as:

- control solutions,

- human resources management (proper staff selection, enhancement of professional qualification of employees, motivation packages),
- setting threshold values of Key Risk Indicators (KRI),
- contingency plans,
- insurances,
- outsourcing.

The selection of instruments, which are used to limit operational risk, is made in consideration with:

- availability and adequacy of the instruments,
- nature of an activity or a process, in which operational risk was identified,
- importance of risk,
- cost of instrument's implementation.

In addition, internal regulations prevent the Bank from engaging in excessively risky activities. If such activity is already in place, the regulations call for abandonment of it, or for limitation of its scope. The level of operational risk is regarded as excessive if potential benefits are lower than potential operational losses for a given type of activity.

Measurement of operational risk is conducted with the use of:

- accumulation of data on operational events,
- results of internal audit,
- results of functional internal control,
- results of self-assessment of operational risk,
- Key Risk Indicators (KRI).

The Bank continuously monitors the level of KRI and operating events which exceed threshold values for operational risk.

Reporting on operational risk of the Bank and the Group is conducted on a half-yearly basis. The Management Board and the Supervisory Board of the Bank receive the reports. Reports include the following information:

- operational risk profile of the Bank, resulting from identification and assessment of threats,
- results of measurement and monitoring of operational risk,
- operational events and their financial effects,
- the most important projects and ventures undertaken in the scope of operational risk management.

The parent company – PKO BP SA has a decisive impact on operational risk profile. The other Group entities generate only a fraction of operational risk, due to their smaller scale of activity. They manage operational risk according to principles of managing the risk in PKO BP SA, considering their specific nature and scale of activity.

In the second half of 2008 the Group entities commenced work in the area of implementation of key operational risk indicators (KRI).

**Compliance risk management objectives and policies**

Compliance risk is defined as the risk of legal sanctions, incurring financial losses or losing reputation or reliability due to failure of the Bank, its employees or entities acting on its behalf to comply with the provisions of the law, internal regulations, standards adopted by the Bank, including ethical standards.

The objective of compliance risk management is to strengthen the image of the PKO BP SA Group as of entities that are reliable, fair, honest and compliant with law and adopted standards. This is achieved through mitigating compliance risk, reputation risk and legal sanction risk.

Compliance risk management involves in particular:

- preventing involvement of the Bank in illegal activities;
- ensuring data protection;
- development of ethical standards and monitoring of their application;
- conflict of interest management;
- preventing situations where the Bank's employees could be perceived as pursuing their own interest in the professional context;
- professional, fair and transparent formulation of offers of products, advertising and marketing messages;
- prompt, fair and professional consideration of complaints, requests and quality claims of clients.

Compliance risk management tasks are executed at the PKO BP SA Group by the Operating and Compliance Risk Department.

In the second half of 2008 in all of the Group entities principles of compliance risk management were implemented, consistent with principles being in force at the Bank.

**Capital adequacy**

Capital adequacy is the maintenance of a level of capital by the PKO BP SA Group which is sufficient to meet regulatory capital requirements (the so-called Pillar 1) and internal capital requirements (the so-called Pillar 2). The objective of capital adequacy management is to maintain capital on a level that is adequate to the risk scale and profile of the Group's activities.

The process of managing the Group's capital adequacy comprises:

1) identifying and monitoring of all of significant risks;
2) assessing internal capital to cover the individual risk types and total internal capital;
3) monitoring, reporting, forecasting and limiting of capital adequacy;
4) performing internal capital allocations to business segments, client segments and entities in the Group in connection with profitability analyses;
5) using tools affecting the capital adequacy level (including: tools affecting the level of equity, the scale of equity item reductions and the level of the loan portfolio).

The main measures of capital adequacy are:

- the capital adequacy ratio whose minimum level in accordance with the Banking Act is 8%;
- the ratio of equity to internal capital whose acceptable minimum level in accordance with the Banking Act is 1.0.

The capital adequacy level of the Bank in 2008 remained on a safe level and was significantly above the statutory limits.

Compared with 31 December 2007, the Group's capital adequacy level dropped by 0.73 pp., which was mainly due to high dynamics in the growth of the loan portfolio and the negative effect of implementing Basel II on the capital requirement level.

Due to the recent significant change of foreign exchange rates and the related revaluation of the Bank's loan portfolio within the period September – December 2008, the volume of loan portfolio increased, which resulted in an additional increase in the capital requirement in respect of credit risk.

**Own funds**

Own funds comprise basic funds, supplementary funds and short-term capital.

Basic funds are comprised of the following items:

1) principal funds comprising: share capital, reserve capital, other reserve capital,
2) general banking risk fund,
3) retained earnings,
4) net profit prior to approval and net profit for the current reporting period, calculated based on appropriate accounting standards, decreased by any expected charges and dividends, in amounts not exceeding amounts audited by certified public accountants, in accordance with the Banking Act, Article 127, Point 2c.

Basic funds are reduced by deducting the following items:

1) intangible assets stated at carrying amount,
2) the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies – in the amount of 50% of the value of such exposures,
3) unrealised losses on debt and equity instruments classified as available for sale.

Supplementary funds are comprised of the following items:

1) subordinated liabilities,
2) unrealised gains on debt and equity instruments classified as available for sale – in the amount of 60% of their pre-tax value.

Moreover, the supplementary funds are reduced by 50% of the value of the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies. If the amount of reduction would result in supplementary funds failing below nil, the amount is subtracted from the basic funds.

The own funds of the Group include also short-term capital:

- as at 31 December 2007, the own funds of the Group include short-term capital for the six-month period ended 31 December 2007, due to including a part of approved profit for the first six-month period ended 30 June 2007 in the calculation of the funds,
- as at 31 December 2008, the own funds of the Group include short-term capital for the six-month period ended 31 December 2008, due to including a part of approved profit for the first six-month period ended 30 June 2008 in the calculation of the funds.

In addition, the following items are included in the calculation of consolidated own funds:

1) goodwill of subsidiaries (which decreases the value of own funds),
2) negative goodwill of subsidiaries (which increases the value of own funds),
3) minority interests in equity (which increase the value of own funds),
4) currency translation differences from foreign operations (negative differences decrease own funds, whereas positive differences increase own funds).

*(in PLN thousand)*

In 2008, the value of own funds of the Group increased by PLN 2 901 883 thousand, which was mainly due to contribution of approximately 60% of the net profit for 2007.

Own funds include also the audited profit for the first half of 2008 on the assumption that no dividends will be paid out (the whole profit would be retained by the Bank).

The structure of the Group's own funds is presented in the table below:

| GROUP'S OWN FUNDS | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Basic funds (Tier 1 capital)** | **11 265 718** | **8 449 415** |
| Share capital | 1 000 000 | 1 000 000 |
| Reserve capital | 7 274 717 | 5 592 311 |
| Other reserves | 1 523 827 | 1 518 025 |
| General banking risk fund | 1 070 000 | 1 070 000 |
| Net profit for the current period in the part verified by a certified auditor after deduction of forecasted charges | 1 824 745 | 653 720 |
| Retained earnings | 53 232 | (72 192) |
| Unrealised losses on debt and equity instruments classified as available for sale | (43 346) | (55 228) |
| Intangible assets, of which: | (1 352 778) | (1 183 491) |
| Goodwill of subsidiaries | (164 720) | (234 066) |
| Equity exposures | (73 482) | (84 035) |
| Currency translation differences from foreign operations | (57 413) | (47 761) |
| Minority interest | 46 216 | 58 066 |
| **Supplementary funds (Tier 2 capital)** | **1 528 517** | **1 517 988** |
| Subordinated liabilities classified as suplementary funds | 1 600 700 | 1 600 700 |
| Unrealised profits on debt and equity instruments classified as available for sale (up to 60% of their values before tax) | 1 298 | 1 323 |
| Equity exposures | (73 481) | (84 035) |
| **Short-term equity (Tier 3 capital)** | **91 048** | **15 997** |
| **TOTAL EQUITY** | **12 885 283** | **9 983 400** |

### Capital requirements (Pillar 1)

From January 2008, the Group calculates capital requirements in accordance with Resolution No. 1/2007 of the Banking Supervision Authority dated 13 March 2007 (Basel II): in respect of credit risk – using the standardized approach; in respect of operational risk – using the basic indicator approach, and in respect of market risk – using the basic approach.

The scale of the Bank's and the Group's trading activities is significant, therefore the total capital requirements constitute sum of the capital requirements for:

1) credit risk – including credit risk of the banking book and counterparty credit risk,
2) market risk – including foreign exchange risk, commodities risk, equity securities risk, specific risk of debt instruments, general risk of interest rates,
3) operational risk,
4) other types of capital requirements in respect of:
   - settlement/delivery risk,
   - the risk of exceeding the exposure concentration limit and the large exposure limit,
   - the risk of exceeding the capital concentration threshold.

Implementation of Basel II as of the beginning of 2008 resulted in an increase in the total capital requirement for the Bank of approximately PLN 0.5 billion, which was mainly due to introducing a new capital requirement for operational risk (+ PLN 1.0 billion), accompanied by a decrease in the capital requirement in respect of credit risk (- PLN 0.5 billion). An increase in the capital requirement in respect of credit risk resulted from a significant increase in the volume of loan portfolio (32%) in 2008.

*(in PLN thousand)*

Except for increase in sales of loans, growth of loan portfolio volume was determined by foreign exchange rates increase in the second half of 2008.

The tables below show the Group's exposure to credit risk and other types of risk. The amounts as at 31 December 2008 have been calculated in accordance with the so-called Basel II requirements, and as at 31 December 2007 – in accordance with Basel I.

| Capital requirements | 31.12.2008 | 31.12.2007 |
|---|---|---|
| **Credit risk** | **7 676 474** | **6 425 531** |
| credit risk (banking book) | 7 514 510 | 6 401 283 |
| counterparty risk (trading book) | 161 964 | 24 248 |
| **Market risk** | **202 677** | **220 143** |
| foreign exchange risk | - | - |
| commodities risk | - | - |
| equity securities risk | 1 069 | 1 187 |
| specific risk of debt instruments | 167 505 | 166 634 |
| general risk of interest rates | 34 103 | 52 322 |
| **Operational risk** | **1 247 584** | **-** |
| **Other kinds of risk*** | - | **-** |
| **Total capital requirements** | **9 126 735** | **6 645 674** |
| **Capital adequacy ratio** | **11.29** | **12.02**** |

* Includes capital requirements in regards to the settlement and delivery risks, the risk of exceeding the exposure concentration limit and the large exposure limit, and the risk of exceeding the capital concentration threshold.

** Lack of comparability in terms of capital requirements (at 31 December 2008, capital requirements have been calculated in accordance with the New Basel Accord, where the basic difference between this and the calculation at 31 December 2007 are a new methodology for calculation of credit and operational risk requirements).

The Group calculates capital requirements on account of credit risk, according to the following formula:

– in case of balance sheet items – a product of a carrying amount, a risk weight and 8% (considering collateral),

– in case of contingent liabilities and commitments – a product of nominal value of liability, a risk weight and 8% (considering collateral),

– in case of off-balance sheet transactions (derivative instruments) – product of risk weight, balance sheet equivalent of off-balance sheet transaction and 8 %; the value of the balance sheet equivalent is calculated in accordance with the mark-to-market method.

*(in PLN thousand)*

The structure of the capital requirement for credit risk and a risk-weighted value on account of specific risk of instruments from the trading portfolio of the Bank as at 31 December 2008 is as follows:

| Instrument type | Carrying amount | Risk - weighted value |
|---|---|---|
| Cash | 2 415 015 | - |
| Receivables | 106 806 924 | 80 154 171 |
| Debt securities | 11 487 024 | 256 573 |
| Other securities, shares | 317 980 | 177 806 |
| Non-current assets | 4 317 437 | 2 964 659 |
| Other | 5 188 225 | 1 338 112 |
| **Total banking book** | **130 532 605** | **84 891 321** |
| Debt securities | 4 098 758 | 1 061 876 |
| Equity securities held for trading in the trading book | 4 623 | 4 623 |
| **Total trading book** | **4 103 381** | **1 066 499** |
| **Total** | **134 635 986** | **85 957 820** |

| Instrument type | Nominal value* | Balance sheet equivalent | Risk - weighted value |
|---|---|---|---|
| **Derivatives** | | | |
| *Interest rate instruments:* | *208 829 485* | *3 441 889* | *1 288 302* |
| FRA | 67 390 000 | 140 173 | 50 638 |
| IRS | 141 439 485 | 3 301 716 | 1 237 664 |
| *Foreign currency instruments:* | *29 771 815* | *1 875 854* | *1 145 380* |
| Currency forwards (including embedded instruments) | 3 011 644 | 234 941 | 230 036 |
| SWAP (including current transaction) | 7 421 298 | 46 486 | 9 589 |
| CIRS | 16 413 843 | 910 273 | 279 371 |
| Options (delta equivalents - purchase of options) | 2 925 030 | 684 154 | 626 384 |
| *Other instruments:* | *461 126* | *226 210* | *27 661* |
| CDS | 207 326 | 32 356 | 6 471 |
| Others (options and futures on stock indices, repo) | 253 800 | 193 854 | 21 190 |
| **Total derivatives** | **239 062 426** | **5 543 953** | **2 461 343** |
| of which: | | | |
| banking book | 44 127 146 | 1 616 891 | 436 796 |
| trading book | 194 935 280 | 3 927 062 | 2 024 547 |

*the above nominal value for SBB and repo transactions constitutes a difference between fair values of underlying assets, operations and amounts received or granted.

| Instrument type | Nominal value | Balance sheet equivalent | Risk - weighted value |
|---|---|---|---|
| Line-of-credit contingent liabilities and other financial liabilities | 26 141 444 | 8 005 754 | 6 734 985 |
| Guarantees granted | 3 239 802 | 1 558 627 | 1 592 396 |
| Letters of credit granted | 241 892 | 275 878 | 275 878 |
| **Total banking book** | **29 623 138** | **9 840 259** | **8 603 259** |
| Guarantees of issue | 821 005 | 821 005 | 658 148 |
| **Total trading book** | **821 005** | **821 005** | **658 148** |

*(in PLN thousand)*

The structure of the capital requirement for credit risk and a risk weighted value on account of specific risk of instruments from the trading portfolio of the Bank as at 31 December 2007 is as follows:

| Instrument type | Carrying amount | Risk - weighted value |
|---|---|---|
| Cash | 1 708 936 | - |
| Receivables | 81 938 477 | 67 893 370 |
| Debt securities | 11 951 685 | 152 804 |
| Other securities, investments | 460 261 | 345 760 |
| Non-current assets | 4 003 594 | 2 820 103 |
| Other | 5 474 406 | 3 481 430 |
| **Total banking book** | **105 537 359** | **74 693 467** |
| Debt securities | 2 990 576 | 1 089 407 |
| Equity securities held for trading in the trading portfolio of the Bank | 9 665 | 9 665 |
| **Total trading book** | **3 000 241** | **1 099 072** |
| **Total** | **108 537 600** | **75 792 539** |

| Instrument type | Nominal value | Balance sheet equivalent | Risk - weighted value |
|---|---|---|---|
| **Derivatives** | | | |
| *Interest rate instruments:* | *198 682 731* | *1 570 408* | *314 081* |
| FRA | 73 860 000 | 243 636 | 48 727 |
| IRS | 124 822 731 | 1 326 772 | 265 354 |
| *Foreign currency instruments:* | *14 823 154* | *887 744* | *178 302* |
| Currency forwards | 1 469 872 | 16 274 | 3 255 |
| SWAP | 2 268 825 | 22 688 | 4 538 |
| CIRS | 11 049 300 | 845 774 | 169 155 |
| Options (delta equivalents - purchase of options) | 35 157 | 3 008 | 1 354 |
| *Other instruments:* | *303 726* | *29 460* | *6 327* |
| CDS | 231 325 | 27 993 | 5 597 |
| Others (options and futures on stock indices) | 72 401 | 1 467 | 730 |
| **Total derivatives** | **213 809 611** | **2 487 612** | **498 710** |
| of which: | | | |
| banking book | 38 235 646 | 1 150 782 | 230 591 |
| trading book | 175 573 965 | 1 336 830 | 268 119 |

| Instrument type | Nominal value | Balance sheet equivalent | Risk - weighted value |
|---|---|---|---|
| Line-of-credit contingent liabilities and other financial liabilities | 24 346 666 | 3 274 110 | 3 246 162 |
| Guarantees granted | 1 867 608 | 1 284 250 | 1 280 724 |
| Letters of credit granted | 562 155 | 280 758 | 280 487 |
| Other | 1 193 065 | 325 458 | 278 389 |
| **Total banking book** | **27 969 494** | **5 164 575** | **5 085 761** |
| Underwriting guarantees | 9 107 | - | - |
| Guarantees of issue | 1 455 509 | 1 455 509 | 1 248 269 |
| **Total trading book** | **1 464 616** | **1 455 509** | **1 248 269** |

## Internal capital (Pillar 2)

As of the beginning of 2008, internal capital is designated in accordance with Resolution No 4/2007 of the Banking Supervision Authority of 13 March 2007 on detailed principles for functioning of risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating and maintaining internal capital (NBP Journal of 2007, No. 3, item 6).

Internal capital is the amount of capital estimated by the Bank that is necessary to cover all of the significant risks characteristic of the Bank's activities and the effect of changes in the business environment, taking account of the anticipated risk level.

The internal capital in the PKO BP SA Group is intended to cover each of the significant risk types:

1) credit risk, including default risk;
2) market risk (including currency risk, interest rate risk and liquidity risk);
3) operational risk;
4) business risk (including strategy risk and reputation risk).

The total internal capital of each of the Group's entities is the sum of internal capital amount necessary to cover all of the significant risks for each of the entities.

The total internal capital of the Group is the sum of internal capital of the Bank and internal capitals of all of the Group's entities.

The correlation coefficient for different types of risk and different companies of the Group used in the internal capital calculation is equal to 1.

The Bank regularly monitors the significance of the individual risk types relating to the Bank's activities and activities of Group's entities.

**Disclosures (Pillar 3)**

In accordance with § 6 of Resolution 6/2007 of the Banking Supervision Authority of 13 March 2007, on the detailed principles and methods for banks to disclose qualitative and quantitative information concerning capital adequacy and the scope of the information to be announced, the Powszechna Kasa Oszczędności Bank Polski SA, which is the holding company within the meaning of §3 of the resolution, publishes information about capital adequacy in a separate document on an annual basis, not later than within 30 days of the date of authorization of the annual financial statements by the Annual General Shareholders' Meeting.

Details of the scope of capital adequacy information disclosed, the method of its verification and publication are presented in the PKO BP SA Capital Adequacy Information Policies, which are available on the Bank's website (www.pkobp.pl).

## 53. Influence of the global crisis on the Group's results

The Group's financial results of 2008 were considerably affected by deterioration of economic condition both in Poland and in Ukraine, which originated from a serious economic collapse of the United States and the Euro zone, as well as overall crisis on financial markets. The crisis led to industrial activity slowdown, inter-bank market liquidity deterioration, investments decline, shrinking labour market and downturn on stock exchanges.

A depreciation of the Polish currency contributed to an increase in the exposure of long-term loans denominated in foreign currencies granted by the Group and to higher costs of derivatives' settlement by the clients which resulted in higher risk of default of corporate clients which had open FX derivative transactions with the Group. Due to the sustained negative influence of the valuation increase on financial results and liquidity of the counterparties in the first months of 2009, to fairly reflect the influence of this event on the financial result of the year 2008 with reference to negative information gathered after 31 December 2008 but before the date of preparing the financial statements, the parent entity conducted a recoverability analysis of exposures and recognised the analysis results in derivative financial instruments with non-financial corporate clients valuation as at 31 December 2008. Additionally, the Group took into consideration the negative impact of the crisis for valuation of derivative contracts settled with foreign financial institutions.

Exposures of non-financial corporate entities due to the negative (for clients) valuation of derivative instruments in the banking sector (including PKO BP SA) also negatively affected the valuation of loan exposures granted to those clients by the parent entity. Taking into account information gathered after 31 December 2008 but before the date of preparing the financial statements, the parent entity conducted a recoverability analysis of loan exposures and reflected the analysis's results in the valuation as at 31 December 2008.

Additionally the parent company applied current credit spreads in valuation of commercial bonds, taking into account negative impact of the change in macroeconomic situation.

Due to the impact of the global crisis the Group adjusted the credit policy to the changing market conditions. Taking into account the crisis impact on the corporate entities' and retail clients' standing affecting on the increase of the credit risk, the Group (applying very conservative risk appetite) recognised the impairment allowances both for the credit and capital exposures. The range and structure appropriately reflects impact of the crisis on the financial statements.

Additionally, the Group's deposits policy was affected by the crisis of trust and higher price of money in the global interbank market resulting in the increase of cost of financing and the demand for stable base of financing (including term deposit).

Regardless of the aforementioned events, in 2008 the Group has recorded the high financial result, including net interest income and net fee and commission income, while its market share has become unchanged and the Group has gained the leading position in the the banking sector as regards the total assets in the result of loans and deposits volume increse.

## 54. Post balance sheet events

On 6 January 2009 Bankowy Faktoring SA was registered with the National Court Register. The company's share capital amounts to PLN 1 million and consists of 1000 registered shares, each of PLN 1 000 per value.

All the shares in the share capital, in the amount of PLN 1 330 thousand, were acquired by Bankowe Towarzystwo Kapitałowe SA – subsidiary of PKO BP SA.

With reference to the Extraordinary Shareholders' Meeting of KREDOBANK SA's resolution on the increase in share capital of KREDOBANK SA, on 16 February 2009 the Management Board of the PKO BP SA approved acquisition of new issued shares of KREDOBANK up to the amount of USD 133 million along with a premature repayment of all subordinated loans in the amount of USD 38 million granted by PKO BP SA to KREDOBANK SA.

The Management Board of PKO BP SA has convened the Extraordinary General Shareholders' Meeting as at 6 April 2009. In accordance with the agenda, the Extraordinary General Shareholders' Meeting will adopt resolutions on changes in the Bank's Supervisory Board.

**Signatures of all Members of the Bank's Management Board**

| | | | |
|---|---|---|---|
| 03.04.2009 | Jerzy Pruski | President of the Board | ............................<br>(signature) |
| 03.04.2009 | Bartosz Drabikowski | Vice-President of the Board | ............................<br>(signature) |
| 03.04.2009 | Krzysztof Dresler | Vice-President of the Board | ............................<br>(signature) |
| 03.04.2009 | Tomasz Mironczuk | Vice-President of the Board | ............................<br>(signature) |
| 03.04.2009 | Jarosław Myjak | Vice-President of the Board | ............................<br>(signature) |
| 03.04.2009 | Wojciech Papierak | Vice-President of the Board | ............................<br>(signature) |
| 03.04.2009 | Mariusz Zarzycki | Vice-President of the Board | ............................<br>(signature) |

Signature of person responsible for maintaining the books of account

03.04.2009

Danuta Szymańska

Director of the Bank
(signature)

PKO BANK POLSKI
**SPÓŁKA AKCYJNA**

# THE PKO BP SA GROUP DIRECTORS' REPORT FOR THE YEAR 2008

WARSAW, APRIL 2009

**CONTENTS:**

# 1. INTRODUCTION

## 1.1 Key financial indicators of the PKO BP SA Group

| | | | | | | |
|---|---|---|---|---|---|---|
| NET PROFIT | PLN | 3 120.7 million | + | 7.5% | (y/y) | the result of increase in results on business activities by 21.9% (y/y), with 6.3% (y/y) increase in costs. |
| RESULTS ON BUSINESS ACTIVITIES* | PLN | 9 388.4 million | + | 21.9% | (y/y) | due to the increase in net interest income by 31.9% (y/y) and in foreign exchange result by 39.6% (y/y). |
| NET INTEREST INCOME | PLN | 6 127.3 million | + | 31.9% | (y/y) | the result of higher deposit margins and 32.3% (y/y) increase in net loan portfolio volume. |
| NET FEE AND COMMISSION INCOME | PLN | 2 411.8 million | + | 3.4% | (y/y) | the result of increase in fee and commission indome due to granted loans by 18.1% (y/y) as well as 2.7% (y/y) increase in the number of banking cards and transactions made using those cards. |
| COSTS | PLN | (4 296.3) million | + | 6.3% | (y/y) | the result of 6.1% (y/y) increase in staff costs and non-staff related expenses by 4.9% (y/y). |
| ROE net | | 24.0% | - | 2.2 | pp. | the result of 7.5% (y/y) increase in net profit and increase in equity by total of 16.9% (y/y). |
| ROA net | | 2.6% | - | 0.2 | pp. | with 24.0% (y/y) increase in assets. |

** Result on business activities defined as operating profit before administrative expenses, net impairment allowance and tax.*

The parent company of the PKO BP SA Group is Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ("the Bank"), whose total assets amount to 97.5% of the total assets of the PKO BP SA Group and whose results determine the results of the whole Group.

In 2008 net profit of the Group amounted to PLN 3 120.7 million, which equals to 7.5% growth rate, that is PLN 217.0 million compared with the previous year. Such result was determined by the following factors:

⇒ high growth of results on business activities of the PKO BP SA Group, which amounted to PLN 9 388.4 million (+21.9% y/y),

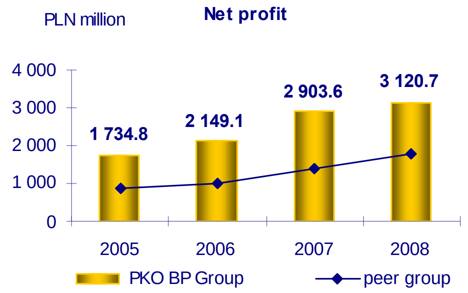
⇒ efficiency enhancement in cost management, which increased by 6.3% (y/y). Due to high growth rate of income of the PKO BP SA Group, the C/I ratio declined by 6.7 pp. to 45.8% (y/y),

⇒ increase in the Group's assets by PLN 26.1 billion (y/y) to PLN 134.6 billion resulting from intensive sales of loans financed by the increase in deposit base,

⇒ effective structure of the balance sheet – significant increase in deposits of the PKO BP SA Group by PLN 16.4 billion enabled a dynamic growth of the loan portfolio by 32.3(y/y). As at the end of 2008, the ratio of loans to deposits within the Group amounted to 98.2%, remaining at the lower level than the average for the banking sector.

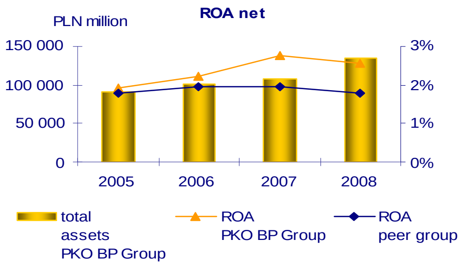
High net profit in 2008 resulted in high return on equity of the PKO BP SA Group. ROE net amounted to 24.0% and remained stable compared with the previous year.

## 1.2 The PKO BP SA Group against its peer group[1]



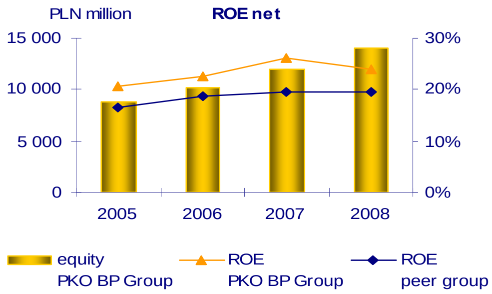

Relatively favorable macroeconomic situation in the Polish economy, growing scale of operations and increase in interest rates contributed to increase in financial results of the banks in the first three quarters of 2008. Negative trends appeared in the 4th quarter of 2008 and were a reflection of the financial crisis on international markets.

In 2008, the PKO BP SA Group also achieved record profits, significantly above average of its peer group.



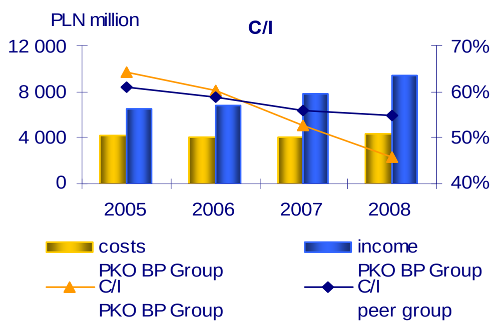

Fast growth rate, resulting from aggressive development strategy pursued by particular institutions in order to quickly win the market, was reflected in increased total assets of the banks.

The PKO BP SA Group's active policy also contributed to a significant increase in its total, accompanied by high return on assets (net ROA amounted to 2.6% as at the end of 2008, compared with 2.8% as at the end of 2007).



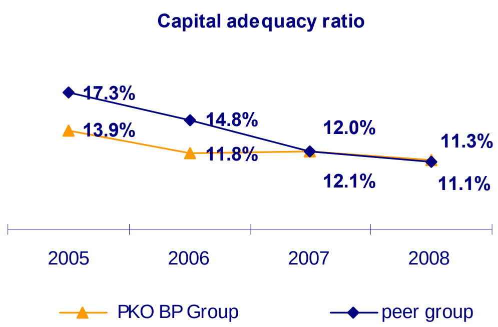

In 2008 net profit of the banking sector was significantly higher than in the same period of 2007. Better results were mainly the effect of increase in interest result combined with the corresponding slower growth of operating expenses.

In 2008, the PKO BP SA Group maintained its profitability at a stable level (net ROE amounted to 24.0% in 2008, compared with 26.2% in 2007).




The accelerated growth of business resulted in an increase in operating expenses in the banking sector, both in staff costs and overhead expenses. Regardless of this increase in costs, the cost to income ratio (C/I) of the banks decreased (on a year-on-year basis), because the growth rate of income significantly exceeded the growth rate of costs.

In 2008 the PKO BP SA Group also significantly improved the relation of costs to income, which remained significantly lower than average in the peer group.




The capital adequacy of the banking sector in 2008 remained at the level, which allows a further stable development.

The capital adequacy ratio in the PKO BP SA Group was maintained at a considerably higher level than in the peer group, mainly due to capital accumulation.

*[1] Peer group includes: Pekao SA Group, BRE Bank SA Group, ING Bank Śląski SA Group, BZ WBK SA Group. Ratios calculations are based on data available in consolidated financial statements issued by the banks constituting peer group. Data are weighted by total assets.*

## 2. EXTERNAL ENVIRONMENT

### 2.1 Macroeconomic factors

In 2008 there was a deterioration of economic situation in the US and Eurozone and financial crisis on the international markets, followed by a substantial downfall of domestic economy. In 2008, GDP growth rate amounted to 4.8% (y/y), with a decrease from 6.0% in the first half of 2008 to 3.7% in the second half of 2008. Among the factors which contributed to deceleration of the GDP growth, the decrease in the growth rate of gross capital expenditure on fixed assets due to a dramatic fall in new capital expenditure projects realized by the companies was the most significant. The dynamics of private consumption remained at a stable, high level (above 5%). Despite a strong decline in export sales, the contribution of foreign trade to the GDP growth was only minimally negative, due to the fact that there was also a slight fall in the dynamics of imports.

The slowdown in economic growth in the second half of the year resulted in the deterioration of the situation in the labour market, which was very good in the first months of 2008. During 2008, the registered unemployment rate decreased by 2 pp. to 9.5% in December 2008, and in October it fell as low as to 8.8%. In the last months of the year, the employment and salary growth rates also decreased notably.

In 2008, the average inflation rate measured by reference to the consumer price index increased to 4.2%, from 2.5% in 2007. During the first eight months of the year, the inflation rate increased to 4.8% (y/y), as a result of a high growth in prices of foods and fuels (the global effect of high prices for raw materials), and an increase in core inflation, in an environment of high demand in the economy and high growth rate of salaries and wages. As a result of slump in fuel prices (which in turn was a consequence of decrease of price and demand on fuels) there was a significant decrease in inflation rate (to 3.3% y/y in December) in the last months of 2008. The appreciation of the Polish zloty noted in the first half of the year had a dampening effect on inflation, but the reversal of the trend in the zloty market reduced the scale of inflation decrease towards the end of the year.

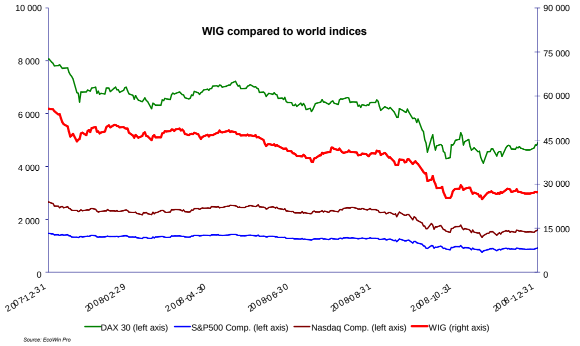
In accordance with the "Monetary Policy Guidelines for 2008", the monetary policy objective was to maintain inflation at 2.5%, with a symmetrical tolerance range for deviations of +/- 1 percentage point. An increase in inflation above the inflation target in the monetary policy horizon, in the context of high dynamics of wages in the economy and strong domestic demand, led the Monetary Policy Council to continue the cycle of monetary policy tightening (commenced in 2007). As a result, by June interest rates were increased by 100 basis points to 6.0% for the NBP reference rate. The deepening of the global financial crisis which was reflected in deterioration in the global, and subsequently, domestic macroeconomic situation; and the loosening of the monetary policy worldwide (e.g. Fed, ECB) contributed to a reversal of the monetary policy bias and to interest rates cuts in November and December 2008 totaling 100 basis points, to a level of 5.0% for the NBP reference rate.

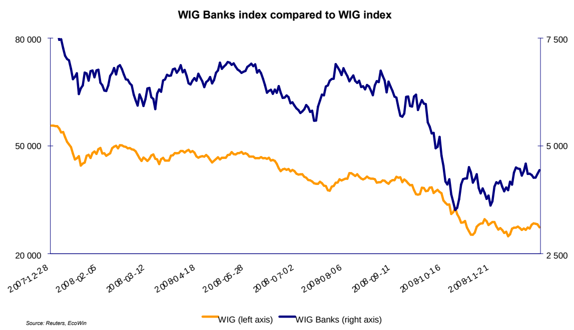
After a period of strong appreciation of PLN which lasted until July 2008, a net outflow of foreign capital from emerging markets (including Poland), resulting from increase in risk aversion (to historically high levels) due to financial crisis aggravation, resulted in sharp decrease of PLN exchange rate (in particular during the 4th quarter of 2008). This effect resulted in PLN exchange rate decreasing by 16.5% as compared to EUR, 21.5% as compared to USD and almost 30% as compared to CHF.

The spillover of the financial crisis to the Polish interbank market required the NBP to take new measures, mainly starting to provide liquidity to commercial banks, both in the national currency (through repo operations) and in foreign currencies, particularly CHF (through FX swap transactions).

### 2.2 Situation on the Stock Exchange

In 2008, situation on Warsaw Stock Exchange has been significantly influenced by the negative events on the foreign stock exchanges and uncertainty concerning future standing of Polish economy. As a result, an increase of risk-aversion has been recognized and there has been an outflow of both domestic and foreign capital from the stock exchange.




Changes in the main share price indices on WSE were strongly positively correlated with the changes of share prices in the USA and Europe. WIG Index has fallen by 49.8% y/y, while WIG Banks by 55.2% y/y. Market capitalization of all listed companies at the end of 2008 declined by 70% y/y and reached PLN 465.5 billion.

Situation on the WSE determined banking and financial non-banking markets. The negative consequences were mostly experienced by the investment funds, whose assets decreased by almost 45% y/y, i.e. PLN 73.7 billion. During 2008 investment funds recognized an outflow of almost PLN 29 billion (balance of inflows and redemptions).

## 2.3 Situation of the Polish banking sector

The global financial crisis resulted in changes of banking environment with consequences clearly visible in the fourth quarter of 2008. Decrease of trust resulted in reduced availability of financing on interbank market. This situation, as well as reduced financing from foreign based parent companies, resulted in increased competence on deposit market and cost of capital for banking operations has risen. Moreover, the banks have tightened the loan granting criteria.

### *Lending activity*

The first three quarters of 2008 were a period of extensive growth in lending activity, positively affected by the favorable macroeconomic situation, fast growth in deposits and inflow of foreign funds and the loosening of credit policies by banks.

In the last quarter of 2008, the situation reversed. Due to the impact of the global crisis, the deteriorating economic outlook and significant reduction in liquidity in the interbank market (especially in CHF), banks tightened their credit policies and limited sales of loans denominated in foreign currencies. Increase of loans volume derived mainly from Polish currency depreciation increasing the value in Polish zloty of loans denominated in foreign currencies. As at the end of 2008, loans denominated in foreign currencies constitute 33% of all loans.

During the year 2008, loans volume grew by 37% y/y (by PLN 169 billion), including 45.5% y/y increase in consumer loans, 28% y/y increase in corporate loans. Mortgage loan portfolio was the fastest growing (by 65% y/y), as 70% of this consisted of loans denominated in foreign currencies.

### *Financing sources of activities*

Major financing source of credit activity in 2008 were foreign funds. Banks owned by foreign investors received financing within their groups. Polish banking sector received PLN 77 billion from foreign financial institutions, of which PLN 64 billion came from foreign banks.

In the second half of 2008, the period of cheap and easily available sources of financing ended. The financing conditions changed, and banks had to adjust their strategies to the new situation. Continuing credit growth exceeding the deposit growth, liquidity pressures and limited access to financing from the interbank market, and in particular, the possibility of losing financial support from foreign parent banks resulted in an increasing demand from banks for stable sources of financing. The need to have its own, stable deposit base became an important driver of the banks' policies towards customers. Amounts due to customers grew by 20% y/y (approximately PLN 96 billion) mainly as a result of 24% (y/y) growth of amounts due to retail clients. Amounts due to corporate entities increased by 3.7% y/y.

***Results of the banking sector in 2008***

Poor financial results of the banks in the last quarter of 2008 significantly reduced the annual profit dynamics in the banking sector. In the same period, unfavorable situation in the area of FX derivatives materialized, the borrowers' situation deteriorated, as did the quality of the loan portfolio. The growth rate of net profit in the banking sector exceeding 20% y/y as at the end of 3rd quarter fell to 8% y/y. Sector's net profit amounted to PLN 14.7 billion. Negative position of net impairment allowance increased threefold compared to 2007.

Net interest income in the banking sector increased by 23% y/y. Substantial increase in loans and their interest rates enabled the banks to retain high interest income. In the 4th quarter of 2008 interest expenses increased dynamically, as a result of aggressive pricing policy implemented by Bank's in order to expand financing base.

The efficiency of the banking sector remained at a high level. ROE ratio amounted to 22.4%, ROA – 2%. However, the unfavorable situation in the 4th quarter had a dampening effect on the growth tendency – the level as at the end of 2008 was lower than in the previous periods. Operating costs ratio (C/I) amounted to 53.9%. i.e. as a result of increase in the number of branches and employment .

Increasing operating risk affecting the bank's higher capital requirements contributed to the decrease in capital adequacy ratio. Its average level in the banking sector accounted for 10.8%, compared with 12.1% as at the end of 2007.

### 2.4 The main areas of risk and anti-crisis measures on the Polish market

***Liquidity risk***

In 2008, the liquidity situation in the banking sector changed:
- the gap between loans and deposits widened (to 109%);
- the period of easily available external financing came to an end:
  - ⇒ as a result of trust crisis, the interbank market stagnated,
  - ⇒ the cost of financing in the international financial markets increased,
  - ⇒ the risk that a flow of funds from foreign parent companies would stop increased as a result of deterioration in their financial position.
- the deposit market became the main source of financing the lending activities.

***Capital***

The change in regulations on capital adequacy (based on the principles of the New Capital Accord) caused increase of total bank's capital requirement (including credit risk and operational risk). Increase in the loan portfolio volume increased capital requirements. Despite growth in own funds, capital adequacy deteriorated and the capital adequacy ratio fell to 10.8% from 12.1% in 2007.

***Credit risk***

Under conditions of deteriorating overall economic situation the risk of loan portfolio quality deterioration increased – net impairment allowance increased by 173% (y/y). Banks tightened conditions and criteria of loan granting, including: margins, assessing the debt capacity, required collateral. Further deterioration of financial situation negatively influencing standing of individual and corporate clients may result in the increase of credit risk.

***Currency risk – fierce depreciation of Polish zloty***

A strong depreciation of the Polish currency in the second half of 2008 contributed to:

- a material increase in the volume of loans denominated in foreign currencies;
- a decrease in the value of collateral;
- a higher default risk of corporate clients relating to settlements of derivative transactions (currency options).

The weak zloty contributed to higher costs which banks have to incur to renew swaps used to finance long-term loans denominated in foreign currencies. In future periods, a weakening zloty may result in losses due to materialization of credit risk associated with loans denominated in foreign currencies and in an increase of liquidity risk.

***Anti-crisis measures***

The government adopted *The Plan for Stability and Growth.* The majority of initiatives included in the Plan will be implemented in 2009. The plan envisages supplying Polish economy with PLN 91.3 billion during 2009 and 2010 and includes:

– activities supporting stability of the financial system including guarantees for bank deposits and guarantees for interbank loans;
– activities supporting economic growth by increasing the consumer demand by reducing fiscal and para-fiscal liabilities and increasing the investment demand;
– the anti-crisis plan includes:

  ⇒ increasing the availability of loans for enterprises;
  ⇒ support for the financial market institutions;
  ⇒ strengthening the system of guarantees and warranties for SME;
  ⇒ accelerating investments financed with the EU funds;
  ⇒ introduction of a higher investment relief for newly established firms, removing barriers to investments in the data communications infrastructure, improving the position of recipients of power.

The National Bank of Poland announced *The Trust Package* for banks, in order to:
– enable banks to obtain funds in PLN for periods longer than one day,
– enable banks to obtain funds in foreign currencies,
– increase the ability to obtain liquidity in PLN by expanding the list of collateral eligible to secure transactions with the NBP.

### 2.5 Regulatory environment

In 2008, the banking sector was affected by the following new regulations:

– Resolutions 1-5 of the Commission for Banking Supervision dated 13 March 2007 (NBP Official Journal Nos. 2 and 3, with subsequent amendments), which have implemented the EU directives based on the New Capital Accord to the Polish law;
– Resolution 9/2007 of the Commission for Banking Supervision dated 13 March 2007 on determining liquidity norms applicable to banks (NBP Official Journal No. 3), effective as of 1 January 2008, which obliged banks from 30 June, to comply with the four supervisory current- and long term liquidity measures specified in this resolution and to report exceeds,
– Resolutions of the Banking Guarantee Fund Board, which, as of 1 January 2008, amended banks' obligations with respect to the setting up of a guaranteed money protection fund and the obligatory annual payments to be made to the Banking Guarantee Fund,
– Decree of the President of the Council of Ministers dated 27 December 2007 on payments to cover costs of banking supervision (Journal of Laws No. 249, item 1855), which set out the level of costs incurred by the banks due to being covered, as of 1 January 2008, by financial supervision;
– Decree of the Council of Ministers dated 24 December 2007 on the specific accounting principles for investment funds (Journal of Laws No. 248, item 1859), effective from 31 December 2007;
– Financial Supervision Authority recommendations on review of credit policies and lending procedures, and preparing amendments to Recommendation S (Recommendation SII published on 17 December 2008) and recommendation T (in progress), which contributed to the tightening of lending policies by banks;
– The act of 4 September 2008 – amendment to the Banking Act (Journal of Laws 192, item 1179), which imposed additional information duties on banks, related to widened access to bank secrecy (effective as of 12 November 2008),
– Amendment to the Act on the Social Security System (Journal of Laws of 2007, no. 11, item 74), changing the additional costs of labor by decreasing the pension contribution payable by employers as of 1 January 2008,

- Resolution No. 12/1170/2007 of the Warsaw Stock Exchange Council of 4 July 2007 implementing new corporate governance rules (*Good Practices for Companies Listed on the WSE)*, effective from 1 January 2008, which, *inter alia*, imposed new information requirements on issuers;
- The act of 7 November 2008 – amendment to the Value Added Tax Act and other acts (Journal of Laws No. 209, item 1320), effective as of 1 December 2008 (introduced simplifications for VAT registered companies).

The situation of banks was also affected by:

- '*Trust Package*' of the National Bank of Poland aimed at improving liquidity on the interbank market by, among others:
  - ⇒ repo operations with maturity date of 3 months,
  - ⇒ introducing currency SWAP operations,
  - ⇒ using currency deposits as a refinanced loans collateral,
  - ⇒ introducing modifications in lombard loan operating system.
- Implementation of a uniform system of payments in Euro (SEPA), which introduces uniform principles, rules and standards for domestic and trans-border payments in Euro. The directive of the Parliament and of the Council of European Union of 13 November 2007 (PSD) constitutes the legal basis for SEPA.

### 2.6 Ukrainian market

Deepening and wide spreading of the global financial crisis resulted in fierce slowdown in the Ukrainian economy. In the 4th quarter of 2008, there has been a decrease of GDP by more than 2% y/y, as compared to the increase by 7% in the first half of the year. In 2008, the GDP growth rate amounted to 2.1% y/y, as compared to 7.9% in 2007. A dramatic deceleration in production towards the end of 2008 was a consequence of a decline in the demand for steel as well as prices of steel; given the low diversification of the Ukrainian economy, this translated into a marked deterioration of the economic results. The decline in exports combined with high prices of imports contributed to a further increase in the current account deficit of Ukraine.

The high dependence of the Ukrainian economy, including its banking sector, on inflows of foreign capital deepened the crisis in the Ukraine. The aggravating crisis in developed economies and the ongoing deleveraging process resulted in a sharp decline in inflows of capital to the Ukrainian market, thus contributing to a significant deterioration in the outlook for companies and banks in terms of their financial position.

In November 2008, the International Monetary Fund granted Ukraine stabilization aid of USD 16.4 billion, on condition of, among others, increasing flexibility of the quotations of Ukrainian hryvna exchange rate. Limitation of interventions by the central bank, combined with the continuing outflow of foreign capital and purchases of foreign currencies by domestic entities (a high degree of dollarization of the economy) resulted in the strong depreciation of the Ukrainian hryvna in the last months of 2008 (by 52%) to the value of UAH/USD 7.7 (as compared to UAH/USD 5.05 at the end of 2007 and UAH/USD 4.8 in the middle of 2008).

In an environment of strongly increasing inflation in the first half of 2008, the National Bank of Ukraine (NBU) increased the main discounting rate to 12% in April. At the same time, as the effects of the global financial crisis were spreading, NBU started providing liquidity to the banking sector (rather than absorbing liquidity, as it did before) and made interventions in the foreign exchange market to reduce the scale of depreciation of the Ukrainian hryvna (rather than reducing the scale of appreciation in previous years).

The banking crisis in the Ukraine and the resulting undermining of trust in banks resulted in withdrawals of bank deposits in the last months of 2008. It was followed by the shrinkage of the rate of increase in deposits to circa 27% y/y, compared to 53% in 2007. The rate of increase of loans as at the end of 2008 amounted to 72% y/y, compared to almost 75% as at the end of the previous year. The relatively high level resulted from strong depreciation of Ukrainian currency, despite significant limitation of credit action. Almost 60% of granted credits consisted of long-term loans denominated in foreign currencies.

The fact that the rate of loan growth exceeded the rate of deposit growth further exacerbated difficulties in providing liquidity. The gap in financing loans with deposits amounted to 204%, compared to 150% in 2007. In 2008, resident's deposits dominated in the structure of financing credit action, though their share decreased to 49% as compared to 66.5% in 2007. More than 30 banks took the refinancing credit from National Bank of Ukraine (NBU). In case of foreign currency deposits financing foreign currency credits, the financial gap increased to 275% (compared to 230% in 2007).

Profitability of the banking sector decreased, in case of ROE to 7.9% and ROA to 0.9%, as compared to 10.5% and 1.2% in 2007.

The situation of the PKO BP SA Group was also affected by regulation changes, which took place in Ukraine, such as:

- Resolution No. 1 of the NBU dated 4 January 2008 amending the principles of determining liquidity of banks;
- Resolution No. 30 of the NBP amending risk weights for certain credit exposures, thus affecting the capital adequacy ratio;
- Resolution No. 88 of the NBU amending policies for recognizing obligatory provisions (excluding funds from resident banks, international financial institutions and subordinated loans);
- Resolution No. 171 of the NBU requiring provisions of 20% to be recognized in respect of foreign currency deposits from non-residents maturing in less than 183 days;
- Resolution 211 of the NBU „About the amendments to some acts of law issued by the National Bank of Ukraine, introducing changes in terms of decreasing banks' regulatory capital by the value of investment fund securities".
- Resolution 319 of the National Bank of Ukraine (NBU) - additional actions in terms of banks activity (with subsequent amendments), which introduced a number of restrictions aimed at neutralizing the impact of the global financial crisis (i.e. concerning granting loans denominated in foreign currencies to clients without income in foreign currencies, terminating term deposits, the currency spread level),
- Resolution 351 of the NBU (effective as of 28 November 2008), which introduced a fixed exchange rate of the Ukrainian hryvna against the dollar
- Resolution No. 458 of the NBU dated 17 December 2007 amending the calculation of the capital adequacy ratio.

In subsequent periods, results of the Ukrainian banking sector will be affected by rules concerning recognizing of provisions for consumer loans denominated in foreign currencies which have been changed on 28 December 2008 (resolution no 406 of NBU regarding changes in Regulations concerning mechanism of creation and release of reserves for possible losses due to lending operations).

## 3. FINANCIAL RESULTS OF THE PKO BP SA GROUP[2]

PKO BP SA or the other entities of the PKO BP SA Group did not published any forecasts regarding financial results for the year 2008.

### 3.1 Factors influencing results of the PKO BP SA Group in 2008

First three quarters of 2008 were a period of prosperity for both the PKO BP SA Group and the whole Polish banking sector. In this period, the Group generated 88% of its net profit for the year 2008. In the 4th quarter, the deterioration of economic situation in the US and EU and financial crisis on the international markets, followed by a substantial downfall of domestic economy heavily influenced the financial results of the PKO BP SA Group. The crisis was accompanied by i.e. slowdown of economic growth, interbank market liquidity constraints, fall in new investments, deterioration of the situation in the labour market as well as downturn on the stock exchange.

Also in Ukraine, where the subsidiary company of PKO BP SA Kredobank SA operates, a fierce economic slowdown was recognized. High correlation between economic growth, including banking sector, and foreign capital inflow deepened the crisis in Ukraine. Aggravating crisis in high developed economies resulted in fierce limitation of capital inflow into the Ukrainian market, which in turn resulted in significant deterioration of perspectives of financial situation of enterprises and banks.

In 2008, the PKO BP SA Group recognized impairment loss on investment in subsidiary company Kredobank SA in the amount of PLN (-)263.9 million 2008, of which PLN (-)246.3 million in the 4th quarter of 2008. Moreover, in the 4th quarter of 2008, the Group recognized a 100% write-down on goodwill arising from Kredobank SA in the amount of PLN (-)76.4 million due to additional credit portfolio review of Kredobank SA and financial situation in Ukraine.

In 2008, the consolidated net profit of the PKO BP SA Group amounted to PLN 3 120.7 and was PLN 217.0 million higher than in 2007. Excluding the adjustments due to Kredobank SA (not considering the net loss attributable to minority shareholders) and other result of Kredobank amounting to PLN 67.6 million which is included in the consolidated financial result of the PKO BP SA Group, the net result of the PKO BP SA Group would have amounted to PLN 3 393.4 million in 2008 and it would have been PLN 489.8 million higher than in 2007.

### 3.2 The consolidated income statement

In 2008, the consolidated net profit of the PKO BP SA Group amounted to PLN 3 120.7 million and was PLN 217.0 million higher than in 2007.

In the income statement of the PKO BP SA Group for the year 2008 the sum of income items amounted to PLN 9 388.4 million and was PLN 1 686.1 million higher than in 2007 (increase by 21.9% y/y).

[2] *In this section of the Report, any differences in total balances and percentages result from rounding the amounts to PLN million and rounding percentages to one decimal place.*

*Table 1. The consolidated income statement of the PKO BP SA Group (PLN million)*

**INCOME STATEMENT**
**OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP**

| | 2008 | 2007 | Change (in PLN) | Change (%) |
|---|---|---|---|---|
| Interest income | 9 033.8 | 6 559.3 | 2 474.4 | 37.7% |
| Interest expense | (2 906.5) | (1 912.8) | (993.7) | 52.0% |
| **Net interest income** | **6 127.3** | **4 646.6** | **1 480.7** | **31.9%** |
| Fee and commission income | 3 144.8 | 3 083.4 | 61.3 | 2.0% |
| Fee and commission expense | (733.0) | (751.6) | 18.6 | -2.5% |
| **Net fee and commission income** | **2 411.8** | **2 331.8** | **80.0** | **3.4%** |
| Dividend income | 22.0 | 3.3 | 18.7 | 6.7x |
| Net income from financial instruments designated at fair value through profit or loss | (201.1) | (73.3) | (127.8) | 2.7x |
| Gains less losses from investment securities | (3.0) | 6.5 | (9.5) | x |
| Foreign exchange result | 739.8 | 529.8 | 210.0 | 39.6% |
| Other operating income | 522.4 | 514.6 | 7.9 | 1.5% |
| Other operating expenses | (230.7) | (256.9) | 26.2 | -10.2% |
| **Net other operating income and expense** | **291.7** | **257.6** | **34.1** | **13.2%** |
| Net impairment allowance | (1 130.4) | (56.6) | (1 073.8) | 20x |
| Administrative expenses | (4 296.3) | (4 040.8) | (255.4) | 6.3% |
| **Operating profit** | **3 961.7** | **3 604.9** | **356.9** | **9.9%** |
| Share of profit of associates and jointly controlled entities | 15.6 | 4.4 | 11.2 | 3.6x |
| **Profit before income tax** | **3 977.3** | **3 609.2** | **368.1** | **10.2%** |
| Income tax expense | (838.2) | (667.8) | (170.3) | 25.5% |
| Net profit (including minority interest) | 3 139.2 | 2 941.4 | 197.8 | 6.7% |
| Profit attributable to minority shareholders | 18.5 | 37.8 | (19.2) | -51.0% |
| **Net profit (attributable to the parent company)** | **3 120.7** | **2 903.6** | **217.0** | **7.5%** |

*Table 2. Main consolidated income statement items of the PKO BP SA Group (PLN million)*

| Income statement item | 2008 | 2007 | Change (%) | Comment |
|---|---|---|---|---|
| Net interest income | 6 127.3 | 4 646.6 | 31.9% | (+) 31.9% (y/y) mainly as a result of higher deposit margins due to higher market interest rates and increase in the volume of loan portfolio. |
| Net fee and commission income | 2 411.8 | 2 331.8 | 3.4% | (+) 3.4% (y/y) mainly as a result of increase in fee and commision income related to loans and increase in the number of payment cards (by 2.7% y/y) and related card transactions offset by a decrease in commission income from management fees. |
| Other net income | 849.3 | 723.9 | 17.3% | (+) 17.3% (y/y) as a result of:<br>1) increase of foreign exchange result by PLN 210.0 million (39.6% y/y)<br>- the effect of higher spreads between PLN interest rates and foreign interests rates and the effect of an increase in sales of loans denominated in foreign currencies offset by a decrease in net income from financial activities deriving from increased risk aversion in financial markets,<br>2) increase of dividends income by PLN 18.7 million. |
| Administrative expenses | (4 296.3) | (4 040.8) | 6.3% | Increase of 6.3% (y/y) and C/I at the level of 45.8% (-6.7 pp. y/y) as a result of:<br>1) increase in staff costs by 6.1% (y/y) offset by employment reduction of 1 595 full time equivalents (y/y) at the Group,<br>2) increase in overhead expenses of 4.9% (y/y),<br>offset by profitability increase of 21.9% y/y. |
| Net impairment allowance | (1 130.4) | (56.6) | 20x | A 20 fold increase (y/y) as a result of:<br>1) increase in imapirment charges for receivables in the subsidiary company Kredobank SA, due to the additional credit portfolio review of Kredobank SA and financial crisis in Ukraine, where the subsidiary operates, in the amount of PLN (-)263.9 million,<br>2) write-down on goodwill arising from Kredobank SA in the amount of PLN (-)76.4 million,<br>2) deterioration in the quality of the consumer loan portfolio and an increase in impairment charges for corporate loans at the Bank. |

### *Net interest income*

In 2008, net interest income was PLN 1 480.7 million higher than in 2007. It was a result of the increase in interest income by PLN 2 474.4 million along with increase in costs by PLN 993.7 million. Dynamic growth of results was possible due to significant increase of the PKO BP SA Group's loan portfolio as well as widening of deposit margins under conditions of growing interest rates in 2008. Positive tendencies related to net interest income were continued also due to efficient balance sheet structure, i.e. dynamic growth of loans was accompanied by significant growth of amounts due to customers of PKO BP SA.

High growth rate of net interest income (+37.7% y/y) was mainly due to:

- increase in income from loans and advances to customers (+) 48.6% y/y – mainly as a consequence of increased interest rates and an increase of the loan portfolio (+32.3% y/y),
- increase in income from investment securities (+) 40.7% y/y,

offset by

- negative growth rate of income from financial assets designated at fair value through profit or loss (-20.8% y/y), mainly as a result of decrease in portfolio's volume,
- negative growth rate of income from placements with other banks (-20.8% y/y) as a result of the decrease of the average level of these placements[3] by 47.5% (y/y).

Interest expenses grew by 52.0% y/y mainly as a result of increase in expenses on amounts due to customers (+56.4% y/y) along with an increase in expense on debt securities in issue (which was conducted at the end of 2007; +4.6 fold increase y/y as a result of accumulation through 12 months), offset by a decrease of expense on placements with other banks (-53.6% y/y).

In 2008, the average interest on Bank's loans amounted to 8.6%; and average interest on deposits amounted to 2.7%.

*Table 3. Interest income and expense of the PKO BP SA Group (PLN million)*

**NET INTEREST INCOME OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP**

| Items | 2008 | Structure 2008 | 2007 | Structure 2007 | Change 2008/2007 |
|---|---|---|---|---|---|
| **Interest income, of which:** | **9 033.8** | **100.0%** | **6 559.3** | **100.0%** | **37.7%** |
| Loans and advances to customers | 7 776.1 | 86.1% | 5 231.6 | 79.8% | 48.6% |
| Financial assets designated at fair value through profit or loss | 444.4 | 4.9% | 561.3 | 8.6% | -20.8% |
| Placements with other banks | 388.8 | 4.3% | 491.1 | 7.5% | -20.8% |
| Investment securities | 345.1 | 3.8% | 245.4 | 3.7% | 40.7% |
| Trading securities | 64.0 | 0.7% | 24.5 | 0.4% | 2.6x |
| Other | 15.3 | 0.2% | 5.4 | 0.1% | 2.8x |
| **Interest expenses, of which:** | **(2 906.5)** | **100.0%** | **(1 912.8)** | **100.0%** | **52.0%** |
| Amounts due to customers | (2 655.0) | 91.3% | (1 697.1) | 88.7% | 56.4% |
| Debt securities in issue | (131.7) | 4.5% | (28.7) | 1.5% | 4.6x |
| Placements with other banks | (49.5) | 1.7% | (106.7) | 5.6% | -53.6% |
| Other | (70.2) | 2.4% | (80.3) | 4.2% | -12.5% |
| **Net interest income** | **6 127.3** | **x** | **4 646.6** | **x** | **31.9%** |

[3] *The average level of placements with other banks was calculated on the basis of management data of the Bank; the consolidated balance sheet item "Placements with other banks" accounts mainly for the Bank.*

### *Net fee and commission income*

Net fee and commission income in 2008 was PLN 80.0 million higher than in 2007, whereas income increased by PLN 61.3 million and expense decreased by PLN 18.6 million.

An increase in net fee and commission income of (+) 3.4% y/y resulted from, i.e.:

- an increase in income on payment cards (+21.1% y/y), mainly as a result of increase in the number of payments cards (+2.7% y/y) and related card transactions,
- an increase of credit related fees and commission (+18.1% y/y) and income on loan insurance (+11.3% y/y), mainly as a result of increasing sales of loans,

offset by

- a decrease of income from portfolio and other management fees by 28.9% y/y as a result of deteriorating situation on the capital market, which resulted in client's limited interest in this form of saving.

Fee and commission expenses growth rate was determined by expenses on payment cards whose growth was a result of a dynamic increase in transactions and to a lesser extent, growth in the number of payment cards.

*Table 4. Fee and commission income and expenses of the PKO BP SA Group (PLN million)*

**NET FEE AND COMMISSION INCOME OF THE POWSZECHNA KASA OSZCZEDNOSCI BANK POLSKI SA GROUP**

| Items | 2008 | Structure 2008 | 2007 | Structure 2007 | Change 2008/2007 |
|---|---|---|---|---|---|
| **Fee and commission income, of which:** | **3 144.8** | **100.0%** | **3 083.4** | **100.0%** | **2.0%** |
| Payment cards | 851.4 | 27.1% | 703.0 | 22.8% | 21.1% |
| Maintenance of bank accounts | 805.4 | 25.6% | 770.6 | 25.0% | 4.5% |
| Portfolio and other management fees | 448.1 | 14.2% | 630.2 | 20.4% | -28.9% |
| Credit related fees and commissions | 315.6 | 10.0% | 267.2 | 8.7% | 18.1% |
| Loan insurance intermediary | 225.1 | 7.2% | 202.3 | 6.6% | 11.3% |
| Cash transactions | 188.3 | 6.0% | 204.1 | 6.6% | -7.7% |
| Securities transactions | 43.8 | 1.4% | 87.7 | 2.8% | -50.0% |
| Foreign mass transactions servicing | 41.2 | 1.3% | 36.9 | 1.2% | 11.7% |
| Sale and distribution of marks of value | 21.7 | 0.7% | 28.5 | 0.9% | -23.8% |
| Trust servicing | 1.1 | 0.0% | 1.2 | 0.0% | -12.5% |
| Other* | 203.0 | 6.5% | 151.7 | 4.9% | 33.8% |
| **Fee and commission expenses, of which:** | **(733.0)** | **100.0%** | **(751.6)** | **100.0%** | **-2.5%** |
| Payment cards | (309.8) | 42.3% | (254.1) | 33.8% | 21.9% |
| Acquisition services | (134.8) | 18.4% | (129.0) | 17.2% | 4.5% |
| Loan insurance intermediary | (94.1) | 12.8% | (152.2) | 20.3% | -38.1% |
| Portfolio and other management fees | (73.7) | 10.1% | (126.6) | 16.8% | -41.8% |
| Fee and commissions for operating services granted by other banks | (8.1) | 1.1% | (9.3) | 1.2% | -12.4% |
| Fee and commissions paid to PPUP | (5.2) | 0.7% | (5.7) | 0.8% | -8.6% |
| Other** | (107.2) | 14.6% | (74.7) | 9.9% | 43.5% |
| **Net fee and commission income** | **2 411.8** | **x** | **2 331.8** | **x** | **3.4%** |

** Included in "Other" are: commissions received: for public offering services, for servicing bond sale transactions and for home banking and revenues from arrangement fees and other similar operations.*
*** included in "Other" are: fees paid by DM to Warsaw Stock Exchange (GPW), National Depository for Securities (KDPW), cost of currency turnover, accounting and clearing services, commissions paid to intermediaries.*

### *Administrative expenses*

Increase in administrative expenses in 2008 by PLN 255.4 million, which is 6.3% y/y was determined mainly by increase of:

- staff costs by PLN 140.7 million (+6.1% y/y), which was mainly caused by increase of salaries by PLN 182.3 million (+9.9% y/y),
- non-staff-related costs by PLN 67.0 million (+4.9% y/y), mainly due to increase in advertising and promotional costs and costs of maintenance and rental of non-current assets,
- depreciation and amortization by 12.5% (y/y), as a result of implementation of modules of Integrated Information System.

*Table 5. Administrative expenses of the PKO BP SA Group (PLN million)*

**ADMINISTRATIVE EXPENSES**
**OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP**

| Items | 2008 | Structure 2008 | 2007 | Structure 2007 | Change 2008/2007 |
|---|---|---|---|---|---|
| Staff costs | (2 429.4) | 56,5% | (2 288.7) | 56.6% | 6.1% |
| Overhead and other expenses | (1 437.0) | 33,4% | (1 370.0) | 33.9% | 4.9% |
| Depreciation and amortization | (429.9) | 10,0% | (382.2) | 9.5% | 12.5% |
| **TOTAL** | (4 296.3) | 100,0% | (4 040.8) | 100.0% | 6.3% |

### *Net impairment allowance*

Net impairment allowance reflects a conservative approach of PKO BP SA to credit risk, which is believed to translate into stable financial results in the coming years. The increase in net impairment allowance (20x y/y) was a consequence of:

- deterioration of economic situation in the second half of 2008 which impacted financial standing of the Bank's clients;
- a change in the risk profile related to consumer loans resulting from an increase in the share of the consumer finance loan (the product of the highest profitability and credit risk) in the entire portfolio;
- creating impairment allowances for the investment in Kredobank SA as a response to the outcome of the assessment of the credit portfolio, and deterioration of economic situation on the Ukrainian market.

### *Main financial indicators*

The main financial indicators are presented in the table below:

*Table 6. Main financial indicators of the PKO BP SA Group*

**RATIOS**

| Items | As at 31.12.2008 | As at 31.12.2007 | Change 2008/2007 |
|---|---|---|---|
| **ROA gross** (gross profit / average total assets) | 3.3% | 3.4% | -0.16 pp. |
| **ROA net** (net profit / average total assets) | 2.6% | 2.8% | -0.19 pp. |
| **ROE gross** (gross profit / average total equity) | 30.6% | 32.6% | -1.95 pp. |
| **ROE net** (net profit / average total equity) | 24.0% | 26.2% | -2.18 pp. |
| **C/I** (costs to income ratio) | 45.8% | 52.5% | -6.7 pp. |

## 3.3 The consolidated balance sheet

### *Main items of the balance sheet*

The balance sheet of the parent company has the biggest influence on the balance sheet of the PKO BP SA Group. It determines both total assets and the balance sheet structure.

As at 31 December 2008, total assets of the PKO BP SA Group amounted to PLN 134.6 billion, which represents an increase of 24.0% y/y, resulting in the PKO BP SA Group being the biggest financial institution of the Polish banking sector.

The biggest impact on growth of the PKO BP SA Group's total assets had the increase in loans and advances to customers by 32.3% y/y along with their increased share in PKO BP SA Group's total assets by 4.7 pp. y/y. Amounts due from banks dropped by 36.1 y/y and securities decreased by 3.7% y/y.

Amounts due to customers constitute the largest part of total equity and liabilities of the Group – the position increased by 18.9% y/y. Within equity and liabilities, apart from increase in amounts due to customers, a significant increase was recorded in other liabilities – 2.6 fold increase (y/y) mainly due to changes in the valuation of derivative financial instruments.

*Table 7. Main items of the balance sheet of the PKO BP SA Group (PLN million)*

**BALANCE SHEET OF**
**THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP**

| Items | As at 31.12.2008 | Structure 2008 | As at 31.12.2007 | Structure 2007 | Change 2008/2007 |
|---|---|---|---|---|---|
| Cash and balances with the central bank | 5 836.9 | 4.3% | 4 682.6 | 4.3% | 24.6% |
| Amounts due from banks | 3 363.6 | 2.5% | 5 261.2 | 4.8% | -36.1% |
| Loans and advances to customers | 101 107.9 | 75.1% | 76 417.1 | 70.4% | 32.3% |
| Securities | 14 666.6 | 10.9% | 15 233.6 | 14.0% | -3.7% |
| Other assets | 9 661.0 | 7.2% | 6 943.0 | 6.4% | 39.1% |
| **TOTAL ASSETS** | **134 636.0** | **100.0%** | **108 537.6** | **100.0%** | **24.0%** |
| Amounts due to other banks | 6 991.4 | 5.2% | 4 704.4 | 4.3% | 48.6% |
| Amounts due to customers | 102 939.3 | 76.5% | 86 579.5 | 79.8% | 18.9% |
| Debt securities in issue and subordinated liabilities | 1 830.3 | 1.4% | 1 793.7 | 1.7% | 2.0% |
| Other liabilities | 8 876.9 | 6.6% | 3 480.9 | 3.2% | 2.6x |
| **Total liabilities** | **120 638.0** | **89.6%** | **96 558.6** | **89.0%** | **24.9%** |
| **Total equity** | **13 998.0** | **10.4%** | **11 979.0** | **11.0%** | **16.9%** |
| **TOTAL LIABILITIES AND EQUITY** | **134 636.0** | **100.0%** | **108 537.6** | **100.0%** | **24.0%** |

## *Loans to customers*

Loan maturity structure is dominated by long term loans (above 1 year). They constitute 79.1% of the total portfolio, with a 45.7% increase (y/y). The high growth rate of the gross loan portfolio of the PKO BP SA Group (+32.0% y/y) was mainly the result of high sales of mortgage loans offset by a drop of loans and advances with maturities up to 1 year.

*Table 8. Loans and advances to customers of the PKO BP SA Group – structure by contractual terms (PLN million )*

**LOANS AND ADVANCES TO CUSTOMERS**
**OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP**

| Term structure | As at 31.12.2008 | Structure 2008 | As at 31.12.2007 | Structure 2007 | Change 2008/2007 |
|---|---|---|---|---|---|
| **Contractual values of gross loans and advances, of which:** | **104 025.8** | **100.0%** | **78 832.8** | **100.0%** | **32.0%** |
| short-term | 21 784.2 | 20.9% | 22 371.1 | 28.4% | -2.6% |
| long-term | 82 241.6 | 79.1% | 56 461.7 | 71.6% | 45.7% |
| **Impairment allowances** | **(2 917.9)** | **x** | **(2 415.6)** | **x** | **20.8%** |
| **Carrying amount of loans and advances** | **101 107.9** | **x** | **76 417.1** | **x** | **32.3%** |

In the portfolio structure the main position constitute loans and advances to non-financial sector (+33.4 % y/y), whose share increased by 1.0 pp. (y/y), of which mainly mortgage loans (+2.1 fold increase y/y), whose share in gross value of loans and advances amounted to 44.2% (as at the end of 2008). Share of loans and advances to public sector decreased by 1.6% pp. (y/y).

*Table 9. Loans and advances to customers of the PKO BP SA Group – structure by type (PLN million)*

**LOANS AND ADVANCES TO CUSTOMERS OF**
**THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP**

| Structure | As at 31.12.2008 | Structure 2008 | As at 31.12.2007 | Structure 2007 | Change 2008/2007 |
|---|---|---|---|---|---|
| **Gross loans and advances to customers, of which:** | **104 025.8** | **100.0%** | **78 832.8** | **100.0%** | **32.0%** |
| financial sector (other than banks) | 2 116.2 | 2.0% | 1 183.2 | 1.5% | 78.9% |
| non-financial sector | 98 694.1 | 94.9% | 73 970.1 | 93.8% | 33.4% |
| *consumer loans* | *20 918.7* | *20.1%* | *18 496.9* | *23.5%* | *13.1%* |
| *mortgage loans* | *45 937.4* | *44.2%* | *22 093.1* | *28.0%* | *2,1x* |
| *corporate loans* | *31 838.1* | *30.6%* | *33 380.1* | *42.3%* | *-4.6%* |
| public sector | 3 215.4 | 3.1% | 3 679.5 | 4.7% | -12.6% |
| **Impairment allowances** | **(2 917.9)** | **x** | **(2 415.6)** | **x** | **20.8%** |
| **Net loans and advances** | **101 107.9** | **x** | **76 417.1** | **x** | **32.3%** |

### *Amounts due to customers*

In 2008, the maturity structure of amounts due to customers changed. The share of amounts due maturing over a period longer than 1 year increased by 10.4 pp. (y/y), while amounts due maturing up to 1 month dropped (by -11.8 pp. y/y). This was caused mainly by introducing by the Bank attractive deposit offer.

*Table 10. Amounts due to customers of the PKO BP SA Group – structure by contractual terms (PLN million)*

**AMOUNTS DUE TO CUSTOMERS**
**OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP**

| Structure | As at 31.12.2008 | Structure 2008 | As at 31.12.2007 | Structure 2007 | Change 2008/2007 |
|---|---|---|---|---|---|
| **Contractual value of amounts due to customers, of which:** | **104 361.5** | **100.0%** | **86 955.8** | **100.0%** | **20.0%** |
| up to 1 month | 61 955.1 | 59.4% | 61 885.0 | 71.2% | 0.1% |
| from 1 to 3 months | 17 673.0 | 16.9% | 9 882.1 | 11.4% | 78.8% |
| from 3 months to 1 year | 11 820.8 | 11.3% | 13 414.0 | 15.4% | -11.9% |
| from 1 year to 5 years | 12 536.1 | 12.0% | 1 440.7 | 1.7% | 8.7x |
| above 5 years | 376.5 | 0.4% | 334.0 | 0.4% | 12.7% |
| **Accrued interests** | **(1 422.2)** | **x** | **(376.3)** | **x** | **3.8x** |
| **Carrying amount of amounts due to customers** | **102 939.3** | **x** | **86 579.5** | **x** | **18.9%** |

The structure of amounts due to customers by type mainly consisted of amounts due to retail clients (+15.2% y/y), whose share dropped by 2.4 pp. (y/y), offset by an increase in amounts due to state budgetary entities by 1.7 pp. (y/y).

*Table 11. Amounts due to customers of the PKO BP SA Group – structure by type (PLN million)*

**AMOUNTS DUE TO CUSTOMERS**
**OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP**

| Structure | As at 31.12.2008 | Structure 2008 | As at 31.12.2007 | Structure 2007 | Change 2008/2007 |
|---|---|---|---|---|---|
| Amounts due to corporate entities | 19 332.9 | 18.8% | 15 639.5 | 18.1% | 23.6% |
| Amounts due to state budget entities | 7 283.6 | 7.1% | 4 691.2 | 5.4% | 55.3% |
| Amounts due to retail clients | 76 322.8 | 74.1% | 66 248.8 | 76.5% | 15.2% |
| **Total amounts due to customers** | **102 939.3** | **100.0%** | **86 579.5** | **100.0%** | **18.9%** |

### *Own funds and capital adequacy ratio*

The rate of growth of own funds (+29.1% y/y) was driven mainly by a high level of profit accumulation; as much as 59.93% of the net profit for 2007 was earmarked for increasing the reserve capital and other reserves of the Bank. Capital adequacy radio decreased by 0.73 pp. (y/y) mainly as a result of introduction of capital requirement for operational risk.

*Table 12. Own funds and capital adequacy ratio of the PKO BP SA Group (PLN million)*

**EQUITY OF**
**THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP**

| Items | As at 31.12.2008 | Structure 2008 | As at 31.12.2007 | Structure 2007 | Change 2008/2007 |
|---|---|---|---|---|---|
| **Equity, of which:** | **13 998.0** | **100.0%** | **11 979.0** | **100.0%** | **16.9%** |
| Share capital | 1 000.0 | 7.1% | 1 000.0 | 8.3% | 0.0% |
| Reserve capital | 7 274.7 | 52.0% | 5 592.3 | 46.7% | 30.1% |
| General banking risk fund | 1 070.0 | 7.6% | 1 070.0 | 8.9% | 0.0% |
| Other reserves | 1 523.8 | 10.9% | 1 518.0 | 12.7% | 0.4% |
| Revaluation reserve | (33.2) | -0.2% | (43.1) | -0.4% | -22.8% |
| Currency translation differences from foreign operations | (57.4) | -0.4% | (47.8) | -0.4% | 20.2% |
| Retained earnings | 53.2 | 0.4% | (72.2) | -0.6% | x |
| Net profit for the period | 3 120.7 | 22.3% | 2 903.6 | 24.2% | 7.5% |
| Minority interest | 46.2 | 0.3% | 58.1 | 0.5% | -20.4% |
| **Own funds** | **12 885.3** | **x** | **9 983.4** | **x** | **29.1%** |
| **Capital adequacy ratio (%)** | **11.29** | **x** | **12.02*** | **x** | **-0.73 pp.** |

** As a result of the publication and implementation of the Banking Supervisory Authority Resolution 2/2007, the capital adequacy ratio for the comparative period is prepared under a different basis (at 31 December 2008, capital requirement have been calculated in accordance with the New Basel Accord, where the basic difference between this and the calculation as at 31 December 2007 are new methodologies for calculation of credit and operational risk requirements)*

## 4. STRUCTURE OF THE PKO BP SA GROUP AND ITS DEVELOPMENT STRATEGY

As at 31 December the PKO BP SA Group consists of PKO BP SA (the parent company) and 20 direct and indirect subsidiaries.

In 2008, PKO BP SA focused on pursuing its key strategic objectives. The Bank is strengthening its leading position in the most efficient area of retail banking by, *inter alia*: improving the effectiveness and quality of client service; focusing its activities on the fastest growing segments of this market; offering new forms of cooperation to clients, expanding the range of products and services offered; an rational pricing policy. In the area of corporate banking, the strategic objective is to focus on returns on capital employed and changing the service model, by expanding the range of products and services offered combined with changing the sales and client services models, so that the Bank becomes a partner for Polish enterprises. Building a strong financial group is one of the main development objectives of PKO BP SA. The Bank's activities are focused on improving effectiveness of the capital employed. PKO BP SA intends to concentrate on developing those companies which expand the range of products offered by the PKO BP SA Group, in order to be able to fully satisfy the financial needs of its clients and to systematically strengthen its market position. The Bank is able to engage in capital investments. The structure of financing of any investments contemplated will be adjusted to the level funds held by PKO BP SA. In 2008, the Bank continued the implementation of the Integrated IT System (ZSI) software. As a result the ZSI has been introduced into all Bank's branches and agencies. This constituted a final step in the creation of one of the largest and the most complex IT projects in Poland. Currently products used by all branches and agencies for more than 11 million accounts are processed in this system. Introduction of ZSI has been an important step towards further restructuring of Bank's operations.

### 4.1 Entities included in the consolidated financial statements

Included in the consolidated financial statements are the Bank – the parent company of the PKO BP SA Group and its subsidiaries as defined in IAS 27 „Consolidated and separate financial statements".

*Table 13. Entities comprising the PKO BP SA Group*

| No. | Entity Name | Cost (PLN thousant) | Voting rights on General Shareholders Meeting (%) | Consolidation method |
|---|---|---|---|---|
| | **Parent company** | | | |
| 1 | Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna | | | |
| | **Direct subsidiaries** | | | |
| 2 | KREDOBANK SA [1] | 356 102 | 98.5619 | full method |
| 3 | Powszechne Towarzystwo Emerytalne BANKOWY SA | 205 786 | 100 | full method |
| 4 | Centrum Finansowe Puławska Sp. z o.o. | 128 288 | 100 | full method |
| 5 | PKO Inwestycje Sp. z o.o.* | 117 813 | 100 | full method |
| 6 | Bankowy Fundusz Leasingowy SA | 70 000 | 100 | full method |
| 7 | PKO Towarzystwo Funduszy Inwestycyjnych SA | 69 055 | 75 | full method |
| 8 | Inteligo Financial Services SA | 59 602 | 100 | full method |
| 9 | Centrum Elektronicznych Usług Płatniczych eService SA | 55 500 | 100 | full method |
| 10 | Bankowe Towarzystwo Kapitałowe SA | 18 566 | 100 | full method |
| 11 | PKO Finance AB | 172 | 100 | full method |
| | **Subsidiaries of PKO Inwestycje Sp. z o.o.** | | | |
| 12 | Wilanów Investments Sp. z o.o.* | 82 981 | 100 | full method |
| 13 | POMERANKA Sp. z o.o. * | 19 000 | 100 | full method |
| 14 | PKO Inwestycje - Międzyzdroje Sp. z o.o.* | 7 575 | 100 | full method |
| 15 | Baltic Dom 2 Sp. z o.o. | 6 619 | 56 | full method |
| 16 | WISŁOK Inwestycje Sp. z o.o.* | 2 800 | 80 | full method |
| 17 | Fort Mokotów Sp. z o.o. * | 2 040 | 51 | full method |
| 18 | UKRPOLINWESTYCJE Sp. z o.o. | 519 | 55 | full method |
| | **Subsidiaries of Inteligo Financial Services SA** | | | |
| 19 | Finanse Agent Transferowy Sp. z o.o. [2] | 7 600 | 80 | full method |
| | **Subsidiaries of Bankowy Fundusz Leasingowy SA** | | | |
| 20 | Bankowy Leasing Sp. z o.o. | 1 309 | 100 | full method |
| 21 | BFL Nieruchomości Sp. z o.o. | 1 109 | 100 | full method |

** value of shares at acquisition cost, inclusive of specific capital injections.*

*1 - both value of investment and share capital of KREDOBANK SA include the XVIII share issue, acquired by PKO BP SA on 31 December 2008, and presented in the balance sheet of PKO BP SA as receivables.*

*2 - other shares of Finanse Agent Transferowy Sp. z o.o. in hold of Powszechne Towarzystwo Emerytalne BANKOWY SA – subsidiary of PKO BP SA.*

*Table 14. Other subordinated entities included in the consolidated financial statements*

| No. | Entity Name | Cost (PLN thousant) | Voting rights on General Shareholders Meeting (%) | Consolidation method |
|---|---|---|---|---|
| **Jointly controlled entities** | | | | |
| 1 | CENTRUM HAFFNERA Sp. z o.o. | 44 371 | 49.43 | equity method |
| 2 | Centrum Obsługi Biznesu Sp. z o.o. | 17 498 | 41.44 | equity method |
| **Subsidiaries of CENTRUM HAFFNERA Sp. z o.o.** | | | | |
| 3 | Sopot Zdrój Sp. z o.o.* | 58 923 | 100 | equity method |
| 4 | Promenada Sopocka Sp. z o.o. | 10 058 | 100 | equity method |
| 5 | Centrum Majkowskiego Sp. z o.o. | 6 609 | 100 | equity method |
| 6 | Kamienica Morska Sp. z o.o. | 976 | 100 | equity method |
| **Associates** | | | | |
| 7 | Bank Pocztowy SA | 146 500 | 25.0001 | equity method |
| 8 | Kolej Gondolowa Jaworzyna Krynicka SA | 15 531 | 37.53 | equity method |
| 9 | Ekogips SA – in liquidation | 5 400 | 60.26 | equity method |
| 10 | Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | 1 500 | 33.33 | equity method |
| 11 | Agencja Inwestycyjna CORP SA | 29 | 22.31 | equity method |

** value of shares at acquisition cost, inclusive of specific capital injections.*

### 4.2 Changes in organization of subordinated entities

In 2008, the following events had an impact on the structure of the PKO BP SA Group:

#### 1. Acquisition of shares of PKO Finance AB

According to the contract signed by PKO BP SA and Svenska Standardbolag AB (Sweden) on 27 June 2008, PKO BP SA acquired 5 000 shares of Aktiebolaget Grundstenen 108756 (Sweden) with a nominal value of SEK 500 000 (PLN 170 thousand). The acquired shares constituted 100% of the share capital and 100% of voting rights. The acquisition price with all additional costs amounted to SEK 504 969 (PLN 171 689).

On 17 July 2008, the Swedish Registry Office (Bolagsverket) registered the change of the name from Aktiebolaget Grundstenen 108756 to PKO Finance AB.

The Company's activity is to rise funds for PKO BP SA deriving from issue of Eurobonds.

#### 2. Disposal of shares of FINDER SA

On 15 September 2008, Bankowe Towarzystwo Kapitałowe SA (a PKO BP SA's subsidiary) sold 285 125 shares of FINDER SA with a total value of PLN 1 140 500. According to the sale agreement, the price of one share varied in each month from August 2008 to March 2009, depending on the date of cash inflow onto the entity's account. As at 31 December 2008 the value of the shares sold was PLN 9 425 092.

All of the shares under the sale agreement constituted 46.42% of the share capital and gave 46.42% of votes on Shareholders' Meeting of FINDER SA. Following the sale, BTK SA has no longer any shares of FINDER SA.

#### 3. Increase of share capital and acquisition of shares of Bankowy Fundusz Leasingowy SA

On 30 September 2008, an increase of share capital of Bankowy Fundusz Leasingowy SA of PLN 30 million was registered with the National Court Register.

All additional shares were acquired by PKO BP SA. Following the above-mentioned issue, PKO BP SA holds 100% of the share capital and 100% of votes on the General Shareholders Meeting.

#### 4. Increase of share capital and acquisition of shares of Finanse Agent Transferowy Sp. z o.o.

On 11 December 2008, an increase of share capital of Finanse Agent Transferowy Sp. z o.o. of PLN 7 600 thousand was registered with the National Court Register (KRS).

All shares were acquired by Inteligo Financial Services SA – the PKO BP SA subsidiary at nominal value of shares.

As a result of increase of share capital the shareholders of Finanse Agent Transferowy Sp. z o.o. are PKO BP SA's subsidiaries, including:

- Inteligo Financial Services SA, which holds 80.33% of share capital and 80.33% of voting rights on General Shareholders Meeting,
- Powszechne Towarzystwo Emerytalne BANKOWY SA (heretofore the sole shareholder), which holds 19.67% of share capital and 19.67% of voting rights on General Shareholders' Meeting.

**5. Increase of share capital and acquisition of shares of Kredobank SA**

On 31 December 2008, PKO BP SA acquired 13 044 501 852 shares within the capital increase of Kredobank SA with total nominal value of UAH 130 445 018.52. The price of acquired shares, including additional costs amounted to PLN 48 737 276.17.

As a result of above-mentioned acquisition PKO BP SA increased its share in share capital and voting rights on General Shareholders Meeting from 98.1815% to 98.5619%.

and within PKO Inwestycje Sp. z o.o. Group:

**6. Establishment of WISŁOK Inwestycje Sp. z o.o.**

On 24 January 2008, WISŁOK Inwestycje Sp. z o.o. with its seat in Rzeszów was registered in the National Court Register. The entity share capital amounts to PLN 500 thousand and consists of 5 000 shares, each of PLN 100 par value.

The entity's shareholders are PKO Inwestycje Sp. z o.o., which took up 4 000 shares with a total value of PLN 400 thousand and Jedynka SA, which took up 1 000 shares with a total value of PLN 100 thousand.

The shares acquired by PKO Inwestycje Sp. z o.o. represent 80% of the Company's share capital and carry 80% of voting rights at the Shareholders' Meeting. The company was formed in order to execute a housing project in Rzeszów called "Osiedle Wisłok".

**7. Acquisition of shares of Baltic Dom 2 Sp. z o.o.**

PKO Inwestycje Sp. z o.o. concluded 3 transactions (on 28 January 2008 and 27 August 2008) in which it purchased a total of 56 shares in Baltic Dom 2 Sp. z o.o. with a total nominal value of PLN 28 thousand, representing 56% of the entity's share capital and entitling to 56% of votes at the Shareholders' Meeting. The price for the acquired shares including additional fees was PLN 6 618 770.86.

The entity carries out works related to the execution of a housing project ("Sarnia Dolina") in Jankowo near Gdańsk.

**8. Reimbursement of a capital contribution made by PKO BP SA to PKO Inwestycje Sp. z o.o.**

On 30 June 2008, PKO Inwestycje Sp. z o.o. (the PKO BP SA subsidiary) returned to PKO BP SA a capital contribution received for an execution of investment projects of PLN 5.5 million.

**9. Change of the name of ARKADIA Inwestycje Sp. z o.o.**

On 3 July 2008, a change of the name from ARKADIA Inwestycje Sp. z o.o. to PKO Inwestycje – Międzyzdroje Sp. z o.o. was registered with the National Court Register (KRS).

**10. Increase of share capital and acquisition of shares of PKO Inwestycje – Międzyzdroje Sp. z o.o.**

On 22 August 2008, an increase of the share capital of PKO Inwestycje – Międzyzdroje Sp. z o.o. of PLN 1 500 thousand was registered with the National Court Register (KRS).

All additional shares were acquired by PKO Inwestycje Sp. z o.o. As a result of above-mentioned registration PKO Inwestycje Sp. z o.o holds 100% of share capital and 100% of voting rights on General Shareholders Meeting.

At the same time, in 2008 PKO BP SA subsidiaries made a capital contribution to its subsidiaries:

- on 18 January 2008, PKO Inwestycje Sp. z o.o. made a capital contribution to PKO Inwestycje – Międzyzdroje (former ARKADIA Inwestycje Sp. z o.o.) in the amount of PLN 4 074 800,
- on 14 February 2008 Powszechne Towarzystwo Emerytalne BANKOWY SA made a capital contribution to Finanse Agent Transferowy Sp.z o.o. in the amount of PLN 1 500 000,
- PKO Inwestycje Sp. z o.o. made a capital contribution to WISŁOK Inwestycje Sp. z o.o. in the total Mount of PLN 2 400 000 (4 July 2008, 13 August 2008 and 18 December 2008).

### 4.3 Main capital investments

The list of main capital investments of PKO BP SA and its subsidiaries concerning the transactions of acquiring and selling shares in subordinated entities was presented in Note 4.2 of the report.

### 4.4 Related party transactions

In 2008, PKO BP SA provided the following services to its related parties (subordinated entities): keeping bank accounts, accepting deposits, extending loans and advances, issuing debt securities, providing guarantees and conducing spot foreign exchange transactions.
The list of significant transaction between PKO BP SA and its subordinates, including loans and advances to subordinates as at 31 December 2008, was presented in the consolidated financial statements of the PKO BP SA Group for the year 2008.

## 5. ACTIVITIES OF THE PKO BP SA GROUP[4]

The PKO BP SA Group consists of PKO BP SA and its subsidiaries which – supplementing its product offer – at the same time pursue their own business goals. Particular companies provide specialist financial services in respect of leases, investment funds and venture capital, pension funds or electronic payment services in respect of banking cards.

The potential of every entity conduce to building the synergy effects of the whole PKO BP SA Group.

The key events which had an impact on the operations and results of the PKO BP SA Group in 2008 were related to the business activities conducted by the Group companies and the results achieved by particular Group entities, and are described in other Notes to this report.

### 5.1 Market share of PKO BP SA

In terms of assets and equity PKO BP SA is a leader of banking sector.

Compared to 2007, PKO BP SA maintained its market shares at a stable level. Regarding deposits, it is worth to point out the increase of share in the respect of corporate entities and high market share in respect of retail customers (as the result of implementation starting from September 2008, competitive and comprehensive proposal for the clients).

With reference to the loan and advances to customers, PKO BP SA recognized increase in the market share in respect of corporate entities, which enabled keeping the leader position on the Polish credits' market.

*Table 15. Market share of PKO BP SA (%)*

**MARKET SHARE OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA***

| | As at 31.12.2008 | As at 31.12.2007 | Change 2008/2007 |
|---|---|---|---|
| **Loans and advances to:** | **16.0** | **16.6** | **-0.6 pp.** |
| retail clients, of which: | 19.2 | 22.5 | -3.3 pp. |
| *consumer loans* | 17.3 | 20.0 | -2.7 pp. |
| *mortgage loans* | 20.4 | 24.4 | -4.0 pp. |
| corporate clients | 12.8 | 11.6 | 1.2 pp. |
| **Amounts due to:** | **17.3** | **17.3** | **0.0 pp.** |
| retail clients | 23.2 | 25.8 | -2.6 pp. |
| corporate clients | 10.9 | 9.5 | 1.4 pp. |

** Data source: NBP reporting system – WEBIS.*

### 5.2 Activities of PKO BP SA – parent company of the PKO BP SA Group[5]

As at 31 December 2008 relation of total assets of PKO BP SA to Group's total assets amounted to 97.5% and share of PKO BP SA's net profit in Group's consolidated net profit amounted to 92.3%. Bank, as a parent company constitutes the most important component of the consolidated balance sheet and influences heavily income statement of the PKO BP SA Group. Financial results presented in Chapter 3 reflect financial results of PKO BP SA.

PKO BP SA is a universal commercial bank offering services to both domestic and foreign retail, corporate and other clients. PKO BP SA is licensed to perform a full range of foreign exchange services; open and hold bank accounts abroad and to deposit foreign exchange in these accounts.

[4] *The financial data of the PKO BP SA Group's entities has been presented according to their IAS/IFRS financial statements.*

[5] *In this chapter Bank's management information is presented; any differences in total balances and percentages result from rounding; gross loans and advances to customers presented without interest due and interest not due.*

### Retail segment

PKO BP SA's efforts addressed to the retail client segment focused on improving the attractiveness and modernizing the range of products offered, and on improving the quality of service while, at the same time, increasing the effectiveness of sales.

In the retail segment, PKO BP SA focused on providing comprehensive banking services which, on the one hand satisfy the credit needs, and on the other – the deposit and settlements needs of the clients. The bank intensified its sales of consumer loans (mainly the "Max Pożyczka, Mini Rata" cash loan) and mortgage loans.

In the 4th quarter of 2008, PKO BP SA introduced a series of actions stemming from high volatility of external conditions. As a result of PLN depreciation, the value of foreign currency loan portfolio increased, particularly of mortgage loans. Sales of mortgage loans in foreign currencies have decreased, while at the same time market share of sales of mortgage loans in PLN increased.

Tense situation on financial markets resulted in intensification of market competition for retail deposits. This resulted in the introduction a new, broad deposit offer for retail clients in the 4th quarter of 2008.

The increase in total deposits of retail clients was mainly due to the introduction of new deposit products (Max Lokata, Progresja 18-miesięczna) and a savings account. In the personal and private banking segment, PKO BP SA offered, in addition to traditional forms of saving, advanced structured products.

The Bank made efforts to improve the quality of the service and make changes to the standard of providing personal and private banking services. Moreover, cycles of training courses were organized for employees (such as, e.g., the PKO Academy, product training courses).

Completion of Alnova system introduction in 3rd quarter of 2008 was one of the most important developments in retail segment. The system functionalities provide a strong basis for the Bank to develop competitive advantage, both in respect of range of products offered and cooperation with clients.

*Table 16. Loans in the retail segment (PLN million)*

| Items | As at 31.12.2008 | As at 31.12.2007* | Change in % |
|---|---|---|---|
| Gross loans and advances, of which: | | | |
| - retail and private banking | 18 820 | 16 414 | 14.7% |
| - small and medium entities | 9 762 | 6 907 | 41.3% |
| - mortgage banking | 41 396 | 30 299 | 36.6% |
| - housing market (including refinanced by the State budget) | 6 053 | 4 467 | 35.5% |
| **Total** | **76 032** | **58 087** | **30.9%** |

** data for the year of 2007 restated for comparative purposes*

*Table 17. Deposits in the retail segment (PLN million)*

| Items | As at 31.12.2008 | As at 31.12.2007 | Change in % |
|---|---|---|---|
| Client deposits, of which: | | | |
| - retail and private banking | 65 749 | 53 767 | 22.3% |
| - small and medium entities | 8 239 | 6 958 | 18.4% |
| - housing market | 9 966 | 10 290 | -3.1% |
| **Total deposits** | **83 954** | **71 014** | **18.2%** |

The activities of PKO BP SA were focused on improving the quality of the service and the Bank's competitive position in the small and medium enterprises segment (SME) by implementing a new service model (proper segmentation of customers with regard to their income potential), as well as on introducing numerous changes to the product offer. The most important ones include the introduction of four sales packages and the Quick Investment Loan (Szybki Kredyt Inwestycyjny, SKI). The changes in the SME segment brought significant volume increases, both on the credit side (41.3%) and on the deposit side (18.4%).

For small and medium enterprises segment's sake, taking advantages of synergy effect within the PKO BP SA Group, in 2008 process of sale of leasing products through Bank' branch network was prepared and implemented.

*Table 18. New products of PKO BP SA in the retail segment in 2008*

| New products and services | Activity |
|---|---|
| **Max Lokata** | The Bank offered one year subscribed deposit called 'Max Lokata' with an interest rate of 6%. The product offered flexibility in terms of making partial payments during the agreed-upon period. The deposit was one of the most attractive on the market. The total volume collected within the deposit amounted to PLN 7.5 billion. |
| **Term Deposit 9, 12, 15** | From 22 September to 31 December 2008, the Bank offered 9-, 12-, 15-month term deposits with a fixed interest rate. The interest rate depends on the saving period, for a 9-month period it amounted to 5% annually, for a 12-month period to 5.5% annually and for a 15-month period accounted for 6.0% annually. The minimum amount of the deposit was PLN 5 000. The Group has collected almost PLN 1 billion on Term Deposit 9,12,15. |
| **Progresja Term Deposit** | From 22 September to 31 December 2008, the Bank offered a 18-month Term Deposit called 'Lokata Progresja' with a fixed interest rate of 7% annually (for the 18-month period the interest rate will amount to 10.5%) The deposit allowed for cash withdrawals without losing accrued interest which depended on the saving period. The minimum amount of the term deposit was PLN 5 000. There was no possibility to roll the deposit over to the next period. The Bank has collected PLN 10.3 billion on Progresja Term Deposit. |
| **Saving account** | Saving account is an a'vista account, which enables clients to have interest rate similar to that of term deposit giving a limited transactional functionality at the same time. The product was introduced in PKO BP SA in 2008 in the following three segments:<br>1. saving account for Inteligo account (April 2008) with interest rate up to 5.3% (for deposits of PLN 100 000 or higher),<br>2. saving account for PKO BP SA (October 2008) with an attractive 5% interest rate annually. Since 12 December 2008, the Bank made the offer more attractive by increasing the interest rate for saving account to 6% for customers who have deposited over PLN 50 000.<br>3. saving account in GPB for Poles working in the United Kingdom – sold by London branch of the Bank PKO BP SA (August 2008).<br>Till the end of 2008 more than PLN 1.3 billion has been collected, and the trend was continued in the first months of 2009. |
| **Standard deposits** | Increasing the price attractiveness of standard term deposits – interest rate increase of approx. 1 pp. for all terms and amount brackets from 22 September 2008. |
| **Investment products** | The Bank offered numerous investment/ structured products, dedicated mainly to the personal and private banking segment (16-month structured deposit based on the PLN/EUR exchange rate, Trend Spotter Indexed Bonds, "Tygrys gospodarczy" ("Economic Tiger") Indian Bonds, Power Bonds, bonds of the agricultural goods market, structured bonds based on the Spectrum investment strategy). |
| ***Bankassurance*** | The Bank extended its offer of insurance products for retail and SME clients (Superochrona Domów i Lokali Mieszkalnych, SuperAssistance Zdrowie, Dom i Samochód, SuperAssistance Biznes, SuperUbezpieczenie Podróżne, Ubezpieczenie na szóstkę). The deposit with an insurance policy "Gwarantowany Zysk", which was introduced to the Bank's offer in cooperation with PZU Życie SA, was also sold successfully (sales of almost PLN 1 billion). |
| **Product packages** | New deposit products, BUSINESS PACKAGES (debut, development, comfort, success), were added to the offer on 14 February 2008. The individual packages include products and services which satisfy the needs of firms at different stages of their development. |
| **SKI** | On 18 February 2008 new product was introduced – Szybki Kredyt Inwestycyjny (Quick Investment Loan). It was designed to maximize customers' satisfaction by providing fast and easy access to loan. |
| **Rating Sales Package** | On 1 September 2008 new lease product was introduced (Pakiet Sprzedażowy Rating). This product is a part of agreement between the Bank and Bankowy Fundusz Leasingowy. |
| **Electronic Banking** | The following new functionalities were introduced to Inteligo electronic accounts in 2008:<br>- savings account for individuals was implemented;<br>- the terms for obtaining Inteligo revolving loans were changed significantly;<br>- a new version of the WAP service was introduced;<br>- encrypted bank statements were implemented. This new function is particularly useful for holders of business accounts and all clients who want the financial data contained in their bank statements to be kept strictly confidential. |

Continued restructuring of the Bank's own branches network was an important element of the Bank's activity in the retail segment. These activities were focused on:

– network optimization – 183 branches were modernized;
– introduction of a new model of network management by changing the typology of branches. Independent and subordinated branches were replaced with three types of branches (branches

A, B and C), the type of branch being dependent on, inter alia, the number of employees and the micro-market growth potential.

The network of the Bank's own ATMs was extended by adding 207 new ATMs (the total number is now 2 313), which allowed the Bank to reduce the costs of cash operations and increase the availability of services for the clients. Furthermore, the process of the modernization of self-service devices was completed.

The network of agencies remains an important supplement to Bank branches and ATMs (more than 2 000 locations).

The Super Express programme was introduced in the PKO BP SA sales network. Its aim is to increase the efficiency of sales. The programme was focused on four main areas:

– branch organization;
– training, motivating and supporting the sales staff;
– central cross-selling actions;
– sales monitoring.

Centralization of crediting processes was commenced in 2008. The processes of granting and managing mortgage loans for retail clients were centralized. Five Credit Analysis Centers were established. In each of them, there is a unit of the Bank's Settlement Centre, which provides post-sales services. To date, 72% of the branches have been covered by the centralization process, which it is anticipated will be completed in the second half of 2009.

PKO BP SA opened a branch in the UK and began cooperation with the National Westminster Bank PLC on the basis of an exclusive agreement. The PKO BP SA branch in London offers (among other things) products dedicated to the British market, e.g. a savings account in GBP.

### *Corporate segment*

In year 2008, PKO BP SA focused on further strengthening its market position and the image of PKO BP SA as a financial institution active on the corporate market.

In 2008, the corporate banking segment at PKO BP SA comprised business entities with a turnover exceeding PLN 5 million a year and local and central administration units (state budget entities).

2008 was a year of dynamic development for the PKO BP SA corporate banking segment (its growth significantly exceeded the market growth rate). The Bank increased its share in both the loan and the deposit market. The loan portfolio grew by more than 40.5% on a year-to-year basis (the market growth amounted to 28% on a year-to-year basis). At the same time, the deposit portfolio grew by 25.8% on a year-to-year basis in all segments of corporate and state budget clients (the market growth amounted to 12% on a year-to-year basis). The dynamic development in corporate banking was a result of the growing scale of the Bank's cooperation with its existing clients (cross-selling) and obtaining new clients. In 2008, the PKO BP SA corporate banking segment attracted more than 1 700 new clients, thus increasing its client base by almost 12%, which was the highest result in the history of this segment at PKO BP SA.

Market share of corporate segment increased for loans by 1.2 pp. to the level of 12% and for the deposits by 1.4 pp. to the level of 10.9% respectively.

*Table 19. Loans and deposits in the corporate segment (PLN million)*

| Items | As at 31.12.2008 | As at 31.12.2008 | Change in % |
|---|---|---|---|
| Gross corporate loans | 25 251 | 17 974 | 40.5% |
| Corporate deposits | 17 036 | 13 542 | 25.8% |

Due to the stability of PKO BP SA, its impeccable reputation on the market and the fact that the Bank does not rely on external financing, the clients started to see PKO BP SA as one of the safest institutions in the Polish banking sector (*safe heaven*). Corporate clients reduced the scale of their investments and shifted their attention to revolving loans and overdrafts. PKO BP SA adjusted its credit and transaction offer to the current situation in a flexible manner. The Bank took steps to increase monitoring and establish closer relationships with its clients. The Bank evaluated the prospects of higher risk sectors. However, unlike a number of other banks, PKO BP SA did not limit financing for new clients. The Bank launched client and product review programmes in order to link credit margins to the marginal cost of financing credit activity and the risk profile (risk based pricing), without the need to limit structural financing and financing of development activities.

*Table 20. Significant activities in the corporate segment*

| Scope of activity | Activity |
|---|---|
| **loan activity** | In 2008 the Bank organized:<br>- 9 syndicated loans in the total amount of PLN 1 186.1 million (the Banks' share),<br>- 11 bilateral loans which amounted to PLN 2 230.2 million,<br>- according to the Corporate regions data, Bank has drawn 2 296 credit agreements for a total amount of PLN 11,5 billion. |
| **deposit activity** | In 2008 the corporate segment deposit portfolio has increased by more than PLN 1.2 billion. |
| **issue of non-treasury debt securities** | In 2008 the Bank entered into 2 contracts for the issue of corporate bonds, in the total amount of PLN 250 million. |

PKO BP SA is the forerunner and the leader in complex services European funds beneficiaries. In financing application in action "4.4. New investments of a high innovative potential" of Operational Program Innovative Economy" the loans granted by PKO BP SA amounted to PLN 490.3 million (14% of the market share). The PKO BP SA's offer – The European program – has been several times honored and rewarded in the banks' offers rankings. The experience connected with implementation of assistance programs, allowed the Bank to gain the leading position among the banks servicing supported enterprises.

In 2008, PKO BP SA was also the leader on the market for providing financing and services in respect of the issue of non-treasury debt securities to public finance sector entities. The Bank improved its position and at the same time increased its revenues in this sector. In the 4th quarter of 2008, the Bank was also the leader in financing large local administration units (individual loans exceeding PLN 100 million).

*Table 21. Significant activities in the budget segment*

| Scope of activity | Activity |
|---|---|
| **loan activity** | In 2008 Bank took part in tenders for financing of budget clients and signed 84 contracts for a total amount of more than PLN 800 million. |
| **deposit activity** | In 2008 the budget segment deposit portfolio has increased by more than PLN 2.3 billion. |
| **issue of non-treasury debt securities** | In 2008 the Bank has signed 35 agreement for the issue of municipal bonds for a total amount of PLN 311.2 million and has become market leader in this segment with 40% share in the market (total value of municipal bonds issued by PKO BP SA amounted to PLN 1.8 billion). |

The corporate banking sales network comprises Regional Corporate Branches and Corporate Centres (which report to Regional Corporate Branches), and employs 165 advisors and 14 product specialists. In 2008, in order to improve operating efficiency and adapt the network to the clients' needs, the management functions were concentrated in 55 Corporate Centres.

***Investment segment***

In 2008, the global financial markets were affected by a serious crisis. The bankruptcy of the American investment bank Lehman Brothers caused an avalanche sale of assets on a global scale. The world's leading central banks implemented aid programmes to restore market liquidity. As part of such programmes, the governments carried out a coordinated interest rate reductions and in some cases took over shares in financial institutions.

Price decreases on the global stock markets and unfavourable conditions in the real economy also led to a deterioration in the mood on the capital market. 2008 was a year of economic downturn. The main Warsaw Stock Exchange index, WIG, lost over 50% compared to 2007; the largest companies' index, WIG20, dropped by 48%; and mWIG40 lost 63%.

Despite limitation of activity by other competitors on the Polish money and capital market, PKO BP SA remained (especially in the 4th quarter) one of the most active financial institutions in 2008.

### *Treasury operations*

In 2008, the Bank experienced another increase in activity in this market segment. Currency turnover transactions brought very good results, the value of realized SPOT transactions increased by 30%, which was reflected by an increase in results.

PKO BP SA actively executed its strategy of developing the sales of treasury products with high added value. The share of both exchange rate and interest rate derivative transactions in total sales of treasury products increased by 20% compared with the previous year.

PKO BP SA intensively monitors credit risk exposure in respect of customers. Transactions are concluded with clients on the basis of framework agreements. These agreements, as well as the products' rules and regulations, contain provisions confirming that the client has performed an independent assessment of the risks and benefits associated with different types of transactions. The applied policy states that derivative transactions are only concluded in connection with the real risk of the client declared as at the transaction date, resulting from cash flows in foreign currencies and/or interest rates, and therefore they are of the nature of hedging transactions.

Despite of lack of liquidity on the interbank money market, the Bank maintained a high level of trading in the interbank interest rate and foreign exchange markets, contributing to stabilization on the banking market. According to the data as at end of December 2008, PKO BP SA's share in the segment of IRS and spot transactions was 11% and 7%, respectively. As a result of high activity in treasury transactions, Bank was classified fourth among Dealers of Treasury Bonds. Moreover, PKO BP SA held a position of Money Market Dealer. In order to secure proper volume of transactions, PKO BP SA has signed general and hedging agreements both with domestic and foreign counterparties.

Due to its strong market position and knowledge of financial markets, the Bank is able to support sales actively by applying solutions with high added value. During the high volatility of the financial markets, the Bank paid particular attention to stabilizing its deposit base. The Bank actively managed liquidity risk and market risks (including the interest rate and currency risk), focusing on minimizing exposure. The funds obtained were invested in short-term Treasury securities and NBP bills. The rate of obtaining long term funds in CHF, which was maintained on a high level until the end of September, in line with increasing credit activity, slowed down visibly in the 4th quarter of 2008.

The Bank maintained a portfolio of investment securities, which was financed with a surplus of deposits denominated in PLN, EUR and USD. State Treasury bonds constituted the largest component of this portfolio, and bonds issued by financial institutions constituted a small percentage (3%). The Bank's policy with respect to the investment portfolio was focused on mitigating risk by purchasing hedging instruments (IRS, CDS) or selling instruments with limited liquidity.

### *Brokerage activities*

Turnover on the stock market amounted to almost PLN 19 billion, which gave PKO BP SA a 6% share in the market and 7$^{th}$ position (up one level in relation to the previous year). The amount of turnover generated as a result of fulfilling the function of a stock market animator was PLN 5 billion, and the number of agreements signed by the Bank with the issuers and the Warsaw Stock Exchange within its role as a market animator and issuer was 39 and 29 respectively, which put the Bank in 4$^{th}$ position. Turnover on the NewConnect stock market amounted to almost PLN 65 million and put PKO BP SA in 4$^{th}$ position (the number of animated companies being the highest, i.e. 30).

In line with its assumptions regarding the development of primary market services, PKO BP SA carried out subscriptions for four issues of structured bonds issued by Barclays Bank PLC in London, and commenced the distribution of 32 investment funds. Overall, as at the end of 2008 the Bank provided services to 144 Funds managed by 10 Investment Fund Companies.

Due to the situation on the capital market and a significant increase in the aversion to risk, Treasury bonds became an important element of the PKO BP SA product offer. As the only distributor of retail Treasury bonds, PKO BP SA offered its clients in 2008 four types of bonds with both fixed and variable interest rates. Turnover on the bond market increased by nearly 45% compared with the previous year, which allowed the Bank to maintain its leading position on the market.

***Custody operations***

PKO BP SA is a direct member of the National Depository for Securities and the Securities Register (NBP) and provides securities custody services to its clients. PKO BP SA is a member of the Custodian Bank Council and the Non-Treasury Debt Securities Council at the Polish Bank Association and it actively participates in work on creating regulations and best market practices for the capital market. In 2008, the Bank started acting as depositary for pension and investment funds. Since November 2008, the Bank provides depositary services to OFE (open pension fund) WARTA SA.

As at the end of 2008, the market value of trustee assets amounted to PLN 20 billion, which represents a six-fold increase compared with 2007.

**As at 31 December 2008:**

- the biggest share within territorial structure of the deposit base (excluding inter-bank deposits and online banking accounts' deposits) had the following regions: Mazowiecki (27.3%), Śląsko–Opolski (12.1%) and Wielkopolski (10.7%). Their total share in Bank's deposits amounted to 50.1% and compared to the end of 2007 decreased by 1.8 pp.,
- number of current accounts amounted to 6 366 thousand and increased by 159 thousand (y/y), of which Inteligo current accounts by 34 thousand (y/y),
- total number of banking cards issued by PKO BP SA at the end of the year amounted to 7 493 thousand of units. Compared to the end of 2007 an increase of the total number of banking cards amounted to 197 thousand of units, including 37 thousand of credit cards.

A detailed description of the activities of PKO BP SA - *the parent company of the PKO BP SA Group, including its business activity and financial performance for the year 2008, has been presented in the PKO BP SA Directors' Report for the year 2008, which is an integral part of the annual report of PKO BP SA.*

## 5.3 Activities of other entities of the PKO BP SA Group

| SUBSIDIARY | SCOPE OF ACTIVITIES | ACTIVITIES OF OTHER GROUP COMPANIES |
|---|---|---|
| PKO Towarzystwo Funduszy Inwestycyjnych SA | Setting up and management of investment funds | 1. As at 31 December 2008, the equity of the Management Company amounted to PLN 128 415 thousand.<br>2. In 2008, the Management Company earned a net profit of PLN 104 815 thousand (in 2007: PLN 125 498 thousand).<br>3. The asset value of the funds managed by the Management Company amounted to PLN 8.2 billion as at 31 December 2008, resulting in the Company having an 11.06% share in the investment fund market and holding the 3rd place among the funds (for comparison purposes: at the end of 2007 the asset value of managed funds amounted to PLN 16.7 billion, resulting in having 12.36% share in the investment fund market and holding the 3rd place). The decrease in value of the funds' assets is a result of the decrease in value of the funds' shares on the stock exchange and increased redemption of funds' shares.<br>4. In 2008, the Company added to its offer a new close-ended investment fund "PKO Rynku Nieruchomości. As at 31 December 2008, PKO TFI SA managed 14 investment funds.<br>5. In 2008, the Company paid dividend to the shareholders for 2007 in the amount of PLN 123 million (gross), including PLN 92.25 million to PKO BP SA. |
| KREDOBANK SA | KREDOBANK SA in Lviv conducts banking activities in Ukraine | 1. As at 31 December 2008, the equity of the Management Company amounted to PLN 43 398 thousand (UAH 116 349 thousand).<br>2. In 2008, KREDOBANK SA reported a net profit of PLN (-) 196 293 thousand (UAH 433 796 thousand). In 2008, KREDOBANK SA reported a net profit of PLN 2 848 thousand (UAH 5 209 thousand). The decrease in the net profit was caused mainly by an increase in impairment allowances of loans granted by KREDOBANK SA resulting from economic situation in Ukraine and results of the loan portfolio review.<br>3. The loan portfolio (gross) of KREDOBANK SA had increased by PLN 262 million (UAH 1 732 million) i.e. 15.32% since the beginning of the year 2008 and amounted to PLN 1 969 million (UAH 5 279 million) at the end of 2008.<br>4. The value of term deposits expressed as PLN equivalent had decreased by PLN 88.5 million i.e. 8.12% (the value of term deposits in UAH increased in 2008 by UAH 421 million i.e. 18.59% - difference resulting from the devaluation of UAH in 2008) since the beginning of 2008 and amounted to PLN 1 002 million (UAH 2 687 million) at the end of 2008.<br>5. At 31 December 2008, KREDOBANK SA had 27 branches and 149 local offices in 22 (out of 24) Ukrainian districts and the Independent Republic of the Crimea. During the year 2008, 3 branches and 6 local offices were opened, 8 local offices were closed.<br>6. In 2008, KREDOBANK SA received two subordinated loans from PKO BP SA for an amount of USD 16 million and signed with PKO BP SA four loan agreements in total amount of 175 mln USD.<br>7. In June 2008, KREDOBANK issued bonds with a total nominal value of UAH 50.75 million and a maturity date in 2013. All bonds were sold to the clients on the Ukrainian market.<br>*Balance sheet items relating to KREDOBANK SA at the end of 2008 were translated using the average NBP rate as at 31 December 2008 (1 UAH = 0.3730 PLN), while those at the end of 2007 were translated using the average NBP rate as at 31 December 2007 (1 UAH = 0.4814 PLN).*<br>*Income statement items relating to KREDOBANK SA were translated using the average of NBP exchange rates prevailing as at the last day of each month of 2008 and 2007 (0.4525 PLN/UAH and 0.5456 PLN/UAH respectively)* |
| Powszechne Towarzystwo Emerytalne BANKOWY SA | Management of an open-end pension fund. Since 2003, the Bank has been in the possession of 100% of PTE's shares. | 1. As at 31 December 2008, the equity of PTE Bankowy SA amounted to PLN 200 906 thousand.<br>2. In 2008, PTE Bankowy SA earned a net profit of PLN 25 036 thousand (in 2007: PLN 26 076 thousand).<br>3. As at the end of 2008, the net asset value of OFE Bankowy amounted to PLN 4 030 million, i.e. it decreased by 5.7% compared with the end of 2007. The decrease in the net asset value of OFE Bankowy is associated with a significant drop in the prices of shares listed on the Warsaw Stock Exchange.<br>4. As at 31 December 2008, the number of accounts maintained for participants of OFE Bankowy was 467 596.<br>5. As at the end of December 2008, OFE Bankowy was the 9th pension fund on the market in terms of asset value, and the 10th in terms of the number of accounts maintained." |
| Inteligo Financial Services SA | Provision of e-banking services. The Company provides a platform for the development of electronic services of PKO BP SA in the field of keeping accounts and selling other banking products using interactive distribution channels. | 1. As at 31 December 2008, the company's equity amounted to PLN 120 136 thousand.<br>2. In 2008, the company earned a net profit of PLN 24 985 thousand (in 2007: PLN 20 041 thousand).<br>3. At the end of December of 2008, Inteligo customers' deposits amounted to PLN 2 277 million and increased by PLN 213 million as compared to the beginning of 2008. An increase of client's deposits in 2008 was lower than an increase of client's deposits in 2007 by PLN 18 million.<br>4. At the end of the year 2008, the Company provided access to electronic banking systems to approximately 2.6 million PKO BP SA clients using iPKO services, and served more than 610 thousand holders of Inteligo accounts.<br>5. In March 2008, the online banking services offered until then under PKO Inteligo' name switched to the name of iPKO. This was one of the components of introducing a new online banking development strategy in PKO BP SA.<br>6. In April 2008, the Company signed an agreement with Polska Telefonia Cyfrowa Sp. z o.o., in which the parties set out the terms and conditions for cooperation in the provision of telecommunication services. |
| Centrum Elektronicznych Usług Płatniczych eService SA | Acquisition (to the Bank's order) of points of sale (the so-called acceptors) to execute transactions with the use of payment cards, management of POS terminals' network, processing of data relating to card transactions performed at POS terminals and servicing of cash withdrawals at POS terminals installed, among other places, in PKO BP SA agencies and branches. | 1. As at 31 December 2008, the company's equity amounted to PLN 68 180 thousand.<br>2. In 2008, the company earned a net profit of PLN 27 767 thousand (in 2007: PLN 19 626 thousand). The increase in profit results from constant improvement of profitability of the points of sale, as well as from development of additional functions, i.e. increased sales of electronic pre-paid phone units and a larger volume of cash withdrawals at PKO BP SA Agencies and the Post Offices.<br>3. The number of eService terminals was 52,461 as at the end of 2008, which represents a 13.82% growth compared with the end of 2007. The Company's estimated share in the market of bank card acceptance in terms of the number of terminals installed amounted to 28% at the end of 2008 (data based on the reports of the National Bank of Poland).<br>4. In 2008, transactions amounting to PLN 19 billion were generated with the use of eService terminals, representing an increase of 24.40% in relation to the year 2007. The Company's share in the value of card transactions generated as at the end of 2008 amounted to 28% (data based on the NBP reports).<br>5. In 2008, the Company implemented the Cash back service for MasterCard cards, acceptance of VISA PayWave contactless cards and installed two of its first own ATMs. |
| Bankowe Towarzystwo Kapitałowe SA | Venture capital activities. | 1. As at 31 December 2008, the company's equity amounted to PLN 14 256 thousand.<br>2. In 2008, the company earned a net profit of PLN 1 704 thousand (in 2007: net loss of PLN 1 007 thousand).<br>3. In the second half of 2008 Bankowe Towarzystwo Kapitałowe SA activity comprised establishing a subsidiary company Bankowy Faktoring SA. |
| PKO Finance AB | The Company's operations comprise raising funds for PKO BP SA through the issue of Eurobonds. | 1. As at 31 December 2008, the company's equity amounted to PLN 284 thousand (SEK 742 thousand)<br>2. At the end of December 2008, the company generated a net loss of PLN 85 thousand (SEK 237 thousand)<br>3. The Company in 2008 has not started the statutory activities.<br>*Equity value was translated using the average NBP rate as at 31 December 2008 (1 SEK = 0.3821 PLN), net result was translated using the average of NBP exchange rates prevailing as at the last day of each month of 2008 (1 SEK = 0.3592 PLN)* |
| Bankowy Fundusz Leasingowy SA | Member of the Supervisory Board | 1. As at 31 December 2008, the BFL SA Group (BFL SA and its subsidiaries) equity amounted to PLN 86 842 thousand.<br>2. In 2008, the Group earned a net profit of PLN 10 081 thousand (in 2007: PLN 6 773 thousand).<br>3. In 2008, the BFL SA Group Companies leased out assets with a total value of PLN 1 360.5 million, which represents an increase of 11.3% compared with 2007. In terms of the value of leased assets, the Company ranked 8th as at the end of 2008 (according to the data of the Leasing Companies' Association).<br>4. The total carrying value of the BFL SA Group lease investments as at 31 December 2008 was PLN 2 317 million (as at the end of 2007: PLN 1 592 million). |

| SUBSIDIARY | SCOPE OF ACTIVITIES | ACTIVITIES OF OTHER GROUP COMPANIES |
|---|---|---|
| PKO Inwestycje Sp. z o.o. | Construction and development activities. PKO Inwestycje Sp. z o.o. specializes in management of big development projects. Development projects are carried out either by PKO Inwestycje Sp. z o. o. alone or by its subsidiaries. | 1. The value of equity of the PKO Inwestycje Sp. z o. o. Group (PKO Inwestycje Sp. z o. o. and its subsidiaries) at the end of 2008 amounted to PLN 174 805 thousand.<br>2. The PKO Inwestycje Sp. z o.o. Group closed the year 2008 with a net loss of PLN 4 531 thousand (2007: net profit of PLN 23 761 thousand). Fluctuations in the results are due to the accounting treatment applied to the investment projects carried out by the Group.<br>3. In 2008, the Company's activities were focused on the following development projects:<br>- "Nowy Wilanów" in Warsaw carried out by Wilanów Investments Sp. z o.o.,<br>- "Neptun Park" in Gdańsk carried out by POMERANKA Sp. z o.o.,<br>- "Kuźmińska" in Kiev, Ukraine, carried out by UKRPOLINWESTYCJE Sp. z o.o.<br>- "Osiedle Rezydencja Flotylla" in Międzyzdroje carried out by PKO Inwestycje - Międzyzdroje Sp. z o.o.<br>- "Osiedle Wisłok" in Rzeszów carried out by WISŁOK Inwestycje Sp. z o.o.<br>- "Osiedle Sarnia Dolina" in Jankowo (n/ Gdańsk) carried out by Baltic Dom 2 Sp. z o.o.<br>4. Fort Mokotów Sp. z o.o. - subsidiary of PKO Inwestycje Sp. z o.o. - in 2008 continued warranty services for the completed project "Marina Mokotów". |
| Centrum Finansowe Puławska Sp. z o.o. | The Company manages the building "Centrum Finansowe Puławska" located at 15 Puławska Street in Warsaw. | 1. The value of company's equity at the end of 2008 amounted to PLN 205 756 thousand.<br>2. The company closed the year 2008 with a net profit of PLN 7 376 thousand (in 2007: PLN 7 942 thousand).<br>3. The occupancy rate of office and commercial space in the CFP building was relatively stable and amounted to 100% as at the end of 2008 (96.4% as at the end of 2007).<br>4. As at 31 December 2008, 89.5% of the office and commercial space in the CFP building was rented to PKO BP SA Group entities.<br>5. In 2008, the Company paid a divided in the total amount of PLN 16.6 million to PKO BP SA (from the net profit for 2007 and 2006). |

### 5.4 Activities taken by PKO BP SA towards Kredobank SA

The situation of Kredobank SA and Ukrainian economy has been subject to many analyses and discussions of the PKO BP SA Management Board since the second half of 2008. Because of risk related to conducting business activity in Ukraine, the Management Board has taken many actions in order to strengthen corporate supervision of PKO BP SA over Kredobank SA.

***Effectiveness strengthening of statutory organs of Kredobank SA***

In 2008 Management Board of PKO BP SA by its representative in Supervisory Board of Kredobank SA undertook decisions to strengthen staff of statutory organs in Kredobank SA.

Some representatives of PKO BP SA in Supervisory Board of Kredobank SA were changed as well changes to Management Board of Kredobank SA were implemented.

Supervisory Board of Kredobank SA was strengthened by representatives of top level management from PKO BP SA.

In 2008 the composition of Supervisory Board was as follows:

1. Tomasz Mironczuk – President of the Supervisory Board
2. Wojciech Papierak - Vice-president of the Supervisory Board
3. Jerzy Kepel – Secretary of the Supervisory Board
4. Stanisław Kolasiński – Member of the Supervisory Board
5. Łukasz Dziekoński – Member of the Supervisory Board
6. Jan Karwański – Member of the Supervisory Board

The composition of Management Board was strengthened by Vice-President who is responsible for the area of controlling (cost restructuring of Kredobank SA). On 18 September 2008 Supervisory Board of Kredobank changed the composition of Management Board in Kredobank SA:

Dismissed : Stephana Kubiva – President of the Management Board

Aleksandra Sidorowa – Vicepresident of the Management Board (Corporates)

Appointed: Ivan Feskiv – for the President of the Management Board

Zbigniew Urbaniak – for the Vice-President of the Management Board.

The composition of the Management Board after changes was as follows:

1. Ivan Feskiv – President of the Management Board of Kredobank SA
2. Danuta Sikora – Vice-President of the Management Board (CEO)
3. Krzysztof Mazur – Vice-President of the Management Board
4. Zbigniew Urbaniak – Vice-President of the Management Board (waiting for the approval of state bodies of Ukraine)
5. Taras Choma – Vice-President of the Management Board

<u>Implemented changes were focused on strengthening control in:</u>

- The areas of retail and corporate operations of Kredobank SA
- The area of credit risk,
- The area of activities measured to implement controlling in particular in restructuring costs of Kredobank SA (especially in staff costs)

The composition of Kredobank SA Revisory Committee was completed by representative of Internal Audit Committee of PKO BP SA. The representative has experience in consolidated supervision of financial institutions.

***Strengthening of further functioning of Kredobank SA***

Increase of share capital of Kredobank SA.

PKO BP SA took part in increase of share capital of Kredobank SA and subscribed shares of XVIII issue. The total value of purchase of Kredobank SA shares of XVIII issue amounted to PLN 48 737 276.17. After including above mentioned shares PKO BP holds 98.56% of share capital of Kredobank SA of total purchase value of PLN 356 101 724.85.

Subordinated Loan

On 5 of September 2008 after gaining all required agreements PKO BP SA granted Kredobank SA fifth subordinated loan in the amount of USD 6 million for the period of 8 years. The subordinated loan was registered on the 5 of November 2008.

Credit lines

In order to stabilize the current operations of Kredobank SA and maintaining the N2 capital adequacy ratio at the level required by the National Bank of Ukraine, Kredobank SA has been granted a revolving line of credit in the amount of USD 90 million, on 28 November 2008. The line will finance the current operations of Kredobank SA with an aim of maintaining its structural liquidity and reducing the long-term liquidity gap.

***Ongoing cooperation between PKO BP SA and representatives of the National Bank of Ukraine.***

The Management Board of PKO BP SA has intensified cooperation with the National Bank of Ukraine and the Ukrainian government during unofficial visits in Kiev. In the period from June to December 2008, four of such visits took place (with involvement of President or Vice-President of the Management Board of PKO BP SA).

The above-mentioned visits evolved around discussions on economic and financial situation of Kredobank SA but also served the purpose of improving the image of Kredobank SA as the subsidiary of a stable and creditworthy shareholder – PKO BP SA.

The Board of PKO BP SA has also took means to inform the relevant government agencies of Poland about problems and impediments that PKO BP SA faces while investing in Ukraine.

***Assessing the intrinsic value of the loan portfolio of KREDOBANK SA***

On two occasions (July and November 2008), the Board of PKO BP SA had the auditor of Kredobank SA – PricewaterhouseCoopers Sp. z o.o. carry out an assessment of the quality of the loan portfolio of Kredobank SA The result of this assessment and the deteriorating economic situation of Ukraine (depreciation of hrywna) have been taken led to a decision on capital injection made in order to stabilize the Kredobank SA's operations for the year 2009.

***Intensifying supervision***

In addition, the Board of PKO BP SA monitored activities undertaken to employing the know-how of PKO BP SA with the use of introducing to Kredobank SA of procedures characteristic of PKO BP SA The update of the existing procedures has been introduced.

It should be noted that the Board of PKO BP SA continues the policy of intensification of supervisory of Kredobank SA with the purpose of ensuring the stable functioning of the Bank in the environment of the financial crisis.

In addition, numerous training sessions for employees of Kredobank SA have been carried out – both in the Head office of PKO BP SA and in the location of Kredobank SA – by employees of PKO BP SA.

PKO BP SA and other entities within the PKO BP Group provided an IT support for Kredobank SA Inteligo Financial Services SA helped in improving e-banking services offered by Kredobank SA

### *Significant events of Kredobank SA after the balance date*

On 21 January 2009, The Supervisory Board of Kredobank SA approved:
- the financial plan of Kredobank SA for 2009;
- the Articles of the Board and the Code of Practice of Kredobank SA

On 29 January 2009, the Extraordinary Meeting of Shareholders of Kredobank SA, revived on 23 February 2009, decided upon an increase of share capital within the XIX series share issue up to the amount of USD 133 million. The share subscription will begin on 9 April 2009 and finalize on 23 April 2009.

The meeting of General Shareholders on the matter of the above-mentioned share issue and approval of financial statements of Kredobank SA for 2008 is planned to take place on 24 April 2009.

On 16 February 2009, the Agreement with the National Bank of Ukraine has been signed. The Agreement presents a plan of improving Kredobank SA's ratios, taking into account the planned capital injection of Kredobank SA BP SA within the XIX series share issue and assessment of the quality of credit portfolio as at the end of 2008 by PricewaterhouseCoopers Sp. z o.o.

On 27 February 2009 the Supervisory Board of Kredobank SA approved the new organization structure of the Kredobank SA's head office.

On 11 March 2009 Kredobank SA issued to the National Bank of Ukraine an application for permission of early repayment of subordinated loans at the total value of USD 38 mln (according to the PKO BP SA Management Board resolution dated 16 February 2008 concerning the permission to obtain the Kredobank SA shares and repayment of the subordinated loans by Kredobank SA) The NBU has not taken the decision yet.

PricewaterhouseCoopers Sp. z o.o. has carried out the diagnostic audit of Kredobank SA (following the PKO BP SA Management Board Resolution dated on 21 November 2008).

In the first quarter of 2009 many meetings of members of PKO BP SA Management Board with the representative of the Ukrainian NBU and Ukrainian Government took place:

- 15-16 January 2009 – participation of the member of PKO BP SA Management Board together with the Ukrainian NBU and Ministry of Finance representatives at the Polish – Ukrainian economic summit,
- 4-6 February 2009 – meeting of the member of PKO BP SA Management Board with the representatives of NBU covering the early repayment of subordinated loans and the liquidity of Kredobank SA issues,
- 26-27 February 2009 – participation of the PKO PB SA and Management Board of Kredobank SA representatives together with the representatives of Ukrainian Government at the III Ukraine – Europe Forum and Bank press conference (participation of M. Chyczewski, Junior Secretary of Ministry of Treasury),
- 26–27 March 2009 – meeting of the member of PKO BP SA Management Board and NBU representatives concerning the results of the diagnostic audit.

### 5.5 Other subordinated entities[6]

| SUBSIDIARY | SCOPE OF ACTIVITIES | ACTIVITIES OF OTHER GROUP COMPANIES |
|---|---|---|
| CENTRUM HAFFNERA Sp. z o.o. | CENTRUM HAFFNERA Sp. z o.o., together with its subsidiaries, carries out an investment project relating to re-vitalization of Sopot's tourist centre. | 1. The value of equity of THE CENTRUM HAFFNERA Sp. z o.o. Group (CENTRUM HAFFNERA Sp. z o.o. and its subsidiaries) at the end of 2008 amounted to PLN 92 816 thousand.<br>2. The Group closed the year 2008 with a net loss of PLN 92 thousand. |
| Centrum Obsługi Biznesu Sp. z o.o. | The Company's activity is construction of offices and hotel complex in Poznań. In January 2007 the Company delivered for use the Sheraton Poznań Hotel. | 1. The value of company's equity at the end of 2008 amounted to PLN 31 150 thousand.<br>2. The company closed the year 2008 with a net profit of PLN 2 758 thousand. |
| Bank Pocztowy SA | Banking activities | 1. The value of company's equity at the end of 2008 amounted to PLN 260 581 thousand.<br>2. The company closed the year 2008 with a net profit of PLN 27 014 thousand. |
| Kolej Gondolowa Jaworzyna Krynicka SA | Set up mainly for the purpose of construction and operation of cable railway from Krynica to Jaworzyna Krynicka and for carrying people on ski lifts. | 1. The value of company's equity at the end of 2008 amounted to PLN 36 781 thousand.<br>2. The company closed the year 2008 with a net profit of PLN 3 714 thousand. |
| Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | Granting of suretyships and guarantees to secure the repayment of loans and advances granted by financial institutions to small and medium-sized enterprises (SMEs). | 1. The value of company's equity at the end of 2008 amounted to PLN 14 837 thousand.<br>2. The company closed the year 2008 with a net profit of PLN 10 017 thousand. |
| Agencja Inwestycyjna CORP SA | Management of business premises in Warsaw. | 1. The value of company's equity at the end of 2008 amounted to PLN 1 257 thousand.<br>2. The company closed the year 2008 with a net profit of PLN 451 thousand. |

### 5.6 International co-operation

***Co-operation with the European Bank for Reconstruction and Development***

PKO BP SA participated in the *Loan Window* programme forming part of the "EU/EBRD SME Finance Facility" (based on a Loan Agreement with the European Bank for Reconstruction and Development concluded on 21 February 2003 for the financing of small and medium-sized enterprises). By 30 June 2008, 3 139 loans had been granted totaling EUR 63.34 million. The cooperation with EBRD within the framework of the "EU/EBRD Finance Facility" ended in 2008.

***Co-operation with other foreign institutions***

In 2008 PKO BP SA:
- completed 4 ISDA Master Agreement with foreign banks, 4 Credit Support Annexes to the previous ISDA agreement and completed an agreement with the Council of Europe Development Bank, granting the Bank a credit line of EUR 100 million for co-financing the investment needs of small- and medium-sized enterprises
- completed a loan agreement and 6 revolving loans with the directly related entity (operating in banking sector) in total amount of USD 201 million (transaction at an arm's length)
- completed two agreements with *National Westminster Bank PLC* on the basis of which co-operation with *NatWest* was prolonged till 28 February 2009:

In 2008, Bankowy Fundusz Leasingowy SA within the granted funds in amount of PLN 56.9 million within a loan received from the European Investment Bank, was financing development of small and medium enterprises.

Kredobank SA offers a vast spectrum of services related to international undertakings. It cooperates within international settlements with financial institutions in 16 countries. It has 46 *nostro* accounts and 62 *loro* accounts.

### 5.7 Activities in the area of promotion and image building

In 2008 PKO BP SA's activities in the area of promotion focused on actions intended to:
1. strengthen the image of PKO BP SA among its shareholders and clients as the leader of the Polish banking sector – a modern institution with an established reputation, a friendly (close) partner in every segment of the market;
2. increasing prestige of PKO BP SA brand;
3. intensifying promotional activities which support sales of products and services offered by PKO BP SA.

[6] *The financial data of PKO BP SA other subordinated entities are presented in accordance with Polish Accounting Standards.*

As part of promoting the products and services of PKO BP SA, promotional campaigns of particular products were organized, as well as image-building campaigns and direct marketing activities intended to attract new clients and strengthen relations with the existing business partners. In 2008, public relations activities were conducted based on sponsoring and charity activities. PKO BP SA, as a patron and sponsor, supported the organization of cultural and sport events, social and community projects, in the framework of creative sponsoring programmes.

### *Sponsorship activities*

Sponsoring activities realized by the Bank were aimed at creating the image of PKO BP SA as a reliable financial institution, open to the needs and expectations of its clients, engaged in the development of the country and local communities.

*Table 22. Structure of the main sponsorship areas of PKO BP SA (percentage)*

| Area | Number of projects | Share in budget (%) | Share in budget (PLN) |
|---|---|---|---|
| PKO Bank Polski Blisko Ciebie (Close to You) | 294 | 42% | 10 891 103 |
| PKO Bank Polski Reprezentacji Olimpijskiej (Olympic activities) | 80 | 43% | 11 360 490 |
| PKO Bank Polski Kulturze Narodowej (National culture) | 187 | 10% | 2 396 491 |
| Sector sponsorship | 102 | 5% | 1 447 721 |
| **TOTAL** | **663** | **100%** | **26 095 805** |

*Table 23. Sponsorship activities by amount (PLN)*

| Sponsorship activities (by amount) | Number of projects |
|---|---|
| 0 – 100 000 | 642 |
| 100 000 – 500 000 | 15 |
| more than 500 000 | 5 |

42% of the budget was assigned for activity within the area "PKO Bank Polski Blisko Ciebie". The supported initiatives intended to show the Bank as an organization that is dynamic, modern, friendly, and open to the needs of local communities. Actions undertaken were aimed at education and social sponsorship.

Sports projects constituted 43% of the budget and were realized within the area of the Bank's Olympic-related activities "PKO Bank Polski Reprezentacji Olimpijskiej". The agreement which was concluded in 2007 with the Polish Olympics Committee was continued. PKO BP SA continued also cooperation with the Polish handball association Związek Piłki Ręcznej w Polsce and with the women's basketball team LOTOS PKO BP Gdynia.

About 10% of PKO BP SA's sponsoring budget was earmarked for cultural and national heritage projects, which is the effect of realizing the programme "PKO Bank Polski Kulturze Narodowej" (PKO BP for national culture), which started in 2001. The purpose of the programme is to create the image of PKO BP SA as the patron of culture and national heritage. The most important cultural events of the prior year sponsored by PKO BP SA included: the exhibition "Voyage to the interwar period" organized by the National Museum in Warsaw.

The sponsorship and charity activities are regulated in integral regulations:

1. "Regulations on marketing activities in PKO BP SA"
2. "Mode of marketing activities in PKO BP SA"

In accordance with the internal regulations of the Bank in 2008, sponsorship activities do not require the acceptation of the Supervisory Board. The Supervisory Board did not assess the sponsorship activities.

The Bank monitors on an ongoing basis the realization of particular sponsorship projects (media range, amount of participants, brand exposition) and orders research concerning sponsorship and image (both qualitative and quantitative).

Cyclical research conducted by ABC Rynek i Opinie (Sponsoring Monitor 2005/2006/2007/2008) indicates that the sponsorship activities of PKO BP SA is the most visible of all banks conducting such activities.

### *Charity activities*

Charity activities play an important role in forming a positive image of PKO BP SA as a socially sensitive institution. Apart from the image issues, participation in charity activities creates the possibility of contacts with opinion-setting circles and local authorities.

*Table 24. Main areas of charity activities*

| Area | Number of donations | Share in budget (%) | Amount paid (PLN) |
|---|---|---|---|
| Social aid | 314 | 40% | 1 757 852 |
| Health | 239 | 25% | 1 088 735 |
| Education and entrepreneurship | 211 | 15% | 663 600 |
| Culture and national heritage | 41 | 14% | 618 577 |
| Sport and leisure | 68 | 3% | 135 250 |
| Other | 36 | 2% | 105 200 |
| **TOTAL:** | **909** | **100%** | **4 369 214** |

*Table 25. Sponsorship activities by amount (PLN)*

| Charity activities (by amount) | Number of donations |
|---|---|
| 0 – 5 000 | 772 |
| 5 001 – 20 000 | 131 |
| 20 001 – 100 000 | 4 |
| more than 100 000 | 2 |

A spectacular event in the area of protection of culture and national heritage was the purchase of letters from the field post office, which operated during the Warsaw Uprising, by the Museum of the Warsaw Uprising. Another event also related to the war period was the erection of the monument commemorating the Uprising in the Warsaw Ghetto.

The renovation of works of art of the Raczyński Library in Poznań was also provided with additional finance.

In the area of social aid, the agreement with Fundacja Polsko-Niemieckie Pojednanie, which was signed in 2007, is in force. The Bank provides additional finance to the humanitarian and social aid programme for former Home Army (Armia Krajowa) soldiers. This is a joint initiative under the aegis of the President of the Republic of Poland.

PKO BP SA supported the scholarship fund for underprivileged talented children, educational and entrepreneurship projects and was engaged in the issues of health protection and promotion as well as sport and entertainment.

In 2008, the promotional activities of the remaining Group entities concentrated mainly on:

- providing advertising support in product sales, especially for new products and services as well as building positive image of the company (Kredobank SA),
- promotion of real estate developments of particular Group entities and sponsorships of Grand Prix Formuła Windsurfing in Sopot and International Woman Beach Volleyball Tour „FIVB Satellite Pomeranka Cup 2008" (PKO Inwestycje Sp. z o.o. and its subsidiaries),
- strengthening the position of PKO Towarzystwo Funduszy Inwestycyjnych SA on the investment fund market, among other things, through organizing: investment seminars with the analyst of Credit Suisse Asset Management, an edition of the "School of Exchange", a conference "Asset Management Forum" and advertising and information campaigns relating to funds managed by PKO TFI SA,
- actions supporting the image and promoting the services of Bankowy Fundusz Leasingowy SA, including engaging in advertising campaigns in nationwide economic dailies and in specialist magazines, and participation in fairs MASZBUD and TRANSEXPO in Kielce,
- promotional actions of Centrum Elektronicznych Usług Płatniczych eService SA organized jointly with VISA and MasterCard ,
- information, promotion and support of sales of products and services offered by PTE BANKOWY SA and Inteligo Financial Services SA, including assuming patronage over the 10-year Congress of e-Banking in Poland organized by the Bankier.pl portal.

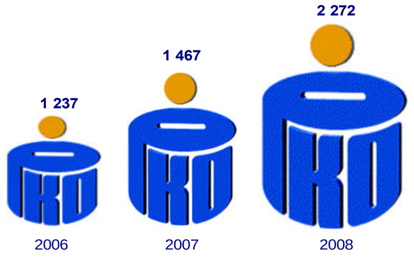
Moreover, **Kredobank SA** together with operations on the financial market, supports cultural and artistic projects and participates in solving current social problems. Priorities are: helping children and supporting art, culture and sports in the Ukraine.

### *Prizes and awards granted to entities of the Group*

In 2008 PKO BP SA and other entities of the Group and have been granted numerous prizes and awards, including:

1. "Business - Friendly Bank" – 10 branches of PKO BP SA were the finalists in the 9th contest organized by the Polish Commercial Chamber, Polish-American Foundation for Counseling Small and Medium Business, and the Warsaw Institute of Banking,
2. FINANCIAL ORDER for 2008 granted by the Institute of Business Analyses and the editors of the *"Home & Market"* monthly for PKO BP SA, for the SUPERKONTO account,
3. Dom Maklerski PKO BP SA was granted two awards by the Warsaw Stock Exchange: for the most active market maker on the Main Market of the Warsaw Stock Exchange in 2007, for the most active market maker on the NewConnect Market in 2007,
4. Leopards – awards granted by bankers for the most admired creation of the bank brand image – PKO BP SA ranked 3rd in the retail banking category,
5. "European Medal" for the iPKO Biznes product offer. This was already the 16th edition of the undertaking organized by the Office of the Committee for European Integration and Business Centre Club,
6. The Bank received the "Golden Statuette of the Most Trusted Brand" in the category of "Bank" in the biggest European consumer survey 'The Most Trusted Brands 2008' conducted by the "Reader's Digest ,
7. 1st place, in the ranking of the 50 biggest Polish banks, organized by the "Bank" magazine, for the best financial results,
8. "Brand of the best reputation 2008" received in the "Finance" category, granted by the Independent Polish Brands Reputation Ranking,
9. Award of the "Dlaczego" magazine and the student portal www.korba.pl for the products and brands most liked by students - PKO BP SA won in two categories – "student bank" and "student employers",
10. 1st place in the "PremiumBrand" ranking, in the "finance" category. This is a promotional project aimed at determining a list of the most valued brands operating on the Polish market. The ranking is developed on the basis of investigations carried out by TNS OBOP,
11. For the fourth time the PKO Visa Infinite card has won the prestigious credit cards ranking organized by the Forbes magazine,
12. PKO BP SA received a laureate title of the Polish Certification Programme 'Client's Friendly Company' (4th edition), indicating joining the Top 20 companies and institutions deserving such a title and special promotional logo,
13. Once again PKO BP SA won the ranking for the strongest brand in the financial sector, organized by Rzeczpospolita. This position has been held already for three years. In category of the most valuable brands in Poland PKO BP SA is ranked second. The valuation of PKO BP SA brand was accounted for PLN 2.3 billion. It means that the value of the brand has increased by 55% (y/y),

Value of the PKO BP SA brand*




** valuation of Rzeczpospolita for the strongest brand ranking purposes (PLN million)*

For the purposes of the ranking, a worldwide used method 'relief from royalty' was adopted. It is based on hypothetical licensing fees that the owner would have to pay to licensee if he did not hold the ownership right to the brand. Such a fee is settled in relation to net income on sales. The value of the brand was calculated as a sum of discounted future license fees (after tax).

14. "Golden Portfolio 2007" for PKO Towarzystwo Funduszy Inwestycyjnych SA – award granted by the editors of the newspaper Parkiet to the fund manager of PKO/CREDIT SUISSE Akcji Małych i Średnich Spółek for the best investment results in the SME category,
15. EU STANDARD logo for Centrum Elektronicznych Usług Płatniczych eService SA - award granted by the Media Partner Group (editors of Przegląd Gospodarczy) for offering products and services at the highest European level,
16. The title of "Business Gazelle" awarded to Centrum Elektronicznych Usług Płatniczych eService SA in the ranking organized by Puls Biznesu daily,
17. 1st place in the electronic banking category for Inteligo Financial Services SA in the ranking of the Home&Market magazine, in the category Best Business Partner in 2008,
18. Donor of the Year for Inteligo Financial Services SA and PKO BP SA in the category "cooperation of the company with a non-governmental organization" – award granted by Akademia Rozwoju Filantropii in Poland for supporting the programme for the Polish Artificial Heart,
19. 4th place for Kredobank SA in the ranking "informational transparency of 30 key Ukrainian banks in 2008" organized by Standard & Poor's,
20. "Golden symbol" and award of the "Producer of best domestic products 2008" for Kredobank SA in the category "banking services" due to winning the competition-exhibition "Best domestic product of 2008",
21. Distinction for Kredobank SA in the category "most active bank financing small and medium enterprises" under the EBRD programme, relating to financial support for trade,
22. Distinction for Kredobank SA for supporting small and medium business through Centrum Wsparcia Inwestycji i Rozwoju Małego i Średniego Biznesu,

# 6. INTERNAL ENVIRONMENT

## 6.1 Principles of risk management

Risk management is one of the most important internal processes in PKO BP SA as well as in the other entities comprising the PKO BP SA Group, especially in KREDOBANK SA and Bankowy Fundusz Leasingowy SA (BFL SA). The objectives of risk management are to ensure an adequate level of security and profitability of business operations in the changing legal and economic environment.

Banking activity is exposed to a number of risks, including credit risk, market risk, operational risk and business risk. Controlling the impact of these risks on the operations of the PKO BP SA Group is one of the most important objectives in the management of both the Bank and the Group. The level of the risks plays an important role in the planning process.

Risk management in the Bank is based on the following principles:

- full organizational independence of the risk and debt collection function from the business function,
- risk management is integrated with planning and controlling processes,
- the risk and debt collection function provides an ongoing support for meeting business objectives while keeping risk at an acceptable level,
- level of risk is controlled on an ongoing basis,
- the risk management model is adjusted on a ongoing basis to reflect new risk factors and risk sources.

4th quarter of 2008 was characterized by higher interbank market risk and aggressive policy of banks in the area of retail clients' deposits. At the end of III quarter of 2008 PKO BP made its retail deposits offer more attractive that enable the bank to limit the negative influence of the market situation. From the point of view of higher variability of currency rate and limited availability of long term CHF transactions PKO BP Management Board on current basis monitors market situation and takes adequate decisions. Moreover PKO BP SA actively manages the decrease of banks mutual trust by adjusting its internal regulations to the factual market situations.

Due to the deprecation of polish currency towards EUR and USD, PKO BP SA analyzes the potential influence of currency rates fluctuations and the changes in economy in Poland with reference to debtors. PKO BP SA monitors the change of credit profiles of the debtors in order to adjust it to the changing needs of the debtors and economic environment.

PKO BP SA supervises activities of the individual subsidiaries of the Group. As part of this supervision, PKO BP SA sets out and approves their development strategies, including risk management strategies. The Bank also supervises the entities' risk management systems and provides support in the development of these systems. Additionally, it reflects business risk of the particular Group entities in the risk reporting and risk monitoring system of the entire Group.

### 6.1.1 Credit risk

Credit risk is defined as a risk of occurrence of losses due to a counterparty's default of payments to the Bank or as a risk of decrease in economic value of amounts due to the Bank as a result of deterioration of a counterparty's ability to repay amounts due to the Bank.

PKO BP SA and the PKO BP SA Group entities apply the following principles of credit risk management:

- each loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk relating to potential and concluded loan transactions is measured on a cyclical basis, taking into consideration changes in external conditions and in the financial standing of the borrowers,
- credit risk assessment of exposures which are significant due to their risk levels is subject to additional verification by credit risk assessment teams, which are independent of the business teams,
- terms of loan contracts that are offered to a client depend on the credit risk generated by the contract,

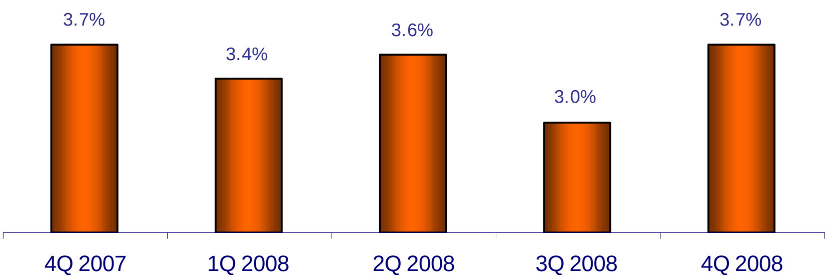
- loan granting decisions are made only by authorized persons, within their authority,
- credit risk is diversified by geographical location, by industry, by product and by clients,
- expected credit risk is mitigated by setting appropriate credit margins and appropriate allowances for credit losses.

The above-mentioned policies are executed by PKO BP SA through the use of advanced credit risk management methods, both on the level of individual exposures and on the level of the whole credit portfolio of PKO BP SA. These methods are verified and developed to ensure compliance with the internal ratings based requirements.

In 2008, PKO BP SA continued developing such credit risk assessment methods relating to retail clients. Among other things, it extended the behavioral scoring system by adding more revolving facilities offered by PKO BP SA to retail clients, such as credit cards and Inteligo revolving loans. In this period, PKO BP SA also updated the minimum values of the parameters used for assessing the debt capacity of retail clients applying for consumer loans, mortgage loans, credit cards, revolving loans. The changes in the parameter values involved increasing, among others, the minimum fixed expenses of a household and its outgoings on consumption.

The Early Warning System (EWS) has been in place at PKO BP SA since February 2008. The system is aimed at early identification of potential increases of credit risk or risk associated with impairment of the collateral of loans granted to corporate clients, small and medium enterprises, institutional clients active on the housing market, as well as at taking actions to prevent such risks from materializing or mitigate losses on loans. Early identification of threats makes it possible to update credit risk assessment and assessment of recoverable amounts from collateral on an ongoing basis.

*Chart 1. Share of non-performing loans of PKO BP SA (in compliance with IFRS)*




In the 4th quarter of 2008, non-performing loans of the Group increased by PLN 910 million (+23.3%) compared with the 3rd quarter of 2008, including growth in PKO BP SA (+PLN 933 million, i.e. 28.5%), as well as decline in non-performing loans in BFL SA (-PLN 22 million, i.e. -6,2%). In Kredobank SA they remained at the same level as in the previous quarter.

In 2008, due to the ongoing financial crisis which affected financial institutions in particular, the Bank performed reviews of these institutions more often than in prior years. As a result, the Bank reduced the credit and settlement limits granted to these institutions, limited the range of transactions performed and shortened the periods for which such transactions are concluded.

The PKO BP SA Group companies, which have significant credit risk levels (Kredobank SA, BFL SA) manage their credit risk individually, but the methods used by them for credit risk assessment and measurement are adjusted to the methods used by PKO BP SA, taking into account the specific nature of the activities of these companies.

Any changes to the solutions used by the PKO BP SA Group companies are agreed with PKO BP SA's units responsible for risk management.

BFL SA and Kredobank SA measure credit risk regularly, and the results of such measurements are submitted to PKO BP SA.

### 6.1.2 Market risk

Market risk is understood as a risk of incurring a loss due to adverse changes in market parameters, such as interest rates and foreign exchange rates, as well as liquidity risk. Market risk includes: interest rate risk, currency risk and liquidity risk.

***Interest rate risk***

Purpose of interest rate risk management is to identify areas of interest rate risk as well as shaping the structure of balance sheet and off-balance sheet liabilities in a manner that maximizes net assets value and net interest income within adopted interest rate risk profile.

In the process of interest rate risk management, the Bank uses the Value at Risk (VaR) model, stress testing and interest income sensitivity measures.

At the end of 2008 and at the end of 2007, the exposure of the PKO BP SA Group to the interest rate risk mainly comprised of the exposure of PKO BP SA. Exposure of the PKO BP SA Group to interest rate risk was within accepted limits.

*Table 26. VaR of the Bank and stress testing analysis of the Group's exposure to the interest rate risk (PLN thousand)*

| Name of sensitivity measure | 31.12.2008 | 31.12.2007 |
|---|---|---|
| VaR for a 10-day time horizon* | 72 337 | 36 300** |
| Parallel move of interest rate curves by +200 base points | 589 954 | 155 877 |

* Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk (BFL and Kredobank SA) as well as a the specific nature of the market in which they operate, the Bank does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. Kredobank SA uses the 10-day interest rate VaR for the main currencies, which amounted to PLN 17 788 thousands as of 31 December 2008 and PLN 3 459 thousands as of 31 December 2007, respectively.

** VaR calculated as at 31.12.2007 reflects the changes in the VaR methodology introduced in 2008. VaR calculated according to the methodology used on 31.12.2007 amounted to PLN 10 521 thousand.

As at 31 December 2008, the interest rate VaR for the a 10-day time horizon (10-day VaR) accounted for approximately 0.60% of the value of the Bank's own funds[7]. As at 31 December 2007, VaR for the Bank accounted for approximately 0.33% of the Bank's own funds. The interest rate risk was generated mainly by the risk of a mismatch between the repricing dates of assets and liabilities and basis risk.

***Currency risk***

The objective of currency risk management is to identify the areas of currency risk and to take measures to reduce the currency risk to acceptable levels.

PKO BP SA measures currency risk using the Value at Risk model and stress tests.

VaR of PKO BP SA and stress-testing of the PKO BP SA Group financial assets exposed to currency risk are stated cumulatively in the table below:

*Table 27. VaR of the Bank and stress-testing of the Group financial assets exposed to currency risk (cumulatively, PLN thousand)*

| Name of sensitivity measure | 31.12.2008 | 31.12.2007 |
|---|---|---|
| VaR for a 10-day time horizon* | 11 297** | 1 646 |
| Change of PLN +15%*** | 13 222 | 10 679 |

* Due to the nature of the activities carried out by the other Group entities generating significant currency risk (BFL and Kredobank SA) as well as a the specific nature of the market in which they operate, the Bank does not calculate consolidated VaR. These companies apply their own risk measures in the currency risk management. Kredobank SA uses the 10-day interest rate VaR which amounted to PLN 809 thousand as of 31.12.2008 and PLN 183 thousand as of 31.12.2007.
** VaR as at 31 December 2008 resulted mainly from USD position due to the acquisition of Kredobank SA shares, registered on 31 December 2008.
*** In 2008, stress-test analyses were changed by replacing the 10% PLN appreciation or depreciation scenario with the 15% PLN appreciation or depreciation scenario. The data for 2007 was restated for comparability purposes.

The level of currency risk was low both as at 31 December 2008 and as at 31 December 2007.

[7] *Own funds calculated in accordance with regulations governing calculation of the capital adequacy ratio.*

*Table 28. The Group's currency positions (PLN thousand)*

| Currency | Currency position as at 31.12.2008 | Currency position as at 31.12.2007 |
|---|---|---|
| USD | (128 288) | (46 614) |
| EUR | 17 728 | (29 759) |
| CHF | (14 865) | 38 944 |
| GBP | (1 459) | (3 166) |
| Other (global net) | 38 661 | 18 494 |

### *Liquidity risk*

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

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

To ensure an adequate liquidity level, the PKO BP SA and the other PKO BP SA entities accepted limits and thresholds for liquidity risk. The limits and thresholds were set for both current liquidity measures and medium and long-term liquidity measures.

*Table 29. Liquidity reserve of PKO BP SA (PLN million)*

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Liquidity reserve up to 1 month* | 6 666 | 9 248 |

*Liquidity reserve equals the gap between the most liquid assets and expected and potential liabilities which mature in a given period of time. Due to differences in methodologies in measuring liquidity risk in particular Group companies, the Bank did not consolidate the particular liquidity provisions.

On 15 December 2008 the Bank introduced new deposit products. As at 10 January 2009 liquidity reserve to 1 month amounted to PLN 8 390 million.

As at 31 December 2008, the level of permanent balances on deposits from non-financial entities constituted approximately 94% of all deposits of PKO BP SA's non-financial clients, while as at 31 December 2007 the level of permanent balances on deposits constituted approximately 96% of all deposits of PKO BP SA's non-financial clients.

### 6.1.3 Operational risk

Operational risk is defined as the risk of occurrence of a loss due to non-compliance or unreliability of internal processes, people and systems or external events. The purpose of operational risk management is to optimize operational efficiency by reducing operating losses, costs streamlining and improving the timing and adequacy of the response of the PKO BP SA Group to events which are beyond its control.

Operational risk management is performed through systemic solutions as well as regular ongoing management of the risk. Systemic operational risk management is centralized at the PKO BP SA's head office level. The ongoing operational risk management is conducted by every organizational unit of the Bank.

In order to limit exposure to operational risk, PKO BP SA applies solutions of various kinds, such as:

- control solutions,
- human resources management (proper staff selection, enhancement of professional qualification of employees, motivation packages),
- setting threshold values of Key Risk Indicators (KRI),
- contingency plans,
- insurances,
- outsourcing
- business continuity plan.

The parent company – PKO BP SA has a decisive impact on operational risk profile. However in other PKO BP SA Group entities, operational risk identification, assessment, monitoring and reporting solutions has been implemented. These solutions are coherent with PKO BP SA principles of operational risk management, considering the specific nature and scale of particular entity.

In the second half of 2008 the PKO BP SA Group entities commenced work in the area of implementation of key operational risk indicators.

### 6.1.4 Compliance risk

Compliance risk is defined as the risk of legal sanctions, incurring financial losses or losing reputation or reliability due to failure of the Bank, its employees or entities acting on its behalf to comply with the provisions of the law, internal regulations, standards adopted by the Bank, including ethical standards.

The objective of compliance risk management is to strengthen the image of the PKO BP SA Group as of entities that are reliable, fair, honest and compliant with law and adopted standards. This is achieved through mitigating compliance risk, reputation risk and legal sanction risk as well as mitigating risk of potential financial loss or legal sanction that may be caused by violation of laws and regulations.

Compliance risk management involves in particular:

- preventing involvement of the Bank in illegal activities;
- ensuring data protection;
- development of ethical standards and monitoring of their application;
- conflict of interest management;
- preventing situations where the Bank's employees could be perceived as pursuing their own interest in the professional context;
- professional, fair and transparent formulation of offers of products, advertising and marketing messages;
- prompt, fair and professional consideration of complaints, requests and quality claims of clients.

In the second half of 2008 in all of the Group entities principles of compliance risk management were implemented, consistent with principles being in force at the Bank.

### 6.1.5 Capital adequacy

Capital adequacy is the maintenance of a level of capital by the PKO BP SA Group which is sufficient to meet regulatory capital requirements (the so-called Pillar 1) and internal capital requirements (the so-called Pillar 2). The objective of capital adequacy management is to maintain capital on a level that is adequate to the risk scale and profile of the PKO BP SA Group's activities.

In 2008, the PKO BP SA Group implemented Basel II requirements in 3 areas:
- information systems, internal processes and internal regulations were modified to meet the needs of calculating the capital requirements to cover particular categories of risks (the so-called Pillar I);
- the process for estimating and maintaining internal capital was implemented (the so-called Pillar II);
- the scope of disclosures on capital adequacy was adjusted to meet regulatory requirements (the so-called Pillar III).

The process of managing the PKO BP SA Group's capital adequacy comprises:

- identifying and monitoring of all of significant risks,
- assessing internal capital to cover the individual risk types and total internal capital,
- monitoring, reporting, forecasting and limiting of capital adequacy,
- performing internal capital allocations to business segments, client segments and entities in the Group in connection with profitability analyses,
- using tools affecting the capital adequacy level (including: tools affecting the level of own funds, the scale of own fund item reductions and the level of the loan portfolio).

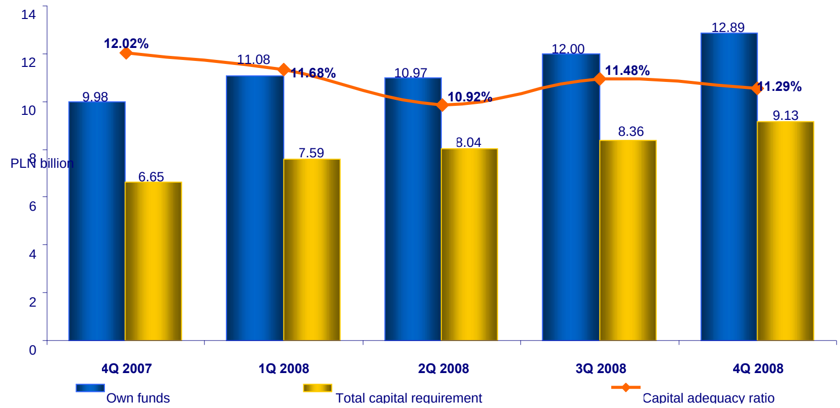
The main measures of capital adequacy are:

- the capital adequacy ratio whose minimum level in accordance with the Banking Act is 8%;

– the ratio of own funds to internal capital whose acceptable minimum level in accordance with the Banking Act is 1.0.

The capital adequacy level of the Group in 2008 remained on a safe level and was significantly above the statutory limits.

*Chart 2. Capital adequacy of PKO BP SA*




Compared with 31 December 2007, the PKO BP SA Group's capital adequacy level dropped by 0.73 pp., which was mainly due to high dynamics in the growth of the loan portfolio and the negative effect of implementing Basel II on the capital requirement level.

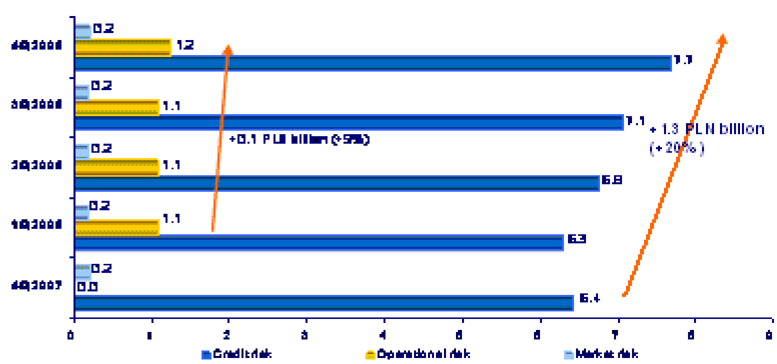
In the first half of 2008, the value of own funds of the PKO BP SA Group increased by PLN 2.9 billion, which was mainly due to contribution of approximately 60% of the net profit for 2007 and 100% of the net profit for the first half of 2008.

From January 2008, the PKO BP SA Group calculates capital requirements in accordance with Resolution No. 1/2007 of the Banking Supervision Authority dated 13 March 2007 (Basel II): in respect of credit risk – using the standardized approach; in respect of operational risk – using the basic indicator approach, and in respect of market risk – using the basic approach.

An increase in the capital requirement in respect of credit risk resulted from a significant increase in the volume of loan portfolio (32.3%) in 2008. Except for increase in sales of loans, growth of loan portfolio volume was determined by foreign exchange rates increase in the second half of 2008. An increase in the capital requirement for the PKO BP SA Group for operational risk (using the basic indicator approach) was due to an increase of result on banking activities in 2008.

Implementation of Basel II as of the beginning of 2008 resulted in an increase in the total capital requirement for the Bank of approximately PLN 0.5 billion, which was mainly due to introducing a new capital requirement for operational risk (+ PLN 1.0 billion), accompanied by taking into account in calculation of the capital requirement in respect of credit risk the preference weights of retail exposures (influence of - PLN 0.5 billion).

*Chart 3. Capital requirements of PKO BP SA Group*



## 6.2 Bank's Authorities during the reporting period

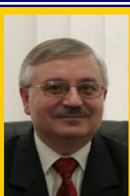
### *Competences of the Members of the Management Board of PKO BP SA*

*Table 30. The Management Board of the Bank in the reporting period*

| Managament Board of PKO BP SA | Competences |
|---|---|
|  | **Jerzy Pruski - President of the Management Board of PKO BP SA**<br>Since 20 May 2008, Jerzy Pruski has filled in the position of the President of the Board of PKO Bank Polski, appointed by the decision of the Supervisory Board as a result of a contest for this position. In the years 1991 - 1997 he worked at LG Petro Bank, where he - as a Vice-President of the Board - was among others responsible for credit risk and the network of branches. In the years 1998 - 2004, he was a member of the Monetary Policy Board, and in the period from March 2004 to February 2008 he was the First Deputy President of the National Bank of Poland. In the years 2006-2007 he represented NBP in the Financial Supervision Authority and Bank Supervision Authority. In 1983, he graduated from the faculty of economics at University of Łódź, where in 1989 he also was granted the title of doctor of economic sciences. In 1989, he completed a scholarship at the Oslo University and in 1990 he graduated from a one-year course at the Windsor University in Canada. He participated in many national and foreign research programmes in scope of monetary policy and banking system. |
|  | **Bartosz Drabikowski - Vice-President of the Management Board in charge of Finance, Accounting and Settlement as well as Quality.**<br>He graduated from the Technical University of Łódź, the Polish National School of Public Administration, Warsaw School of Economics, the Polish Institute of International Affairs, and Executive MBA Programme. Professional career: the Ministry of Finance - the Advisor to the Minister, Deputy Director, and Financial Institutions Department Director. In the years 2006 - 2008 he served as member of the Management Board of the National Clearing House. For several years he served as member of the Banking Supervision Authority, member of the Securities and Exchange Commission and deputy member of the Payment System Board at the National Bank of Poland. He also served as member of many institutions of the European Union. Currently he acts as the Chairman of the Supervisory Boards of Inteligo Financial Services SA and Bankowy Faktoring SA. |
|  | **Krzysztof Dresler - Vice-President of the Management Board in charge of Risk and Debt Recovery.**<br>He graduated from the Department of Finance and Banking of the Warsaw School of Economics. Assistant professor in Collegium of International Finance. Employee of the National Depository for Securities from 1996 to 2001. In March 2001 he joined PKO BP first as the Director of the Financial Risk Department, and subsequently he worked as Director of the Planning and Controlling Department. Since March 2007 he has been working for Xelion, a unit of the UniCredit Group. In May 2008 he was appointed Managing Director in charge of the Assets and Liabilities Management Department at Pekao SA. He underwent an internship at the Depository Trust Company in New York. He completed courses for investment advisors Chartered Financial Analyst (CFA) and a course for Chief Financial Officers. He also completed a course for managers based on the MBA programme. He is a member of the Global Association of Risk Professionals and the Professional Risk Management International Association as well as the Polish Association of Business Economists. |
|  | **Tomasz Mironczuk - Vice-President of Management Board in charge of Investment Banking.**<br>He graduated from the Department of Economics at the Białystok Branch of Warsaw University. In 1994 he earned the degree of Master of Arts in Economics at the Central European University, Prague College, Economics Department. He participated in numerous trainings in the field of securitisation, risk management and financial instruments. He started his professional career in 1994 at the Treasury Department of Polski Bank Rozwoju. He also acted as Director of the Financial Instruments Trading Department. In the years 1998 - 2001 he worked at BRE Bank SA as the Vice-Director of the Derivatives Division at the Monetary Operations Department and as the Vice-Director of the Assets and Liabilities Management Division at the Monetary Operations Department. In the years 2001 - 2008 he worked at Bank BPH SA as the Director of the Treasury Area - Treasurer. In the years 2002 - 2006 he acted as member of the Supervisory Board of MTS CeTO SA and in the years 2006 - 2008 as Chairman of the Supervisory Board of MTS CeTO SA. |
|  | **Jarosław Myjak - Vice-President of the Management Board in charge of Corporate Market.**<br>He earned the degree of Master of Arts at the Faculty of American Studies and the Faculty of Law at Adam Mickiewicz University. He completed a judge training programme. Professional carrer: from 1991 to 1994 he worked as lawyer for Altheimer & Gray Sp. z o.o.; from 1994 to 2004 he worked for Commercial Union Polska Ubezpieczenia na Życie as President of the Management Board and President of AVIVA. He served as Vice-President of the Management Board of The Polish Chamber of Insurance. He served as member of the Polish Business Roundtable (1998-04); He served as member of the Supervisory Board of Citibank Handlowy (2004-06); He served as Vice-President of the Polish Confederation of Private Employers "Lewiatan" (2004-07). He served as Vice-President of the Management Board of PKO BP SA (2006). In the years 2007-08 he worked as lawyer at Dewey & LeBouef law office. Member of Supervisory Boards of BGŻ SA, PZU Życie SA (2008). |
|  | **Wojciech Papierak - Vice-President of the Management Board in charge of Retail Market.**<br>He graduated from the Law and Administration Faculty at the University of Łódź. Positions held: from 1993 to 1995 Polski Bank Inwestycyjny SA; Powszechny Bank Gospodarczy in Łódź; from 1998 to 2000 Director of the Retail Banking Department at PKO BP SA; from 2000 to 2003 he worked for BRE BANK SA as Director of the Commercial Retail Management Department and Director of the Operational Retail Support Department; from 2002 to 2006 he worked at the Settlement and Information Centre CERI sp. z o.o., as Member of the Management Board, Managing Director and subsequently President of the Management Board and CEO. Between November 2006 and June 2008 he served as Vice Chairman of the Management Board of Nordea Bank Polska SA in charge of Operations, Logistics and Security. |
|  | **Mariusz Zarzycki - Vice-President in charge of Information Technology and Services.**<br>He graduated from the Faculty of Economics at the University of Łódź and the University of Stockholm. Professional career: in 1992 Bank Przemysłowy SA in Łódź, where he worked in the Organisational and Legal Department, the Credit Department and the IT Department. Between 1993 and 1998 Powszechny Bank Gospodarczy SA as deputy Director for Organisational Department; subsequently as Director of the Support Department, the Banking Technology Department and IT Department. He took an active part in the consolidation process of the Pekao SA Group. In the years 1998-2008 he worked for BRE Bank SA as Director of the Information Technology for Retail Banking, Director of Department for Development of Information Technology, Director for Information Technology. In years 2002 - 08 President of the Management Board of *ServicePoint* (IT company belonging to BRE Bank). |

## Competences of the Members of the Supervisory Board of PKO BP SA

*Table 31. The Supervisory Board of the Bank in the reporting period*

| Supervisory Board of PKO BP SA | Competences |
|---|---|
|  | **Marzena Piszczek - Chairman of the Supervisory Board**<br>Doctor of Economics, graduated from Management Department of the Economics University in Cracow, faculty member of the Chair of Finance of the Economics University in Cracow, post-graduated from EDHEC France and IESE Spain. She has a wealth of experience in consulting in the field of finance management and in Supervisory Boards - e.g. budget expert at the Chancellery of the President of the Council of Ministers. Experience in banking sector: in years 1994 - 95 she was responsible for budgeting, bank accounting and co-operation on the implementation of a new IT system in Pierwszy Polsko-Amerykański Bank SA. Since February 2008 she has been acting as Director of the Branch of the Ministry of State Treasury in Cracow. |
|  | **Eligiusz Jerzy Krześniak - Deputy Chairman of the Supervisory Board**<br>Doctor of Laws, graduated from Wroclaw University, studies also in Germany and the United States; barrister in Warsaw, partner in the international law office Squire Sanders & Dempsey L.L.P. and a partner in its Warsaw-based Office. Author of books and publications in the field of Polish, German and American commercial law, including issues regarding corporate governance and management of companies. A guest speaker at numerous conferences and at barrister trainning programme. He is a member of several commisions at the District and Supreme Bar Council. He is entered on the list of arbitrators of the arbitration tribunal and on the list of mediators of the Centre for Economic Conciliation. He specialises in advising on corporate issues and aspects related to intellectual property, leading merger and acquisition efforts, as well as supporting IT and outsourcing projects. |
|  | **Jan Bossak - Member of the Supervisory Board**<br>graduated from Foreign Trade Department in SGPiS (now Warsaw School of Economics). Intern of Japan Government, doctor of Osaka University (1972-74). In 1983 he underwent academic training at the Vienna Institute for Comparative Economic Studies. He completed the Exectutive Corporate Finance course at the University of Minnesota (1991) and the International Finance course at LSE in London (1995). He is a Professor of Economics in the Chair of International Comparative Studies in the College of Economic Analyses at the Warsaw School of Economics. Earlier he was an academic secretary of Institute of Business Cycle and Foreign Trade (1983-87) and the director of Institute of the World's Economy in Warsaw School of Economics (1990-93). In the years 1991-1992 he acted as President of the Polish-American Entrepreneurship Fund, in the years 1995-1997 he acted as President of the Second National Investment Fund (Drugi Narodowy Fundusz Inwestycyjny SA) and between 1999 ad 2003 he acted as President of Erste Securities Polska SA. Founder (2000) and Vice-President of Polish-Japanese Economic Committee. He I released by the World Bank, the Japanese government agency APO and the Silk Route Institute based in Xi'an in China. |
|  | **Jerzy Osiatyński - Member of the Supervisory Board**<br>A professor with a post-doctoral degree in economic science; graduated from the Main School of Planning and Statistics (currently the Warsaw School of Economics). He completed his post-graduate studies and gave classes at the University of Cambridge. He worked at Polish Acedemy of Sciences. In the years 1998-2001 he served as Member of Parliament. in 1989-91 he acted as Minister - Manager of the Central Planning Office, in 1992-93 Minister of Finance. As a representative of the World Bank, he acted as advisor for the governments of Ukraine, the Republic of Moldova, Romania, Tajikistan, Krygyzstan, Kazakhstan and Macedonia. He still serves as advisor to the UNDP on issues regarding economic policy in the transformation countries. He served as a member of the Supervisory Board of PKO BP SA (since 25 March 2002 until his resignation on 31 January 2007). A specialist and author of numerous academic works about the theory of economics and history of economic doctrine. |
|  | **Urszula Pałaszek - Member of the Supervisory Board**<br>graduated from the Faculty of Economics of Warsaw University (where in the years 1991-1999 she worked as assistant professor) and University of Sussex in Great Britain. Between 1991 and 1994 she served as an expert in NICOM Consulting Ltd., and since the end of 1992 until March 1993 as a specialist at the Department of Capital Investments at PKO BPSA. Between 1994 and 1995 she was employed at the post of banking advisor at the Investment Banking Department at Polski Bank Inwestycyjny SA. At the end of 1995 she joined the Ministry of State Treasury, where she worked as advisor at the Department of National Investment Funds and Mass Privatisation Programmes and as Director of the Financial Institutions Department. She also has a wealth of experience in Supervisory Boards of commercial partnerships. Currently she serves as Chairwoman of the Supervisory Board of the Polish Reinsurance Company in Warsaw. |
|  | **Roman Sobiecki - Member of the Supervisory Board**<br>He holds a post-doctoral degree in economics. At present he works at the Faculty of Market and Competition Analysis. Member of the Board of the Collegium of Business Administration of the Warsaw School of Economics and Deputy Dean of the said Collegium. He has a wealth of experience in economic practice: he worked at the Capital Investment Department at Bank Ochrony Środowiska S.A. (1998-1999), at the post of Director of the Internal Control Office at PTE Epoka SA (1999-2000), as advisor in corporate governance at the Political Office of the Ministry of State Treasury (1996-1997), as a member in Supervisory Boards of commercial companies. Member of the Chapter of Award 'Bank friendly to the entrepreneurs'. Author and co-author of over 70 books and publications in the fields of economics and entrepreneurship. |
|  | **Ryszard Wierzba - Member of the Supervisory Board**<br>Professor of the Economics, head of the Faculty of Finance at the Gdańsk University (Management Department) and Deputy Director of the Gdańsk Academy of Banking at the Gdańsk Institute for Market Economics. He gained professional experience in Bank Inwestycyjny, also by serving as Deputy Chairman of the Supervisory Board of Bank Gdański SA, member of the Supervisory Board of Bank Handlowy in Warsaw. Member of the Presidium of the Coordinating Committee for Qualification Standards in Polish Banking set up by the Polish Bank Association. Moreover, he acts as member of the Committee of Financial Sciences of the Polish Academy of Sciences and the Comité Jean Fourastié society in Paris. Author and co-author of numerous scientific publications and reports. |

### *Agreements concluded between the issuer and managing persons*

Within the meaning of § 2 clause 1 item 30a of the Decree of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and the conditions of considering as equivalent the information required by law of a non-member country (Journal of Laws No. 33, item 259), members of the Management Board are persons managing the Bank.

In 2008, two agreements were signed with each of the Management Board's members, providing for compensation in the case of their resignation or dismissal without a valid reason:

– an employment contract providing for severance pay of the last 3 received monthly basic salaries;
– a non-competition agreement, providing for damages for failure to comply with the non-competition requirement during 6 months after termination of the employment relation, amounting to 100% of the monthly basic salary received before termination of the employment relation, to be paid monthly in arrears during the non-competition period.

The monthly basic salary is defined as the equivalent of 6 times the average monthly salary specified in the Act on remuneration of persons managing certain legal entities of 3 March 2000 (Journal of Laws No. 26, item 306, with subsequent amendments), i.e. the so-called Remuneration Cap Act.

### *Benefits provided to members of management and supervisory boards*

Full information on remunerations and other benefits provided to members of the Bank's Management and Supervisory Boards during the reporting period has been presented in Note 46 of Notes to the Consolidated Financial Statements.

### *Proxies, Management Board meetings and execution of the resolutions of the General Shareholders' Meeting and the guidelines of the Minister of the State Treasury*

PKO BP SA had 12 proxies on 1 January 2008; two proxies were appointed during the year and six were dismissed. As at 31 December 2008, the Bank had 8 proxies.

In 2008, the Bank's Management Board held 72 meetings and adopted 403 resolutions.

Major actions and decisions of the Management Board, which affected the Bank's financial position and operations, are presented in different parts of this Directors' Report.

On 20 May 2008, the Annual General Shareholders' Meeting of PKO BP SA was held. The resolutions adopted by the General Shareholders' Meeting have been executed.

### *Bank's shares held by Members of Management or Supervisory Board*

Table 32 presents Bank's shares held by members of Management and Supervisory Board as at 31 December 2008. The nominal value is PLN 1 per share.

Members of the PKO BP SA' Supervisory Board and the Management Board did not hold shares and participations in the PKO BP SA's subsidiaries as at 31 December 2008.

*Table 32. Shares held by Members of Management or Supervisory Board of PKO BP SA as at 31 December 2008*

| No. | Name | Number of shares as at 31.12.2007 | Purchase | Disposal | Number of shares as at 31.12.2008 |
|---|---|---|---|---|---|
| **I.** | **Management Board of the Bank** | | | | |
| 1. | Jerzy Pruski, President of the Bank's Management Board | x | x | x | 0 |
| 2. | Bartosz Drabikowski, Vice-President of the Bank's Management Board | x | x | x | 0 |
| 3. | Krzysztof Dresler, Vice-President of the Bank's Management Board | x | x | x | 0 |
| 4. | Tomasz Mironczuk, Vice-President of the Bank's Management Board | x | x | x | 0 |
| 5. | Jarosław Myjak, Vice-President of the Bank's Management Board | x | x | x | 0 |
| 6. | Wojciech Papierak, Vice-President of the Bank's Management Board | x | x | x | 2500 |
| 7. | Mariusz Zarzycki, Vice-President of the Bank's Management Board | x | x | x | 0 |
| **II.** | **Supervisory Board of the Bank** | | | | |
| 1. | Marzena Piszczek, Chairman of the Bank's Supervisory Board | x | x | x | 0 |
| 2. | Eligiusz Jan Krześniak, Vice-Chairman of the Bank's Supervisory Board | x | x | x | 0 |
| 3. | Jan Bossak, member of the Bank's Supervisory Board | x | x | x | 0 |
| 4. | Jerzy Osiatyński, member of the Bank 's Supervisory Board | x | x | x | 0 |
| 5. | Urszula Pałaszek*, member of the Bank's Supervisory Board | 0 | 0 | 0 | 0 |
| 6. | Roman Sobiecki, member of the Bank's Supervisory Board | x | x | x | 0 |
| 7. | Ryszard Wierzba, member of the Bank's Supervisory Board | x | x | x | 0 |

* Acting member of the Supervisory Boars as at 31 December 2007.

## 6.3 Human resources

### 6.3.1 Remuneration and incentive system of PKO BP SA

Taking into account the structural conditions and market trends, the Management Board of PKO BP SA decided to implement, as of January 2008, an entirely new remuneration and incentive system. In the new system, the level of variable component of the salary is determined by the degree of achievement of the targets set. The procedure for target setting and performance measures used depend on the type of position and classification to one of the three employee groups: management, widely understood sales and processing-support. The new system is based mainly on the Management by Objectives model. Incentives in the new system are directly linked to the process of setting targets and objectives. As the individual remuneration is linked with the level and quality of performance of the tasks specified, the variable component of the remuneration is strengthened and represents an additional salary incentive. The system focuses on setting objectives which are aligned with the direction of development of the entire organization; these tasks are then cascaded to particular organizational units and individual employees.

The three pillars of the new remuneration and incentive system are as follows:

1. **I Pillar**, the so-called Management by Objectives (MbO) covers top managers for which specific objectives may be assigned. The MbO consists in granting bonuses which depend on the quality and degree of completion of the tasks assigned. The system focuses on: determining performance indicators, assessing performance against the targets assigned; granting bonuses depending on performance.
2. **II Pillar**, the so called Individual Bonus System (IBS), is the system of commission and bonuses which depend on the degree of completion of specific tasks in the areas of sales and effectiveness. The system covers those employees who are completing business tasks, mainly in retail outlets and corporate centers, where individual or team, measurable targets can be defined or where there is a strong causal link between activities undertaken by individual employees and the level of achievement of the economic and financial results of PKO BP SA.
3. **III Pillar**, the so-called Support Bonus system, in the form of bonus. This is a typical "participatory" solution, whereby award is granted for the achievement of targets by a person managing a given group of employees (a directors' contribution to the completion of tasks) and an organizational unit. This pillar applies to those employee groups/position where it is more difficult, or even impossible, to set additional, measurable goals and tasks for an individual. Given the nature of their jobs, such employees have an indirect, but significant impact on the degree of completion of the tasks assigned to their superiors and the organization as such, and thus participate in the results achieved by PKO BP SA as a whole.

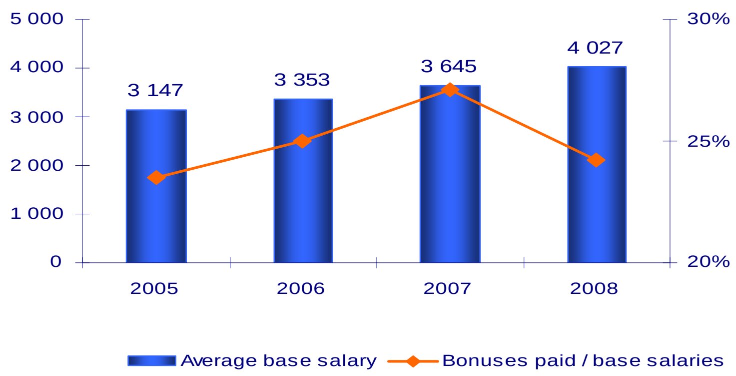
### 6.3.2 Remuneration policy

Remuneration policies for the Bank's employees are specified in the Collective Labour Agreement (CLA) of 28 March 1994, as amended by 6 additional protocols signed to date. In 2008, no systemic changes were implemented to the CLA.

In March 2008, salary increases for the Bank's employees were implemented. The overall pool of funds available for increases was 7.7%. The distribution of these funds was partly predetermined. In respect of employees earning up to PLN 1999, the percentage increase in wages and salaries up to 20%, and for employees earning up to PLN 2500 – 15%. For the remaining employees the rise was 5% on an average.

The break-down of the costs of wages and salaries, i.e. the relationship between the bonus (awards for professional achievements and bonuses) and the base remuneration paid, as well as the average remuneration for the years 2005-2008 is presented in the graph below.

*Chart 4. Average base salary and bonus paid / base salaries ratio (in PLN)s*




### 6.3.3 Benefits for employees

PKO BP SA ensures free-of-charge, comprehensive medical care to its employees, whose scope, in addition to mandatory benefits to be provided under the applicable provisions of the Polish Labour Code, includes additional medical care according to various packages addressed to particular employee groups. Whereby:

– all packages enable employees to have unlimited access to doctors in all areas of specialization and to diagnostic tests ordered by these doctors. Ensuring access to a wide scope of medical services to all employees is an important component of the package of additional benefits provided by PKO BP SA to its employees.

– medical care services are provided by LUX MED Sp. z o.o. which cooperates with various subcontractors to ensure access to these services to the PKO BP SA's employees in all branches country-wide.

*Table 33. Benefits granted by Company Social Benefits Fund in 2008*

| Type of benefit | Number of beneficiaries | Total amount granted (PLN) |
|---|---|---|
| **Refundable benefits*** | 6 806 | 75 518 020 |
| **Non-refundable benefits**** | 48 832 | 17 859 319 |
| **Total** | 55 638 | 93 377 339 |

** a home loan*

*** including aids, organized and non-organized holidays subsidies, promotion of education, cultural and sport activities, writing off loans, material and other non-refundable aid*

### 6.3.4 Number of employees

Due to employment optimization and redundancies planned for 2008, after consultation with the trade unions as regards dismissal for reasons not related to employees, on 30 November 2007 an "Agreement on policies and procedures to be followed when terminating employment contracts with PKO BP SA employees for reasons unrelated with the employee performance" was signed. In 2008, 1 751 employees were dismissed as part of group redundancies.

Those employees who were made redundant for reasons unrelated to their performance received severance pay specified in the Act of 13 March 2003 and other monetary benefits exceeding the scope required in the Act, and further assistance to mitigate the unfavorable effects of dismissal, including reimbursement of the costs of training allowing them to align their qualifications to the needs of the labour market.

*Table 34. Number of employees in PKO BP SA and Group's subsidiaries (in number of full-time equivalents)*

| Items | As at 31.12.2008 | As at 31.12.2007 | Change in number of employees |
|---|---|---|---|
| **PKO BP SA** | 29 196 | 30 659 | -1 463 |
| **Other entities of the Group** | 3 615 | 3 747 | -132 |
| **Total** | 32 811 | 34 406 | -1 595 |

### 6.3.5 Training policy

In 2008, personnel development activities were focused on building loyal and competent staff, able to operate in a difficult economic environment, adapting easily and quickly to changes in the economic environment and achieving high performance objectives. Changes implemented in the Bank were based on the assumption that the management cadre consists of professionals with broad competencies and good management skills, goal-oriented and able to make good, objective decisions.

In 2008, the Bank's training activities were focused on the following:

- actively engaging employees in the process of knowledge-sharing at all levels of the organization, and preparing selected bank's employees to train other staff members during internal training;
- preparing the employees to implement new technologies – improving the professional qualifications of key employees in the Bank, consistent with the modernization of PKO BP SA and their assuming new roles within the organization;
- improving sales effectiveness – developing skills relating to: identification of clients' needs, client-orientation, improving selling techniques and building stable relations between sales staff and the clients, in order to ensure a high quality of client service;
- developing employees' knowledge, consistent with the current and future needs of the PKO BP SA and its employees, given also the dramatic increase in the role of knowledge and competence in the PKO BP SA's business environment;
- supporting the management in professional development in the area of effective management of the PKO BP SA's staff.

These activities were supported by harmonization of the principles of nominating employees for training courses, standardizing the contents of the training and examining the increase in the resulting knowledge and competencies, as well as promoting solutions for improving internal communication, knowledge sharing and change management.

The adoption of the internal cascading model of training and continuing the gradual implementation of distance learning training contributed to a more effective use of the training budget while maintaining the expected level of training.

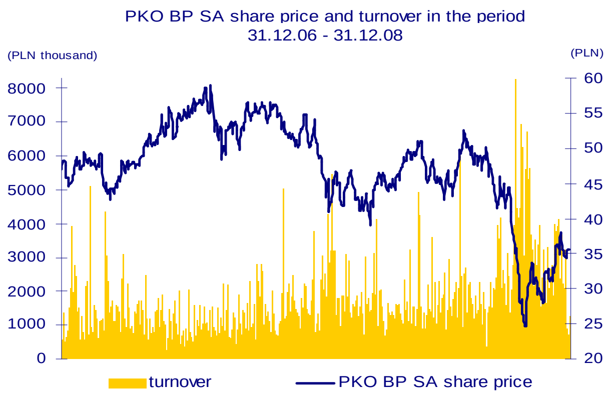
In 2008, PKO BP SA's employee participated, on average, in two training courses, where:

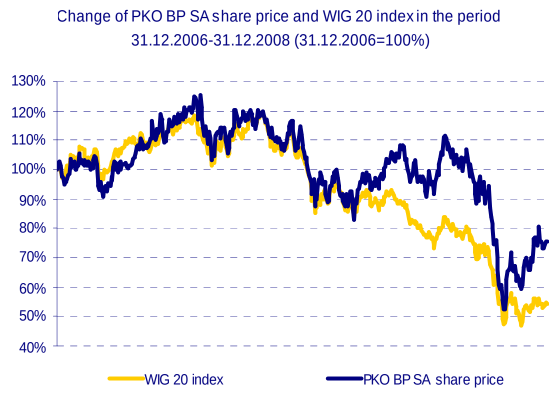
- 75% of the participants took part in internal training – conducted by lecturers, employees of the Bank,
- almost 8% of all participants are representatives of the Bank's management.

# 7. INVESTOR RELATIONS

## 7.1 Share price of PKO BP SA and its competitors

***Share price of PKO BP SA traded on the Warsaw Stock Exchange***

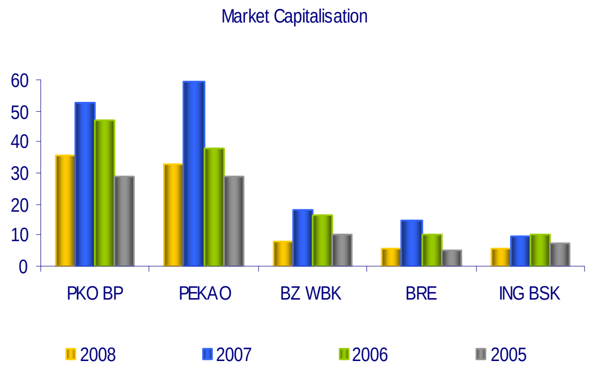


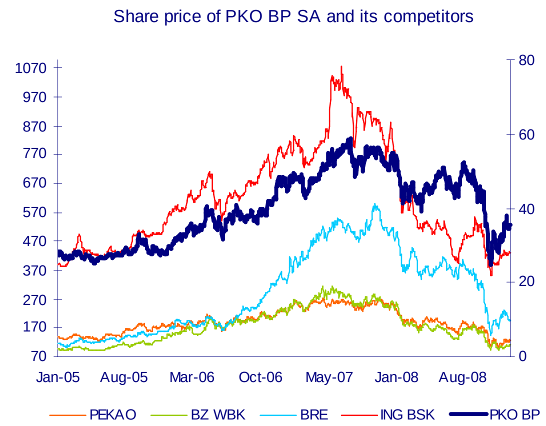




The average share price of PKO BP SA in 2008 amounted to PLN 42.81 per share, and its highest level of PLN 52.50 per share was noted on 31 July 2008. Fluctuations of Bank's share prices were determined by aggravating global financial crisis which led to the outflow of the foreign capital and decrease in the prices of major stock exchange indices.

The average daily turnover of PKO BP SA's shares in 2008 accounted for 2 136 thousand units and the largest volume of 8 253 thousand units was noted on 10 October 2008.

***Share prices and market capitalization of competing banks***




## 7.2 Co-operation with rating agencies

Currently, the financial reliability ratings of PKO BP SA are awarded by four rating agencies:

- Moody's Investors Service assigns a rating to the Bank at a charge, in accordance with its own bank assessment procedure;
- Standard & Poor's, Capital Intelligence and Fitch Ratings assign a free-of-charge rating (not ordered by the Bank), on the basis of publicly available information, including primarily interim and annual reports, and information on PKO BP SA made available during direct contacts of representatives of the agency with the Bank.

In 2008, Moody's Investors Service:

- issued 2 credit opinions (27 June and 18 December) in which it maintained paid ratings awarded on 31 October 2007 at unchanged levels;
- on 15 September 2008, it awarded a rating to the Eurobond issue programme in the amount of EUR 3.0 billion (EMTN) established by PKO Finance AB on behalf of PKO BP; the unsecured debt issued under the programme received the same rating as PKO BP SA's financial reliability rating.

The ratings awarded free-of-charge by the other agencies also did not change in 2008.

*Table 35. Ratings and co-operation with rating agencies in 2008*

| | |
|---|---|
| **Rating with a charge** | |
| *Moody's Investors Service* | |
| Long-term rating for deposits in foreign currencies | A2 -with a stable perspective |
| Short-term rating for deposits in foreign currencies | Prime-1- with a stable perspective |
| Long-term rating for deposits in a domestic currency | Aa2 with a stable perspective |
| Short-term rating for deposits in a domestic currency | Prime-1 with a stable perspective |
| Financial strength | C with a stable perspective |
| **Rating not requested by the Bank** | |
| *Fitch Ratings* | |
| Support rating | 2 |
| *Standard and Poor's* | |
| Long-term rating for liabilities in a domestic currency | BBBpi |
| *Capital Intelligence* | |
| Long-term rating for liabilities in a foreign currency | A- |
| Short-term rating for liabilities in a foreign currency | A2 |
| Strength on a national scale | BBB+ |
| Support Rating | 2 |
| Perspective for upholding the rating | Stable |

In January 2009 international rating agency Standard & Poor's confirmed rating for Kredobank SA, assigned in the 2nd half of 2008:

- long-term credit rating on the international scale – „B",
- forecast – „Negative",
- short-term credit rating on the international scale – „B",
- rating on the Ukrainian scale – "uaBBB".

## 8. COMPLIANCE WITH THE RULES FOR CORPORATE GOVERNANCE

### 8.1 The rules for corporate governance and the scope of use

***The rules for corporate governance and the place where they are publicly available***

The Bank applies the rules for corporate governance introduced in the form of a document „Good Practices of Warsaw Stock Exchange Companies" approved by the Supervisory Board of the Warsaw Stock Exchange SA on 4 July 2007 (Resolution no.12/1170/2007).
Above-mentioned document is publicly available at the website: www.corp-gov.gpw.pl, which is the official site of Warsaw Stock Exchange in the topic of corporate governance of listed companies.

***The scope in which the Bank violated against above-mentioned rules for corporate governance***

The Bank in 2008 took necessary actions in aim to closely stick to the rules included in a document „Good Practices of Warsaw Stock Exchange Companies". In it's opinion, the Bank has not violated above-mentioned rules.

### 8.2 Main characteristics of PKO BP SA internal control system

***Main characteristics of PKO BP SA internal control and risk management systems used in the process of preparation of financial statements and consolidated financial sta tements***

The Bank operates the internal control system which is an element of the Bank management function, and which is composed of the following items: control mechanisms, compliance of Bank's operations with binding laws and internal regulations of the Bank, functional internal control and internal audit.

Internal control system covers organizational entities of PKO BP SA, organizational units of the Head Office and subsidiaries of PKO BP SA, included in the PKO BP SA Group. The objective of the internal control system is to support decision processes which contribute to ensuring the following: the Bank's effectiveness and efficiency, truth and fairness of its financial reporting and the compliance of Bank's operations with binding laws and internal regulations of PKO BP SA.

Control mechanisms cover policies, limits and procedures relating to operating activities of the Bank and to the activities aimed at verifying the correctness of the tasks performed, such as preparation of the financial statements. The mechanisms have a control nature and are embedded in both the internal regulations and the Bank's IT system.

The compliance of PKO BP SA operations with binding laws, internal regulations of the Bank and accepted procedure standards was verified within internal functional control and by Internal Audit Department.

Functional internal control function is exercised on a permanent basis in organizational units and in the Head Office of the Bank in the following manner:

- at the stage of legislative works, by way of defining in the internal regulations the manner and mode of realization of tasks, and appropriate control mechanisms which guarantee the correct course of their realization,
- by employees in the course of their activities concerning the scope of business of organizational teams and units,
- at the stage of verification, by employees holding managerial functions or persons authorized by said employees, by way of verification of the correctness of the tasks carried out, and in particular of their compliance with binding laws and regulations, internal regulations of PKO BP SA and prudence norms.

The objective of the internal audit (which is performed by the Internal Audit Department) is to deliver to the Management and Supervisory Boards of PKO BP SA independent and objective information and assessments, especially about the following:

- adequacy and effectiveness of the internal control system, including the effectiveness of control mechanisms,

- PKO BP SA management system, including the effectiveness of risk management,
- truth and fairness, completeness and the current status of the Bank's financial reporting and management information,
- compliance with binding laws and regulations and internal regulations of PKO BP SA.

Audits are conducted based on the plan developed based on, among others, the results of prior audits, information concerning functioning of the PKO BP SA, risks identified in individual areas of the Bank's business and in the processes realized, including in the process of the preparation of the financial statements.

The control and risk management (in respect of the process of preparation of the financial statements) systems used are based on control mechanisms embedded in the functionality of the reporting systems, on the on-going verification of compliance with the books of accounts and other documents underlying the financial statements and with the binding laws concerning accounting principles and financial statements preparation.

The process of the preparation of the financial statements is subject to cyclical multi-level functional control, in particular concerning the correctness of accounting reconciliations, merit-based or substantial analysis or truth and fairness of financial information. In accordance with the internal regulations, the financial statements are accepted by the Management of the PKO BP SA and the Audit Committee established by the Supervisory Board of PKO BP SA.

Information included in the financial statements is prepared in accordance with International Financial Reporting Standards, after taking into account all data available.

Information concerning objectives and risk management policies as well as quantitative information relating to individual risk types is included in annual and mid-year financial statements. The information referred to above comprises:

- credit risk (including the risk of credit concentration),
- market risk (interest rate, currency, derivatives and financial institutions credit risks as well as liquidity risk),
- operating risk
- capital adequacy.

On an annual basis, in a separate non-financial reporting document, disclosed is the full scope of information relating to capital adequacy, in accordance with Resolution No. 6/2007 of the Banking Supervision Commission. Currently at the website of the Bank (in the section „Investor Relations") the last report „Capital Adequacy and Risk Management (Pillar III) in the PKO BP SA Group as at 31 December 2007" is available.

### 8.3 Number of shares and shareholders of PKO BP SA

***Shareholders holding, directly or indirectly, significant shareholding together with the number of owned shares, percentage share in the share capital, number and percentage of voting rights at the Shareholder' Meeting.***

To the best knowledge of PKO BP SA, the only shareholder which holds, directly or indirectly, significant shareholding (at least 5%) is the State Treasury; as at 31 December 2008, State Treasury holds 514 435 409 of the Bank's shares.

This equates to 51.24% of the PKO BP SA' share capital and matches the percentage share in the total number of votes at the General Shareholders' Meeting of the Bank.

*Table 36. Shareholding structure of PKO BP SA*

| Shareholder | As at 31.12.2007 | | As at 31.12.2008 | | Change in the period 31.12.2007 - 31.12.2008 | |
|---|---|---|---|---|---|---|
| | Number of shares | Percentage of votes at the General Shareholders' Meeting | Number of shares | Percentage of votes at the General Shareholders' Meeting | Number of shares | Percentage of votes at the General Shareholders' Meeting |
| State Treasury | 514 935 409 | 51.49% | 512 435 409 | 51.24% | - 2 500 000 | -0.25 pp. |
| Other shareholders | 485 064 591 | 48.51% | 487 564 591 | 48.76% | 2 500 000 | +0.25 pp. |
| **Total** | **1 000 000 000** | **100%** | **1 000 000 000** | **100%** | **-** | **0.0 pp.** |

***Holders of any type of securities giving special control rights together with the description of these rights***

Special control rights are not resulting from the PKO BP SA securities for their holders.

***Voting right restrictions such as the restriction on exercising voting rights by holders of a specific portion or number of shares, time restrictions relating to exercising voting rights or provisions according to which, in cooperation with the Company, equity rights related to securities are separated from the ownership of the securities***

In PKO BP SA there are no voting right restrictions such as the restriction on exercising voting rights by holders of a specific portion or number of shares, time restrictions relating to exercising voting rights or provisions according to which, in cooperation with PKO BP SA, equity rights related to securities are separated from the ownership of the securities.

***Restrictions for the transfer of ownership of the securities of PKO BP SA***

In accordance with par. 6 section 2 of the Bank's Articles of Association, the conversion of the registered "A" class shares with a nominal value of PLN 510 000 000 into bearer shares and the transfer of these shares require an approval of the Polish Council of Ministers in the form of a resolution. Acquiring such consent results in the expiry of the above restrictions to the extent to which this consent was given.

### 8.4 The Memorandum of Association and manner of functioning of Annual General Meeting of PKO BP SA

***Principles for amending the Memorandum of Association of PKO BP SA***

Principles for amending the Memorandum of Association of PKO BP SA comply with the provisions of the Commercial Companies Code and the Banking Law. The Memorandum of Association does not introduce different or detailed regulations in this respect.

***Annual General Meeting of the Bank, its manner of functioning and fundamental powers; the rights of shareholders and the manner of their execution, in particular the rules following from the Internal Regulations of the General Shareholders' Meeting, if such Internal Regulations have been passed, if the respective information does not follow directly from the legal regulations***

Annual General Meeting of PKO BP SA is convened as ordinary or extraordinary meeting in accordance with the provisions of the Code of Commercial Companies and the Bank's Articles of Association, and based on the policies defined in the by-laws of the Annual General Meeting (hereinafter "the AGM").

The fundamental powers of the AGM, apart from other matters defined in the binding laws, include adopting resolutions concerning the following matters:

- appointment and dismissal of Supervisory Board Members;
- approval of by-laws of the Supervisory Board,
- determining the manner of buyout of shares and the amount of consideration for the shares subject to buyout,
- creation and liquidation of special funds established from net profit appropriation,
- disposal by the Bank of property items or perpetual usufruct right to property, from which the Bank conducts its business,
- issuance of convertible bonds or other instruments giving the right to acquire or take up the Bank's shares.

Allowed to participate in the Annual General Meeting of the Bank are beneficiaries of rights attached to registered shares, as well as pledges and usufructuaries having voting rights, who have been entered in the Register of Shares at least one week prior to holding the AGM, or holders of bearer shares, if they deposit with the Bank, at least one week prior to the date of the AGM at the latest, registered depository certificates issued by the entities maintaining the securities accounts and do not collect them prior to the closing of the Annual General Meeting.

The shareholder who is a natural person may participate in the AGM, exercise his voting right in person or by proxy. The shareholder who is not a natural person may participate in the AGM and exercise his voting right through a proxy authorized to file statements of will on his behalf, or by proxy.

To be valid, the authorization shall be executed in writing and attached to the minutes of the AGM. The signature on the authorization issued by the shareholder who is a natural person should be authenticated by a notary public. The right to represent the shareholder who is not a natural person should result from a copy of appropriate register presented at the time of the preparation of the AGM attendance list (filed as original or a copy authenticated by a notary public), or alternatively from a sequence of authorizations. The name of the person/ persons issuing authorizations on behalf of the shareholder who is not a natural person should be included in the current copy of appropriate register of the given shareholder.

Management Board Member or Bank employee may not serve as proxy at the AGM of the Bank.

Drafts of resolutions proposed to the AGM and other important materials are presented to the shareholders together with the justification and opinion of the Supervisory Board before the AGM, within the timeframe that allows reading them and preparing their assessment.

The Bank's shareholder has the right to file with the Chairman of the AGM proposals for changes or supplements to drafts of resolutions included in the AGM agenda, and these should be drafted in writing, separately for each resolution draft, and should include justification. Such proposals, after being presented to the AGM by the Chairman, are put to the vote. The AGM participant requesting to include his objections towards the given resolution in the AGM minutes may concisely justify his standpoint.

Removing from the AGM agenda or desisting, at the request of the shareholders, from further discussing the matter included in the AGM agenda requires that the AGM resolution is adopted by the majority of ¾ votes, after prior consent of all those shareholders present at the AGM who applied for including the matter in the agenda.

Resolutions of the AGM are adopted by an absolute majority of votes, unless the binding laws or the Articles of Association of the Bank provide otherwise.

The AGM adopts resolutions by way of open vote, with the proviso that votes by secret ballot are ordered in the following circumstances:

- elections,
- applications for dismissal of members of the Bank's Management or Supervisory Board or liquidators,
- applications for bringing the Bank's liquidators or members of the Management or Supervisory Board to justice,
- in personal matters,
- on demand of at least one shareholder present or represented at the AGM,
- in other cases defined in binding law regulations.

A shareholder may not, either personally or by proxy, or while acting in the capacity of a proxy of another person, vote on resolutions concerning his liability towards the Bank on whatever account, including the acknowledgement of the fulfillment of his duties, release of any of his duties towards the Bank, or any dispute between him and the Bank.

Shareholders have the right to ask questions, through the Chairman of the AGM, to the Members of the Bank's Management or Supervisory Boards, the Bank's auditor or the persons whose presence at the AGM is considered indispensable by the Management or Supervisory Boards of the Bank.

For each of the agenda point, each shareholder has the right to one own speech and one reply. Shareholders may, during the course of discussion on each of the agenda points, apply for closing the list of speakers or closing the discussion on the given agenda point.

### 8.5 The Supervisory Board and the Management Board of PKO BP SA during the reporting period

***Rules for appointing and dismissing Members of the Management Board and their rights (in particular the right to make a decision of issuance or redemption of shares)***

In accordance with par. 19 Section 1 and Section 2 of the Bank's Articles of Association, Management Board members are appointed by the Supervisory Board for a common three-year term. Board members may only be dismissed for important reasons according to par. 19 Section 4 Bank's Articles of Association.

In accordance with par. 20 Section 1 of the Bank's Articles of Association, the scope of Management Board responsibilities includes all matters related to the conducting of Bank's affairs that have not been reserved by law or Articles of Association for the General Shareholders' Meeting or Supervisory Board, including purchase and disposal of property, property interests or perpetual usufruct, that do not require consent of the General Meeting in accordance with par. 9 section 1 point 5 of the Bank's Articles of Association.

According to par. 20 Section 2 of the Articles of Association, making decisions on incurring liabilities or disposing of assets the total value of which exceeds 5% of the Bank's equity in a transaction with a single entity shall fall within the scope of competence of the Management Board, with the proviso for the scope of competence of the general shareholders' meeting set out in par. 9 of the Articles of Association or the scope of competence of the Supervisory Board set out in par. 15 of the Articles of Association.

***Composition, changes, which took place in the last financial year and the manner of functioning of the authorities of PKO BP SA and their committees.***

### The Supervisory Board of PKO BP SA

The Supervisory Board is composed of 6 to 11 members appointed for a joint term of office of three years. Members of the Supervisory Board are appointed and dismissed by the Annual General Meeting.

On 26 February 2008, pursuant to § 11 section 1 of the Bank's Articles of Association, the State Treasury, as the Eligible Shareholder, determined the number of the Supervisory Board members to include 7 persons.

In 2008, the composition of the Bank's Supervisory Board was as follows:

*Table 37. The Supervisory Board of the Bank during the reporting period*

| No. | Name | Function | Appointment/dismissal date |
|---|---|---|---|
| 1. | Marzena Piszczek | Chairman of the Supervisory Board | Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Supervisory Board. |
| 2. | Eligiusz Jerzy Krześniak | Vice-Chairman of the Supervisory Board | Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Supervisory Board. |
| 3. | Jan Bossak | Member of the Supervisory Board | Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Supervisory Board. |
| 4. | Jerzy Osiatyński | Member of the Supervisory Board | Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Supervisory Board. |
| 5. | Urszula Pałaszek | Member of the Supervisory Board | Appointed on 26 February 2008 for the current term of the Supervisory Board. |
| 6. | Roman Sobiecki | Member of the Supervisory Board | Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Supervisory Board. |
| 7. | Ryszard Wierzba | Member of the Supervisory Board | Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Supervisory Board. |

| No. | Name | Function | Appointment / dismissal date |
|---|---|---|---|
| 1. | Marek Głuchowski | Chairman of the Supervisory Board | Appointed on 18 April 2006; in the period from 10 January 2007 to 23 January 2007 and 27 January 2007 to 10 April 2007 appointed to act for the President of the Management Board; he resigned on 26 February 2008. |
| 2. | Urszula Pałaszek | Vice-Chairman of the Supervisory Board | Appointed on 19 May 2005, since 20 May 2005 Vice-Chairman of the Supervisory Board; she resigned form the post of Vice-Chairman of the Supervisory Board on 25 February 2008. |
| | | Member of the Supervisory Board | Appointed on 26 February 2008 for the current term of the Supervisory Board. |
| 3. | Tomasz Siemiątkowski | Member of the Supervisory Board | Appointed on 18 April 2006. |
| | | Secretary of the Supervisory Board | Since 26 June 2006; he resigned on 26 February 2008. |
| 4. | Jerzy Michałowski | Member of the Supervisory Board | Appointed on 18 April 2006; he resigned on 26 February 2008. |
| 5. | Agnieszka Winnik-Kalemba | Member of the Supervisory Board | Appointed on 18 April 2006; she resigned on 26 February 2008. |
| 6. | Maciej Czapiewski | Member of the Supervisory Board | Appointed on 19 March 2007; dismissed on 26 February 2008. |

Supervisory Board acts based on the by-laws decided by the Supervisory Board and approved by the AGM. Meetings of the Supervisory Board are convened at least once a quarter.

Supervisory Board adopts resolutions by an absolute majority of votes with the presence of at least half of the Members, including the President or Vice-president of the Supervisory Board, except for resolutions concerning those matters that are required to be accepted by, apart from the quorum indicated, the qualified majority of 2/3 of total votes. Excluded from the vote are those members of the Supervisory Board to whom the given voted matter relates.

The competencies of the Supervisory Board, apart from the rights and obligations stipulated in generally binding legal regulations and the provisions of the Memorandum of Association of PKO BP SA, include passing resolutions relating specifically to:

- approving the strategy of PKO BP SA and the annual financial plan passed by the Management Board;
- appointing the entity to conduct the audit or review of the financial statements and giving consent to concluding contracts with such entity or its related entities;
- passing the Internal Regulations of the Supervisory Board and the Regulations for using the other capital;
- appointing and dismissing the President of the Management Board and, at the request of the President of the Board, also the Vice Presidents and other Management Board Members, and suspending Members of the Management Board from performing their duties, as well as delegating Members of the Supervisory Board to temporarily perform the duties of Members of the Management Board;
- approving the Internal Regulations passed by the Management Board: of the Management Board, Management of special funds set up from the net profit, the Organizational Fund of PKO BP SA;
- expressing prior consent to actions which meet specific criteria, including, among other things, purchasing and selling fixed assets and real estate, establishing a company, taking up or acquiring shares, concluding transactions between PKO BP SA and a related entity;
- applying to the Financial Supervision Authority for granting consent to appointing two Members of the Management Board, including the President of the Board.

In 2008, the following three Committees operated within the Supervisory Board of PKO BP SA: Audit Committee of the Supervisory Board, Informatization and Strategy Implementation Committees (on 20 May 2008 transformed into Bank's Strategy Committee).

Each Committee is composed of at least three members chosen by Members of the Supervisory Board from within its own circle.

Committee Meetings are convened as ordinary meetings by the Committee Chairman on his initiative or at the request of the Committee or Supervisory Board Member.

In the extraordinary mode, Committee meetings are convened by the President of the Supervisory Board on his initiative or at the request of the Supervisory Board Member or the Bank Management Board. Minutes are prepared from the meetings and the Committee Chairman presents the Supervisory Board, at its next meetings, with resolutions, conclusions and recommendations.

Each Committee presents the Bank's Supervisory Board with an annual report on its activities, with the proviso that the Audit and Informatization Committees are required to file their reports within the timeframe that allows the Bank to account for the content of those reports in the process of annual assessment of the financial position of PKO BP SA.

<u>Supervisory Board Audit Committee</u> was established in order to exercise permanent supervision over the financial audit of the Bank and of the capital group. Included in the tasks of the Audit Committee are in particular: review of periodic and annual financial statements of the Bank (separate and consolidated), monitoring the work of internal auditors of the Bank, preparation of recommendations to the Supervisory Board, which relate to assessment of management Board conclusions concerning profit appropriation (including in particular dividend policy) and issuance of securities,

<u>Bank Informatization Committee</u> was established with a view to supervising information and telecommunication systems at the Bank, including implementation of the Integrated Information System. Included in the tasks of the Committee are in particular: issuing opinions on the strategic directions of informatization at PKO BP SA and analysis of the progress of works on implementation of strategic IT solutions.

<u>Strategy Implementation Committee</u> was established in order to exercise permanent supervision over implementation of the Strategy of PKO BP SA. Included in the tasks of the Committee are in the particular: analysis of the progress of work relating to implementation of strategic initiatives, the realization of which is prerequisite to meeting the objectives defined in the Bank's Strategy, analysis of the results of

implementation of strategic initiatives, proposing supplementary or correcting measures, discussing all contentious issues and doubts resulting from the analysis of the process of implementation of the Bank's Strategy.

## The Management Board of PKO BP SA

The Management Board of the Bank is composed of 3 to 9 members appointed by the Supervisory Board of the Bank for a joint term of office of three years. Appointment of two members of the Management Board, including President of the Management Board, requires approval by the Financial Supervision Authority.

In 2008, the composition of the Management Board of the Bank was as follows:

*Table 38. Management Board during the reporting period*

| No. | Name | Function | Appointment date |
|---|---|---|---|
| 1. | Jerzy Pruski | President of the Management Board | 1) On 11 April 2008, the Supervisory Board of PKO BP SA appointed Mr. Jerzy Pruski as the acting President of the Management Board of PKO BP SA, effective as of 20 May 2008, for the joint term of the Board beginning on that date. The Supervisory Board appointed Mr. Pruski as the acting President of the Management Board of PKO BP SA for the period from 20 May 2008 to the date on which the Financial Supervision Authority approves his appointment as the President of the Management Board of PKO BP SA<br>2) On 17 June 2008 the Financial Supervision Authority approved the appointment of Mr. Jerzy Pruski as the President of the Management Board of PKO BP SA. |
| 2. | Bartosz Drabikowski | Vice-President of the Management Board | Appointed on 20 May 2008 as Vice-President of the Management Board for the joint term of the Board beginning on that day. |
| 3. | Krzysztof Dresler | Vice-President of the Management Board | 1) Appointed on 20 May 2008, effective as of 1 July 2008, as Vice-President of the Management Board for the joint term of the Board beginning on 20 May 2008.<br>2) On 27 October 2008 the Financial Supervision Authority approved the appointment of Mr. Krzysztof Dresler as the Member of the Management Board of PKO BP SA. |
| 4. | Mariusz Klimczak | Vice-President of the Management Board | 1) Appointed on 20 May 2008 for the joint term of the Board beginning on that day.<br>2) On 21 August 2008, he resigned from the post of the Vice-President of the Management Board, effective as of 30 September 2008. |
| 5. | Tomasz Mironczuk | Vice-President of the Management Board | Appointed on 20 May 2008 for the joint term of the Board beginning on that day. |
| 6. | Jarosław Myjak | Vice-President of the Management Board | Appointed on 9 December 2008, effective as of 15 December 2008, as Vice-President of the Management Board for the joint term of the Board beginning on 20 May 2008. |
| 7. | Wojciech Papierak | Vice-President of the Management Board | Appointed on 20 May 2008, effective as of 1 July 2008, as Vice-President of the Management Board for the joint term of the Board beginning on 20 May 2008. |
| 8. | Mariusz Zarzycki | Vice-President of the Management Board | Appointed on 20 May 2008, effective as of 1 September 2008, as Vice-President of the Management Board for the joint term of the Board beginning on 20 May 2008. |
| **No.** | **Name** | **Function** | **Appointment date** |
| 1. | Rafał Juszczak | Member of the Management Board | Appointed on 26 June 2006, effective as of 1 July 2006, as Member of the Management Board for the joint term of the Board beginning on 19 May 2005. |
| | | Vice-President of the Management Board | On 29 September 2006 the Supervisory Board of PKO BP SA appointed Mr. Rafał Juszczak as Vice-President of the Management Board. |
| | | Vice-President acting as the President of the Management Board | On 2 April 2007 the Supervisory Board of PKO BP SA appointed Mr. Rafał Juszczak, Vice-President of the Management Board, as the acting President of the Management Board of PKO BP SA, effective as of 11 April 2007. |
| | | President of the Management Board | 1) On 20 June 2007 the Supervisory Board of PKO SA appointed Mr. Rafał Juszczak, Vice-President of the Management Board, as the President of the Management Board of PKO BP SA.<br>2) On 8 August 2007, the Banking Supervisory Commission agreed on appointment of Mr. Rafał Juszczak as the President of the Management Board of PKO BP SA. |
| 2. | Wojcech Kwiatkowski | Vice-President of the Management Board | Appointed on 29 September 2006, effective as of 1 November 2006, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005. |
| 3. | Robert Działak | Vice-President of the Management Board | Appointed on 22 February 2007, effective as of 23 February 2007, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005 |
| 4. | Stefan Świątkowski | Vice-President of the Management Board | 1) Appointed on 22 February 2007, effective as of 1 May 2007, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005.<br>2) On 8 August 2007, the Banking Supervisory Commission agreed on appointment of Mr. Stefan Świątkowski as the Member of the Management Board of PKO BP SA. |
| 5. | Adam Skowroński | Vice-President of the Management Board | Appointed on 20 June 2007, effective as of 23 July 2007, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005. |
| 6. | Aldona Michalak | Vice-President of the Management Board | Appointed on 20 June 2007, effective as of 1 July 2007, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005. |
| 7. | Mariusz Klimczak | Vice-President of the Management Board | Appointed on 20 June 2007, effective as of 15 July 2007, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005. |
| 8 | Barenika Duda-Uhryn | Vice-President of the Management Board | Appointed on 20 June 2007, effective as of 10 September 2007, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005. |

*Table 39. Other functions performed by the Bank's Management Board Members during the reporting period*

| No. | Name | Function |
|---|---|---|
| 1. | Jerzy Pruski | 1) President of the Bank's Credit Committee (from 20 May 2008 to 30 June 2008).<br>2) President of the Bank's Assets and Liabilities Committee (from 20 May 2008 to 30 June 2008).<br>3) President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of International Accounting Standard 39 (from 20 May 2008 to 30 June 2008).<br>4) President of the Steering Committee for the Integrated IT System (from 20 May 2008 to 8 September 2008). |
| 2. | Bartosz Drabikowski | 1) Vice-President of the Bank's Assets and Liabilities Committee (from 20 May 2008).<br>2) President of the Expenses Committee (from 20 May 2008).<br>3) Vice-President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of International Accounting Standard 39 (from 20 May 2008).<br>4) Vice-President of the Steering Committee for the Integrated IT System (from 20 May 2008). |
| 3. | Krzysztof Dresler | 1) President of the Bank's Credit Committee (from 1 July 2008).<br>2) President of the Bank's Assets and Liabilities Committee (from 1 July 2008).<br>3) President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of International Accounting Standard 39 (from 1 June 2008).<br>4) Vice-President of the Steering Committee for the Integrated IT System (from 1 July 2008). |
| 4. | Mariusz Klimczak | 1) Vice-President of the Bank's Credit Committee (to 30 September 2008).<br>2) Member of the Integrated IT System Project Committee (from 20 May 2008 to 30 June 2008).<br>3) Vice-President of the Steering Committee for the Integrated IT System (from 20 May 2008 to 30 June 2008). |
| 5. | Tomasz Mironczuk | 1) Vice-President of the Bank's Credit Committee (from 1 October 2008 to 14 December 2008).<br>2) Vice-President of the Expenses Committee (from 20 May 2008 to 1 July 2008). |
| 6. | Jarosław Myjak | 1) Vice-President of the Bank's Credit Committee (from 15 December 2008). |
| 7. | Wojciech Papierak | 1) Vice-President of the Expenses Committee (from 1 July 2008).<br>2) Member of the Integrated IT System Project Committee (from 1 July 2008).<br>3) Vice-President of the Steering Committee for the Integrated IT System (from 1 July 2008). |
| 8. | Mariusz Zarzycki | President of the Steering Committee for the Integrated IT System (from 9 September 2008). |
| **No.** | **Name** | **Function** |
| 1. | Rafał Juszczak | President of the Steering Committee for the Integrated IT System (to 20 May 2008). |
| 2. | Robert Działak | 1) Vice-President of the Expenses Committee (from 1 April 2008 to 20 May 2008).<br>2) Vice-President of the Steering Committee for the Integrated IT System (to 20 May 2008).<br>3) Member of the Integrated IT System Project Committee (to 20 May 2008). |
| 3. | Stefan Świątkowski | 1) President of the Bank's Credit Committee (to 20 May 2008)<br>2) President of the Bank's Assets and Liabilities Committee (to 20 May 2008).<br>3) President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of International Accounting Standard 39 (to 20 May 2008).<br>4) Vice-President of the Steering Committee for the Integrated IT System (to 20 May 2008). |
| 4. | Adam Skowroński | 1) Vice-President of the Bank's Assets and Liabilities Committee (to 20 May 2008).<br>2) President of the Expenses Committee (to 20 May 2008).<br>3) Vice-President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of International Accounting Standard 39 (to 20 May 2008).<br>4) Vice-President of the Steering Committee for the Integrated IT System (to 20 May 2008). |
| 5. | Mariusz Klimczak | Vice-President of the Bank's Credit Committee (to 30 September 2008). |

The manner of functioning of the Management Board is defined in the by-laws decided by the Management Board and approved by the Supervisory Board.

Management Board makes decisions in the form of resolutions, which are passed by an absolute majority of votes of those present at the Management Board Meeting. In the case of a voting tie, the President of the Management Board has the casting vote. For all matters outside the scope of ordinary Bank business to be effected, resolution of the Management Board is required.

The competencies of the Management Board include all issues related to running the business of PKO BP SA which are not reserved by generally binding legal regulations or the provisions of the Memorandum of Association of PKO BP SA for the General Shareholders' Meeting or for the Supervisory Board. The Management Board passes specifically the following in the form of resolutions:

– it determines the strategy of PKO BP SA;
– it determines the annual financial plan;
– it passes the organizational regulations and the principles for segregation of duties;
– it establishes and dissolves permanent committees of the Bank and determines their competences;
– it passes the Internal Regulations of the Management Board;

- it determines the internal regulations for managing the special funds set up from the net profit;
- it determines the dates of payment of dividend in periods specified by the General Shareholders' Meeting;
- it appoints proxies;
- it determines bank products and other banking and financial services;
- it determines the principles for participation of PKO BP SA in other companies and organizations;
- it determines the principles of operation of the internal controls and annual control plans;
- it establishes, transforms and liquidates organizational entities of PKO BP SA in Poland and abroad.

In 2008, there were the following committees appointed by the Management Board in which Members of the Management Board operated:

Asset and Liabilities Committee of PKO BP SA, whose purpose is managing assets and liabilities by influencing the structure of the PKO BP SA balance sheet and its off-balance sheet items in a manner conducive to achieving the optimum financial result. The competences of the Committee include specifically:

- taking decisions on risk limits (market, liquidity, clearing and pre-clearing risk) and investment limits, as well as the values of the coefficients adjusting the transfer prices;
- issuing recommendations in respect of:
  - ⇒ forming the balance sheet structure, the financial model and the assumptions for the financial plan of PKO BP SA and its capital requirements in the light of prudence standards;
  - ⇒ the principles of risk management (market, liquidity, clearing and pre-clearing) and real and economic capital;
  - ⇒ the value of the cut-off points and minimum scores used in assessing credit risk;
  - ⇒ the principles of the pricing policy in particular business areas and the amount of interest rates and minimum credit margins.

The Bank's Credit Committee whose purpose is to limit credit risk in PKO BP SA's credit decisions or in decisions relating to managing non-performing dues. The competences of the Committee include specifically:

- taking loan decisions in area of own transactions, changes of the transaction conditions, decisions and changes of internal client's limits and management of non-performing loans if such loan decision are in the competence of the Committee;
- issuing recommendations to the Management Board of PKO BP SA on issues relating to taking decisions on credit transactions that are above the Credit Committee competences;
- issuing recommendations to the Management Board of PKO BP SA on issues relating to capital exposure in the Group entities, list of industries which are covered by industry limits or report of the highest exposures of PKO BP SA.

Integrated IT System Committee (ZSI) which is responsible for the overall supervision over the execution of work, taking key decisions on operating management related to the delivery and implementation of ZSI. Specifically, the Committee is responsible for:

- approving solutions developed at the level of the Project Management Team and solving problems reported by the Team;
- approving changes leading to a change in the Time Schedule by value and by volume;
- informing the appropriate authorities of PKO BP SA and the ZSI Provider on the work progress..

Steering Committee for the Integrated IT System Project whose purpose is to supervise actions related to the development of the Integrated IT System in PKO BP SA and to take decisions necessary to ensure proper and efficient implementation of new ZSI versions. The Committee's tasks include specifically:

- accepting the assumptions and requirements of the ZSI Project;
- supervising the strategic development of the ZSI Project;
- approving priorities of the ZSI Project;
- accepting the budget of the ZSI Project and potential changes to the budget;

– resolving potential disputes arising during the implementation of the new versions of the system requiring its participation.

Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of International Accounting Standard 39 whose purpose is supervising the execution of adaptation measures of PKO BP SA to the requirements of the directive on capital requirements and to the regulations of International Accounting Standard 39. The Committee's tasks include specifically:

– taking key decisions, and supervising and monitoring the progress of work related to PKO BP SA's adaptation to the requirements of the directive on capital requirements and to the regulations of International Accounting Standard 39;
– recommending changes relating to the schedule of adaptation activities;
– ensuring cooperation of appropriate entities and organizational units in respect of executing the work;
– preparing regulations relating to investment projects consisting of modifying PKO BP SA's IT system to ensure implementation of the above-mentioned requirements in the IT systems.

Expenses Committee of PKO BP SA whose tasks include specifically:

– accepting expenses, including projects, in a specific amount brackets, including requests for increasing the budget;
– determining project priorities and taking decisions on discontinuing projects, changing their scope, purpose or time schedule;
– giving opinions on the grounds for expenses in amounts approvable by the Management Board of PKO BP SA;
– taking measures to curb expenses.

## 9. OTHER INFORMATION

### *Off-balance sheet commitments*

At the end of 2008, guarantees and other financial off-balance sheet commitments granted with respect to related parties amounted to PLN 619.8 million and decreased by PLN 112.2 million compared to the end of 2007.

The largest commitments related to the following entities:

– Bankowy Fundusz Leasingowy SA – PLN 365.6 million,
– Sopot Zdroj Sp. z o.o. – PLN 80.4 million,
– Wilanów Investments Sp. z o.o. – PLN 43.5 million.

All transactions with related parties were concluded at an arm's length.

The details of related party transactions are presented in Note 45 to the financial statements.

### *Reacquisition of own shares*

During the period covered by this Report, PKO BP SA did not re-acquire its shares on its own account.

### *Information on dividend paid or declared*

On 20 May 2008 the Annual General Meeting decided to a distribution of dividends for the year 2007 in the amount of PLN 1.09 per share. The list of the shareholders entitled to receive the dividend was drawn up as at 18 August 2008, and the dividends was paid out on 4 September 2008.

In the resolution passed on 1 December 2008 the Management Board of the Bank declared to come forward to General Shareholders' Meeting with a proposal to freeze dividend payout for 2008.

### *Significant contracts and important agreements with the Central Bank or supervisory authorities*

In 2008, the Bank disclosed in its current reports all the agreements with clients for which the total value of services arising from long-term agreements with the given client met the criteria defined in § 2 section 2 of the Decree of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and the conditions of considering as equivalent the information required by law of a non-member country (Journal of Laws No. 33, item 259).

PKO BP SA concluded an investment loan agreement of PLN 1.23 billion for financing a part of the costs of financial assets purchased by borrowers; agreement concluded at an arm's length.

In 2008, the Bank did not conclude any significant agreements with the Central Bank or with the regulators.

In 2008, the remaining PKO BP SA Group companies did not conclude significant agreements. Neither did the companies conclude any significant agreements with the Central Bank or with the regulators.

As at the date of the financial statements, the Bank is not aware of any agreements as a result of which changes may occur in the future in the proportions of shares held by the current shareholders.

### *Guarantees and financial commitments*

As at 31 December 2008, the total value of granted guarantees and financial commitments amounted to PLN 30 444.1 million, with financial commitments making up 85.9% of this amount. The total value of granted guarantees and financial commitments increased by 7.8% (y/y), while the value of guarantees alone increased by 10.7% (y/y).

*Table 40. Off-balance sheet items (PLN million)*

OFF-BALANCE SHEET ITEMS OF
THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP

| Items | As at 31.12.2008 | As at 31.12.2007 | Change in PLN | Change in % |
|---|---|---|---|---|
| **Financial liabilities granted** | **26 141.4** | **24 346.7** | **1 794.8** | **7.4%** |
| to financial entities | 635.3 | 564.6 | 70.8 | 12.5% |
| to non-financial entities | 25 084.4 | 23 551.7 | 1 532.7 | 6.5% |
| to public entities | 421.7 | 230.4 | 191.3 | 83.0% |
| of which: irrevocable | 7 712.8 | 8 860.4 | (1 147.5) | -13.0% |
| **Guarantees liabilities issued** | **4 302.7** | **3 885.3** | **417.4** | **10.7%** |
| to financial entities | 4.9 | 8.5 | (3.6) | -42.8% |
| to non-financial entities | 4 093.8 | 3 614.3 | 479.5 | 13.3% |
| to public entities | 204.1 | 262.5 | (58.4) | -22.3% |
| **Total** | **30 444.1** | **28 231.9** | **2 212.2** | **7.8%** |

### *Loans taken and loan, guarantee and suretyship agreements*

During the year 2008, PKO BP SA did not take out any loans or advances or receive any guarantees or suretyships that were not related to its operating activity.

During the year 2008, Kredobank SA did not take out any loans or advances or receive any guarantees or suretyships that were not related to its operating activity.

### *Underwriting agreements and guarantees issued to the Group subsidiaries*

In 2008, PKO BP SA signed an Annex to the Underwriting Agreement of a Bond Issuance Program by the Bank's subsidiary, Bankowy Fundusz Leasingowy SA, on 14 December 2006, which increased the maximum value of the bond issue program by PLN 100 million, to the level of PLN 600 million.

As at 31 December 2008 Bankowy Fundusz Leasingowy SA issued bonds of PLN 600 million, of which PLN 186.28 million was placed in the market while PLN 413.72 million was held by the PKO BP SA.
In 2008, PKO BP SA issued:

- to Centrum Elektronicznych Usług Płatniczych eService SA – a guarantee for up to maximum PLN 240 thousand to the benefit of *Garrick Investments Sp. z o.o.* as a pledge for liabilities arising from a rental agreement; the guarantee is issued for the period ending 30 September 2011,
- to Bankowy Fundusz Leasingowy SA – a guarantee for up to maximum PLN 342 thousand to the benefit of *Salzburg Center Development SA* as a pledge for liabilities arising from a rental agreement; the guarantee is issued for the period ending 18 June 2013,
- to Centrum Elektronicznych Usług Płatniczych eService SA – a guarantee for up to maximum PLN 375 thousand to the benefit of Polska Telefonia Cyfrowa Sp. z o.o. as a pledge for trading liabilities; the guarantee is issued for the period ending 30 September 2011,
- to Centrum Elektronicznych Usług Płatniczych eService SA – a guarantee for up to maximum PLN 400 thousand to the benefit of Polkomtel SA as a pledge for liabilities arising from an agreement of sales of phone cards and mobile phone recharge services; the guarantee is issued for the period ending 30 September 2011,
- to Bankowy Fundusz Leasingowy SA – a guarantee for up to maximum PLN 405 thousand to the benefit of *Salzburg Center Development SA* as a pledge for liabilities arising from a rental agreement; the guarantee is issued for the period ending 18 September 2008,
- to PKO Towarzystwo Funduszy Inwestycyjnych SA – a guarantee for up to maximum PLN 467 thousand to the benefit of *Salzburg Center Development SA* as a pledge for liabilities arising from rental agreement; the guarantee is issued for the period ending 31 July 2013,
- to Centrum Elektronicznych Usług Płatniczych eService SA – a guarantee for up to maximum PLN 600 thousand to the benefit of PTK Centertel Sp. z o.o. as a pledge for trading liabilities; the guarantee is issued for the period ending 30 September 2011.

### *Enforceable titles issued by the Group*

During the year 2008, PKO BP SA issued 12 970 banking enforceable titles for a total amount of PLN 311 722 245.

In the case of Kredobank SA, the Ukrainian law does not allow to issue enforceable titles as defined in the Polish Banking Law.

### *Debt write-offs*

Debt write-offs are regulated in PKO BP SA by regulations on management of non-performing loans and segregation of duties with reference to decision taking in respect of management of non-performing loans and writing off of loans and advances and liabilities of PKO BP SA.

In accordance with the above-mentioned regulations, reduction of a non-performing loan results in abandonment of debt collection procedures by the Bank on the basis of restructuring agreement, i.e. debt write-off in line with point 508 of the Civil Law.

Synthetic data on debt write-offs in 2008 were presented below:

*Table 41. Debt write-offs in 2008 (PLN)*

| | reduced principal amount | reduced capitalized interest | reduced other interest |
|---|---|---|---|
| **corporate segment** | 15 179 334 | 90 488 | 4 859 271 |
| **retail segment** | 232 146 | 196 503 | 37 427 605 |
| **Total** | **15 411 480** | **286 990** | **42 286 877** |

### *Proceedings pending before the court, arbitration tribunal or public administrative authority*

As at 31 December 2008, the total value of court proceedings against PKO BP SA was approximately PLN 324 142 thousand, while the total value of proceedings initiated by PKO BP SA was approximately PLN 93 815 thousand. No court proceedings with the participation of PKO BP SA are in progress, the value of which amounts to at least 10% of the equity of PKO BP SA.

### *Factors, which will influence financial results of the PKO BP SA Group in the future*

Economic processes, which will take place in Poland and global economy and the reactions of financial markets, will influence results of PKO BP SA. The interest rate policy of the Monetary Policy Council and the biggest central banks, will be important for future results of the Group.

### *Post balance sheet events*

1. On 6 January 2009 Bankowy Faktoring SA was registered with the National Court Register. The company's share capital amounts to PLN 1 million. All the shares in the share capital, in the amount of PLN 1 330 thousand, were acquired by Bankowe Towarzystwo Kapitałowe SA – subsidiary of PKO BP SA.
2. The Management Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna on the basis of Art. 398 of the Commercial Companies Code has convened the Extraordinary General Shareholders' Meeting as at 6 April 2009 (Puławska 15 Street, Warsaw). In accordance with the agenda, the Extraordinary General Shareholders' Meeting will adopt resolutions on changes in the Bank's Supervisory Board.
3. With reference to the Extraordinary Shareholders Meeting of Kredobank SA's resolution on the increase in share capital of Kredobank SA, on 16 February 2009 the Management Board of PKO BP SA approved acquisition of new issued shares of Kredobank up to the amount of USD 133 million along with a premature repayment of all subordinated loans in the amount of USD 38 million granted by PKO BP SA to Kredobank SA.

### *Other disclosures significant for evaluation of the issuer's human resources, financial situation, financial performance, and any changes therein*

As a result of statutory approvals and the offer for purchase of 99.92% AIG Bank Polska SA shares and 100% AIG Credit SA shares, placed on 28 November 2008 by the Bank – PKO BP SA participates in the negotiation process to buy shares listed above, without exclusive rights. At the moment of shares purchase agreement, purchase will occur after complying with Polish law regulation. Purchase will be financed by

PKO BP SA's own funds. PKO BP SA will publish the information about the purchase of the above mentioned shares in current report, irrespective of the fact whether the transaction will be executed or not.

***Information regarding the contract with the entity authorized to audit financial statements***

On 8 August 2005, PKO BP SA concluded a contract with Ernst & Young Audit Sp. z o.o., an entity authorized to audit financial statements, for an audit of standalone and consolidated financial statements for the years ended 31 December 2005, 2006 and 2007 and for a review of standalone and consolidated financial statements for the 6-month periods ended 30 June 2005, 2006 and 2007.

Total fees payable to Ernst & Young Audit Sp. z o.o. under the contracts concluded by PKO BP SA amounted to PLN 1830.9 thousand for the financial year of 2008 and net PLN 1394.2 for the financial year of 2007, including:

- arising from a contract for an audit of standalone and consolidated financial statements PLN 575.0 thousand and PLN 613.0 thousand respectively,
- arising from assurance services, including reviews of financial statements PLN 0 and PLN 280 thousand respectively,
- arising from tax advisory PLN 0 and PLN 30 thousand respectively,
- arising form other services PLN 1 225.9 thousand and PLN 471.2 thousand.

On 12 May 2008, PKO BP SA concluded a contract with PricewaterhouseCoopers Sp. z o.o., an entity authorized to audit financial statements, for an audit of standalone and consolidated financial statements for the years ended 31 December 2008, 2009 and 2010 and for a review of standalone and consolidated financial statements for the 6-month periods ended 30 June 2008, 2009 and 2010.

Total fees payable to PricewaterhouseCoopers Sp. z o.o. under the contracts concluded by PKO BP SA amounted to PLN 1254.0 thousand for the financial year of 2008, including:

- arising from a contract for an audit of standalone and consolidated financial statements PLN 342.0 thousand,
- arising from assurance services, including reviews of financial statements PLN 781.4 thousand,
- arising from tax advisory PLN 35.0 thousand,
- arising form other services PLN 95.6 thousand.

***Declaration of the Management Board of PKO BP SA***

The Management Board of PKO BP SA certifies that, to the best of its knowledge:

1. the yearly financial statement and comparative data have been prepared in accordance with binding accounting and reporting standards and present a true and fair view of financial condition and results of operations of PKO BP Group,
2. the yearly Directors' Report presents a true and fair value of the progress and achievements as well as condition of the PKO BP Group, including a description of the basic risks and threats.

The Management Board of PKO BP SA certifies that the entity authorized to audit the financial statements and which is performing the audit of the consolidated financial statements, has been elected as the PKO BP SA Group auditor in compliance with applicable laws. The entity as well as the certified auditor performing the review fulfilled all criteria for providing unbiased and independent review memo in compliance with applicable laws.

*The PKO BP Group Directors' Report for the year 2008 consists of 67 pages.*

_ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _
President of the Management Board
Jerzy Pruski

_ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _
Vice-President of the Management Board
Bartosz Drabikowski

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Vice-President of the Management Board
Krzysztof Dresler

_ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _
Vice-President of the Management Board
Tomasz Mironczuk

_ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _
Vice-President of the Management Board
Jarosław Myjak

_ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _
Vice-President of the Management Board
Wojciech Papierak

_ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _
Vice-President of the Management Board
Mariusz Zarzycki

PRICEWATERHOUSECOOPERS

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## Independent registered auditor's opinion
## To the General Shareholders' Meeting and the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski SA

We have audited the accompanying consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski SA Group (hereinafter called "the Group"), of which Powszechna Kasa Oszczędności Bank Polski SA is the parent company (hereinafter called "the Parent Company"), with its registered office at 15 Puławska Street, in Warsaw which comprise:

(a) the consolidated balance sheet as at 31 December 2008, showing total assets and total equity and liabilities of PLN 134,635,986 thousand;

(b) the consolidated income statement for the year from 1 January to 31 December 2008 showing a net profit of PLN 3,139,187 thousand;

(c) the statement of changes in consolidated equity for the year ended 31 December 2008, showing an increase in equity of PLN 2,019,001 thousand;

(d) the consolidated cash flow statement for the financial year from 1 January 2008 to 31 December 2008, showing net outflows of PLN 962,073 thousand;

(e) additional information on adopted accounting policies and other explanatory notes.

The Management Board of the Parent Company is responsible for preparing the consolidated financial statements and a Directors' Report for the Group in accordance with the applicable regulations. Our responsibility was to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit in accordance with the following regulations applicable in the Republic of Poland:

(a) the provisions of Chapter 7 of the Accounting Act of 29 September 1994 (Journal of Laws of 2002, No. 76, item 694 with subsequent amendments, hereinafter called "the Accounting Act");

(b) the auditing standards issued by the National Council of Registered Auditors In Poland;

(c) International Standards on Auditing.

Our audit was planned and performed to obtain reasonable assurance that the consolidated financial statements were free of material misstatements and omissions. The audit included examining, on a test basis, accounting documents and entries supporting the amounts and disclosures in the consolidated financial statements. The audit also included an assessment of the accounting policies applied by the Group and significant estimates made in the preparation of the consolidated financial statements as well as an evaluation of the overall presentation thereof. We believe that our audit provided a reasonable basis for our opinion.

PricewaterhouseCoopers Sp. z o.o. is entered into the National Court Register maintained by the District Court for the Capital City of Warsaw, under KRS number 0000044655, NIP 526-021-02-28. The share capital is PLN 10,363,900. The seat of the Company is in Warsaw at Al. Armii Ludowej 14.

PRICEWATERHOUSECOOPERS

**Independent registered auditor's opinion**
**To the General Shareholder's Meeting and the Supervisory Board of**
**Powszechna Kasa Oszczędności Bank Polski SA (cont.)**

The information in the Group Directors' Report has been presented in accordance with the provisions of the Decree of the Minister of Finance dated 19 October 2005 on current and periodic information to be provided by issuers of securities (Journal of Laws No. 209, item 1744, hereinafter called "the Decree") and complies with the information included in the audited consolidated financial statements.

In our opinion, and in all material respects, the accompanying consolidated financial statements:

(a) have been prepared on the basis of properly maintained consolidation documentation;

(b) comply in form and contents with the relevant laws applicable to the Group;

(c) give a true and fair view of the Group's financial position as at 31 December 2008 and of the results of its operations for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union.

Independent registered auditor conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o.:

| | |
|---|---|
| Antoni F. Reczek<br>President of the Management Board<br>Independent Registered Auditor<br>No. 90011/503 | Registered Audit Company<br>No. 144 |

Warsaw, 8 April 2009

# Powszechna Kasa Oszczędności Bank Polski SA Group

## Independent Registered Auditor's Report on the consolidated financial statements as at and for year ended 31 December 2008

# Independent Registered Auditor's Report on the consolidated financial statements as at and for year ended 31 December 2008 to the General Shareholders' Meeting and the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski SA

**This report contains 48 consecutively numbered pages and consists of:**

# Powszechna Kasy Oszczędności Bank Polski SA Group
## Idependent Registered Auditor's report on the consolidated financial statements as at and for the year ended 31 December 2008

# I. General information about the Group

## 1. General information

As at 31 December 2008, the Powszechna Kasa Oszczędności Bank Polski SA Group comprised the following entities:

| Entity's name | Type of capital dependency | Consolida-tion method | Audit entity | Type of opinion | Balance date |
|---|---|---|---|---|---|
| Powszechna Kasa Oszczędności Bank Polski SA | Parent Company | n/a | Pricewaterhouse-Coopers Sp. z o.o. | Unqualified opinion | 31 December 2008 |
| Powszechne Towarzystwo Emerytalne BANKOWY SA | Subsidiary entity (100%) | Full | Pricewaterhouse-Coopers Sp. z o.o. | Unqualified opinion | 31 December 2008 |
| Centrum Finansowe Puławska Sp. z o.o. | Subsidiary entity (100%) | Full | Pricewaterhouse-Coopers Sp. z o.o. | Unqualified opinion | 31 December 2008 |
| PKO Inwestycje Sp. z o.o. | Subsidiary entity (100%) | Full | Pricewaterhouse-Coopers Sp. z o.o. | Unqualified opinion | 31 December 2008 |
| Inteligo Financial Services SA | Subsidiary entity (100%) | Full | Pricewaterhouse-Coopers Sp. z o.o. | Unqualified opinion | 31 December 2008 |
| Centrum Elektronicznych Usług Płatniczych „eService” SA | Subsidiary entity (100%) | Full | Pricewaterhouse-Coopers Sp. z o.o. | Unqualified opinion | 31 December 2008 |
| Bankowy Fundusz Leasingowy SA | Subsidiary entity (100%) | Full | Pricewaterhouse-Coopers Sp. z o.o. | Unqualified opinion | 31 December 2008 |
| Bankowe Towarzystwo Kapitałowe SA | Subsidiary entity (100%) | Full | Pricewaterhouse-Coopers Sp. z o.o. | Unqualified opinion | 31 December 2008 |
| PKO Towarzystwo Funduszy Inwestycyjnych SA | Subsidiary entity (75%) | Full | Pricewaterhouse-Coopers Sp. z o.o. | Unqualified opinion | 31 December 2008 |
| Kredobank SA | Subsidiary entity (98.56%) | Full | Pricewaterhouse-Coopers Sp. z o.o. | Unqualified opinion | 31 December 2008 |
| PKO Finance AB | Subsidiary entity (100%) | Full | Öhrlings Pricewaterhouse-Coopers AB | During the audit | 31 December 2008 |

and subsidiaries of Bankowy Fundusz Leasingowy SA, PKO Inwestycje SA and Inteligo Financial Services SA.

# I. General information about the Group

## 1. General information (cont.)

Key financial data of the companies consolidated as at and for the year ended 31 December 2008 are as follows:

| Entity's name | Total assets PLN thousand | Total income PLN thousand | Equity PLN thousand | Net profit PLN thousand |
|---|---|---|---|---|
| Powszechna Kasa Oszczędności Bank Polski SA | 131,244,827 | 12,485,703 | 13,529,372 | 2,881,260 |
| Grupa Kapitałowa Bankowy Fundusz Leasingowy S.A. | 2,522,316 | 193,989 | 86,842 | 10,081 |
| Kredobank S.A. | 2,146,125 | 367,490 | 43,398 | (198,209) |
| PKO Inwestycje Sp. z o.o. | 674,794 | 121,596 | 174,805 | (4,531) |
| Centrum Finansowe Puławska | 294,965 | 49,350 | 205,756 | 7,376 |
| Powszechne Towarzystwo Emerytalne BANKOWY S.A. | 224,175 | 67,529 | 200,906 | 23,519 |
| Grupa Kapitałowa Inteligo Financial Services S.A. | 157,582 | 82,740 | 125,099 | 24,847 |
| PKO Towarzystwo Funduszy Inwestycyjnych S.A. | 149,438 | 382,852 | 128,415 | 104,815 |
| Centrum Elektronicznych Usług Płatniczych "eService SA | 88,651 | 102,467 | 68,180 | 27,767 |
| Bankowe Towarzystwo Kapitałowe SA | 14,386 | 3,482 | 14,256 | 1,704 |
| PKO Finance AB | 137 | | 282 | 95 |
| **Total** | **137,517,396** | **13,857,198** | **14,577,311** | **2,878,724** |
| Consolidation adjustments | (2,805,050) | (394,519) | (502,935) | 336,823 |
| Goodwill impairment allowances | (76,360) | - | (76,360) | (76,360) |
| **Total** | **134,635,986** | **13,462,679** | **13,998,016** | **3,139,187** |

In the audited year, the Group's operations comprised, *inter alia*:

- performing activities typical of a universal bank;
- brokerage activities;
- managing pension funds;
- managing investment funds;
- managing real estate;
- services in the area of technical assistance for electronic banking;
- services in the area of card transaction processing and settlement;
- leasing.

# I. General information about the Group (cont.)

## 2. Powszechna Kasa Oszczędności Bank Polski SA – Parent Company

(a) The Bank was established in 1919 as Pocztowa Kasa Oszczędnościowa (Postal Savings Bank).

In 1950, the Bank started operating as Powszechna Kasa Oszczędności Bank Państwowy (state-owned bank). On 18 January 2000, on the basis of a Decree of the Council of Ministers, Powszechna Kasa Oszczędności Bank Państwowy was transformed into a joint-stock company wholly owned by the State Treasury, under the name of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna. On 12 April 2000, the Bank was entered in the Business Register maintained by the District Court for the City of Warsaw, Business Court, 16th Registration Division. Currently, the Bank is registered under the number KRS0000026438, and the District Court for the City of Warsaw, 13th Business Division of the National Court Register is the competent registration court.

The Bank was assigned a tax identification number (NIP) 525-000-77-38 for the purpose of making tax settlements. The Bank was assigned a REGON number 016298263 for statistical purposes.

(b) As at 31 December 2008, the Bank's registered share capital amounted to PLN 1,000,000 thousand and comprised of 1,000,000,000 shares with PLN 1 par value each, including:

- 510,000,000 series A registered shares;
- 105,000,000 series B registered shares;
- 385,000,000 series C bearer shares;

(c) In the financial year, the Management Board of the Bank comprised:

| | | |
|---|---|---|
| Jerzy Pruski | President of the Management Board | from 20 May 2008 |
| Bartosz Drabikowski | Vicepresident of the Management Board | from 20 May 2008 |
| Krzysztof Dresler | Vicepresident of the Management Board | from 1 July 2008 |
| Tomasz Mironczuk | Vicepresident of the Management Board | from 20 May 2008 |
| Jarosław Myjak | Vicepresident of the Management Board | from 15 December 2008 |
| Wojciech Papierak | Vicepresident of the Management Board | from 1 July 2008 |
| Mariusz Zarzycki | Vicepresident of the Management Board | from 1 September 2008 |
| Mariusz Klimczak | Vicepresident of the Management Board | to 30 September 2008 |
| Rafał Juszczak | President of the Management Board | to 20 May 2008 |
| Berenika Duda-Uhryn | Vicepresident of the Management Board | to 20 May 2008 |
| Robert Działak | Vicepresident of the Management Board | to 20 May 2008 |
| Wojciech Kwiatkowski | Vicepresident of the Management Board | to 20 May 2008 |
| Aldona Michalak | Vicepresident of the Management Board | to 20 May 2008 |
| Adam Skowroński | Vicepresident of the Management Board | to 20 May 2008 |
| Stefan Świątkowski | Vicepresident of the Management Board | to 20 May 2008 |

## I. General information about the Group

### 2. Powszechna Kasa Oszczędności Bank Polski SA – Parent Company (cont.)

(d) The Bank owned also the following jointly controlled entities and associates:

| | | |
|---|---|---|
| Centrum Haffnera Sp. z o.o. | - | jointly controlled entity |
| Centrum Obsługi Biznesu Sp. z o.o | - | jointly controlled entity |
| Bank Pocztowy SA | - | associate |
| Kolej Gondolowa Jaworzyna Krynicka SA | - | associate |
| Ekogips SA (in liquidation) | - | associate |
| Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | - | associate |
| Agencja Inwestycyjna CORP S.A. | - | associate |

(e) The Parent Company is an issuer of securities admitted to trading on the Warsaw Stock Exchange. As required by the Accounting Act the Parent Company has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

## II. Information about the audit

(a) PricewaterhouseCoopers Sp. z o.o. was appointed an independent registered auditor of the Group under Resolution No. 3 of the Supervisory Board dated 17 April 2008, on the basis of section 15, subsection 1, item 3 of the Bank's Memorandum of Association.

(b) PricewaterhouseCoopers Sp. z o.o. and the registered auditor conducting the audit are independent of the audited entity as defined by Article 66, clause 2 of the Accounting Act.

(c) The audit was conducted in accordance with an agreement dated 12 May 2008, in the following periods:

- Interim audit from 13 October to 12 December 2008;
- Final audit from 12 January to 8 April 2009.

## III. The Group's results and financial position

The consolidated financial statements do not take account of inflation. The consumer price index (on a December to December basis) amounted to 3.3% in the audited year (4.0% in 2007).

Powszechna Kasa Oszczędności Bank Polski SA is the parent company of a Group which, in the audited year, comprised of 10 direct subsidiaries and 10 indirect subsidiaries. The financial data relating to 5 direct associates and to jointly controlled entities were included in consolidated financial statements using the equity accounting method. In the year preceding the audited year, the Group consisted of 9 direct subsidiaries and 8 indirect subsidiaries; the data of 5 direct associates and 1 indirect associate and the data relating to jointly controlled entities were included in the consolidated financial statements using the equity accounting method.

The following comments are based on information obtained during the audit of the consolidated financial statements:

- As at the balance date, total assets amounted to PLN 134,635,986 thousand and increased by PLN 26,098,386 thousand (24%) compared with 31 December 2007. The increase was financed mainly by the increase in amounts due to customers of PLN 16,359,771 thousand (19%), an increase in liabilities arising on the valuation of derivative instruments of PLN 4,870,412 thousand (381%), an increase in amounts due from banks of PLN 2,285,489 thousand (49%) and the increase in equity of PLN 2,019,001 thousand (17%).

- The balance of amounts due to customers as at the balance date amounted to PLN 102,939,281 thousand and accounted for 77% of total assets (a decrease of 3 p.p. compared with 31 December 2007). The change in the balance of amounts due to customers was mainly related to the Bank (99%) and was due to a significant increase in amounts due to retail customers of PLN 10,074,055 thousand (15%) compared with 31 December 2007 (see Note 15).

- Liabilities arising on the valuation of derivatives amounted to PLN 6,150,337 thousand as at the end of 2008. The increase in the balance of PLN 4,870,412 thousand (381%) as at the balance date was primarily due to an increase in liabilities arising on the valuation of interest rate swaps of PLN 3,910,503 thousand (Note 14). This was mainly due to an increased volume of transactions concluded and the developments in the forex market in the second half of 2008.

- Amounts due to other banks amounted to PLN 6,988,603 as at the balance date and comprised mainly of loans obtained by Group companies of PLN 3,943,895 thousand, including PLN 2,656,004 thousand representing loans in Swiss francs received by the parent company. An increase in deposits from other banks of PLN 1,399,033 thousand (97%) compared to the end of the prior year also contributed to the increase in the total balance of amounts due to other banks. The increase in loans received was mainly due to the weakening of the Polish currency against the Swiss Franc (which is the currency of the loans received by the parent company) in the last two quarters of the audited year.

## III. The Group's results and financial position (cont.)

- As at 31 December 2008, consolidated equity amounted to PLN 13,998,016 thousand (PLN 11,979,015 thousand as at 31 December 2007). The increase in equity of PLN 2,019,001 thousand (17%) was the combined effect of the net profit generated by the Group in 2008 of PLN 3,139,187 thousand and the payment of dividend for 2007 of PLN 1,120,750 thousand (Note 20).

- The value of regulatory capital amounted to PLN 12,885,283 thousand as at 31 December 2008 (PLN 9,983,400 thousand as at 31 December 2007) and exceeded the total capital requirement by PLN 3,750,712 thousand at the end of 2008. The solvency ratio calculated as at the balance date based on the banking and trading portfolios amounted to 11.29% and decreased by 0.73 p.p. compared with the end of the prior year.

- The higher level of financing was reflected mainly in an increase, as at the balance date, in the balance of loans and advances to customers of PLN 24,690,742 thousand (32%), in investment securities available for sale of PLN 2,898,675 thousand (51%) and in an increase in assets arising on the valuation of derivatives of PLN 2,040,934 (131%). At the same time, financial instruments designated at fair value through profit or loss decreased by PLN 3,758,900 thousand (45%) as at the balance date.

- As at the balance date, loans and advances to customers amounted to PLN 101,107,891 thousand and accounted for 75% of total assets (an increase of 5 p.p. compared with the end of 2007). The gross value of the loan portfolio increased by PLN 25,193,015 thousand (32%) as at the balance date compared with 31 December 2007. The major portion of the increase of PLN 23,844,261 thousand (108%) related to mortgage loans.

- The quality of the portfolio of loans and advances and lease receivables within the Group as at the balance date, measured with reference to the share of impaired loans in total gross loans deteriorated compared with the end of 2007. As at 31 December 2008, the share of impaired loans in total loans was 3.6% (3.5% as at 31 December 2007). Combined with an increase in the gross value of the loan portfolio, this resulted in a lower coverage of gross receivables with impairment allowances, which decreased from 3.1% as at the end of 2007 to 2.8% as at 31 December 2008.

- The increase in the balance of available-for-sale investment securities of PLN 2,898,675 thousand (51%) to PLN 8,614,913 thousand as at the balance date resulted mainly from an increase in the Group's exposure to bonds issued by the State Treasury of PLN 2,315,193 thousand (193%) compared with 31 December 2007.

## III. The Group's results and financial position (cont.)

- Receivables arising on the valuation of derivative instruments as at the balance date amounted to PLN 3,597,670 thousand and increased by PLN 2,040,934 thousand (131%) compared with the prior year. The increase was mainly due to a higher valuation of interest rate swaps (IRS). The increase in receivables arising on the valuation of interest rate swaps of 93% compared with the end of 2007 was due to the higher level of sales of the instruments used for hedging against interest rate and currency risks, mainly to the segment of corporate customers and from the depreciation of the Polish zloty in the fourth quarter of 2008.

- The balance of financial assets designated at fair value through profit or loss at the balance date amounted to PLN 4,555,544 thousand. The decrease of PLN 3,758,900 thousand (45%) as at the balance date was mainly due to a decrease in the Group's exposure to Treasury securities of 2,979,412 thousand (41%) compared with 31 December 2007.

- The Bank's 1-month and 3-month liquidity ratios calculated on the basis of data about assets receivable and liabilities payable adjusted to real terms amounted to 1.49 and 1.29 respectively (in 2007 2.83 for both terms). The decrease in the ratios values in 2008 resulted from a significant increase in liabilities classified as with maturity up to one month, mainly amounts due to customers and due to valuation of derivative instruments.

- The operating profit for 2008 amounted to PLN 3,961,749 thousand and was PLN 356,891 thousand (10%) higher than in 2007. The operating profit had the following major components: net interest income of PLN 6,127,315 thousand, net fee and commission income of PLN 2,411,809 thousand and net foreign exchange gains of PLN 739,757 thousand. Items decreasing the operating profit included administrative expenses of PLN 4,296,275 thousand and the net impairment allowance charge of PLN 1,130,396 thousand in 2008.

- Regardless the fact that the interest margin calculated as the ratio of net interest income to interest income in 2008 decreased by 2 p.p. compared with 2007 in the audited year, net interest income was 1,480,748 thousand (32%) higher than in the prior year. This was mainly due to an increase in interest income resulting from intensified lending activity in 2008 - interest income on loans and advances to customers increased by PLN 2,519,517 thousand (49%). In addition, the rate of interest income on interest-bearing assets increased by 1.3 p.p. and amounted to 8.1% in 2008. The cost of borrowing decreased (from 2.1% in 2007 to 2.8% in 2008).

- In 2008, fee and commission income amounted to PLN 3,144,760 thousand and increased by PLN 61,344 thousand (2%) compared with 2007. Fee and commission income was mainly earned on payment cards (PLN 851,370 thousand), servicing bank accounts (PLN 805,449 thousand) and servicing investment and pension funds (PLN 448,071 thousand). Fee and commission expense in total amount of PLN 732,951 thousand in 2008 included mainly costs relating to payment cards (PLN 309,766 thousand).

## III. The Group's results and financial position (cont.)

- Net foreign exchange gains increased by PLN 209,278 thousand (40%) and amounted to PLN 739,757 thousand in 2008 (Note 24). The foreign exchange differences from translation of assets and liabilities in foreign currencies increase 8 times in the audited year and they amounted to PLN 2,946,341 thousand. The increase was offset by losses on derivatives valuation in the amount of PLN 2,206,584 thousand which related mainly to currency interest rate swaps (CIRS) used primarily for interest rate and currency risk management.

- The larger scale of the Bank's activities in 2008 resulted in an increase in administrative expenses of PLN 255,431 thousand (6%) to the level of PLN 4,296,275 thousand. The overall effectiveness calculated as the ratio of costs to income (C/I) improved in 2008. The C/I ratio in 2008 was 45.8% and was 6.7 p.p. lower than in 2007.

- The net impairment allowance charge increased by PLN 1,073,753 thousand (more than 19 times). In 2008, it amounted to PLN 1,130,396 thousand. The change in the balance of the net impairment allowance charge in 2008 was due to an increase in the impairment allowance for corporate loans of PLN 563,133 thousand (827%) and consumer loans of PLN 189,600 (81%).

- Gross profit for 2008 amounted to PLN 3,977,343 thousand and was PLN 368,113 thousand (10%) higher than in 2007. Gross profitability (measured as the ratio of profit before tax to total income) amounted to 29.5% in the audited year and decreased by 4.2 p.p. compared with the prior year.

- The income tax expense for 2008 amounted to PLN 838,156 thousand (PLN 667,838 thousand in 2007). The effective tax rate for 2008 was 21.1% and was 2.6 p.p. higher than in 2007. As a result, in 2008 the Group recorded a net profit of PLN 3,139,187 thousand, which was PLN 197,795 thousand (7%) higher than in 2007. Net profitability amounted to 23.3% in 2008 ( 27.5% in 2007).

- The return on assets (calculated as the ratio of the net profit to average total assets) was 2.6% in 2008 and decreased by 0.2 p.p. compared with 2007. The return on equity in 2008 was also 2.3 p.p. lower, and amounted to 24.2% in the audited year.

The consolidated financial statements have been prepared in accordance with the going concern principle.

## IV. Discussion of consolidated financial statements components

### CONSOLIDATED BALANCE SHEET as at 31 December 2008

| ASSETS | Note | 31.12.2008 PLN thousand | 31.12.2007 PLN thousand | Change PLN thousand | Change (%) | 31.12.2008 Structure (%) | 31.12.2007 Structure (%) |
|---|---|---|---|---|---|---|---|
| Cash and balances with the central bank | 1 | 5,836,892 | 4,682,627 | 1,154,265 | 25 | 4 | 4 |
| Amounts due from banks | 2 | 3,363,599 | 5,261,236 | (1,897,637) | (36) | 3 | 5 |
| Trading assets | 3 | 1,496,147 | 1,202,919 | 293,228 | 24 | 1 | 1 |
| Derivative financial instruments | 4 | 3,597,670 | 1,556,736 | 2,040,934 | 131 | 3 | 2 |
| Financial assets designated at fair value through profit or loss | 5 | 4,555,544 | 8,314,444 | (3,758,900) | (45) | 3 | 8 |
| Loans and advances to customers | 6 | 101,107,891 | 76,417,149 | 24,690,742 | 32 | 75 | 70 |
| Investment securities available for sale | 7 | 8,614,913 | 5,716,238 | 2,898,675 | 51 | 6 | 5 |
| Investments in jointly controlled entities and associates | 8 | 247,145 | 178,584 | 68,561 | 38 | - | - |
| Inventories | 9 | 622,410 | 365,304 | 257,106 | 70 | 1 | - |
| Intangible assets | 10 | 1,352,778 | 1,183,491 | 169,287 | 14 | 1 | 1 |
| Tangible fixed assets | 11 | 2,964,659 | 2,820,103 | 144,556 | 5 | 2 | 3 |
| *including investment properties* | | *24,170* | *32,767* | *(8,597)* | *(26)* | - | - |
| Current income tax receivables | | 6,649 | 187,939 | (181,290) | (96) | - | - |
| Deferred income tax asset | | 239,237 | 72,154 | 167,083 | 232 | - | - |
| Other assets | 12 | 630,452 | 578,676 | 51,776 | 9 | 1 | 1 |
| **TOTAL ASSETS** | | **134,635,986** | **108,537,600** | **26,098,386** | **24** | **100** | **100** |

## IV. Discussion of consolidated financial statements components (cont).

### CONSOLIDATED BALANCE SHEET as at 31 December 2008 (cont.)

| EQUITY AND LIABILITIES | Note | 31.12.2008 PLN thousand | 31.12.2007 PLN thousand | Change PLN thousand | Change (%) | 31.12.2008 Structure (%) | 31.12.2007 Structure (%) |
|---|---|---|---|---|---|---|---|
| Amounts due to the central bank | | 2,816 | 1,279 | 1,537 | 120 | - | - |
| Amounts due to other banks | 13 | 6,988,603 | 4,703,114 | 2,285,489 | 49 | 5 | 4 |
| Derivative financial instruments | 14 | 6,150,337 | 1,279,925 | 4,870,412 | 381 | 5 | 1 |
| Amounts due to customers | 15 | 102,939,281 | 86,579,510 | 16,359,771 | 19 | 77 | 80 |
| Debt securities in issue | 16 | 211,573 | 178,860 | 32,713 | 18 | - | - |
| Subordinated liabilities | 17 | 1,618,755 | 1,614,885 | 3,870 | - | 1 | 2 |
| Other liabilities | 18 | 1,667,776 | 1,732,333 | (64,557) | (4) | 1 | 2 |
| Current income tax liabilities | 29 | 472,228 | 9,932 | 462,296 | 4,655 | - | - |
| Deferred income tax liability | 29 | 20,585 | 4,446 | 16,139 | 363 | - | - |
| Provisions | 19 | 566,016 | 454,301 | 111,715 | 25 | - | - |
| **TOTAL LIABILITIES** | | **120,637,970** | **96,558,585** | **24,079,385** | **25** | **89** | **89** |
| Share capital | | 1,000,000 | 1,000,000 | - | - | 1 | 1 |
| Other capital | | 9,835,307 | 8,137,270 | 1,698,037 | 21 | 7 | 7 |
| Currency translation differences from foreign operations | | (57,413) | (47,761) | (9,652) | 20 | - | - |
| Retained earnings | | 53,232 | (72,192) | 125,424 | (174) | - | - |
| Net profit for the year | | 3,120,674 | 2,903,632 | 217,042 | 7 | 3 | 3 |
| **Capital and reserves attributable to shareholders of the parent company** | | **13,951,800** | **11,920,949** | **2,030,851** | **17** | **11** | **11** |
| Minority interest | | 46,216 | 58,066 | (11,850) | (20) | - | - |
| **TOTAL EQUITY** | **20** | **13,998,016** | **11,979,015** | **2,019,001** | **17** | **11** | **11** |
| **TOTAL LIABILITIES AND EQUITY** | | **134,635,986** | **108,537,600** | **26,098,386** | **24** | **100** | **100** |

## IV. Discussion of consolidated financial statements components (cont.)

### CONSOLIDATED INCOME STATEMENT for the year ended 31 December 2008

| | Note | 2008 PLN thousand | 2007 PLN thousand | Change PLN thousand | Change (%) | 2008 Structure (%) | 2007 Structure (%) |
|---|---|---|---|---|---|---|---|
| Interest and similar income | | 9.033.781 | 6.559.333 | 2.474.448 | 38 | 67 | 61 |
| Interest expense and similar charges | | (2.906.466) | (1.912.766) | (993.700) | 52 | 31 | 27 |
| **Net interest income** | 22 | **6.127.315** | **4.646.567** | **1.480.748** | **32** | | |
| Fee and commission income | | 3.144.760 | 3.083.416 | 61.344 | 2 | 23 | 29 |
| Fee and commission expense | | (732.951) | (751.569) | 18.618 | (2) | 8 | 10 |
| **Net fee and commission income** | 23 | **2.411.809** | **2.331.847** | **79.962** | **3** | | |
| Dividend income | | 21.956 | 3.293 | 18.663 | 567 | - | - |
| Net income from financial instruments at fair value through profit or loss | | (201.129) | (73.314) | (127.815) | 174 | 2 | 1 |
| Gains less losses from investment securities | | (2.986) | 6.543 | (9.529) | (146) | - | - |
| Net foreign exchange gains | 24 | 739.757 | 529.779 | 209.978 | 40 | 6 | 5 |
| Other operating income | 25 | 522.425 | 514.566 | 7.859 | 2 | 4 | 5 |
| Other operating expenses | 26 | (230.727) | (256.936) | 26.209 | (10) | 2 | 4 |
| **Net other operating income and expense** | | **291.698** | **257.630** | **34.068** | **13** | | |
| Net impairment allowance charge | 27 | (1.130.396) | (56.643) | (1.073.753) | 1,896 | 12 | 1 |
| Administrative expenses | 28 | (4.296.275) | (4.040.844) | (255.431) | 6 | 45 | 57 |
| **Operating profit / Profit before income tax** | | **3.961.749** | **3.604.858** | **356.891** | **10** | | |
| Share of profit (loss) of associates and jointly controlled entities | | 15.594 | 4.372 | 11.222 | 257 | - | - |
| **Profit before income tax** | | **3.977.343** | **3.609.230** | **368.113** | **10** | | |

## IV. Discussion of consolidated financial statements components

### CONSOLIDATED INCOME STATEMENT for the year ended 31 December 2008 (cont.)

| | Note | 2008 PLN thousand | 2007 PLN thousand | Change PLN thousand | Change (%) | 2008 Structure (%) | 2007 Structure (%) |
|---|---|---|---|---|---|---|---|
| **Profit before income tax** | | **3,977,343** | **3,609,230** | **368,113** | **10** | | |
| Income tax expense | 29 | (838,156) | (667,838) | (170,318) | 26 | | |
| **Net profit (including minority interest)** | | **3,139,187** | **2,941,392** | **197,795** | **7** | | |
| Net profit attributable to minority shareholders | | (18,513) | (37,760) | (19,247) | (51) | | |
| **Net profit attributable to the parent company** | | **3,120,674** | **2,903,632** | **217,042** | **7** | | |
| Total income | | 13,478,273 | 10,701,302 | 2,776,971 | 26 | **100** | **100** |
| Total expenses | | (9,500,930) | (7,092,072) | (2,408,858) | 34 | **100** | **100** |
| **Profit before income tax** | | **3,977,343** | **3,609,230** | **368,113** | **10** | | |

## IV. Discussion of consolidated financial statements components (cont.)

### Selected ratios summarizing the Group's financial position and results

The following ratios summarize the Group's business activities, its results of operations for the audited year and its financial position as at the balance date compared with the prior year (1):

| | 2008 | 2007 |
|---|---|---|
| **Profitability ratios:** | | |
| Gross profitability (profit before tax / total income) | 29.5% | 33.7% |
| Net profitability (net profit / total income) | 23.3% | 27.5% |
| Return on equity (net profit / average net assets) (2) | 24.2% | 26.5% |
| Return on assets (net profit / average total assets) (2) | 2.6% | 2.8% |
| Profitability ratio on interest-bearing assets (interest income / average interest-bearing assets) (2) | 8.1% | 6.8% |
| Cost / Income ratio (Administrative expenses / the result on banking operations) (3) | 45.8% | 52.5% |
| Cost of borrowings (interest expenses / average deposits) (2) | 2.8% | 2.1% |
| **Quality of assets ratios**: | | |
| Interest-bearing assets to total assets (4) | 91.0% | 92.0% |
| Gross impaired loans to total gross loans | 3.6% | 3.5% |
| Impairment allowances on impaired loans and advances to customers to impaired loans and advances to customers | 2.8 | 3.1 |
| **Liquidity ratio:** | | |
| Liquidity I (assets due within 1 month/liabilities due within 1 month) (5) | 1.49 | 2.83 |
| Liquidity II (assets due within 3 months/liabilities due within 3 months) (5) | 1.29 | 2.83 |
| **Other ratios:** | | |
| Solvency ratio | 11.29% | 12.02% |
| Regulatory capital (PLN thousand) | 12,885,283 | 9,983,400 |
| Total capital requirement (PLN thousand) | 9,134,571 | 6,645,674 |

(1) Individual ratio percentage may differ from those presented in the consolidated financial statements due to applying a different method for their calculation.
(2) Average balances of the balance sheet items were calculated on the basis of individual balances as at the beginning and end of the current and previous years
(3) The result on banking operations defined as the operating result less the Group's administrative expenses and net of impairment charge for loans and advances
(4) Interest-bearing assets defined as balances with the central bank (excluding cash), loans and advances to banks and customers, investment and trading securities.
(5) Liquidity ratios are calculated based on the parent company and relate to assets receivable to liabilities payable ratio adjusting by real maturity as at the balance date.

## IV. Discussion of consolidated financial statements components (cont.)

## Consolidated balance sheet as at 31 December 2008

### 1. Cash and balances with the central bank

As at 31 December 2008, cash and balances with the central bank amounted to PLN 5,836,892 thousand (PLN 4,682,627 thousand at the end of 2007), of which 99% (PLN 5,758,248 thousand) related to the Bank. Of this amount, over a half (PLN 3,419,832 thousand) were balances maintained with the National Bank of Poland (PLN 2,972,067 thousand as at 31 December 2007).

At the balance date, the Bank calculated and maintained the mandatory reserve in accordance with Resolution No. 15/2004 of the Management Board of the National Bank of Poland dated 13 April 2004 on the principles and method of calculating and maintaining mandatory reserves by banks. The declared mandatory reserve to be maintained in December 2008 amounted to PLN 3,519,554 thousand (in December 2007: PLN 2,885,695 thousand).

### 2. Amounts due from banks

As at the balance date, amounts due from banks amounted to PLN 3,363,599 thousand, of which PLN 3,222,451 related to the Bank (96%). The balances of and movements in amounts due from banks as at respective balance dates are as follows:

| | 31.12.2008 | 31.12.2007 | Change | Change |
|---|---|---|---|---|
| | PLN thousand | PLN thousand | PLN thousand | (%) |
| Deposits with other banks | 2,106,309 | 4,676,670 | (2,570,361) | (55) |
| Reverse repo transactions | 603,200 | 14,397 | 588,803 | 4,090 |
| Current accounts | 383,847 | 183,784 | 200,063 | 109 |
| Loans and advances | 262,408 | 372,282 | (109,874) | (30) |
| Receivables due from unsettled transactions | 28,067 | - | 28,067 | - |
| Cash in transit | 7,879 | 14,379 | (6,500) | (45) |
| **Total** | **3,391,710** | **5,261,512** | **(1,869,802)** | **(36)** |
| Impairment allowances | (28,111) | (276) | (27,835) | 10.085 |
| **Net total** | **3,363,599** | **5,261,236** | **(1,897,637)** | **(36)** |

As at 31 December 2008, PLN 2,106,309 thousand (62%) of the gross balance related to deposits in other banks (PLN 4,676,670 thousand, 89% of the balance as at 31 December 2007). Within the balance of deposits with other banks, 83% comprised deposits with banks having a rating above A- (98% as at 31 December 2007).

# IV. Discussion of consolidated financial statements components

## 2. Amounts due from banks (cont.)

Receivables due from unsettled transactions of PLN 28,067 related almost entirely to transactions with derivative instruments declared as default with a foreign bank. An impairment allowance covering 100% of these transactions was recognized.

Amounts denominated in foreign currencies represented 68% of the balance (53% as at 31 December 2007).

## 3. Trading assets

Trading assets as at 31 December 2008 amounted to PLN 1,496,147 thousand and related solely to the Bank. Compared with the end of 2007, the balance increased by PLN 293,228 thousand (24%). The balance comprised the following assets:

| | 31.12.2008 | 31.12.2007 | Change | Change |
|---|---|---|---|---|
| | PLN thousand | PLN thousand | PLN thousand | (%) |
| Treasury bills | 772,803 | 60,172 | 712,631 | 1,184 |
| Treasury bonds denominated in PLN | 699,119 | 1,125,562 | (426,443) | (38) |
| Treasury bonds denominated in EUR | 19,476 | 7,395 | 12,081 | 163 |
| Other | 4,749 | 9,790 | (5,041) | (51) |
| **Total** | **1,496,147** | **1,202,919** | **293,228** | **24** |

The increase in the value of financial assets held for trading of PLN 293,228 thousand as at the balance date was mainly due to the Bank's increasing exposure to Treasury bills combined with a decreasing exposure to bonds. A particularly significant increase in the value of Treasury bills in the portfolio of financial assets held for trading occurred in December 2008 and amounted to PLN 490,349 compared with November. Changes in the structure of the securities portfolio reflected the Bank's intention to invest in securities which are safe, ensure a stable rate of return and are not very sensitive to fluctuations in market prices.

## IV. Discussion of consolidated financial statements components (cont.)

### 4. Derivative financial instruments

The balance of receivables arising on the valuation of derivative instruments increased more than twofold compared with 31 December 2007 and it amounted to PLN 3,597,670 as at 31 December 2008. The Bank's share in the balance was 100%, and it comprised assets arising on the valuation of the following transactions:

| | 31.12.2008 | 31.12.2007 | Change | Change |
|---|---|---|---|---|
| | PLN thousand | PLN thousand | PLN thousand | (%) |
| Interest Rate Swaps | 2,784,337 | 1,439,870 | 1,344,467 | 93 |
| *- including CIRS* | *56,289* | *410,927* | *(354,638)* | *(86)* |
| Currency and equity options | 575,003 | 15,528 | 559,475 | 3,603 |
| FX forward | 226,706 | 101,302 | 125,404 | 124 |
| Other | 11,624 | 36 | 11,588 | 32,189 |
| **Total** | **3,597,670** | **1,556,736** | **2,040,934** | **131** |

The increase in receivables arising on the valuation of interest rate swaps of 93% compared with 2007 resulted from the Bank's intensified sales of instruments used for hedging against interest rate and currency risks, mainly to the segment of corporate customers.

The increase in receivables arising on the valuation of options (mainly currency options) of PLN 559,475 thousand and a twofold increase in receivables arising on the valuation of forward currency transactions resulted from a significant increase in sales of hedging instruments in 2008, in the period of appreciation of the Polish currency. Dramatic developments in the forex market in the fourth quarter of 2008 resulted in a significant increase in receivables arising on the valuation of these transactions. The valuation of assets arising on derivative transactions presented in the financial statements includes a fair value adjustment resulting from an analysis of counterparty credit risk, amounting to PLN 115,448 thousand.

## IV. Discussion of consolidated financial statements components (cont.)

### 5. Financial assets designated at fair value through profit or loss

The balance of financial assets designated at fair value through profit or loss decreased by nearly a half (45%) compared with the end of 2007. As at 31 December 2008 it amounted to PLN 4,555,544 thousand and related almost entirely to the Bank. The balance comprised the following assets:

| | 31.12.2008 | 31.12.2007 | Change | Change |
|---|---|---|---|---|
| | PLN thousand | PLN thousand | PLN thousand | (%) |
| **Debt securities** | **4,555,544** | **8,292,362** | **(3,736,818)** | **(45)** |
| issued by the State Treasury | 4,373,621 | 7,353,033 | (2,979,412) | (41) |
| issued by other banks | 172,876 | 764,018 | (591,142) | (77) |
| issued by other financial institutions | - | 129,142 | (129,142) | (100) |
| issued by non-financial entities | 9,047 | 46,169 | (37,122) | (80) |
| shares not listed on stock exchange | **-** | **22,082** | **(22,082)** | **(100)** |
| **Total** | **4,555,544** | **8,314,444** | **(3,758,900)** | **(45)** |

A decrease in the balance of financial assets designated at fair value through profit or loss as at the balance date resulted mainly from the Group's lower exposure to Treasury bonds, combined with a higher exposure to Treasury bills. During the audited year the Group gradually reduced its portfolio of Treasury bonds, as part of its liquidity management activities and as the result of the financing of lending activities.

An increase in the exposure to Treasury bills occurred in the last quarter of the year and reflected the Bank's efforts to invest surplus liquidity in liquid assets which ensured a stable rate of return at low risk. At the same time, throughout 2008, the Group gradually decreased its portfolio of foreign bonds issued by banks. A decrease of exposure in foreign bonds amounted to PLN 591,142 thousand. This change was due to macroeconomic developments which resulted in an increase in issuer's credit risk and the disappearance of liquidity in the banking debt securities market.

## IV. Discussion of consolidated financial statements components (cont.)

### 6. Loans and advances to customers

The analysis of the structure and quality of the loan portfolio is presented in sections below.

#### a) Structure of the Group's loan portfolio by type of loans

As at the balance date, the gross loan portfolio comprised:

| | 31.12.2008 PLN thousand | 31.12.2007 PLN thousand | Change PLN thousand | Change (%) |
|---|---|---|---|---|
| **Financial sector (without banks)** | **2,116,248** | **1,183,154** | **933,094** | **79** |
| Corporate loans | 2,116,248 | 1,183,154 | 933,094 | 79 |
| **Non-financial sector** | **98,694,129** | **73,970,120** | **24,724,009** | **33** |
| Consumer loans | 20,918,698 | 18,496,892 | 2,421,806 | 13 |
| Mortgage loans | 45,937,364 | 22,093,103 | 23,844,261 | 108 |
| Corporate loans | 31,838,067 | 33,380,125 | (1,542,058) | (5) |
| **Public sector** | **3,215,390** | **3,679,478** | **(464,088)** | **(13)** |
| Corporate loans | 3,215,390 | 3,679,478 | (464,088) | (13) |
| **Loans and advances - gross** | **104,025,767** | **78,832,752** | **25,193,015** | **32** |
| Impairment allowances | (2,917,876) | (2,415,603) | (502,273) | 21 |
| **Loans and advances – net** | **101,107,891** | **76,417,149** | **24,690,742** | **32** |

As at the balance date, loans and advances to customers amounted to PLN 101,107,891 thousand, of which 96% related to the Bank. The remaining 4% comprised, *inter alia*, loans and advances granted by Kredobank SA of PLN 1,969,159 thousand and lease receivables of the Bankowy Fundusz Leasingowy SA Group of PLN 2,397,662 thousand.

As at 31 December 2008, 29% of the gross balance (i.e. PLN 29,552,567) related to loans and advances in foreign currencies (including 76% denominated in Swiss francs). As at 31 December 2007, receivables in foreign currencies accounted for 31% of the balance, i.e. PLN 16,672,363 thousand (including 72% in Swiss francs).

# IV. Discussion of consolidated financial statements components

## 6. Loans and advances to customers (cont.)

### b) The quality of the Group's loan portfolio

| | 31.12.2008<br>PLN thousand | 31.12.2007<br>PLN thousand | 31.12.2008 Structure<br>% | 31.12.2007 Structure<br>% |
|---|---|---|---|---|
| Impaired loans | 3,667,210 | 2,699,009 | 3.5 | 3.4 |
| Non-impaired loans | 97,962,004 | 74,482,845 | 94.2 | 94.5 |
| Impaired lease receivables | 152,801 | 52,000 | 0.1 | 0.1 |
| Non-impaired lease receivables | 2,243,752 | 1,598,898 | 2.2 | 2.0 |
| **Loans and advances - gross** | **104,025,767** | **78,832,752** | **100.0** | **100.0** |
| Impairment allowances for identified loss | (2,156,135) | (1,900,135) | 73.9 | 78.7 |
| Allowance for incurred but not reported loss (IBNR) | (717,081) | (475,673) | 24.6 | 19.7 |
| Allowance for impairment on finance lease receivables | (44,660) | (39,795) | 1.5 | 1.6 |
| **Total impairment allowances** | **(2,917,876)** | **(2,415,603)** | **100.0** | **100.0** |
| **Loans and advances – net** | **101,107,891** | **76,417,149** | | |

The quality of the Group's loan portfolio as at the balance date, measured with reference to the share of impaired loans and lease receivables in total gross loans was 3.6% (3.5% in 2007). At the same time, the coverage of gross loans and advances with impairment allowances decreased by 0.3 p.p., to 2.8% as at the balance date.

The share of Kredobank SA in the gross value of loans as at the balance date was 2%, Given the macroeconomic situation in the Ukraine, the quality of the loan portfolio, measured by reference to the share of impaired loans to total loans, deteriorated (an increase from 8.4% at the end of 2007 to 20.1% as at 31 December 2008).

A deterioration in the quality of the portfolio also occurred in respect of the lease receivables of the Bankowy Fundusz Leasingowy SA Group, whose share in the gross value of loans and advances as at 31 December 2008 was 2%. The share of impaired receivables increased from 3.1% at the end of 2007 to 6.4% as at the balance date.

# IV. Discussion of consolidated financial statements components (cont.)

## 7. Investment securities available for sale

As at 31 December 2008, 'investment securities available for sale' amounted to PLN 8,614,913 thousand and 97% of the balance related to the Bank. The breakdown of the balance as at the balance date is presented in the table below:

| | 31.12.2008 | 31.12.2007 | Change | Change |
|---|---|---|---|---|
| | PLN thousand | PLN thousand | PLN thousand | (%) |
| **Investments securities available for sale** | | | | |
| Treasury bonds | 3,516,322 | 1,201,129 | 2,315,193 | 193 |
| Bonds issued by the central bank | 2,673,729 | 2,633,505 | 40,224 | 2 |
| Municipal bonds | 1,418,100 | 1,176,047 | 242,053 | 21 |
| Non-financial entities bonds | 838,828 | 673,885 | 164,943 | 24 |
| Other banks bonds | 98,855 | 57,619 | 41,236 | 72 |
| Other financial entities bonds | 94,770 | 902 | 93,868 | 10,407 |
| **Total** | **8,640,604** | **5,743,087** | **2,897,517** | **50** |
| Impairment allowance | (25,691) | (26,849) | 1,158 | (4) |
| **Net total** | **8,614,913** | **5,716,238** | **2,898,675** | **51** |

The change in the balance as at the balance date resulted mainly from the Bank's increased exposure to Treasury bonds by PLN 2,193,263 thousand. The increase was mainly due to the fact that in the audited year, the Bank purchased Treasury bonds with a fixed interest rate and maturing in 2010 (10-year bonds with a nominal value of PLN 1,580,000 thousand and 5-year bonds with a nominal value of PLN 350,000 thousand). Moreover, in 2008 the Bank purchased Treasury bonds denominated in EUR and USD, with a nominal value of EUR 30,000 thousand and USD 30,000 thousand.

The balance of investment securities available for sale issued by local authorities and non-financial institutions comprised municipal and corporate bonds for which the Bank was the underwriter. The increase in the balances of both corporate and municipal bonds resulted from a large number of new issues in the first three quarters of 2008.

The balance of securities issued by the central bank comprised bonds issued by the National Bank of Poland.

The balance of securities issued by other banks included bonds denominated in EUR purchased in 2008.

# IV. Discussion of consolidated financial statements components (cont.)

## 8. Investments in associates and jointly controlled entities

As at 31 December 2008, the balance of investments in associates and jointly controlled entities amounted to PLN 247,145 thousand and increased by PLN 68,561 thousand (38%) compared with the end of 2007:

| | 31.12.2008 | 31.12.2007 | Change | Change |
|---|---|---|---|---|
| | PLN thousand | PLN thousand | PLN thousand | (%) |
| **Jointly controlled entities** | **56,682** | **56,271** | **411** | **1** |
| Centrum Haffnera Sp. z o.o. Group | 45,748 | 45,752 | (4) | - |
| Centrum Obsługi Biznesu Sp. z o.o. | 10,934 | 10,519 | 415 | 4 |
| **Associates** | **198,580** | **176,744** | **21,836** | **12** |
| Bank Pocztowy S.A. | 175,870 | 146,500 | 29,370 | 20 |
| Kolej Gondolowa Jaworzyna Krynicka SA | 15,531 | 15,531 | - | - |
| Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | 463 | 1,626 | (1,163) | (72) |
| Agencja Inwestycyjna Corp SA | 278 | 301 | (23) | (8) |
| Ekogips SA (in liquidation) | 5,400 | 5,400 | - | - |
| Finder SA | - | 7,386 | (7,386) | (100) |
| **Shares in jointly controlled entities and associates - gross** | **255,262** | **233,015** | **22,247** | **10** |
| Impairment allowance | (8,117) | (54,431) | 46,314 | (85) |
| **Shares in jointly controlled entities and associates - net** | **247,145** | **178,584** | **68,561** | **38** |

The increase in the balance of investments in jointly controlled entities and associates resulted mainly from the release of impairment allowances for investments in Bank Pocztowy SA and in Kolej Gondolowa Jaworzyna Krynicka SA as well as from the increase of the Group's share in net assets of Bank Pocztowy SA.

# IV. Discussion of consolidated financial statements components (cont.)

## 9. Inventories

As at the balance date inventories amounted to PLN 622,410 thousand. of which PLN 558,820 thousand (90%) related to PKO Inwestycje Group. The balance comprised the following items:

| | 31.12.2008 | 31.12.2007 | Change | Change |
|---|---|---|---|---|
| | PLN thousand | PLN thousand | PLN thousand | (%) |
| Work-in-progress | 403,175 | 344,378 | 58,797 | 17 |
| Finished goods | 113,533 | 9,910 | 103,623 | 1,046 |
| Supplies | 100,270 | 10,551 | 89,719 | 850 |
| Materials | 5,432 | 465 | 4,967 | 1,068 |
| **Total** | **622,410** | **365,304** | **257,106** | **70** |

Work-in-progress of PLN 403,175 thousand had the largest share in the balance. It represented expenses incurred in connection with construction projects by the Group companies engaged in development activities.

The second largest component of the balance were the assets of the subsidiary Bankowy Fundusz Leasingowy SA amounting to PLN 40,988 thousand (7% of the total balance) which were fixed assets to be leased and leased assets recovered from customers as part of the debt collection process.

## 10. Intangible assets

As at the balance date intangible assets amounted to PLN 1,352,778; 80% of the balance related to the Bank. Compared with the end of 2007 the balance increased by PLN 169,287 thousand (14%). The balance comprises the following assets:

| | 31.12.2008. | 31.12.2007. | Change | Change |
|---|---|---|---|---|
| | PLN thousand | PLN thousand | PLN thousand | (%) |
| Software | 1,828,366 | 1,634,511 | 193,855 | 12 |
| Other including capitalised expenses | 314,458 | 132,271 | 182,187 | 138 |
| Goodwill acquired as a result of business combinations | 241,080 | 234,066 | 7,014 | 3 |
| Development costs | 6,923 | 2,539 | 4,384 | 173 |
| **Gross total** | **2,390,827** | **2,003,387** | **387,440** | **19** |
| Accumulated amortisation | (961,689) | (803,588) | (158,101) | 20 |
| Impairment allowances | (76,360) | (16,308) | (60,052) | 368 |
| **Net total** | **1,352,778** | **1,183,491** | **169,287** | **14** |

# IV. Discussion of consolidated financial statements components

## 10. Intangible assets (cont.)

As a result of an impairment test in 2008 an impairment allowance of PLN 76.360 thousand was recognized for 100% of the goodwill on acquisition of Kredobank SA.

The wear-and-tear of intangible assets, measured as a ratio of accumulated amortization to gross book value was 40% as at the balance date (40% as at 31 December 2007).

## 11. Tangible fixed assets

As at the balance date the net book value of tangible fixed assets amounted to PLN 2,964,659 thousand; 83% of the balance related to the Bank. The increase in the balance compared with 2007 was 144,556 thousand (5%).

| | 31.12.2008 PLN thousand | 31.12.2007 PLN thousand | Change PLN thousand | Change (%) |
|---|---|---|---|---|
| Land and buildings | 2,346,187 | 2,311,780 | 34,407 | 1 |
| Machinery and equipment | 2,382,497 | 2,597,324 | (214,827) | (8) |
| Assets under construction | 560,319 | 341,461 | 218,858 | 64 |
| Means of transport | 81,853 | 76,508 | 5,345 | 7 |
| Investment properties | 32,009 | 39,012 | (7,003) | (18) |
| Other | 430,035 | 413,820 | 16,215 | 4 |
| **Tangible fixed assets- gross** | **5,832,900** | **5,779,905** | **52,995** | **1** |
| Accumulated depreciation | (2,866,206) | (2,956,749) | 90,543 | (3) |
| Impairment allowances | (2,035) | (3,053) | 1,018 | (33) |
| **Tangible fixed assets- net** | **2,964,659** | **2,820,103** | **144,556** | **5** |

The wear-and-tear of tangible fixed assets measured as the ratio of accumulated depreciation to gross book value was 49% as at the balance date, and decreased by 2 p.p. compared with the end of 2007.

# IV. Discussion of consolidated financial statements components (cont.)

## 12. Other assets

As at the balance date, other assets increased by PLN 51,776 thousand (9%) and comprised:

| | 31.12.2008 | 31.12.2007 | Change | Change |
|---|---|---|---|---|
| | PLN thousand | PLN thousand | PLN thousand | (%) |
| Amounts due from purchasers | 218,234 | 225,762 | (7,528) | (3) |
| Settlements of payment cards transactions | 123,732 | 149,114 | (25,382) | (17) |
| Prepayments | 115,454 | 31,117 | 84,337 | 271 |
| Receivables relating to foreign exchange activity | 8,628 | 15,892 | (7,264) | (46) |
| Receivables from the State budget due to distribution of Treasury stamps | 8,883 | 8,373 | 510 | 6 |
| Receivables from securities trading | 7,255 | 6,614 | 641 | 10 |
| Other | 148,266 | 141,804 | 6,462 | 5 |
| **Total** | **630,452** | **578,676** | **51,776** | **9** |

The gross book value of other assets of PLN 732,598 thousand was adjusted by an impairment allowance of PLN 102,146 thousand (in the end of 2007 the gross book value amounted to PLN 658,614 thousand and the impairment allowance was PLN 79,938 thousand).

The change in the balance of settlements of payment card transactions of PLN 25,382 thousand (17%) related to the Bank and was due to a larger volume of transactions conducted by customers using payment cards in the last days of 2007 which had not yet been settled as at the balance date.

"Other" balance includes mainly interbank settlements, receivables relating to products sale and receivables on other operations.

## IV. Discussion of consolidated financial statements components (cont.)

### 13. Amounts due to other banks

As at 31 December 2008 amounts due to other banks amounted to PLN 6,988,603 thousand (PLN 4,703,114 thousand as at the end of 2007); 82% of the balance related to the Bank. Apart from PKO BP SA, Bankowy Fundusz Leasingowy had material liabilities to other banks (18% of the total balance). The balance comprised the following items:

| | 31.12.2008 | 31.12.2007 | Change | Change |
|---|---|---|---|---|
| | PLN thousand | PLN thousand | PLN thousand | (%) |
| Loans and advances received | 3,943,895 | 3,128,706 | 815,189 | 26 |
| Other banks' deposits | 2,835,727 | 1,436,694 | 1,399,033 | 97 |
| Other money market deposits | 115,171 | 43,502 | 71,669 | 165 |
| Current accounts | 93,810 | 94,212 | (402) | - |
| **Total** | **6,988,603** | **4,703,114** | **2,285,489** | **49** |

The increase in amounts due to other banks as at 31 December 2008 resulted mainly from an increase of 97% in deposits accepted from other banks and in loans and advances from other banks received mainly by the Bank (an increase of PLN 606,728 thousand. i.e. 30% compared with 31 December 2007) and Bankowy Fundusz Leasingowy (an increase of PLN 185,358 thousand. i.e. 18%. compared with 31 December 2007). In addition, the strengthening of the foreign currencies in which loans and advances obtained by the Group are denominated was another factor which contributed to the increase in the balance.

### 14. Derivative financial instruments

As at the balance date. liabilities arising on the valuation of derivatives amounted to PLN 6,150,337 thousand and increased by PLN 4,870,412 thousand (381%) compared with the end of 2007. The balance represented solely the liabilities of the Bank.

| | 31.12.2008 | 31.12.2007 | Change | Change |
|---|---|---|---|---|
| | PLN thousand | PLN thousand | PLN thousand | (%) |
| Interest rate swaps | 5,070,104 | 1,159,601 | 3,910,503 | 337 |
| *- including CIRS* | *2,391,272* | *200,717* | *2,190,555* | *1,091* |
| Currency and equity options | 585,414 | 16,424 | 568,990 | 3,464 |
| FX contracts | 494,759 | 103,507 | 391,252 | 378 |
| Other | 60 | 393 | (333) | (85) |
| **Total** | **6,150,337** | **1,279,925** | **4,870,412** | **381** |

# IV. Discussion of consolidated financial statements components

## 14. Derivative financial instruments (cont.)

The increase in the balance was mainly due to an increase in liabilities arising on the valuation of currency contracts. The Bank followed the principle of closing the majority of transactions concluded with customers on a "back-to-back" basis, i.e. of entering into transactions which are counter to options and currency forwards offered to customers in the interbank market.

At the same time, the Bank hedged its portfolio of foreign currency loans using cross-currency interest rate swaps (CIRS). The increase in liabilities arising on the valuation of these transaction of 1,091% compared with 31 December 2007 was due to the higher volume of transactions concluded in response to an increase in the portfolio of foreign currency loans and the weakening of the Polish zloty in the second half of 2008.

## 15. Amounts due to customers

As at the balance date amounts due to customers amounted to PLN 102,939,281 thousand. of which PLN 101,621,999 (or 99%) related to the Bank.

| | 31,12,2008 | 31,12,2007 | Change | Change |
|---|---|---|---|---|
| | PLN thousand | PLN thousand | PLN thousand | (%) |
| Amounts due to individuals | 76,322,806 | 66,248,751 | 10,074,055 | 15 |
| Amounts due to corporate customers | 19,332,897 | 15,639,541 | 3,693,356 | 24 |
| Amounts due to the public sector | 7,283,578 | 4,691,218 | 2,592,360 | 55 |
| **Total** | **102,939,281** | **86,579,510** | **16,359,771** | **19** |

In 2008, the Bank pursued a strategy of expanding its deposit base. This objective was achieved by intensified marketing activities addressed mainly to retail customers and by introducing new deposit products offering high interest rates ("9-12-15" deposits, "Progresja" deposits, new 3-months and 6-month deposits and "MaxLokata" deposit).

As at the balance date 7% of the balance (PLN 7,131,584 thousand) related to liabilities denominated in foreign currencies (including 52% denominated in euro). As at 31 December 2007 liabilities denominated in foreign currencies accounted for 9% of the balance (PLN 7,887,055 thousand).

## IV. Discussion of consolidated financial statements components (cont.)

### 16. Debt securities in issue

The balance of debt securities in issue as at 31 December 2008 amounted to PLN 211,573 thousand. In this amount PLN 183,594 thousand (87%) related to Bankowy Fundusz Leasingowy SA and PLN 27,979 thousand (13%) related to Kredobank SA.

The amount relating to Bankowy Fundusz Leasingowy resulted from corporate bonds bearing interest from 6.47% for bonds issued in February 2008 to 8% for bonds issued in December 2008 (in total 16 series of bonds were issued in 2008). As at 31 December 2008 all securities issued matured within 12 months.

Kredobank's balance resulted from debt securities issued on the Ukrainian market with yield to maturity of 24% for 'A' series (maturity date: February 2012 with an option for early redemption in February each year) and 23% for 'B' series (maturity date: June 2013 with an option for early redemption in June each year).

### 17. Subordinated liabilities

The balance of subordinated liabilities as at 31 December 2008 comprised the valuation of subordinated bonds issued by the Bank in 2007, with a nominal value totalling PLN 1,600,700 thousand and a maturity date of 30 October 2017.

The said bonds were issued based on the Act on bonds dated 29 June 1995 with a view to increase the Bank's supplementary funds, in accordance with art. 127, para. 3, item 3b of the Banking Law. The value of bonds as at 31 December 2008 increased by PLN 3,870 thousand compared with the end of 2007 as a result of an increase in the value of interest accrued, not due, following an increase in the interest rate on these bonds to 7.88% (6.35% as at 31 December 2007)

In accordance with Decision No. 91 of the Banking Supervision Commission dated 5 December 2007, the Bank included the entire nominal value, as at the balance sheet, of subordinated bonds issued amounting to PLN 1,600,700 to the Bank's supplementary capital under art. 127, para. 3, item 2b of the Banking Law.

# IV. Discussion of consolidated financial statements components (cont.)

## 18. Other liabilities

As at the balance date other liabilities amounted to PLN 1,667,776 thousand of which PLN 1,346,525 (81%) related to the Bank. Apart from the Bank, PKO Inwestycje and Bankowy Fundusz Leasingowy had a material share in the balance of other liabilities (PLN 148.661 thousand, i.e. 9% and PLN 96.881 thousand, i.e. 6% respectively). The balance comprised the following items:

| | 31.12.2008 PLN thousand | 31.12.2007 PLN thousand | Change PLN thousand | Change (%) |
|---|---|---|---|---|
| Deferred income | 262,867 | 321,273 | (58,406) | (18) |
| Accruals | 237,520 | 220,330 | 17,190 | 8 |
| **Other liabilities, including:** | **1,167,389** | **1,190,730** | **(23,341)** | **(2)** |
| • interbanking settlements | 241,922 | 124,650 | 117,272 | 94 |
| • liabilities relating to settlements of transactions with securities | 205,896 | 323,286 | (117,390) | (36) |
| • liabilities to suppliers | 146,745 | 136,426 | 10,319 | 8 |
| • tax and social charges liabilities | 123,448 | 137,888 | (14,440) | (10) |
| • liabilities due to foreign exchange services | 76,854 | 64,176 | 12,678 | 20 |
| • liabilities due to investing and purchasing activity | 52,059 | 34,266 | 17,793 | 52 |
| • realised guarantees of the State on mortgage loans | 39,226 | 33,341 | 5,885 | 18 |
| • liabilities to Competition and Consumer Protection Office (UOKiK) | 22,310 | 16,597 | 5,713 | 34 |
| • liabilities arising from transactions with non-financial institutions | 14,534 | 83,642 | (69,108) | (83) |
| • liabilities due to other transactions | 8,271 | 32,782 | (24,511) | (75) |
| • liabilities due to card transactions | 1,663 | 38,348 | (36,685) | (96) |
| • liabilities due to purchase of equipment and materials, goods and services relating to opex expenses | 35,862 | 58,328 | (22,466) | (39) |
| • liabilities due to cash drawings | - | 9,225 | (9,225) | (100) |
| • other | 198,599 | 97,775 | 100,824 | 103 |
| **Total** | **1,667,776** | **1,732,333** | **(64,557)** | **(4)** |

The decrease in the balance was among others due to lower liabilities relating to settlements of transactions with securities (a decrease of PLN 117,390 thousand, i.e. 36% compared with 31 December 2007). The decrease was due to a lower liabilities to Dom Maklerski PKO BP's customers due to their cash blocked for settlement of Treasury bonds purchased.

# IV. Discussion of consolidated financial statements components

## 18. Other liabilities (cont.)

There was also a decrease in liabilities arising from transactions with non-financial institutions (of PLN 69,108 thousand, i.e. 83%). The decrease was mainly due to a lower balance of credits to be investigated as at 31 December 2008.

PLN 103,642 thousand (52%) of "Other" balance related to the Bank. PLN 57,764 thousand of the balance, which is PLN 40,317 thousand growth (231%) compared with 31 December 2007, resulted mainly from liabilities arising from derivatives settlement. PLN 27,081 thousand arose from other transactions (eg. legal costs refund, charges and refunds due to ATM cards, return of impaired notes and coins to the NBP). Apart from the Bank, the significant share in "Other" balance related to Bankowy Fundusz Leasingowy SA Group – in the amount of PLN 31,959 thousand (relating to clients' prepayments, collaterals and pledged cash due to leasing contracts) and to PKO Inwestycje SA Group – in the amount of PLN 14,666 thousand (pledged cash from subcontractors due to potential warranty claims). Besides of the described above, "other" consists of many individually not material items.

## 19. Provisions

As at the balance date. provisions amounted to PLN 509,309 thousand. of which PLN 504,646 (or 99%) elated to the Bank. The balance of provisions as at 31 December 2008 comprised:

| | 31.12.2008 PLN thousand | 31.12.2007 PLN thousand | Change PLN thousand | Change (%) |
|---|---|---|---|---|
| Provisions for jubilee and retirement benefits | 365,186 | 320,857 | 44,329 | 14 |
| Provisions for off-balance sheet liabilities and guarantees | 78,250 | 28,063 | 50,187 | 179 |
| Provision for legal claims | 9,352 | 7,558 | 1,794 | 24 |
| Other provisions | 113,228 | 97,823 | 15,405 | 16 |
| **Total** | **566,016** | **454,301** | **111,715** | **25** |

The growth in provisions as at the end of 2008 resulted mainly from the increase of PLN 50,187 thousand in provision for off-balance sheet liabilities and guarantees and the increase of PLN 44.329 thousand in provision for jubilee and retirement benefits.

As at 31 December 2008. the provision for jubilee and retirement benefits in the Bank amounted to PLN 364,945 thousand and accounted for over 65% of the balance of this category of provisions. It was increased by PLN 46,609 thousand in the result of the actuarial calculation prepared in February 2009 and based on the projections as of the balance date. The increase in this provision is primarily the result of the change in discount rate used to calculate the present value of the Bank's liability.

## IV. Discussion of consolidated financial statements components (cont.)

### 20. Equity

As at 31 December 2008. the equity amounted to PLN 13,988,016 thousand (PLN 11,979,015 thousand as at 31 December 2007). Movements in equity in the audited year are presented in the table below:

| | 31.12.2007 | Gains recognised in equity | Profit for the year | Transfer of previous year profit to retained earnings | Previous year profit retention | Dividends from previous year profit | Other changes | 31.12.2008 |
|---|---|---|---|---|---|---|---|---|
| Share capital | **1,000,000** | - | - | - | - | - | - | **1,000,000** |
| Supplementary capital | **5,592,311** | - | - | - | 1,682,406 | - | - | **7,274,717** |
| Revaluation capital | **(43,066)** | 9,829 | - | - | - | - | - | **(33,237)** |
| General banking risk fund | **1,070,000** | - | - | - | - | - | - | **1,070,000** |
| Other reserves | **1,518,025** | - | - | - | 5,802 | - | - | **1,523,827** |
| Foreign differences on translation of foreign subsidiaries | **(47,761)** | (9,652) | - | - | - | - | - | **(57,413)** |
| Retained earnings | **(72,192)** | - | - | 2,903,632 | (1,688,208) | (1,090,000) | (34,639) | **53,232** |
| Profit for the year | **2,903,632** | - | 3,120,674 | (2,903,632) | - | - | - | **3,120,674** |
| **Total** | **11,920,949** | **177** | **3,120,674** | **-** | **-** | **(1,090,000)** | **-** | **13,951,800** |
| Minority interests | **58,066** | (465) | 18,513 | - | - | (30,750) | 852 | **46,216** |
| **Total equity** | **11,979,015** | **(288)** | **3,139,187** | **-** | **-** | **(1,120,750)** | **852** | **13,988,016** |

# IV. Discussion of consolidated financial statements components

## 20. Equity (cont.)

On 20 May 2008, the General Shareholders' Meeting of Powszechna Kasa Oszczędności Bank Polski passed a resolution on the distribution of the net profit for 2007 of PLN 2,710,991 thousand: PLN 1,624,991 was transferred to supplementary capital, PLN 5,000 thousand to other reserves and PLN 1,090,000 thousand was earmarked for the payment of dividend.

On 29 April 2008, the General Shareholders' Meeting of PKO Towarzystwo Funduszy Inwestycyjnych SA passed Resolution No. 3 on the distribution of its net profit for 2007, whereby PLN 92,250 thousand was earmarked for the payment of dividend to the Bank and PLN 30,750 thousand to minority shareholders.

As at 31 December 2008, the Bank's registered share capital amounted to PLN 1,000,000 thousand and comprised 1,000,000,000 ordinary shares with PLN 1 par value each, including:

- 510,000,000 series A registered shares;
- 105,000,000 series B registered shares;
- 385,000,000 series C bearer shares;

The Group's regulatory capital, calculated in accordance with the Banking Law and Resolution No. 2/2007 of the Banking Supervision Commission, amounted to PLN 12,885,283 thousand as at 31 December 2008 (PLN 9,983,400 thousand as at 31 December 2007) and exceeded by PLN 3,750,712 thousand the total capital requirement which amounted to PLN 9,134,571 thousand (PLN 6,645,674 thousand as at 31 December 2007). The solvency ratio was 11.29% (12.02% as at 31 December 2007).

## IV. Discussion of consolidated financial statements components (cont.)

### 21. Reconciliation of the net assets of consolidated entities with consolidated net assets of the Group

The reconciliation of the net assets of consolidated entities with the net assets of the Group as at the balance date is as follows:

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| | PLN thousand | PLN thousand |
| **Net assets of the Group entities:** | | |
| Powszechna Kasa Oszczędności Bank Polski S.A | 13,529,372 | 11,729,541 |
| Centrum Finansowe Puławska | 205,756 | 49,350 |
| Powszechne Towarzystwo Emerytalne BANKOWY S.A. | 200,906 | 174,153 |
| PKO Towarzystwo Funduszy Inwestycyjnych S.A | 174,805 | 179,319 |
| Grupa Kapitałowa Inteligo Financial Services S.A. | 1258,415 | 148,712 |
| Grupa Kapitałowa Bankowy Fundusz Leasingowy S.A | 125,099 | 95,152 |
| PKO Inwestycje Sp. z o.o. | 86,842 | 46,761 |
| Centrum Elektronicznych Usług Płatniczych eService S.A | 68,180 | 40,413 |
| Kredobank S.A. | 43,398 | 201,863 |
| Bankowe Towarzystwo Kapitałowe S.A | 14,256 | 12,552 |
| PKO Finance AB | 282 | - |
| **Total net assets** | **14,577,311** | **12,697,843** |
| **Consolidation adjustments:** | | |
| - share capital of the Group entities | (824,938) | (794,737) |
| - other capital of the Group entities | 322,003 | 75,909 |
| - impairment allowance on goodwill | (76,360) | - |
| **Total consolidation adjustments** | **(579,295)** | **(718,828)** |
| **Consolidated net assets:** | **13,998,016** | **11,979,015** |

# IV. Discussion of consolidated financial statements components (cont.)

## Consolidated income statement for the year ended 31 December 2008

### 22. Net interest income

Net interest income earned by the Group in 2008 amounted to PLN 6,127,315 thousand of which PLN 5,892,748 thousand (96%) related to the Bank. A detailed analysis of net interest income components is as follows:

| | 2008 PLN thousand | 2007 PLN thousand | Change PLN thousand | Change (%) |
|---|---|---|---|---|
| Income from loans and advances to customers | 7,776,106 | 5,231,586 | 2,544,521 | 49 |
| Income from securities designated at fair value through profit or loss | 444,426 | 561,346 | (116,920) | (21) |
| Income from placements with other banks | 388,768 | 491,078 | (102,310) | (21) |
| Income from investment securities | 345,130 | 245,352 | 99,778 | 41 |
| Income from trading securities | 64,046 | 24,527 | 39,519 | 161 |
| Other | 15,304 | 5,444 | 9,860 | 181 |
| **Interest and similar income** | **9,033,781** | **6,559,333** | **2,474,448** | **38** |
| Interest expense on amounts due to customers | (2,655,044) | (1,697,116) | (957,928) | 56 |
| Interest expense on debt securities in issue | (131,721) | (28,711) | (103,010) | 359 |
| Interest expense on deposits from other banks | (49,465) | (106,678) | 57,213 | (54) |
| Other | (70,236) | (80,261) | 10,025 | (12) |
| **Interest expense and similar charges** | **(2,906,466)** | **(1,912,766)** | **(993,700)** | **52** |
| **Net interest income** | **6,127,315** | **4,646,567** | **1,480,748** | **32** |

The increase in interest income of PLN 2,474,448 thousand (38%) in 2008 resulted from higher interest income on loans and advances to customers (an increase of PLN 2,544,521 thousand, i.e. 49%). This was due primarily to the growth of the Bank's loan portfolio (Note 6).

The growth rate of interest expense was higher than the growth rate of interest income and amounted to 52%, which resulted in an increase in interest expense of PLN 993,700 thousand in 2008. Of this amount, PLN 957,928 thousand related to interest paid on amounts due to customers.

The interest margin, being the ratio of net interest income to interest income, was 68% in 2008 (71% in 2007). This was due to shrinking market margins on loans and higher cost of borrowings, particularly in the last quarter of 2008.

# IV. Discussion of consolidated financial statements components (cont.)

## 23. Net fee and commission income

Net fee and commission income earned by the Group in 2008 amounted to PLN 2,411,809 thousand. of which PLN 2,020,463 thousand (84%) related to the Bank. A detailed analysis of net fee and commission income components is as follows:

| | 2008 | 2007 | Change | Change |
|---|---|---|---|---|
| | PLN thousand | PLN thousand | PLN thousand | PLN thousand |
| Payment cards | 851,370 | 703,023 | 148,347 | 21 |
| Maintenance of bank accounts | 805,449 | 770,642 | 34,807 | 5 |
| Investment and pension funds fees (incl.management fees) | 448,071 | 630,190 | (182,119) | (29) |
| Loans and advances granted | 315,641 | 267,169 | 48,472 | 18 |
| Loan insurance intermediary | 225,063 | 202,260 | 22,803 | 11 |
| Cash transactions | 188,345 | 204,077 | (15,732) | (8) |
| Securities transactions | 43,845 | 87,742 | (43,897) | (50) |
| Foreign mass transactions servicing | 41,181 | 36,878 | 4,303 | 12 |
| Sale and distribution of marks of value | 21,738 | 28,523 | (6,785) | (24) |
| Other | 204,057 | 152,912 | 51,145 | 33 |
| **Fee and commission income** | **3,144,760** | **3,083,416** | **61,344** | **2** |
| Payment cards | (309,766) | (254,078) | (55,688) | 22 |
| Acquisition services | (134,773) | (129,005) | (5,768) | 4 |
| Loan insurance intermediary | (94,140) | (152,205) | 58,065 | (38) |
| Management fees | (73,719) | (126,606) | 52,887 | (42) |
| Operating services granted by other banks | (8,118) | (9,264) | 1,146 | (12) |
| Fee and commissions paid to PPUP | (5,240) | (5,735) | 495 | (9) |
| Other | (107,195) | (74,676) | (32,519) | 44 |
| **Fee and commission expense** | **(732,951)** | **(751,569)** | **18,618** | **(2)** |
| **Net fee and commission income** | **2,411,809** | **2,331,847** | **79,962** | **3** |

In the audited year an increase in the number of transactions executed with payment cards. which resulted in an increase in income from payment cards of PLN 148,348 thousand (21%) was among the key factors which contributed to an increase in net fee and commission income.

In addition, due to an increase in the loan portfolio. commission income on loans and advances granted to customers increased by PLN 48,472 thousand (18%). The increase in the deposit base resulted in higher income from the maintenance of bank accounts by PLN 34,807 thousand.

# IV. Discussion of consolidated financial statements components

## 23. Net fee and commission income (cont.)

Factors which negatively contributed to net fee and commission income included mainly a decrease in income of PKO Towarzystwo Funduszy Inwestycyjnych SA of PLN 85,892 thousand (19%). This resulted from a drop in quotations of securities on the Warsaw Stock Exchange and on stock exchanges globally in the second half of 2008 which brought about an outflow of customers' funds from investment funds.

## 24. Net foreign exchange gains

Net foreign exchange gains comprise gains and losses on revaluation of assets and liabilities in foreign currencies and the valuation at fair value of currency derivatives (FX forwards, FX swaps and CIRSs). In 2008 net foreign exchange gains amounted to PLN 739,757 thousand of which PLN 734,567 (99%) related to the Bank. Compared with 2007 in 2008 net foreign exchange gains increased by PLN 209,978 thousand (40%). The increase was mainly due to a significant growth of the foreign currency loan portfolio in 2008 (Note 6).

Foreign exchange differences on the revaluation of assets and liabilities in foreign currencies increased more than eightfold in the audited year and amounted to PLN 2,946,341 thousand. This increase was partly offset by net losses on the valuation of derivatives amounting to PLN 2,206,584 thousand, mainly cross-currency interest rate swaps (CIRS) used primarily for managing interest rate and currency risks.

## 25. Other operating income

In 2008 other operating income amounted to PLN 522,425 thousand. The following entities had the largest share in the balance: the Bank (PLN 159,234 thousand, i.e. 30%). PKO Inwestycje Group (PLN 131,598 thousand, i.e. 25%) and Centrum Elektronicznych Usług Płatniczych "eService" (PLN 63,221 thousand, i.e. 12%). The balance comprised the following items:

| | 2008 PLN thousand | 2007 PLN thousand | Change PLN thousand | Change (%) |
|---|---|---|---|---|
| Net income from sale of goods, commodities and materials | 213,073 | 324,824 | (111,751) | (34) |
| Recovery of expired and written-off receivables | 31,150 | 19,469 | 11,681 | 60 |
| Sundry income | 25,162 | 25,257 | (95) | - |
| Sales and disposal of tangible fixed assets, intangible assets and assets held for sale | 15,065 | 24,702 | (9,637) | (39) |
| Penalties and fines recovered | 14,228 | 20,122 | (5,894) | (29) |
| Sale of shares in jointly controlled entities and associated | 13,171 | 1,101 | 12,070 | 1,096 |
| Other | 210,576 | 99,091 | 111,485 | 113 |
| **Total** | **522,425** | **514,566** | **7,859** | **2** |

# IV. Discussion of consolidated financial statements components

## 25. Other operating income (cont.)

Net sales of products, commodities and materials in 2008 related mainly to income on real-estate construction activities conducted by PKO Inwestycje Group (PLN 124,223 thousand).

## 26. Other operating expenses

In 2008 other operating expenses amounted to PLN 230,727 thousand of which PLN 105,588 thousand (46%) related to the Bank, PLN 74,468 thousand to PKO Inwestycje Group (32%) and PLN 19,140 thousand (8%) to Bankowy Fundusz Leasingowy SA. The balance comprised the following items:

| | 2008 PLN thousand | 2007 PLN thousand | Change PLN thousand | Change (%) |
|---|---|---|---|---|
| Costs of sale of goods, commodities and materials | (81,114) | (123,602) | 42,488 | (34) |
| Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale | (28,321) | (23,636) | (4,685) | 20 |
| Sundry expenses | (5,570) | (4,224) | (1,346) | 32 |
| Donations | (5,245) | (8,348) | 3,103 | (37) |
| Expenses due to construction of tangible fixed assets and intangible assets – which do not meet the criteria for capitalisation | (426) | (4,013) | 3,587 | (89) |
| Other | (110,051) | (93,113) | (16,938) | 18 |
| **Total** | **(230,727)** | **(256,936)** | **26,209** | **(10)** |

Costs of sale of goods, commodities and materials in 2008 related mainly to costs of the real-estate construction activities conducted by PKO Inwestycje Group (PLN 69,711 thousand).

## IV. Discussion of consolidated financial statements components (cont.)

### 27. Net impairment allowance charge

The net impairment allowance charge was negative (impairment allowances recognized exceeded those released) and amounted to PLN 1,130,396 thousand in 2008. The negative balance increased by PLN 1,073,753 thousand compared with 2007. Costs of impairment allowances recognized by the Bank had the largest share in the balance (73%).

| | 2008 PLN thousand | 2007 PLN thousand | Change PLN thousand | Change (%) |
|---|---|---|---|---|
| Loans and advances to customers and amounts due from other banks | (1,022,940) | (124,549) | (898,391) | 721 |
| Intangible assets | (76,360) | 16,308 | (92,668) | (568) |
| Financial assets available for sale | (2,214) | 2,479 | (4,693) | (189) |
| Investments measured under equity method | 60,416 | (5,876) | 66,292 | (1,128) |
| Tangible fixed assets | 541 | 48,246 | (47,705) | (99) |
| Other | (89,839) | 6,749 | (96,558) | (1,431) |
| **Net impairment allowances** | **(1,130,396)** | **(56,643)** | **(1,073,753)** | **1896** |

The change in the balance of the net impairment allowance charge in 2008 was largely due to an increase in the impairment allowance for corporate loans (of PLN 565,133 thousand, i.e. 827%) and consumer loans (of PLN 189,600. i.e. 81%). The detailed information on the credit quality of loan portfolio is presented in Note 6.

The difference between the change in the amount of PLN 502 273 thousand in impairment allowance for loans and advances to customers with the reference to the balance sheet and the impairment charge recognized in the income statement in the amount of PLN 1,022,940 thousand, resulted mainly from the sale of a part of the loan portfolio to customers conducted by the Group this year. This write-off caused decrease of balance sheet value of impairment allowances, which was not reflected in the net result of the Group for the current year. Decrease of impairment allowances resulting from the sale which had no impact on the income statement under 'Net impairment allowance' amounted to PLN 473,856 thousand.

## IV. Discussion of consolidated financial statements components (cont.)

### 28. Administrative expenses

In 2008 the Group's administrative expenses were PLN 255,431 thousand (6%) higher than in 2007. 90% of the Group balance related to the Bank. Administrative expenses comprised the following items:

| | 2008 PLN thousand | 2007 PLN thousand | Change PLN thousand | Change (%) |
|---|---|---|---|---|
| Staff costs | (2,429,394) | (2,288,712) | (140,682) | 6 |
| Overheads | (1,356,437) | (1,288,548) | (67,889) | 5 |
| Depreciation and amortisation expense | (429,904) | (382,165) | (47,739) | 12 |
| Taxes and other charges | (63,803) | (67,737) | 3,934 | (6) |
| Contribution and payments to Banking Guarantee Fund | (16,737) | (13,682) | (3,055) | 22 |
| **Total** | **(4,296,275)** | **(4,040,844)** | **(255,431)** | **6** |

The increase in staff costs in 2008 was mainly due to an increase in costs of salaries and wages of PLN 182,314 thousand (10%) and an increase in other employee benefits of PLN 29,169 thousand (41%). The increase in costs was partly offset by lower costs on employee insurance (a decrease of PLN 70,801 thousand, i.e. 19%). Overheads also increased in 2008, mainly due to an increase in promotion and advertising costs (in connection with the promotion of many new products of the Bank) and in costs of fixed assets maintenance and lease.

The Group's effectiveness ratios in the audited year were as follows:

| | 2008 PLN thousand | 2007 PLN thousand |
|---|---|---|
| Administrative expenses | (4,296,275) | (4,040,844) |
| Average annual employment (in persons) | 32,811 | 34,406 |
| Administrative expenses per employee | 131 | 117 |
| Net profit per employee | 96 | 85 |

The cost to income ratio in the audited year was 45.8% (52.5% in 2007). At the same time, the net profit per 1 employee increased 13% compared with 2007.

# IV. Discussion of consolidated financial statements components (cont.)

## 29. Income tax expense

The total income tax expense for the audited year was as follows:

| | 2008 PLN thousand | 2007 PLN thousand | Change PLN thousand | Change (%) |
|---|---|---|---|---|
| Current income tax expense | (1,001,835) | (716,704) | (285,131) | 40 |
| Deferred income tax | 163,679 | 48,866 | 114,813 | 235 |
| **Income tax disclosed in the income statement** | **(838,156)** | **(667,838)** | **(170,318)** | **26** |
| Tax expense disclosed in the equity | (12,735) | 11,001 | (23,736) | (216) |
| **Total income tax expense** | **(875,341)** | **(656,837)** | **(194,054)** | **30** |

The effective tax rate for 2008 was 21.1% and was 2.6 p.p. higher than in the prior year.

### (a) Deferred income tax

Deferred income tax relates to timing differences between the book values of assets and liabilities and their tax bases. The balance of deferred tax comprises deductible and taxable temporary differences:

| | Balance sheet 31.12.2008 PLN thousand | Balance sheet 31.12.2007 PLN thousand | Income Statement PLN thousand |
|---|---|---|---|
| **Deferred tax liability** | | | |
| Capitalised interest on mortgage loans | 258,759 | 277,827 | (19,068) |
| Interest accrued on receivables | 100,892 | 99,944 | 948 |
| Interest on securities | 44,113 | 28,126 | 15,987 |
| **Valuation of securities, of which:** | **11,486** | **1,901** | **x** |
| recognised in profit or loss | 6,365 | 705 | 5,660 |
| recognised in equity | 5,121 | 1,196 | x |
| Difference between book value and tax value of tangible assets | 196,000 | 133,926 | 62,074 |
| **Other taxable temporary differences** | **34,612** | **7,250** | **x** |
| recognised in profit or loss | 23,662 | 7,382 | 16,280 |
| recognised in equity | 10,950 | (132) | X |
| **Deferred tax liability - gross** | **645,862** | **548,974** | **x** |
| recognised in profit or loss | 629,791 | 547,910 | 81,881 |
| recognised in equity | 16,071 | 1,064 | x |

# IV. Discussion of consolidated financial statements components

## 29. Income tax expense

### (a) Deferred income tax (cont.)

| | Balance sheet 31.12.2008 PLN thousand | Balance sheet 31.12.2007 PLN thousand | Income Statement PLN thousand |
|---|---|---|---|
| **Deferred tax assets** | | | |
| Interest accrued on liabilities | 223,004 | 138,252 | 84,752 |
| **Valuation of securities, of which:** | **27,825** | **33,217** | **x** |
| recognised in profit or loss | 14,759 | 22,065 | (7,306) |
| recognised in equity | 13,066 | 11,152 | x |
| Adjustment to valuation at amortized cost | 166,449 | 149,499 | 16,950 |
| Impairment allowances on credit exposure | 159,789 | 79,193 | 80,596 |
| Provision for jubilee and retirement benefits | 110,037 | 88,874 | 21,163 |
| Valuation of derivative instruments | 77,734 | 62,331 | (15,403) |
| **Other temporary tax deductible differences, of which:** | **99,676** | **65,316** | **x** |
| recognised in profit or loss | 99,318 | 65,316 | 34,002 |
| recognised in equity | 358 | - | x |
| **Deferred income tax asset - gross, of which:** | **864,514** | **616,682** | **x** |
| recognised in profit or loss | 851,090 | 605,530 | 245,560 |
| recognised in equity | 13,424 | 11,152 | x |
| **Deferred tax impact on the income statement, of which:** | **(218,656)** | **(67,708)** | **x** |
| recognised in profit or loss | (221,299) | (57,620) | (163,679) |
| recognised in equity | (2,647) | (10,088) | x |
| Deferred income tax asset (presented in the balance sheet) | 239,237 | 72,154 | x |
| Deferred tax liability (presented in the balance sheet) | 20,585 | 4,446 | x |
| **Net deferred tax impact on the income statement** | | | **(163,679)** |

Due to the fact that as at the end of 2008 deductible temporary differences exceeded taxable ones the Group recognized a deferred tax asset of PLN 239,237 thousand (PLN 72,154 thousand as at the end of 2007). The deferred tax provisions presented in the balance sheet was PLN 20,585 thousand (PLN 4,446 thousand as at the end of 2007).

# IV. Discussion of consolidated financial statements components

## 29. Income tax expense (cont.)

### (b) Current income tax

In the current financial year. income tax was calculated at 19% (for Poland) or 25% (for the Ukraine) of the gross profit determined based on IFRS as adopted by the European Union adjusted for non-taxable income and non-deductible costs. The current income tax for a given financial year is the sum of current income taxes calculated by Group companies (including the Bank: PLN 949,873 thousand. and subsidiaries: PLN 51,962 thousand).

| | 2008 PLN thousand | 2007 PLN thousand | Change PLN thousand | Change (%) |
|---|---|---|---|---|
| **Profit before income tax** | **3,977,343** | **3,609,230** | **368,113** | **10** |
| Corporate income tax calculated using the enacted tax rate 19% | (755,695) | (685,753) | (69,942) | 10 |
| Effect of other tax rates : Ukraine (25%) | (2,338) | (1,424) | (914) | 64 |
| **Permanent differences between accounting gross profit and taxable profit, of which:** | **(84,280)** | **21,065** | **(105,345)** | **(500)** |
| Release of impairment allowances and valuation of assets not constituting taxable income | (123,743) | 31,051 | (154,794) | (499) |
| Other not taxable costs | 33,164 | (23,431) | 56,595 | (242) |
| Dividend income | 21,140 | 9,711 | 11,429 | 118 |
| Other non-taxable income | 2,330 | 3,363 | (1,033) | (31) |
| Other | (17,171) | 371 | (17,542) | (4.728) |
| Other differences including donations | (1,196) | (7,573) | 6,377 | (84) |
| Tax loss settlement | 5,353 | 5,847 | (494) | (8) |
| **Income tax disclosed in the consolidated income statement** | **(838,156)** | **(667,838)** | **(170,318)** | **26** |
| Effective tax rate | 21,1% | 18,5% | - | - |
| Temporary difference due to the deferred tax presented in the consolidated income statement | 163,679 | 48,866 | 114,813 | 235 |
| **Current income tax expense disclosed in the consolidated income statement** | **(1,001,835)** | **(716,704)** | **(285,131)** | **40** |

# IV. Discussion of consolidated financial statements components (cont.)

## 30. Reconciliation of the net profit/loss of consolidated entities with the Group's consolidated net profit

The reconciliation of the net profit/loss of consolidated entities with the consolidated net profit of the Group for the audited year is as follows:

| | 2008<br>PLN thousand | 2007<br>PLN thousand |
|---|---|---|
| **Net profit/ (loss):** | | |
| Powszechna Kasa Oszczędności Bank Polski S.A | 2,881,260 | 2,719,991 |
| PKO Towarzystwo Funduszy Inwestycyjnych S.A | 104,815 | 125,498 |
| Centrum Elektronicznych Usług Płatniczych "eService S.A | 27,767 | 19,626 |
| Grupa Kapitałowa Inteligo Financial Services S.A. | 24,847 | 20,041 |
| Powszechne Towarzystwo Emerytalne BANKOWY S.A. | 23,519 | 21,157 |
| Grupa Kapitałowa Bankowy Fundusz Leasingowy S.A | 10,081 | 6,773 |
| Centrum Finansowe Puławska | 7,376 | 4,180 |
| Bankowe Towarzystwo Kapitałowe S.A | 1,704 | (1,007) |
| PKO Finance AB | 95 | |
| PKO Inwestycje Sp. z o.o. | (4,531) | 23,761 |
| Kredobank S.A. | (198,209) | 2,844 |
| **Net profit according to financial statements of the consolidated entities** | **2,878,724** | **2,942,864** |
| **Consolidation adjustments:** | **260,463** | **(1,472)** |
| of which: | | |
| - dividends | (108,877) | (48,750) |
| - impairment allowance on goodwill | (76,360) | - |
| - impairment allowance on subsidiaries | 318,030 | 10,666 |
| - other | 127,670 | 36,612 |
| **Consolidated net profit** | **3,139,187** | **2,941,392** |

# IV. Discussion of consolidated financial statements components (cont.)

## 31. Off-balance sheet items

Off-balance sheet items are presented in the table below:

| | 31.12.2008 | 31.12.2007 | Change | Change |
|---|---|---|---|---|
| | PLN thousand | PLN thousand | PLN thousand | (%) |
| **Contingent liabilities:** | **30,444,143** | **28,231,938** | **2,212,205** | **8** |
| Financing granted | 26,141,444 | 24,346,666 | 1,794,778 | 7 |
| Guarantees and warranties granted – nominal value | 4,302,699 | 3,885,272 | 417,427 | 11 |
| **Contingent assets:** | **4,928,425** | **5,063,779** | **(135,354)** | **(3)** |
| Guarantees received | 4,175,307 | 4,164,326 | 10,981 | - |
| Other | 753,118 | 899,453 | (146,335) | (16) |

The increase by PLN 2,212,205 thousand (8%) in contingent liabilities resulted from the increase in financing granted of PLN 1,794,778 thousand (7%) and the increase in guarantees and warranties granted of PLN 417,427 thousand (11%). As at the balance date, the Bank's share in the balance amounted to 99.7%.

Contingent assets decreased in 2008 by PLN 135,354 thousand. As at 31.12.2008, the Bank's share in this position amounted to 78% (PLN 3,829,183 thousand). Significant share of this position constituted Bankowy Fundusz Leasingowy SA (5%, i.e. PLN 230,732,382 thousand) and KREDOBANK SA (18%, i.e. PLN 868,509,506 thousand).

## V. The independent registered auditor's statement

(a) The Management Board of the Parent Company provided all the information, explanations, and representations required by us in the course of the audit and provided us with a representation letter confirming the completeness of the information included in the consolidation documentation and the disclosure of all contingent liabilities and post-balance-sheet events which occurred up to the date on which that letter was signed.

(b) The scope of the audit was not limited.

(c) The consolidation documentation was complete and accurate and it is stored in a manner ensuring its proper safeguarding.

(d) The accounting policies and disclosures specified by the Parent Company's Management complied with the International Financial Reporting Standards as adopted by the European Union in all material respects. There were no changes in the accounting policies and methods compared with the previous year.

(e) The consolidation of equity items and the determination of minority interests were carried out properly in all material respects.

(f) The elimination of mutual balances (receivables and payables) and transactions (revenue and costs) of the consolidated entities were carried out in accordance with the IFRSs as adopted by the European Union in all material respects.

(g) Eliminations of gains/losses unrealized by the consolidated entities included in the value of assets and in respect of dividends were conducted in accordance with the IFRSs as adopted by the European Union in all material respects.

(h) The Notes to the consolidated financial statements present all the material information required by the IFRSs as adopted by the European Union.

(i) The Group Directors' Report includes all the information required by the Decree of the Minister of Finance dated 19 October 2005 on the publication of current and periodic information by issuers of securities (Journal of Laws No. 209, item 1744).

(j) The following significant violations of the law affecting the consolidated financial statements and significant violations of the Memorandum of Association of the Parent Company were noted in the course of the audit.

## V. The independent registered auditor's statement (cont.)

(k) We determined the materiality levels at the planning stage. Materiality levels specify the limits up to which identified irregularities may be left unadjusted without any detriment to the quality of the financial statements and to the correctness of the underlying books of account, since failing to make such adjustments will not be misleading for the readers of the financial statements. Materiality measures both the quantity and quality of audited items and that is why it varies for different balance sheet and income statement items. Due to the complexity and quantity of the materiality levels adopted for audit purposes, they are included in the audit documentation.

(l) The total regulatory requirement, together with the requirement concerning the risk of excessive capital exposure, amounted to PLN 9,134,571 thousand as at the balance date. The capital adequacy ratio as at 31 December 2008 amounted to 11.29%. As at the balance date, the Group complied with the prudence principle in all material respects.

(m) The Group's financial statements for the year 2007 were audited by other independent registered auditor. The registered auditor issued an unqualified opinion.

(n) The financial statements of the Group as at and for the year ended 31 December 2007 were approved by resolution no. 30/2008 passed by the General Shareholders' Meeting on 20 May 2008, filed with the National Court Register in Warsaw on 11 June 2008 and published in the *Monitor Polski* B, No. 1033 on 30 July 2008.

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## VI. Final notes and comments

This report has been prepared in relation to our audit of the consolidated financial statements of Powszechna Kasa Oszczędności Bank Polski SA Group (hereinafter referred to as the Group), of which Powszechna Kasa Oszczędności Bank Polski SA with its registered office in Warsaw, at 15 Puławska Street is the Parent Company. The audited consolidated financial statements comprised:

(a) the consolidated balance sheet as at 31 December 2008, showing total assets and total equity and liabilities of PLN 134,635,986 thousand;
(b) the consolidated income statement for the financial year from 1 January 2008 to 31 December 2008, showing a net profit of PLN 3,139,187 thousand;
(c) the statement of changes in consolidated equity for the financial year from 1 January 2008 to 31 December 2008, showing an increase in equity of PLN 2,019,001 thousand;
(d) the consolidated cash flow statement for the financial year from 1 January 2008 to 31 December 2008, showing net outflows of PLN 962,073 thousand;
(e) additional information on adopted accounting policies and other explanatory notes.

The consolidated financial statements were signed by the Management Board of the Parent Company on 3 April 2009. This report should be read in conjunction with the Independent Registered Auditor's Opinion to the General Shareholders' Meeting and the Supervisory Board of the Powszechna Kasa Oszczędności Bank Polski SA Group, signed on 8 April 2009, concerning the above-mentioned financial statements. The opinion is a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual consolidated financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the consolidated financial statements as a whole.

Independent registered auditor conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o.:

Antoni F. Reczek
President of the Board
Registered Auditor
No. 90011/503

Registered Audit Company
No. 144

Warsaw, 8 April 2009