



PKO BANK POLSKI
SPÓŁKA AKCYJNA

Financial Statements of
Powszechna Kasa Oszczędności Bank Polski
Spółka Akcyjna
for the year ended 31 December 2009

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

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for the year ended 31 December 2009*



(in PLN thousand)

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SELECTED FINANCIAL DATA

Below presented selected financial data are the part of supplementary information of PKO Bank Polski SA financial statements for the year ended 31 December 2009

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	2009	2008	2009	2008
Net interest income	4 842 449	5 968 083	1 115 617	1 689 674
Net fee and commission income	2 363 647	2 132 815	544 544	603 839
Operating profit	3 055 431	3 697 850	703 919	1 046 929
Net profit	2 432 152	2 881 260	560 326	815 738
Total equity	20 179 517	13 529 372	4 912 009	3 242 587
Net cash flow from / used in operating activities	(5 278 495)	3 429 872	(1 216 075)	971 060
Net cash flow from / used in investing activities	866 336	(3 048 466)	199 589	(863 077)
Net cash flow from / used in financing activities	4 974 310	(1 327 021)	1 145 996	(375 704)
Total net cash flows	562 151	(945 615)	129 510	(267 721)
Earnings per share for the period - basic	2.17	2.64	0.50	0.75
Earnings per share for the period - diluted	2.17	2.64	0.50	0.75
Tier 1 capital	15 755 513	11 003 657	3 835 138	2 637 249
Tier 2 capital	1 052 650	1 294 488	256 231	310 250
Tier 3 capital	129 876	91 048	31 614	21 821

Selected financial data of the financial statements were translated into Euro 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 2009 and 2008: EUR 1 = PLN 4.3406 and EUR 1 = PLN 3.5321 respectively;
- statement of financial position items – average NBP rate as at the balance date 31 December 2009: EUR 1 = PLN 4.1082; 31.12.2008: EUR 1 = PLN 4.1724

INCOME STATEMENT for the years ended 31 December 2009 and 31 December 2008

<i>Continued operations:</i>	Notes	2009	2008
Interest and similar income	3	8 603 448	8 646 426
Interest expense and similar charges	3	(3 760 999)	(2 678 343)
Net interest income		4 842 449	5 968 083
Fee and commission income	4	3 083 059	2 813 078
Fee and commission expense	4	(719 412)	(680 263)
Net fee and commission income		2 363 647	2 132 815
Dividend income	5	101 560	130 896
Net income from financial instruments at fair value through profit and loss	6	61 402	(156 998)
Losses less gains from investment securities	7	(594)	(951)
Net foreign exchange gains	8	894 680	696 135
Other operating income	9	167 069	160 736
Other operating expenses	9	(76 710)	(114 689)
Net other operating income and expense		90 359	46 047
Net impairment allowance	10	(1 393 480)	(1 148 930)
Administrative expenses	11	(3 904 592)	(3 969 247)
Operating profit		3 055 431	3 697 850
Profit before income tax		3 055 431	3 697 850
Income tax expense	12	(623 279)	(816 590)
Net profit		2 432 152	2 881 260
Earnings per share:	13		
- basic earnings per share (PLN)		2.17	2.64
- diluted earnings per share (PLN)		2.17	2.64
Weighted average number of ordinary shares during the period		1 121 561 644	1 090 000 000
Weighted average (diluted) number of ordinary shares during the period		1 121 561 644	1 090 000 000

Discontinued operations:

In years 2009 and 2008 the Bank did not carry out discontinued operations

STATEMENT OF COMPREHENSIVE INCOME for the years ended 31 December 2009 and 31 December 2008

	2009	2008
Profit for the period	2 432 152	2 881 260
Other comprehensive income before tax	136 868	8 571
Financial assets available for sale (gross)	21 719	10 581
Deferred tax on reassessment of financial instruments available for sale	(4 127)	(2 010)
Cash flow hedge (gross)	147 254	-
Deferred tax on valuation of financial instruments designated as cash flow hedge	(27 978)	-
Total net comprehensive income	2 569 020	2 889 831

STATEMENT OF FINANCIAL POSITION
as at 31 December 2009 and 31 December 2008

	Notes	31.12.2009	31.12.2008
ASSETS			
Cash and balances with the central bank	15	6 993 966	5 758 248
Amounts due from banks	16	2 053 767	3 906 973
Trading assets	17	2 212 955	1 496 147
Derivative financial instruments	18	2 029 921	3 599 545
Financial assets designated at fair value through profit and loss	20	12 356 532	4 546 497
Loans and advances to customers	21	114 425 789	98 102 019
Investment securities available for sale	22	7 965 697	8 756 511
Investments in subsidiaries, jointly controlled entities and associates	23	1 333 707	823 518
Non-current assets held for sale		13 851	-
Intangible assets	24	1 268 781	1 155 042
Tangible fixed assets	25	2 291 949	2 462 967
including investment properties		322	24 170
Deferred income tax asset	12	275 204	166 803
Other assets	26	425 360	470 557
TOTAL ASSETS		153 647 479	131 244 827
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to the central bank	27	6 581	2 816
Amounts due to other banks	28	4 166 725	5 699 452
Derivative financial instruments	18	1 544 370	6 150 337
Amounts due to customers	30	124 044 400	101 856 930
Subordinated liabilities	31	1 612 178	1 618 755
Other liabilities	32	1 319 917	1 355 396
Current income tax liabilities	12	175 165	470 416
Provisions	33	598 626	561 353
TOTAL LIABILITIES		133 467 962	117 715 455
Equity			
Share capital	34	1 250 000	1 000 000
Other capital	35	16 497 365	9 648 112
Net profit for the year		2 432 152	2 881 260
TOTAL EQUITY		20 179 517	13 529 372
TOTAL EQUITY AND LIABILITIES		153 647 479	131 244 827
Capital adequacy ratio	48	14.28%	11.24%
Book value (TPLN)		20 179 517	13 529 372
Number of shares	1	1 250 000 000	1 000 000 000
Book value per share (PLN)		16.14	13.53
Diluted number of shares		1 250 000 000	1 000 000 000
Diluted book value per share		16.14	13.53

Financial Statements of
Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
for the year ended 31 December 2009



(in PLN thousand)

STATEMENT OF CHANGES IN EQUITY

for the years ended 31 December 2009 and 31 December 2008

For the year ended 31 December 2009	Share capital	Other capital						Net profit for the period	Total equity	
		Reserve capital	General banking risk fund	Other reserve capital	Retained earnings	Financial assets available for sale	Cash flow hedge			Total other equity
As at 1 January 2009	1 000 000	7 216 986	1 070 000	1 395 000	-	(33 874)	-	9 648 112	2 881 260	13 529 372
Transfer of net profit from previous years	-	-	-	-	2 881 260	-	-	2 881 260	(2 881 260)	-
Total comprehensive income	-	-	-	-	-	17 592	119 276	136 868	2 432 152	2 569 020
Own shares issue	250 000	4 831 125	-	-	-	-	-	4 831 125	-	5 081 125
Transfer from retained earnings	-	-	-	1 881 260	(1 881 260)	-	-	-	-	-
Dividends paid	-	-	-	-	(1 000 000)	-	-	(1 000 000)	-	(1 000 000)
As at 31 December 2009	1 250 000	12 048 111	1 070 000	3 276 260	-	(16 282)	119 276	16 497 365	2 432 152	20 179 517

For the year ended 31 December 2008	Share capital	Other capital						Net profit for the period	Total equity	
		Reserve capital	General banking risk fund	Other reserve capital	Retained earnings	Financial assets available for sale	Cash flow hedge			Total other equity
As at 1 January 2008	1 000 000	5 591 995	1 070 000	1 390 000	-	(42 445)	-	8 009 550	2 719 991	11 729 541
Transfer of net profit from previous years	-	-	-	-	2 719 991	-	-	2 719 991	(2 719 991)	-
Total comprehensive income	-	-	-	-	-	8 571	-	8 571	2 881 260	2 889 831
Transfer from retained earnings	-	1 624 991	-	5 000	(1 629 991)	-	-	-	-	-
Dividends paid	-	-	-	-	(1 090 000)	-	-	(1 090 000)	-	(1 090 000)
As at 31 December 2008	1 000 000	7 216 986	1 070 000	1 395 000	-	(33 874)	-	9 648 112	2 881 260	13 529 372

STATEMENT OF CASH FLOWS
for the years ended 31 December 2009 and 31 December 2008

	Note	2009	2008
Net cash flow from operating activities			
Net profit		2 432 152	2 881 260
Adjustments:		(7 710 647)	548 612
Amortisation and depreciation		405 393	361 382
(Gains) losses from investing activities	40	(29 408)	45
Interest and dividends	40	(562 338)	(414 176)
Increase in amounts due from banks	40	1 180 641	(728 788)
Increase in trading assets and other financial assets at fair value through profit and loss		(8 526 843)	3 261 809
Decrease in derivative financial instruments (asset)		1 569 624	(2 042 795)
Increase in loans and advances to customers	40	(17 138 175)	(24 573 638)
Increase in deferred income tax asset and income tax receivables		(108 401)	56 435
Decrease in other assets	40	31 346	7 879
Decrease in amounts due to other banks	40	(1 528 962)	2 076 534
Decrease in derivative financial instruments (liability)		(4 605 967)	4 870 072
Increase in amounts due to customers	40	21 145 111	16 677 287
Increase in impairment allowances and provisions	40	818 572	427 944
Decrease in other liabilities	40	107 118	139 146
Income tax paid		(1 059 036)	(479 457)
Current tax expense		763 785	949 873
Other adjustments	40	(173 107)	(40 940)
Net cash from / used in operating activities		(5 278 495)	3 429 872
Net cash flow from investing activities			
Inflows from investing activities			
Proceeds from sale of investment securities		12 661 922	6 443 329
Proceeds from sale of intangible assets and tangible fixed assets		17 236	6 226
Other investing inflows		101 277	130 846
Outflows from investing activities			
Purchase of a subsidiary, net of cash acquired		(548 578)	(78 909)
Purchase of investment securities		(10 969 818)	(8 748 517)
Purchase of intangible assets and tangible fixed assets		(395 703)	(801 441)
Net cash from / used in investing activities		866 336	(3 048 466)
Net cash flow from financing activities			
Proceeds from shares in issue		5 081 125	-
Dividends paid to minority shareholders		(1 000 000)	(1 090 000)
Long-term borrowings		1 042 359	-
Redemption of debt securities in issue		(106 152)	(111 152)
Repayment of long term loans		(43 022)	(125 869)
Net cash generated from financing activities		4 974 310	(1 327 021)
Net cash inflow (outflow)			
Cash and cash equivalents at the beginning of the period		8 055 811	9 001 426
Cash and cash equivalents at the end of the period	40	8 617 962	8 055 811
of which restricted	37	8 421	7 966

NOTES TO THE FINANCIAL STATEMENTS as at 31 December 2009

1. General information

The financial statements of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ("PKO Bank Polski SA", "the Bank") have been prepared for the year ended 31 December 2009 and include comparative data for the year ended 31 December 2008. Data has been presented in PLN thousand unless indicated otherwise.

The Bank was established in 1919 as the Poczтовая 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 1 250 000 thousand.

The Bank's shareholding structure is as follows:

Name of entity	Number of shares	Number of votes	Nominal value of the share	Shareholding
		%		%
<i>As at 31 December 2009</i>				
The State Treasury	512 406 927	40.99	PLN 1	40.99
Bank Gospodarstwa Krajowego	128 102 731	10.25	PLN 1	10.25
Other shareholders	609 490 342	48.76	PLN 1	48.76
Total	1 250 000 000	100.00	---	100.00
<i>As at 31 December 2008</i>				
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

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

Business activities

PKO Bank Polski SA is a universal commercial bank offering services to both domestic and foreign retail, corporate and other clients. PKO Bank Polski 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.

Structure of the PKO Bank Polski SA Group

PKO Bank Polski SA includes following entities:

No.	Entity name	Registered office	Activity	Share in the share capital (%)	
				31.12.2009	31.12.2008
PKO Bank Polski SA Group					
Parent company					
1	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna				
Direct subsidiaries					
2	Bankowe Towarzystwo Kapitałowe SA	Warsaw	Services, including financial services	100.00	100.00
3	Bankowy Fundusz Leasingowy SA	Łódź	Leasing services	100.00	100.00
4	Centrum Elektronicznych Usług Płatniczych 'eService' SA	Warsaw	Servicing and settlement of card transactions	100.00	100.00
5	Centrum Finansowe Puławska Sp. z o.o.	Warsaw	Management and use of Centrum Finansowe Puławska	100.00	100.00
6	Inteligo Financial Services SA	Warsaw	Technical servicing of Internet banking	100.00	100.00
7	KREDOBANK SA	Lviv, Ukraine	Financial services	99.4948	98.5619
8	PKO BP Bankowy Powszechny Towarzystwo Emerytalne SA	Warsaw	Pension fund management	100.00	100.00
9	PKO BP Inwestycje Sp. z o.o.	Warsaw	Real estate development	100.00	100.00
10	PKO Finance AB	Stockholm, Sweden	Financial services	100.00	100.00
11	PKO Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	Investment fund management	100.00	75.00
12	Fort Mokotów Inwestycje Sp. z o.o.	Warsaw	Real estate development	99.9885	-
Indirect subsidiaries					
Subsidiaries of PKO BP Inwestycje Sp. z o.o.					
13	Wilanów Investments Sp. z o.o. ¹	Warsaw	Real estate development	99.975	100.00
14	POMERANKA Sp. z o.o. ¹	Warsaw	Real estate development	99.9975	100.00
15	PKO Inwestycje – Międzyzdroje 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	80.00
19	Baltic Dom 2 Sp. z o.o.	Warsaw	Real estate development	56.00	56.00
Subsidiaries of Bankowy Fundusz Leasingowy SA					
20	Bankowy Leasing Sp. z o.o. ¹	Łódź	Leasing services	99.9969	100.00
21	BFL Nieruchomości Sp. z o.o. ¹	Łódź	Leasing services	99.9930	100.00
Subsidiary of Inteligo Financial Services SA					
22	PKO BP Finat Sp. z o.o. ²	Warsaw	Financial agency	80.3287	80.33
Subsidiary of Bankowe Towarzystwo Kapitałowe SA					
23	PKO BP Faktoring SA ¹	Warsaw	Factoring	99.9846	-

1) PKO Bank Polski SA acquired directly 1 share in the entity.

2) Remaining shares of PKO BP Finat Sp.z o.o. in hold of PKO BP BANKOWY PTE (19.6702%) and PKO Bank Polski SA (0.0011%).

3) Information on the disposal is presented in Note 51 "Events after the reporting period"

Additionally, the Bank holds shares in the following jointly controlled entities and associates:

Jointly controlled entities:

No.	Name of Entity	Registered Office	Activity	Share in the share capital (%)	
				31.12.2009	31.12.2008
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 Bank Polski 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:

No.	Name of Entity	Registered Office	Activity	Share in the share capital (%)	
				31.12.2009	31.12.2008
Direct associates					
1	Bank Pocztowy SA	Bydgoszcz	Financial services	25.0001	25.0001
2	Kolej Gondolowa Jaworzyna Krynicka SA ¹	Krynica Górská	Construction and operation of cable railway	37.53	37.53
3	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Poznań	Provision of sureties and guarantees	33.33	33.33
4	Agencja Inwestycyjna CORP SA	Warsaw	Office real estate management	22.31	22.31
5	Ekogips SA – under liquidation ²	Warsaw	Production of construction parts	-	60.26

¹⁾ Investment in entity in 2009 recognised in fixed assets held for sale

²⁾ Investment in entity in 2009 derecognised from books of the parent company

Information about changes in the participation in the share capital of the subsidiaries is set out in Note 23 'Investments in subsidiaries, jointly controlled entities and associates'.

Internal organisational units of PKO Bank Polski SA

The financial statements of PKO Bank Polski SA, comprising financial data for the year ended 31 December 2009 and comparative financial data, were prepared on the basis of financial data submitted by all organisational units of the Bank through which it performs its activities. As at 31 December 2009, these organisational units included: the Bank's Head Office in Warsaw, Dom Maklerski PKO Bank Polski SA, CBE Centrum Bankowości Elektronicznej Inteligo, COK - Centrum Kart Kredytowych i Operacji Kartowych, 8 specialised units, 12 regional retail branches, 13 regional corporate branches, 55 corporate centres and 2175 agencies. Except from Dom Maklerski PKO Bank Polski SA, none of the organisational units listed above prepares separate financial statements.

Indication whether the Bank is a parent company or a significant investor and whether it prepares consolidated financial statements

PKO Bank Polski SA is the parent company of the Powszechna Kasa Oszczędnościowa Bank Polski SA Group and a significant investor for its subsidiaries, jointly controlled entities and associates together with their affiliates. Accordingly, PKO Bank Polski SA prepares consolidated condensed financial statements for the Group, which include the financial data of these entities.

Information on members of the Management and Supervisory Board of PKO Bank Polski SA

As at 31 December 2009, the Bank's Management Board consisted of:

- Zbigniew Jagiełło Acting President of the Management Board
- Bartosz Drabikowski Vice-President of the Management Board
- Krzysztof Dresler 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 2009, the following changes took place in the composition of the Management Board:

- on 7 July 2009, the Supervisory Board of PKO Bank Polski SA passed resolutions removing:
 - Jerzy Pruski from the function of President of the Bank's Management Board
 - Tomasz Mironczuk from the function of Vice-President of the Bank's Management Board
- on 7 July 2009, the Supervisory Board of PKO Bank Polski SA entrusted Wojciech Papierak, Vice-President of the Bank's Management Board, with the duties of the President of the Management Board of PKO Bank Polski SA as of 7 July 2009 until the President of the Bank's Management Board is appointed.
- on 14 September 2009, the Bank's Supervisory Board appointed Zbigniew Jagiełło as the acting President of the Management Board of PKO Bank Polski SA, effective from 1 October 2009, for the joint term of the Board beginning on 20 May 2008. The Supervisory Board appointed Zbigniew Jagiełło as the acting President of the Management Board of PKO Bank Polski SA for the period from 1 October 2009 to the date on which the Financial Supervision Authority approves his appointment as the President of the Management Board of PKO Bank Polski SA.

Simultaneously, in accordance with the above resolution of the Bank's Supervisory Board, Wojciech Papierak, Vice-President of the Management Board of PKO Bank Polski SA, has ceased to be entrusted with the duties of the President of the Management Board of PKO Bank Polski SA effective from 10 October 2009.

As at 31 December 2009, the Bank's Supervisory Board consisted of:

- Cezary Banasiński Chairman of the Supervisory Board
- Tomasz Zganiacz Vice-Chairman of the Supervisory Board
- Jan Bossak Member of the Supervisory Board
- Mirosław Czekaj Member of the Supervisory Board
- Ireneusz Fąfara Member of the Supervisory Board
- Błażej Lepczyński Member of the Supervisory Board
- Alojzy Zbigniew Nowak Member of the Supervisory Board

During the year ended 31 December 2009, the following changes took place in the composition of the Bank's Supervisory Board:

- on 20 April 2009 Eligiusz Jerzy Krześniak (Vice-Chairman of the Supervisory Board of PKO Bank Polski SA) resigned from the post of the member of PKO Bank Polski SA Supervisory Board effective from 19 April 2009;
- on 20 April 2009 the Extraordinary General Meeting of PKO Bank Polski SA removed the following persons from the post of Members of the Supervisory Board of the Bank:
 - Jerzy Osiałyński
 - Urszula Pałaszek
 - Roman Sobiecki.

In accordance with the appropriate resolutions, the above-named were removed from 20 April 2009;

-
- on 20 April 2009 the Extraordinary General Meeting of PKO Bank Polski SA appointed the following persons to the Supervisory Board of the Bank:
 - Cezary Banasiński
 - Jacek Gdański
 - Błażej Lepczyński
 - Jerzy Stachowicz.

In accordance with the appropriate resolution, the above-named were appointed to constitute the Supervisory Board from 20 April 2009 until the end of the current term of office.

- on 21 August 2009 Jacek Gdański (Member of the Bank's Supervisory Board) resigned from the post of member of the Bank's Supervisory Board effective from 21 August 2009;
- on 31 August 2009 Marzena Piszczek (Chairman of the Bank's Supervisory Board) resigned from the post of member of the Bank's Supervisory Board effective from 31 August 2009;
- on 31 August 2009 the Extraordinary General Meeting of PKO Bank Polski SA recalled the following persons from the Bank's Supervisory Board:
 - Jerzy Stachowicz
 - Ryszard Wierzba
- on 31 August 2009 the Extraordinary General Meeting of PKO Bank Polski SA appointed the following persons to the Supervisory Board of the Bank:
 - Mirosław Czekaj
 - Ireneusz Fąfara
 - Alojzy Zbigniew Nowak
 - Tomasz Zganiacz.

In accordance with the appropriate resolution, the above-named were appointed from 31 August 2009;

- on 31 August 2009 Błażej Lepczyński submitted his resignation as Vice-Chairman of the Supervisory Board of PKO Bank Polski SA effective from 31 August 2009;
- on 31 August, the State Treasury, acting as the Authorized Shareholder pursuant to § 12, clause 1 of the Memorandum of Association, appointed:
 - Cezary Banasiński – as Chairman of the Bank's Supervisory Board,
 - Tomasz Zganiacz – as Vice-Chairman of the Bank's Supervisory Board.

Approval of financial statements

These consolidated financial statements, reviewed by the Supervisory Board's Audit Committee on 10 March 2010, have been approved for issue by the Management Board on 9 March 2010 and accepted by the Supervisory Board on 10 March 2010.

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 2009, 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.

The European Commission has adopted IAS 39 'Financial Instruments: Recognition and Measurement' except some decisions concerning hedge accounting. Due to the fact that the Bank applies IFRS as adopted by the EU, the Bank has applied the IAS 39.0S99C in the form adopted by the EU, which allows to designate as a hedged item a portion of cash flows from variable rate deposits for which the effective interest rate is lower than the reference interest rate (not including margins). The IAS 39 as issued by the IASB introduces limitations in that respect.

The Bank has applied hedge accounting for the first time in the second quarter of 2009, therefore potential differences described above may have an influence on financial data for the twelve months period ended 31 December 2009.

The consolidated financial statements of the PKO Bank Polski SA for the year 2009 have been prepared in accordance with the amended IAS 1 'Presentation of Financial Statements' in force since 1 January 2009. The amended IAS 1 has been applied with regard to all financial periods presented in the financial statements.

2.2. Going concern

The financial statements of the Bank have been prepared on the basis that the Bank will be a going concern during a period of at least 12 months from the issue date, i.e. since 15 March 2010. 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 for at least 12 months following the issue date as a result of any intended or compulsory withdrawal or significant limitation in the activities of the Bank.

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 at fair value through profit and 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 Bank measures non-current assets (or groups of the said assets) classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

2.4. Foreign currencies

2.4.1. Transactions and items denominated in foreign currencies

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:

- 1) monetary assets denominated in foreign currency are translated into Polish zloty, using a closing rate - the average NBP rate for a given currency as at the balance date;
- 2) non-monetary assets valued at historical cost in foreign currency are translated into Polish zloty, using exchange rate as of the date of the transaction;
- 3) non-monetary assets at fair value through profit and 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 carrying amount of monetary and non-monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

2.5. Financial assets and liabilities

2.5.1. Classification

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

2.5.1.1. Financial assets and liabilities at fair value through profit and loss

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

- 1) it is classified as held for trading. A financial asset or financial liability is 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 at fair value through profit and loss. The Bank 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 Bank.

2.5.1.2. Financial assets available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as: a) financial assets at fair value through profit and loss (designated by the Bank upon initial recognition), b) held-to-maturity financial assets or c) loans and receivables.

2.5.1.3. Loans and advances

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

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

- 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.

2.5.1.4. Financial assets held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity other than:

- a. those that the Bank upon initial recognition designates as at fair value through profit and loss; .
- b. those that the Bank designates as available for sale;
- c. those that meet the definition of loans and receivables.

2.5.1.5. Other financial liabilities

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

2.5.2. 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.

2.5.3. 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 are transferred, or
- 2) the Bank 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 Bank.

When the Bank 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 Bank derecognises the financial asset from the statement of financial position,
- 2) if all the risks and rewards of ownership of the financial asset are substantially retained, then the financial asset continues to be recognised in the statement of financial position,
- 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 Bank has retained control, it continues to recognise the financial asset in the statement of financial position to the extent of its continuing involvement in the financial asset; if control has not been retained, then the financial asset is derecognized.

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

The Bank removes a financial liability (or a part of a financial liability) from its statement of financial position 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.

2.5.4. 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 at fair value through profit and loss, transaction costs that are directly attributable to the acquisition of the issue of the financial asset or liability.

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

2.5.4.1. Assets and liabilities at fair value through profit and loss

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

2.5.4.2. 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 other comprehensive income. The amount included in other comprehensive income is reclassified to the income statement when the asset is derecognised from the statement of financial position.

2.5.4.3. 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.

2.5.4.4. Other financial liabilities

Other financial liabilities are measured at amortized cost using the effective interest rate. It is not possible to reliably estimate the future cash flows and the effective interest rate, financial liabilities are measured at cost.

Debt instruments issued by the Bank are recognized as liabilities and measured at amortized cost using the effective interest rate.

2.5.4.5. Method of establishing fair value and amortized cost

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

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

- 1) equity instruments at fair value through profit and loss and available for sale equity instruments:
 - a. 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;
 - b. at valuation performed by a specialized external entity providing services of this kind,
- 2) debt instruments at fair value through profit and loss:
 - a. the method based on market prices of securities (the market value method),
 - b. the method based on market interest rate quotation (the profitability curve method),
 - c. the method based on market prices of securities with similar financial characteristics (the reference asset value method),
- 3) available -for-sale debt instruments in the portfolio – based on one of the following methods:
 - a. the method based on market prices of securities (the market value method),
 - b. the method based on market interest rate quotation (the profitability curve method), adjusted for a risk margin equal to the margin specified in the issue terms. Material changes in the market interest rates are reflected in the changes in the fair value of such instruments,
 - c. the method based on market prices of securities with similar financial characteristics (the reference asset value method),
 - d. in the case of securities whose fair value cannot be established with the use of the methods mentioned above, the fair value is determined based on the internal valuation model.

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, less principal repayments, and increased or decreased by the cumulative amortisation of any difference between that initial amount and the amount at maturity, and decreased by any impairment losses. Amortized cost is determined 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 the next re-pricing, and which is the internal rate of return of the asset/liabilities for the given period. The calculation of this rate includes payments received/paid by the Bank which affect financial characteristics of the instrument, with exception of potential future losses related to default loans. Commissions, fees and transaction costs which constitute an integral part of the effective return on a loan or an advance, adjust their carrying amount and are included in the calculation of the effective interest rate.

2.5.5. Derivative instruments

2.5.5.1. 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 Bank includes the difference, respectively, in the net income from financial instruments at fair value through profit and loss or in the net foreign exchange gains (for 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 at fair value through profit and loss or in the net 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.

2.5.5.2. 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 which otherwise would be required under the contract.

Embedded derivative instruments separated from host contracts and recognized separately and are valued at fair value. Valuation is presented in the statement of financial position 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 at fair value through profit and loss" or in the "Net foreign exchange gains".

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 through profit and loss; 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 at fair value through profit and loss" or in the "Net foreign exchange gains".

2.5.6. Hedge accounting

2.5.6.1. Hedge accounting criteria

The Bank applies hedge accounting when all the terms and conditions below, specified in IAS 39, have been met:

- 1) upon setting up the hedge, a hedge relationship, the purpose of risk management by the entity, and the hedging strategy was officially established. The documentation includes the identification of the hedging instrument, the hedged item or transaction, the nature of the hedged risk and the manner in which the entity will assess the effectiveness of the hedging instrument in compensating the threat of changes in fair value of the hedged item or the cash flows related to the hedged risk;

- 2) a hedge was expected to be highly effective in compensating changes to the fair value or cash flows resulting from the hedged risk in accordance with the initially documented risk management strategy relating to the specific hedge relationship;
- 3) in respect of cash flow hedges, the planned hedging transaction must be highly probable and must be exposed to changes in cash flows which may, as a result, have an impact on the income statement;
- 4) the effectiveness of a hedge may be reliably assessed, i.e. the fair value or cash flows related to the hedged item and resulting from the hedged risk, and the fair value of the hedging instrument, may be reliably measured;
- 5) the hedge is assessed on a current basis and its high effectiveness in all reporting periods for which the hedge had been established is determined.

2.5.6.2. Discontinuing hedge accounting

The Bank discontinues hedge accounting when:

- 1) a hedge instrument expires, is sold, released or exercised (replacing one hedge instrument with another or extending the validity of a given hedge instrument is not considered to be expiration or release if the replacement or extension of period to maturity is part of the documented hedging strategy adopted by the entity). In such an instance accumulated gains or losses related to the hedging instrument which were recognized directly in other comprehensive income over the period in which the hedge was effective are recognized in a separate item in other comprehensive income until the planned transaction is effected;
- 2) the hedge ceases to meet the hedge accounting criteria. In such an instance accumulated gains or losses related to the hedging instrument which were recognized directly in other comprehensive income over the period in which the hedge was effective are recognized in a separate item in other comprehensive income until the planned transaction is effected;
- 3) the planned transaction is no longer considered probable; therefore, all the accumulated gains or losses related to the hedging instrument which were recognized directly in other comprehensive income over the period in which the hedge was effective, are recognized in the income statement;
- 4) the Bank invalidates a hedge relationship.

2.5.6.3. Fair value hedge

As at 31 December 2009, the Bank did not apply fair value hedge accounting.

2.5.6.4. Cash flow hedges

A cash flow hedge is a hedge against the threat of cash flow volatility which can be attributed to a specific type of risk related to a recorded asset or a liability (such as the whole or a portion of future interest payments on variable interest rate debt) or a highly probable planned transaction, and which could affect the income statement.

Changes in the fair value of a derivative financial instrument designated as a cash flow hedge are recognized directly in other comprehensive income in respect of the portion constituting the effective portion of the hedge. The ineffective portion of a hedge is recognized in the income statement in 'Net income from financial instruments designated at fair value through profit and loss.

Amounts transferred directly to other comprehensive income are recognized in the income statement in the same period or periods in which the hedged planned transaction affects the income statement.

The effectiveness tests comprise the valuation of hedging transactions, net of interest accrued and foreign exchange differences on the nominal value of the hedging transactions. These are shown in the income statement, in 'Net interest income' and 'Net foreign exchange gains' respectively.

2.6. Offsetting of financial instruments

A financial asset or liability may only be offset when the Bank has a valid legal title to offset it and the settlement needs to 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 statement of financial position 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. Investments in subsidiaries, jointly controlled entities and associates

Investments in subsidiaries, jointly controlled entities and associates are measured at cost less impairment losses.

At each balance date, the Bank makes an assessment of whether there are any indicators of impairment in the value of investments in subsidiaries, jointly controlled entities and associates. If any such indicators exist, the Bank estimates the value in use of the investment or the fair value of the investment less costs to sell, depending on which of these values is higher; if the carrying amount of an asset 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 Bank 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.

2.9. Impairment of financial assets

2.9.1. 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 Bank 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 Bank 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 Bank 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 receivables are classified by the Bank 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 debt financial instruments not issued by the State Treasury which are available for sale, the amount of the impairment allowance is the difference between the carrying amount of the asset and the present fair value measured as the value of future cash flows discounted by the market interest rates set on the based on yield curves for Treasury bonds moved by risk margins.

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 Bank 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 Bank 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.

2.9.2. Assets available for sale

At each balance date, the Bank makes an assessment, whether there is objective evidence that a given financial asset classified to financial assets available for sale is impaired. If any such indicators of impairment on financial assets classified as debt securities available for sale exist, an impairment allowance is calculated.

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 Bank firstly assesses impairment on an individual basis for significant receivables.

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.

In case of impairment of a financial asset classified as available for sale, the amount of the impairment loss is charged to the income statement, which results in the necessity to transfer the effects of the downward valuation from the other comprehensive income 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 and loss.

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. 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 impairment and amortisation losses.

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

2.10.1.2. Other intangible assets

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

2.10.1.3. Development costs

The Bank 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 Bank 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/amortisation 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, investment properties and amortisation 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 amortisation 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 non-financial 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/amortisation periods for basic groups of tangible fixed assets, investment properties and intangible assets applied by PKO Bank Polski SA:

Tangible assets	Periods
Buildings, premises, cooperative rights to premises	40-60 years
Leaseholds improvements (buildings, premises)	10 years (or term of the lease if shorter)
Machinery and equipment	3-15 years
Computer hardware	4-10 years
Motor vehicles	5 years
Intangible assets	Periods
Software	2-15 years
Other intangible assets	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 Bank in a different manner. Each component of the building is depreciated separately.

2.10.4. Impairment of non-financial non-current assets

At each balance date, the Bank makes an assessment of whether there are any indicators of impairment of any of its non-financial non-current assets (or cash-generating units). If any such indicators exist, the Bank 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 an asset exceeds its recoverable amount, the Bank recognizes an impairment loss in the income statement. The projection for the value in use requires making assumptions, e.g. about future expected cash flows that the Bank may receive 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 there are indications for impairment for group of assets, which do not generate cash flows irrespective of other assets or asset groups, and the recoverable amount of a single asset included in common assets cannot be determined, the Bank 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).

2.11. Other items in the statement of financial position

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.

Non-current 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 Bank'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. 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 Bank 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 statement of financial position 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 statement of financial position under 'Other assets'.

2.12. Provisions

Provisions are liabilities of uncertain timing or amount. They are accrued when the Bank 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 as well as there are met detailed criteria related to the legal or constructive obligation to set up provisions for restructuring costs specified in IAS 37. Precisely, the constructive obligation of restructurisation and recognising provisions 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 activities or part of the activities to which the plan relates, the basic locations covered by the plan, the place of employment, functions and estimated number of employees who are to be compensated due to their contract termination, the amount of expenditure which is to be incurred and the date when the plan will be implemented. Legal obligation to recognize a restructuring provision results from the Act dated 13 March 2003 on detailed principles of employment termination from reasons independent from employees (Journal of Laws 2003, No 90, item 844 with subsequent amendments). According to the Act, an employer is obliged to discuss an intention of mass redundancies with the company's trade unions, in particular with regard to the possibilities of avoidance or reduction of the scale of mass redundancies. An employer is also obliged to discuss employees' issues related to redundancies including, in particular, possibilities of retraining or professional trainings, as well as new job opportunities for dismissed employees.

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 Pracy'), all employees of PKO Bank Polski SA are entitled to anniversary bonuses after completing a specified number of years in service and to retirement bonuses upon retirement. The Bank 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 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 equate 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 Bank creates provisions for future liabilities arising from unused annual leave (taking into account all outstanding unused holiday days) and for severance payments made to those employees whose employment contracts are terminated for reasons independent of the employee, and for the employee compensation costs incurred in the current period which will be paid out in future periods, including bonuses.

2.15. Contingent liabilities and commitments

The Bank enters into transactions, which, at the time of their inception, are not recognized in the statement of financial position 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 Bank,
- 2) a present obligation resulting from past events, but not recognized in the statement of financial position, 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 commitments 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 amortisation recognized in accordance with IAS 18 'Revenue'.

2.16. Shareholders' equity

Shareholders' equity comprises capital and the other funds of the Bank in accordance with the relevant legal regulations and the Articles of Association.

2.16.1. Share capital

Share capital is stated at nominal value in accordance with Articles of Association and the Register of Entrepreneurs.

2.16.2. Reserve capital

Reserve capital is created according to the Articles of Association of the Bank, from the appropriation of net profits and from share premium less issue costs and it is to cover the potential losses of the Bank.

2.16.3. Other comprehensive income

Other comprehensive income comprises the effects of valuation of financial assets available for sale and the amount of the related deferred tax, as well as the effective part of cash flow hedging resulting from hedge accounting and the related deferred tax. In the statement of financial position, other comprehensive income is presented in the net amount.

2.16.4. General banking risk fund

General banking risk fund in PKO Bank Polski 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. Reserve capital

Reserve capital is created from the appropriation of net profits. It is uniquely to cover the potential losses of the bank.

2.17. Financial result

The Bank 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 bonuses 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 expense 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 at fair value through profit and loss" or "Net foreign exchange gains" (applied to CIRS), with the exception of derivative instruments classified as hedging instruments into hedge accounting, which have been presented in interest income since the second quarter of 2009.

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 Bank for services not related to the internal rate of return on loans and other receivables, as well as amounts charged by the Bank for services performed over a period exceeding 3 months, which are 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 Bank at the date on which the Bank's rights to receive the dividend have been established.

2.17.4. Net income from financial instruments at fair value

The result on financial instruments at fair value through profit and loss includes gains and losses arising from the disposal of financial instruments classified as financial assets/liabilities at fair value through profit and 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 and currency options).

Since the beginning of 2009, the Bank has recognized both realized and unrealized foreign exchange gains and losses on fair value measurement of unrealized currency options. In the Bank's opinion, the adoption of this approach results in a reclassification between the profit and loss account items. On the other hand, from an economic point of view, the method of presentation of net gains/losses on currency options applied allows the symmetrical recognition of net gains/losses on currency options and on spot and forward transactions concluded to hedge such options (transactions hedging the currency position generated as a result of changes in the market parameters affecting the currency option position).

Monetary assets and liabilities presented in the statement of financial position and off-balance sheet items denominated in foreign currency are translated into Polish zloty 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.

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 'other comprehensive income'.

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 extending 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 for financial reporting purposes. The Bank recognises deferred income assets and liabilities. An amount of deferred tax is determined using the balance method – as a change in the amounts in the statement of financial position of deferred income tax assets and liabilities. Deferred tax assets and deferred tax liabilities are presented in the statement of financial position 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

other comprehensive income, where changes in the balance of a deferred tax liability or deferred tax asset are accounted for in correspondence with other comprehensive income. 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 a 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.

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 Bank 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 Bank 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 Bank 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 Bank 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.

Assumptions about the future that were used by the Bank 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 Bank on the basis of estimates based on historical parameters.

In 2009 the Bank began to recognize restructuring and delay in payment from 3 to 6 months of consumer loans and a deterioration of an economic and financial condition of the client to G rating as the individual objective evidence of impairment, which resulted in an increase in the amount of loans individually determined to be impaired. The above-mentioned amendment did not impact the impairment allowances; however, it has an impact on the amount of loans and receivables determined to be impaired. Due to this reclassification, the amount of loans and receivables determined to be impaired as at 31 December 2009 increased by PLN 3 380 221 thousand.

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, acquiring new data by the Bank 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 estimated impairment allowance would increase by PLN 372 million or decrease by PLN 148 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, i.e. the positions for which an individual method is applied.

2.19.2. 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 Bank for non-option derivative instruments are based on yield curve based on available market data (deposit margins on interbank market, IRS quotations). The Bank conducted a simulation to assess the potential influence of change of the yield curve on the transaction valuation. Upwards move of yield curve by 50 bp. would result in decrease of non-option derivative instruments valuation by PLN 1 124 thousand. Analogous move downward would result in valuation increase by PLN 328 thousand.

In the second quarter of 2009, completed CIRS transactions indicated changes, which derived from market illiquidity in the market pricing of these instruments. Consequently, in place of the curve previously used, which was based on reference interest rates for a given currency, the Bank introduced the basis swap curve which takes into account two market variables: the reference interest rate and the current margin on a given pair of currencies in a specified time range. The new curve which has been subject to operational testing has facilitated the reflection of significant market factors in the valuation of the CIRS portfolio in the second quarter of 2009.

The above change as a change in estimates has been applied prospectively from the moment of its introduction. As a result of the change, the net profit for the year 2009 increased by PLN 146 862 thousand. At the same time, due to the fact that some of the instruments to which the changed valuation parameters have been applied were in cash flow hedging relationships, the above change also had an effect on the valuation reflected in other comprehensive income, which increased by PLN 180 558 thousand.

2.19.3. 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 Bank performed a reassessment of its estimates as at 31 December 2009, on the basis of calculation conducted by an independent actuary. 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 $\pm 0,5$ pp. will contribute to an increase/decrease of the amount of the provision for retirement and pension benefits and jubilee bonuses of approx. PLN 15 million.

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

In estimating useful economic lives of particular types of tangible fixed assets, intangible assets and investment properties, the Bank 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.

If the useful life of assets being subject to depreciation and classified as land and buildings was changed by +/- 10 years, it would influence the financial result as follows: a decrease in depreciation costs by PLN 30 million or an increase in depreciation costs by PLN 158 million respectively.

In the current year, the useful life of the O-ZSI software was extended from 10 to 15 years. The assessed impact of the above change on the net financial result, in 2009, amounts to PLN 20.5 million net.

2.20. Changes in accounting policies

Set out below are the new or revised IFRS and the new interpretation of the International Financial Reporting Interpretations Committee (IFRIC). In the year ended 31 December 2009, the Bank did not opt for early adoption of any of these standards and interpretations.

Amendments to standards and interpretations which have come into force since 1 January 2009

Standard/ interpretation	Introduction date	Application date	Approved by the European Union	Description of potential changes
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.
Amendments to IAS 23 - Borrowing Costs	March 2007	Financial year starting on or after 1 January 2009	Yes	The amendment relates to accounting treatment for 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 immediate 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.
IFRIC 13 - Customer Loyalty Programmes	June 2007	Financial year starting on or after 1 January 2009	Yes	This interpretation includes guidance, within an accounting treatment, on transactions resulting from customer loyalty programmes implemented by the entity such as: loyalty coupons, award credits (often described as ‘points’). In particular, IFRIC 13 indicates how to qualify liabilities which result from the necessity of providing customers with free or discounted goods or services when they redeem award credits.
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 2009	Yes	This interpretation includes basic guidance on how to determine the limit of surplus of the asset fair value over the current value of defined benefit liability according to IAS 19, 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.
Amendment to 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 comprising solely transactions with shareholders, whereas transactions with other parties are presented in total comprehensive income. In addition, the standards introduce changes to the names of the elements of the statements.

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Standard/ interpretation	Introduction date	Application date	Approved by the European Union	Description of potential changes
Amendment to IFRS 2 - Share-based Payment	January 2008	Financial year starting on or after 1 January 2009	Yes	The amendment explains that vesting conditions are service condition and performance condition only. Other features of a share-based payment are not vesting conditions. According to the standard, it is required that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.
Amendment to IAS 32 - Financial Instruments: Presentation and to IAS 1 - Presentation of Financial Statements	February 2008	Financial year starting on or after 1 January 2009	Yes	The amendments relate to accounting treatment of 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 obligation 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.
Amendment to IFRS 1 – First-time Adoption of International Financial Reporting Standards and to IAS 27 - Consolidated and Separate Financial Statements	May 2008	Financial year starting on or after 1 January 2009	Yes	The amendments allow to use as a 'deemed cost' either a fair value or a carrying amount stated according to the previously followed accounting principles for subsidiaries, jointly controlled entities or associates in the separated financial statements. Moreover, the definition of the <i>cost method</i> was removed and replaced with cost method in accounting for post acquisition dividends in the separate financial statements.
Amendments to IFRS 2008 (amendments to 20 standards)	May 2008	Majority of amendments will be applicable for annual periods starting on 1 January 2009	Yes	The amendments include changes in presentation, recognition and valuation as well as terminology and edition changes.
Amendments to IFRS 7 - Financial Instruments: Disclosures	March 2009	Financial year starting on 1 January 2009	Yes	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.

These interpretations do not have a material effect on the financial statements of the Bank.

Amendments to standards and interpretations which have come into force since 1 July 2009

Standard/ interpretation	Introduction date	Application date	Approved by the European Union	Description of potential changes
Amendments to IFRS 3 - Business Combinations	January 2008	Effective for business combinations for which the acquisition date is on or after 1 July 2009	Yes	Implemented amendments enable to choose the method of presenting minority shares either at fair value or their share in fair value of the identified net assets, while the difference should be presented through profit and loss. The amendments provide guidelines on how to use the acquisition method including the presentation of transaction costs as the cost of the period when they were incurred.
Amendments to IAS 27 - Consolidated and Separate Financial Statements	January 2008	Financial year starting on or after 1 July 2009	Yes	According to the standard, the entities are obliged to present the net transactions with minority shareholders directly in equity as long as the up-to-now parent entity remains dominant towards a given entity. The standard provides detail on the disclosure if the parent entity lost control over a subsidiary entity. Precisely, it requires to value the remaining shares at fair value and to present the difference through profit and loss.
Amendments to IAS 39 - Financial Instruments: Recognition and Measurement - Criteria for Hedge Accounting	July 2008	Financial year starting on or after 1 July 2009	Yes	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.
IFRIC 16 - Hedges of a Net Investment in a Foreign Operation	July 2008	Financial year starting on or after 1 July 2009	Yes	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. Moreover IFRIC 16 explains which entity in the Group is allowed to disclose a hedging instrument within hedges of a net investment in a foreign operation. In particular, it explains if the parent company holding a net investment in a foreign operation is obliged to hold also a hedging instrument. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit and loss is calculated on disposal of the hedged foreign operation.

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Standard/ interpretation	Introduction date	Application date	Approved by the European Union	Description of potential changes
IFRIC 17 - Distributions of Non-cash Assets to Owners	November 2008	Financial year starting on or after 1 November 2009	Yes	The interpretation provides guidance on when a dividend payable should be recognized, how an entity should measure the dividend payable and how it should recognize the difference between the dividend paid and the carrying amount of the net assets distributed.
IFRIC 18 Transfers of Assets from Customers	January 2009	Financial year starting on or after 1 November 2009	Yes	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.
IFRIC 15 - Agreements for the Construction of Real Estate	July 2008	Financial year starting on or after 1 January 2010	Yes	This interpretation contains general guidelines on how to assess agreements for the construction of real estate in order to decide whether its results should be presented in the financial statements in accordance with IAS 11 'Construction contracts' or with IAS 18 'Revenue'. In addition, IFRIC 15 indicates at what time revenue associated with construction services should be recognized.

These interpretations do not have a material effect on the financial statements of the Bank.

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
Amendments to IFRS 2009 (amendments to 12 standards)	April 2009	Financial year starting on or after 1 January 2010	No	The amendments comprise changes related to the presentation, disclosure and valuation. They also include terminology and editing changes.
Amendments to IFRS 2 Share-based Payment	June 2009	Financial year starting on or after 1 January 2010	No	Amendments precise the recognition of share-based payment within the Group. Amendments precise the scope of IFRS 2 and regulate the joint usage of IFRS 2 and other standards. The amendments incorporate into IFRS 2 the subjects regulated earlier in IFRIC 8 and IFRIC 11.

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Standard/ interpretation	Introduction date	Application date	Approved by the European Union	Description of potential changes
Amendments to IFRS 1 - First-time Adoption of IFRS	July 2009	Financial year starting on or after 1 January 2010	No	Amendments introduce additional exemptions for first-time adopters related to assets valuation for petrol and gas entities.
IFRIC 12 - Service Concession Arrangements	November 2006	Financial year starting on or after 1 January 2010	Yes	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.
Amendments to IAS 32 - Classification of rights issues	October 2009	Financial year starting on or after 1 February 2010	Yes	Amendments relate to rights issue accounting (rights issue, options, warrants) denominated in the currency different from the functional currency of the issuer. According to the amendments, if some conditions are met, it is required to disclose rights issue as equity regardless of the currency that the settlement price is set at.
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments	November 2009	Financial year starting on or after 1 July 2010	No	This IFRIC clarifies the accounting principles when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt.
Amendments to IFRIC 14 - Prepayments of a Minimum Funding Requirement	November 2009	Financial year starting on or after 1 January 2011	No	This interpretation provides guidelines on how to disclose earlier prepayments of a minimum funding requirement as an asset of a paying entity.
Amendments to IFRS 1 - First-time Adoption of IFRS	January 2010	Financial year starting on or after 1 July 2010	No	Amendments introduce additional exemptions for first-time adopters regarding disclosures required by amendments to IFRS 7 issued in March 2009 regarding fair value valuation and liquidity risk.

Standard/ interpretation	Introduction date	Application date	Approved by the European Union	Description of potential changes
Amendments to IAS 24 - Related Party Disclosure	November 2009	Financial year starting on or after 1 January 2011	No	Amendments introduce simplifications within requirements that refer to the disclosure of information by the entities related to state institutions and precise the definition of the related party.
IFRS 9 - Financial Instruments	November 2009	Financial year starting on or after 1 January 2013	No	The standard introduces one model with two categories of classification: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The approach of IFRS 9 depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. According to IFRS 9, entities are obliged to use one method to estimate the value of the assets.

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 Bank with the exception of the IFRS 9 (an influence of the IFRS 9 on accounting principles applied by the Bank have not been assessed yet). The Bank intends to apply them in the periods indicated in the relevant standards and interpretations (without early adoption).

3. Interest income and expense

Interest and similar income

	2009	2008
Income from loans and advances to customers ¹⁾	7 140 485	7 388 610
Income from financial hedging instruments	403 899	-
Income from securities designated at fair value through profit and loss	403 112	433 975
Income from investment securities ¹⁾	389 355	355 460
Income from placements with other banks ¹⁾	158 576	389 275
Income from trading securities	97 207	64 046
Other ¹⁾	10 814	15 060
Total	8 603 448	8 646 426

In the 'Income from financial hedging instruments' the Bank presents interest income from designated derivative instruments that are effective hedging instruments in the respect of cash flow hedge. Details of hedging relations applied by the Bank are included in Note 19 'Derivative hedging instruments'.

Interest expense and similar charges

	2009	2008
Interest expense on customers ²⁾	(3 589 601)	(2 496 984)
Interest expense on debt securities in issue ²⁾	(99 575)	(115 315)
Interest expense on deposits from other banks ²⁾	(47 523)	(60 771)
Other	(24 300)	(5 273)
Total	(3 760 999)	(2 678 343)

In the year ended 31 December 2009 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 and loss, amounted¹⁾ to PLN 7 699 230 thousand (in the year ended 31 December 2008: PLN 8 148 405 thousand). In the year ended 31 December 2009, interest expense, calculated using the effective interest rate method and arising from financial liabilities which are not valued at fair value through profit and loss, amounted²⁾ to PLN 3 746 183 thousand. In the year ended 31 December 2008, interest expense amounted to PLN (2 673 265) thousand.

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

	2009	2008
Net gains and losses from financial assets and liabilities measured at amortised cost	6 380 570	7 327 262
Interest income from loans and advances to customers	7 140 485	7 388 610
Interest income from placements with other banks	158 576	389 275
Fee and commission income from loans and advances to customers	365 522	313 309
Net impairment allowance on loans and advances to customers and amounts due from other banks measured at amortised cost	(1 284 013)	(763 932)
Losses from financial liabilities measured at amortised cost	(3 736 699)	(2 673 070)
Interest expense on amounts due to customers	(3 589 601)	(2 496 984)
Interest expense on debt securities in issue	(99 575)	(115 315)
Interest expense on amounts due to banks	(47 523)	(60 771)
Net result	2 643 871	4 654 192

¹⁾ the total amount of the items marked with ¹⁾

²⁾ 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 (9 484) thousand as at 31 December 2009 and PLN (195) thousand as at 31 December 2008.

4. Fee and commission income and expense

Fee and commission income

	2009	2008
Income from financial assets, which are not valued at fair value through profit and loss, of which:	365 522	313 309
Income from loans and advances	365 522	313 309
Other fee and commissions	2 715 883	2 498 713
Income from payment cards	932 890	848 610
Income from maintenance of bank accounts	858 781	780 759
Income from loan insurance intermediary and other services	327 312	225 063
Income from cash transactions	177 354	188 345
Income from portfolio and other management fees	92 049	159 570
Income from securities transactions	53 128	43 873
Income from foreign mass transactions servicing	41 524	41 181
Income from sale and distribution of marks of value	21 664	21 738
Other*	211 181	189 574
Income from trustee activities	1 654	1 056
Total	3 083 059	2 813 078

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

Fee and commission expense

	2009	2008
Expenses on payment cards	(374 547)	(348 243)
Expenses on acquisition services	(139 969)	(134 773)
Expenses on loan insurance	(92 937)	(94 140)
Expenses on fee and commissions for operating services granted by other banks	(6 518)	(8 112)
Expenses on fee and commissions paid to Poczta Polska (PPUP)	(4 399)	(5 240)
Other*	(101 042)	(89 755)
Total	(719 412)	(680 263)

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

5. Dividend income

	2009	2008
Dividend income from the issuers of:	5 381	21 956
Securities classified as available for sale	5 351	21 905
Securities classified as held for trading	30	51
Dividend income from subsidiaries, associates and jointly controlled entities	96 179	108 940
of which:		
PKO Towarzystwo Funduszy Inwestycyjnych SA	78 750	92 250
CEUP eServices S.A.	9 959	-
Centrum Finansowe Puławska Sp. z o.o.	7 376	16 626
Agencja Inwestycyjna CORP SA	94	64
Total	101 560	130 896

6. Net income from financial instruments at fair value through profit and loss

	2009	2008
Derivative instruments ¹⁾	33 567	(119 581)
Debt securities	24 536	(31 774)
Equity instruments	1 946	(5 716)
Other ¹⁾	1 353	73
Total	61 402	(156 998)

In the net income from financial instruments at fair value, position 'Derivative instruments', an ineffective portion related to hedges against fluctuations in cash flows was recognized and it amounted to PLN (435) thousand.

2009	Gains	Losses	Net result
Trading assets	11 952 886	(11 904 096)	48 790
Financial assets designated upon initial recognition at fair value through profit and loss	78 216	(65 604)	12 612
Total	12 031 102	(11 969 700)	61 402

2008	Gains	Losses	Net result
Trading assets	11 170 988	(11 295 694)	(124 706)
Financial assets designated upon initial recognition at fair value through profit and loss	162 863	(195 155)	(32 292)
Total	11 333 851	(11 490 849)	(156 998)

The total change in fair values of financial instruments at fair value through profit and loss determined with use of valuation models (where no quotations from active market were available) in the year ended 31 December 2009 amounted to PLN 34 920* thousand (in the year ended 31 December 2008: PLN (119 508) thousand).

7. Gains less losses from investment securities

	2009	2008
Gains recognized directly in other comprehensive income	22 312	11 533
Total result recognized directly in other comprehensive income	22 312	11 533
Gains derecognized from other comprehensive income	10 365	1 613
Losses derecognized from other comprehensive income	(10 959)	(2 564)
Total result derecognised from other comprehensive income	(594)	(951)
Grand total	21 718	10 582

8. Net foreign exchange gains

	2009	2008
Foreign exchange differences resulting from financial instruments at fair value through profit and loss	2 713 081	(2 246 278)
Foreign exchange differences	(1 818 401)	2 942 413
Total	894 680	696 135

¹⁾ the total amount of the items marked with ¹⁾

9. Other operating income and expense

	2009	2008
Other operating income		
Recovery of expired and written-off receivables	20 084	31 150
Sundry income	20 797	22 849
Sales and disposal of tangible fixed assets, intangible assets, and assets held for sale	16 457	6 130
Sale of shares in subordinates	-	3 746
Other*	109 731	96 861
Total	167 069	160 736

* Included in "Other" are: reversal of accruals (e.g. for costs of servicing computer hardware and software, the costs of office services, revenues from settlement of the sale of OSW Pegaz, the net value of the contribution in kind to a subsidiary Fort Mokotów.

	2009	2008
Other operating expenses		
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(7 968)	(13 152)
Sundry expenses	(5 004)	(5 399)
Donations	(3 370)	(4 353)
Costs of tangible fixed assets construction and intangible assets development - not capitalized	(62)	(426)
Other*	(60 306)	(91 359)
Total	(76 710)	(114 689)

* Included in "Other" are among others: legal costs and bailiffs advances.

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(in PLNthousand)

10. Net impairment allowance

For the year ended 31 December 2009	Impairment allowances at the beginning of the period	Increases		Decreases		Impairment allowances at the end of period	Net impairment allowances – an impact on the income statement	
		Impairment allowances made during the period	Other	Decrease in impairment allowances due to derecognition of assets, not impacting the income statement	Impairment allowances reversed during the period			Other
Financial assets available for sale, including:	21 550	9 975	-	7 024	8 925	-	15 576	(1 050)
carried at fair value through equity (not listed on stock exchange)	15 791	9 975	-	3 658	8 925	-	13 183	(1 050)
measured at cost (unquoted equity instruments and related derivative instruments)	5 759	-	-	3 366	-	-	2 393	-
Loans and advances to customers and amounts due from other banks measured at amortised cost	2 628 651	3 032 779	-	469 556	1 748 766	1 054	3 442 054	(1 284 013)
Non-financial sector	2 530 090	3 021 259	-	437 780	1 731 425	-	3 382 144	(1 289 834)
consumer loans	694 648	1 329 914	-	166 574	532 408	-	1 325 580	(797 506)
mortgage loans	488 157	420 628	-	38 374	227 356	-	643 055	(193 272)
corporate loans	1 347 285	1 270 717	-	232 832	971 661	-	1 413 509	(299 056)
Financial sector	75 090	9 417	-	31 776	13 263	1 054	38 414	3 846
amounts due from banks	28 111	52	-	-	-	1 054	27 109	(52)
corporate loans	46 979	9 365	-	31 776	13 263	-	11 305	3 898
Budget sector	23 471	2 103	-	-	4 078	-	21 496	1 975
corporate loans	23 471	2 103	-	-	4 078	-	21 496	1 975
Tangible fixed assets	1 916	95	-	-	778	67	1 166	683
Intangible assets	15 373	-	-	-	-	-	15 373	-
Investments in subsidiaries, jointly controlled entities and associates	326 146	68 085	48 738	-	-	7 080	435 889	(68 085)
Other, of which:	245 303	179 257	78 588	328	138 242	48 738	315 840	(41 015)
Provisions for off-balance sheet liabilities	84 623	169 122	-	328	135 934	-	117 483	(33 188)
Total	3 238 939	3 290 191	127 326	476 908	1 896 711	56 939	4 225 898	(1 393 480)

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(in PLN thousand)

For the year ended 31 December 2008	Impairment allowances at the beginning of the period	Increases			Decreases		Impairment allowances at the end of period	Net impairment allowances – an impact on the income statement
		Impairment allowances during the period	Other	Decrease in impairment allowances due to derecognition of assets, not impacting the income statement	Impairment allowances reversed during the period	Other		
Investment assets available for sale, including:	26 816	6 249	-	2 470	9 045	-	21 550	2 796
carried at fair value through equity (not listed on stock exchange)	18 587	6 249	-	-	9 045	-	15 791	2 796
measured 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 measured at amortised cost	2 307 004	1 577 693	28 067	470 352	813 761	-	2 628 651	(763 932)
Non-financial sector	2 233 761	1 573 095	-	470 352	806 414	-	2 530 090	(766 681)
consumer loans	650 474	846 936	-	358 163	444 599	-	694 648	(402 337)
mortgage loans	489 851	205 493	-	49 088	158 099	-	488 157	(47 394)
corporate loans	1 093 436	520 666	-	63 101	203 716	-	1 347 285	(316 950)
Financial sector	44 059	3 271	28 067	-	307	-	75 090	(2 964)
amounts due from banks	276	-	28 067	-	232	-	28 111	232
corporate loans	43 783	3 271	-	-	75	-	46 979	(3 196)
Budget sector	29 184	1 327	-	-	7 040	-	23 471	5 713
corporate loans	29 184	1 327	-	-	7 040	-	23 471	5 713
Tangible fixed assets	1 957	532	-	477	96	-	1 916	(436)
Intangible assets	15 373	-	-	-	-	-	15 373	-
Investments in subsidiaries, jointly controlled entities and associates	65 136	309 125	-	40	48 075	-	326 146	(261 050)
Other, of which:	122 187	212 724	-	3 192	86 416	-	245 303	(126 308)
Provisions on off-balance sheet liabilities	34 465	136 062	-	-	85 904	-	84 623	(50 158)
Total	2 538 473	2 106 323	28 067	476 531	957 393	-	3 238 939	(1 148 930)

11. Administrative expenses

	2009	2008
Staff costs	(2 136 166)	(2 269 539)
Overheads	(1 259 749)	(1 270 174)
Depreciation and amortisation	(405 393)	(361 382)
Taxes and other charges	(53 661)	(51 415)
Contribution and payments to Banking Guarantee Fund	(49 623)	(16 737)
Total	(3 904 592)	(3 969 247)

Wages and salaries / Employee benefits

	2009	2008
Wages and salaries	(1 801 038)	(1 896 469)
Insurance	(275 090)	(279 024)
contributions for retirement pay and pensions*	(221 683)	(220 453)
Other employee benefits	(60 038)	(94 046)
Total	(2 136 166)	(2 269 539)

*total expense incurred by the Bank related to contributions for retirement pay and pensions

12. Income tax expense

	2009	2008
Income statement		
Current income tax expense	(763 785)	(949 873)
Deferred income tax related to temporary differences	140 506	133 283
Tax expense disclosed in the income statement	(623 279)	(816 590)
Tax expense disclosed in other comprehensive income related to temporary differences	(32 105)	2 011
Total	(655 384)	(814 579)

	2009	2008
Profit before income tax	3 055 431	3 697 850
Corporate income tax calculated using the enacted tax rate 19% (2008: 19%)	(580 532)	(702 592)
Permanent differences between accounting gross profit and taxable profit, of which:	(43 167)	(114 506)
Recognition of impairment loss, not constituting taxable income (KREDOBANK)	(12 848)	(67 659)
Reversed provisions and positive revaluation not constituting taxable income	(30 577)	(57 138)
Other non-tax deductible expenses	(41 262)	(19 593)
Dividend income	19 265	21 140
Other non-taxable income	16 902	5 294
Other	5 353	3 450
Other differences between gross financial result and taxable income, including donations	420	508
Income tax disclosed in the income statement	(623 279)	(816 590)
Effective tax rate	20.40%	22.08%
Temporary difference due to the deferred tax presented in the income statement	140 506	133 283
Total current income tax expense disclosed in the income statement	(763 785)	(949 873)

Current income tax liabilities/receivables

	31 December 2009	31 December 2008
Current income tax liability	175 165	470 416

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. Current income liability has been settled as at March 31, 2010.

Deferred tax asset/liability

	Statement of financial position		Income statement	
	31.12.2009	31.12.2008	2009	2008
Deferred tax liability				
Interest accrued on receivables (loans)	88 454	100 892	12 438	(948)
Capitalised interest on mortgage loans	238 446	258 759	20 313	19 068
Interest on securities	37 713	44 113	6 400	(15 987)
Valuation of derivative instruments, of which:	40 935	-	-	-
transferred to income statement	12 957	-	(12 957)	(5 660)
transferred to other comprehensive income	27 978	-	-	-
Valuation of securities, of which:	-	11 486	-	-
transferred to income statement	-	6 365	6 365	-
transferred to other comprehensive income	-	5 121	-	-
Difference between book value and tax value of tangible assets	233 516	196 000	(37 516)	(62 074)
Other taxable temporary positive differences	2 656	3 597	941	(793)
Gross deferred tax liability	641 720	614 847	-	-
transferred to income statement	613 742	609 726	(4 016)	(66 394)
transferred to other comprehensive income	27 978	5 121	-	-
Deferred tax assets				
Interest accrued on liabilities	326 419	223 004	103 415	84 752
Valuation of derivative financial instruments, of which:	17 410	77 734	-	-
transferred to income statement	17 410	77 734	(60 324)	15 403
transferred to other comprehensive income	-	-	-	-
Valuation of securities, of which:	15 090	27 825	-	-
transferred to income statement	11 272	14 759	(3 487)	(7 306)
transferred to other comprehensive income	3 818	13 066	-	-
Provision for anniversary bonuses and retirement benefits	110 171	110 037	134	21 163
Loan impairment allowances	236 494	159 789	76 705	80 596
Adjustment to effective interest rate valuation	191 507	166 449	25 058	16 950
Other temporary negative differences	19 833	16 812	3 021	(11 881)
Gross deferred income tax asset, of which:	916 924	781 650	-	-
transferred to income statement	913 106	768 584	144 522	199 677
transferred to other comprehensive income	3 818	13 066	-	-
Deferred tax impact on the income statement, of which:	275 204	166 803	-	-
transferred to income statement	299 364	158 858	140 506	133 283
transferred to other comprehensive income	(24 160)	7 945	-	-
Deferred income tax asset (presented in the statement of financial position)	275 204	166 803	-	-
Net deferred tax impact on the income statement	-	-	140 506	133 283

13. Earnings per share

Basic earnings per share

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

Earnings per share

	2009	2008
Profit per ordinary shareholder (PLN thousand)	2 432 152	2 881 260
Weighted average number of shares during the period (thousand)*	1 121 562	1 090 000
Profit per share (PLN per share)	2.17	2.64

*due to the shares issuance and according to IAS 33 'Earnings per share', the weighted average number of ordinary shares in the period was recounted for data comparability

Earnings per share from discontinued operations

In the years ended 31 December 2009 and 31 December 2008, the Bank 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 and loss attributable to ordinary shareholders, by dividing the respective profit and loss 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 2009 or in the year ended 31 December 2008.

Diluted earnings per share from discontinued operations

As stated above, in the years ended on 31 December 2009 and 31 December 2008, the Bank did not report any material income or expenses from discontinued operations.

14. Dividends paid (in total and per share) on ordinary shares and other shares

Dividends declared after the balance date are not recognized by the Bank as liabilities existing as at 31 December 2009.

Pursuant to Resolution No. 9/2009 of the Ordinary General Shareholders' Meeting of PKO Bank Polski SA passed on 30 June 2009, the dividend for 2008 will amount to PLN 1,000,000, i.e. PLN 1 (gross) per one share.

The list of shareholders eligible to receive dividend for 2008 was determined as at 24 September 2009, and the payment was made on 5 October 2009.

As at 31 December 2009, the Bank did not decide on whether to pay dividends. In accordance with the Bank's policy on paying dividends, the Management Board of the Bank, while placing proposals on paying dividends, will take into consideration the necessity to ensure an appropriate level of the capital adequacy ratio and the capital necessary to the Bank's development amounting to 40% of the Bank's net profit for a given calendar year.

On 22 April 2009, the Ordinary General Shareholders' Meeting of Centrum Finansowe Puławska Sp. z o.o. passed Resolution No. 4 on earmarking the Company's profit for 2008 of PLN 7 376 thousand to the payment of dividend to PKO Bank Polski SA.

On 28 April 2009, the Ordinary General Shareholders' Meeting of PKO Towarzystwo Funduszy Inwestycyjnych SA passed Resolution No. 3 on earmarking the Company's profit for 2008 of PLN 78 750 thousand to the payment of dividend to PKO Bank Polski SA and to pay dividend of PLN 26 250 thousand to minority shareholders.

On 30 April 2009, the Ordinary General Shareholders' Meeting of Centrum Elektronicznych Usług Płatniczych eService SA passed Resolution No. 3 on earmarking the Company's profit for 2008 of PLN 9 959 thousand to the payment of dividend to PKO Bank Polski SA.

15. Cash and balances with the central bank

	31.12.2009	31.12.2008
Current account with the central bank	4 625 073	3 419 832
Cash	2 368 309	2 336 985
Other funds	584	1 431
Total	6 993 966	5 758 248

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 2009, this interest rate was 3.375%.

As at 31 December 2009 and 31 December 2008, there were no further restrictions as regards the use of these funds.

16. Amounts due from banks

	31.12.2009	31.12.2008
Deposits with other banks	1 133 859	2 108 482
Loans and advances	481 666	968 264
Receivables due from repurchase agreements	105 427	603 200
Current accounts	354 587	247 292
Cash in transit	5 337	7 846
Total	2 080 876	3 935 084
Impairment allowances	(27 109)	(28 111)
Including amounts due from foreign bank	(27 013)	(28 067)
Net total	2 053 767	3 906 973

Details on risk related to amounts due from banks was presented in Note 48 'Objectives and principles of risk management related to financial instruments'.

17. Trading assets

	31.12.2009	31.12.2008
Debt securities	2 202 847	1 491 524
issued by other banks	1 799	-
issued by the State Treasury	2 198 840	1 491 398
issued by local government bodies	2 208	126
Shares in other entities - listed on stock exchange	10 108	4 623
Total trading assets	2 212 955	1 496 147

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(in PLN thousand)

Trading assets at carrying amount by maturity as at 31 December 2009 and as at 31 December 2008

(nominal values at the contract maturity date, interest, premium, discount up to 1 month):

As at 31 December 2009	up to 1 month	1 - 3 months	3 months - 1 year	1 year - 5 years	over 5 years	Total
Debt securities	110 901	690 037	723 135	542 016	136 758	2 202 847
issued by other banks	-	-	-	-	1 799	1 799
issued by the State Treasury	110 901	688 004	722 960	542 016	134 959	2 198 840
issued by local government bodies	-	2 033	175	-	-	2 208
Shares in other entities - listed on stock exchange	10 108	-	-	-	-	10 108
Total	121 009	690 037	723 135	542 016	136 758	2 212 955

The average yield on debt securities issued by the State Treasury and included in the trading assets portfolio as at 31 December 2009 amounted to 4.57% for PLN. As at 31 December 2009 the Bank's portfolio did not include Treasury securities denominated in foreign currencies.

The portfolio of trading assets as at 31 December 2009 comprised the following securities carried at nominal values:

- Treasury bills 397 600
- Treasury bonds 1 840 020
- BGK bonds 1 799
- Municipal bonds 2 176

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, 3.80% for EUR.

The portfolio of debt securities held for trading as at 31 December 2008 comprised the following securities carried at nominal values:

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

18. Derivative financial instruments

Derivative instruments used by the Bank

The Bank uses various types of derivatives with a view to manage risk involved in its business activities. As at 31 December 2009 and 31 December 2008, the Bank held the following derivative instruments:

	31.12.2009		31.12.2008	
	Assets	Liabilities	Assets	Liabilities
Hedging instruments	352 261	25 312	-	-
Other derivative instruments	1 677 660	1 519 058	3 599 545	6 150 337
Total	2 029 921	1 544 370	3 599 545	6 150 337

Type of contract	31.12.2009		31.12.2008	
	Assets	Liabilities	Assets	Liabilities
IRS	1 307 705	1 296 136	2 601 250	2 554 343
FRA	7 613	8 298	128 673	124 489
FX Swap	90 056	27 181	22 350	359 114
CIRS	402 221	33 699	56 290	2 391 272
Forward	24 167	49 349	204 355	135 645
Options	198 159	127 847	574 434	585 414
Other	-	1 860	12 193	60
Total	2 029 921	1 544 370	3 599 545	6 150 337

The most frequently used types of derivatives are: IRS, FRA, FX Swap, CIRS and Forwards.

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Derivative financial instruments as at 31 December 2009

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	12 955 378	2 381 565	41 597	-	-	15 378 540	27 181	90 056
Purchase	6 514 969	1 188 651	21 056	-	-	7 724 676	-	-
Sale	6 440 409	1 192 914	20 541	-	-	7 653 864	-	-
FX forward	1 711 582	1 707 652	2 532 286	36 321	-	5 987 841	49 349	24 167
Purchase	852 500	852 621	1 245 800	17 769	-	2 968 690	-	-
Sale	859 082	855 031	1 286 486	18 552	-	3 019 151	-	-
Options	1 598 363	4 075 651	3 958 544	222 614	-	9 855 172	127 847	198 159
Purchase	806 041	2 052 047	2 009 861	119 346	-	4 987 295	-	-
Sale	792 322	2 023 604	1 948 683	103 268	-	4 867 877	-	-
Cross Currency IRS	-	-	3 691 407	25 419 357	6 671 259	35 782 023	33 699	402 221
Purchase	-	-	1 852 643	12 742 333	3 335 244	17 930 220	-	-
Sale	-	-	1 838 764	12 677 024	3 336 015	17 851 803	-	-
Interest rate transactions								
Interest Rate Swap (IRS)	23 447 426	24 392 100	65 680 262	97 881 162	17 146 818	228 547 768	1 296 136	1 307 705
Purchase	11 723 713	12 196 050	32 840 131	48 940 581	8 573 409	114 273 884	-	-
Sale	11 723 713	12 196 050	32 840 131	48 940 581	8 573 409	114 273 884	-	-
Forward Rate Agreement (FRA)	4 334 000	20 484 000	12 300 000	-	-	37 118 000	8 298	7 613
Purchase	1 750 000	14 834 000	6 250 000	-	-	22 834 000	-	-
Sale	2 584 000	5 650 000	6 050 000	-	-	14 284 000	-	-
Other transactions								
Other (stock market index derivatives)	2 493 314	5 908	6 929	400 000	-	2 906 151	1 860	-
Purchase	1 246 657	1 840	858	200 000	-	1 449 355	-	-
Sale	1 246 657	4 068	6 071	200 000	-	1 456 796	-	-
Total derivative instruments	46 540 063	53 046 876	88 211 025	123 959 454	23 818 077	335 575 495	1 544 370	2 029 921

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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	204 355
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	56 290
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	81 083 050	147 760 870	18 013 836	283 010 446	2 554 343	2 601 250
Purchase	7 360 345	10 716 000	40 541 525	73 880 435	9 006 918	141 505 223	-	-
Sale	7 360 345	10 716 000	40 541 525	73 880 435	9 006 918	141 505 223	-	-
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	126 623 336	177 095 012	25 897 909	423 759 892	6 150 337	3 599 545

19. Derivative hedging instruments

As at 31 December 2009, the Bank applies the following hedging strategies:

1. hedges against fluctuations in cash flows from mortgage loans in CHF and negotiated term deposits in PLN, following from the risk of fluctuations in interest rates and foreign exchange rates, using CIRS transactions;
2. hedges against fluctuations in cash flows from floating interest rate loans in PLN, following from the risk of fluctuations in interest rates, using IRS transactions.

The Bank has used hedge accounting with respect to CIRS transactions since 1 April 2009, on the basis swap instruments reset date, i.e. on the day on which the nominal value of the PLN leg is re-established at the current rate, at the same time being the first day of a new CIRS interest period (interest and foreign exchange gains on the revaluation of the nominal value are also paid on this day).

The characteristics of the cash flow hedges applied by the Bank are presented in the table below:

Hedging strategy:	Hedges against fluctuations in cash flows from mortgage loans in CHF and negotiated term deposits in PLN, resulting from the risk of fluctuations in interest rates and in foreign exchange rates, using CIRS transactions	Hedges against fluctuations from loans in PLN at float rate, resulting from the risk of fluctuations in interest rates, using IRS transactions
Type of hedge relationship	Cash flow hedge accounting (macro cash flow hedge).	Cash flow hedge accounting (macro cash flow hedge).
Description of hedge relationship	Elimination of the risk of cash flow fluctuations generated by mortgage loans denominated in CHF and negotiated term deposits in PLN resulting from fluctuations in reference interest rates in CHF and PLN, and changes in foreign exchange rates CHF/PLN during the hedged period.	Elimination of the risk of cash flow fluctuations generated by floating rate PLN loans resulting from the interest rate risk in the period covered by the hedge.
Hedged risk	Currency risk and interest rate risk.	Interest rate risk.
Hedging instrument	CIRS transactions where the Bank pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal amount defined in CHF and PLN respectively.	IRS transactions where the Bank pays coupons based on variable 3M WIBOR, and receives coupons based on a fixed rate on the nominal amount for which they were concluded.
Hedged position	<ol style="list-style-type: none"> 1) The portfolio of floating rate mortgage loans denominated in CHF. 2) The portfolio of short-term negotiable term deposits, including renewals in the future (high probability of occurrence). 	The portfolio of loans in PLN indexed to the variable 3M WIBOR rate.
Hedge effectiveness	The effectiveness of the hedge is verified by applying prospective and retrospective effectiveness tests. Tests are performed on a monthly basis.	The effectiveness of the hedge is verified by applying prospective and retrospective effectiveness tests. The tests are performed on a monthly basis.
The date of establishing a hedging relationship	Beginning from 1 April 2009, gradually on the dates of resetting the CIRS designated for hedge accounting.	May - December 2009

Periods in which cash flows are expected and in which they should have an impact on the financial result

January 2010 to January 2017

January 2010 to December 2012

Cash flow hedges

The fair value of derivative instruments constituting cash flow hedges related to the interest rate and / or foreign exchange rate as at 31 December 2009.

Type of derivative financial instrument:	Carrying amount/fair value		
	Assets	Liabilities	Total
Interest Rate Swaps	7 610	93	7 517
Cross Interest Rate Swaps	344 651	25 219	319 432
Total	352 261	25 312	326 949

The nominal value of hedging instruments by maturity as at 31 December 2009.

Type of derivative financial instrument:	Nominal value					TOTAL
	Up to 6 months	6 – 12 months	1 – 2 years	2 – 5 years	Over 5 years	
IRS (PLN thousand)	260 000	140 000	-	30 000	-	430 000
CIRS						
in PLN thousand	418 155	1 115 740	1 666 295	9 022 190	3 314 055	15 536 435
in CHF thousand	150 000	400 000	600 000	3 250 000	1 200 000	5 600 000

Other comprehensive income of financial instruments hedging cash flows

As at 31 December 2009

Other comprehensive income at the beginning of the period	-
Gains or losses transferred to other comprehensive income in the period	636 166
Amount transferred from other comprehensive income to profit and loss	(488 912)
Other comprehensive income at the end of the period (gross)	147 254
Tax effect	(27 978)
Other comprehensive income at the end of the period (net)	119 276
Ineffective part of hedging cash flows recognized through profit and loss	(435)

As at 31 December 2008, the Bank did not apply hedge accounting.

20. Financial assets designated at fair value through profit and loss

	31.12.2009	31.12.2008
Debt securities	12 356 532	4 546 497
issued by the State Treasury	5 362 314	4 373 621
issued by central banks	6 994 218	-
issued by other banks	-	172 876
Total	12 356 532	4 546 497

As at 31 December 2009 and 31 December 2008, the portfolio of securities designated at fair value through profit and loss comprised of the following:

According to nominal amount	31.12.2009	31.12.2008
NBP money market bills	7 000 000	-
treasury bills	4 634 410	2 100 000
treasury bonds	766 000	2 255 500
USD bonds	-	118 472
including issued by banks	-	118 472
EUR bonds	-	95 965
including issued by banks	-	95 965

As at 31 December 2009, the average yield on debt securities issued by the State Treasury and included in the portfolio of other financial instruments at fair value through profit and loss was PLN 4.16%. As at 31 December 2008, the average yield on such securities amounted to: 5.65% for PLN.

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Financial assets designated at fair value through profit and loss (carrying amount) by maturity

(nominal values at the contract maturity date, interest, premium, discount up to 1 month):

As at 31 December 2009	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	7 463 292	2 193 104	2 700 136	-	-	12 356 532
issued by central banks	6 994 218	-	-	-	-	6 994 218
issued by the State Treasury	469 074	2 193 104	2 700 136	-	-	5 362 314
Total	7 463 292	2 193 104	2 700 136	-	-	12 356 532

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	1 001 837	22 686	4 546 497
issued by other banks	-	-	-	150 190	22 686	172 876
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	1 001 837	22 686	4 546 497

21. Loans and advances to customers

	31.12.2009	31.12.2008
Loans and advances to customers		
Receivables valued using the group method (IBNR)	109 602 411	96 689 671
Receivables valued using the individual method	4 677 152	1 879 162
Finance lease receivables	3 561 171	2 133 726
Loans and advances - gross	117 840 734	100 702 559
Allowance for impairment on exposures with portfolio impairment	(1 885 369)	(1 279 179)
Allowance for impairment on exposures with individual impairment	(971 326)	(648 853)
Allowance for impairment on exposures with group impairment (IBNR)	(558 250)	(672 508)
Total impairment allowances	(3 414 945)	(2 600 540)
Loans and advances to customers- net	114 425 789	98 102 019

Details on risk related to loans and advances to customers were presented in Note 48 "Objectives and principles of risk management related to financial instruments".

Finance and operating lease agreements

Finance lease

The Bank does not have any receivables and payables according to finance lease.

Operating lease – lessee

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 Bank in the course of its normal operating activities meet the criteria of operating leases.

The Bank incurs payments related to vehicles and premises lease. All agreements are concluded at arm's length. The contracts do not expect the lessee to pay contingent payments and there are no limits resulting from the leasing contracts. In certain aspects, contracts include a possibility of extending the contract, realising a purchase or a change in price.

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

Total value of future lease payments under non-cancellable operating lease	31.12.2009	31.12.2008
For period:		
up to 1 year	122 985	117 067
from 1 year to 5 years	281 606	264 929
above 5 years	117 015	147 824
Total	521 606	529 820

Lease and sub-lease payments recognized as an expense of a given period from 1 January 2009 to 31 December 2009 amounted to PLN 148 556 thousand (in the period from 1 January 2008 to 31 December 2008: PLN 124 146 thousand).

22. Investment securities available for sale

	31.12.2009	31.12.2008
Available for sale	7 904 769	8 701 479
issued by the central bank	-	2 673 729
issued by other banks	90 086	46 756
issued by other financial institutions	245 215	481 128
issued by non-financial institutions	786 873	795 041
issued by the State Treasury	4 782 374	3 286 726
issued by local government bodies	2 000 221	1 418 099
Allowance for impairment on investment securities	(13 183)	(15 791)
Total net investment securities	7 891 586	8 685 688
Equity instruments available for sale	76 504	76 582
Allowance for impairment on equity instruments	(2 393)	(5 759)
Total net equity instruments available for sale	74 111	70 823
Total net investment securities	7 965 697	8 756 511

Change in investment securities available for sale

	2009	2008
Balance at the beginning of the period	8 756 511	5 841 553
Foreign exchange differences	43 681	48 918
Increases, including:	11 363 543	9 110 374
<i>change in impairment allowance</i>	-	5 266
Decreases (redemption), including:	(12 219 756)	(6 254 916)
<i>change in impairment allowance</i>	5 975	-
Change in the fair value	21 718	10 582
Balance at the end of the period	7 965 697	8 756 511

Details on risk related to investment securities available for sale was presented in Note 48 'Objectives and principles of risk management related to financial instruments'.

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Investment securities available for sale by the maturity date by carrying amount

(nominal values at the contract maturity date, interest, premium, discount up to 1 month; impairment allowance from 1 to months):

As at 31 December 2009	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 other banks	-	-	39 185	-	50 901	90 086
issued by other financial institutions	50	157 929	87 236	-	-	245 215
issued by non-financial institutions	79 947	33 547	-	627 877	32 319	773 690
issued by the State Treasury	346 327	851 240	1 753 992	1 830 815	-	4 782 374
issued by local government bodies	3 935	1 218	161 508	791 181	1 042 379	2 000 221
Total	430 259	1 043 934	2 041 921	3 249 873	1 125 599	7 891 586

The average yield of available-for-sale securities as at 31 December 2009 amounted to 4.62%.

As at 31 December 2009, the portfolio of debt securities available for sale, at nominal values, comprised the following:

- corporate bonds in PLN 1 066 050
- municipal bonds 2 013 589
- Treasury bonds 4 358 000
- Treasury bonds in EUR 41 082
- Treasury bills 497 270

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(in PLN thousand)

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 central banks	-	-	-	2 673 729	-	2 673 729
issued by other banks	-	-	-	46 756	-	46 756
issued by other financial institutions	330	260 546	220 252	-	-	481 128
issued by non-financial institutions	339 359	108 290	39 502	282 939	9 160	779 250
issued by the State Treasury	-	-	-	2 765 486	521 240	3 286 726
issued by local government bodies	-	8 361	95 239	652 493	662 006	1 418 099
Total	339 689	377 197	354 993	6 421 403	1 192 406	8 685 688

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:

• Corporate bonds in PLN	1 162 720
• 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

As at 31 December 2009 and 31 December 2008, the Bank did not have any securities in the held-to-maturity portfolio.

23. Investments in subsidiaries, jointly controlled entities and associates

As at 31 December 2009 the Bank's investments in subsidiaries, jointly controlled entities and associates have been recognised at acquisition cost adjusted by impairment allowances.

The Bank's individual shares in subsidiaries, jointly controlled entities and associates are presented below.

As at 31 December 2009	Gross value	Impairment	Carrying amount
Subsidiaries			
KREDOBANK SA	786 746	(423 723)	363 023
PKO BP BANKOWY PTE S.A.	205 786	-	205 786
PKO Towarzystwo Funduszy Inwestycyjnych SA	186 989	-	186 989
Centrum Finansowe Puławska Sp. z o.o.	128 288	-	128 288
Bankowy Fundusz Leasingowy SA	70 000	-	70 000
Inteligo Financial Services SA	59 602	-	59 602
Centrum Elektronicznych Usług Płatniczych 'eService' SA	55 500	-	55 500
Fort Mokotów Inwestycje Sp. z o.o.	43 546	-	43 546
Bankowe Towarzystwo Kapitałowe SA	18 566	(10 666)	7 900
PKO BP Inwestycje Sp. z o.o. ²	4 503	-	4 503
PKO Finance AB	172	-	172
Jointly controlled entities			
Centrum Haffnera Sp. z o.o.	44 371	-	44 371
Centrum Obsługi Biznesu Sp. z o.o.	17 498	-	17 498
Associates			
Bank Pocztowy SA	146 500	-	146 500
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	(1 500)	-
Agencja Inwestycyjna CORP SA	29	-	29
Total	1 769 596	(435 889)	1 333 707

1) Value does not include capital contribution of PKO Bank Polski SA, presented in the statement of financial position as receivables in the amount of PLN 8 053 thousand.

2) Value does not include capital contribution of PKO Bank Polski SA, presented in the statement of financial position as receivables in the total amount of PLN 113 310 thousand.

As at 31 December 2008	Gross value	Impairment	Carrying amount
Subsidiaries			
KREDOBANK SA ¹	307 364	(307 364)	-
PKO BP BANKOWY PTE SA	205 786	-	205 786
Centrum Finansowe Puławska Sp. z o.o.	128 288	-	128 288
Bankowy Fundusz Leasingowy SA	70 000	-	70 000
PKO Towarzystwo Funduszy Inwestycyjnych SA	69 054	-	69 054
Inteligo Financial Services SA	59 602	-	59 602
Centrum Elektronicznych Usług Płatniczych 'eService' SA	55 500	-	55 500
Bankowe Towarzystwo Kapitałowe SA	18 566	(10 666)	7 900
PKO Inwestycje Sp. z o.o. ²	4 503	-	4 503
PKO Finance AB	172	-	172
Jointly controlled entities			
Centrum Haffnera Sp. z o.o.	44 371	-	44 371
Centrum Obsługi Biznesu Sp. z o.o.	17 498	-	17 498
Associates			
Bank Pocztowy SA	146 500	-	146 500
Kolej Gondolowa Jaworzyna Krynicka SA	15 531	(1 680)	13 851
Ekogips SA(in bankrupcy)	5 400	(5 400)	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	(1 036)	464
Agencja Inwestycyjna CORP SA	29	-	29
Total	1 149 664	(326 146)	823 518

1) Value does not include the 18th share issue, acquired by PKO Bank Polski SA on 31 December 2008 and presented in the statement of financial position as receivables in the amount of PLN 48 737 thousand, as well as impairment charge on these receivables in the full amount.

2) Value does not include capital contribution of PKO Bank Polski SA, presented in the statement of financial position as receivables in the total amount of PLN 113 310 thousand.

Selected information on associated entities accounted for using the equity method:

	Total assets	Total liabilities	Total revenues	Net profit	% share
31.12.2009					
Bank Pocztowy SA	3 914 287	3 630 260	311 220	11 271	25.0001%
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	16 301	49	568	249	33.33%
Agencja Inwestycyjna CORP SA	3 710	2 073	14 823	479	22.31%
Total	3 934 298	3 632 382	326 611	11 999	X
31.12.2008					
Bank Pocztowy SA	2 705 720	2 433 862	297 820	26 132	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	13 165	451	22.31%
Total	2 769 881	2 443 964	324 772	40 314	X

The information presented in the above table is derived from financial statements prepared in accordance with the Polish Accounting Standards. According to the Bank's estimates, differences between the above-mentioned financial statements and the statements prepared in accordance with IFRS/IAS are not significant from the perspective of the financial statements of the Bank. Data for the year 2008 for all entities and data for the year 2009 for the entity Agencja Inwestycyjna CORP SA are derived from audited financial statements.

As at 31 December 2009 and 31 December 2008 the Bank had no share in contingent liabilities of associates acquired jointly with other investors.

In 2009, the following events occurred in PKO Bank Polski SA:

a) concerning Fort Mokotów Inwestycje Sp. z o.o.

The company FORT MOKOTÓW INWESTYCJE Sp. z o.o. was registered in the National Court Register on 7 April 2009. The Company's share capital amounts to PLN 43 551 thousand and is divided into 43 551 shares with the nominal value of PLN 1 thousand each.

PKO Bank Polski SA acquired shares in the Company with a nominal value of PLN 43 546 thousand (constituting 99.9885% of the share capital and the voting rights at the Company's General Shareholders' Meeting) and in exchange for them made a non-cash contribution in the form of the right to perpetual usufruct of land at ul. Raclawicka in Warsaw. The other shareholder of the Company is PKO Inwestycje Sp. z o.o., a PKO Bank Polski SA subsidiary.

On 1 December 2009, PKO Bank Polski SA made an additional contribution to the equity of Fort Mokotów Inwestycje Sp. z o.o. in the amount of PLN 8 053 thousand.

b) concerning KREDOBANK SA

On 16 January 2009, after informing the Polish Financial Supervision Authority about changing the amount of the capital exposure of PKO Bank Polski SA in the shares of KREDOBANK SA in connection with taking up on 31.12.2008 the 18th issue shares, the Bank reclassified the above-mentioned shares in the Bank's statement of financial position from "Other assets" to "Investments in subsidiaries, co-subsidiaries and associates".

On 10 June 2009, PKO Bank Polski SA took up 102 384 202 391 shares in the increased share capital of KREDOBANK SA in the total nominal value of UAH 1 023 842.02 thousand. The price for the purchased shares, including the additional costs, amounted to PLN 430 644 thousand.

As a result of taking up the said shares, the interest of PKO Bank Polski SA in the share capital of KREDOBANK SA and in the voting rights at the Company's General Shareholders' Meeting increased from 98.5619% to 99.4948%.

In 2009, due to the ongoing financial crisis in Ukraine, the Bank periodically tested impairment on KREDOBANK SA exposure and tested impairment based on the data for the end of the year.

The result of the 31 December 2009 test justifies the increase in impairment allowance in 2009 to the value of PLN (67 622) thousand from PLN (356 101) thousand as at 31 December 2008 to PLN (423 723) thousand as at 31 December 2009.

c) concerning PKO Towarzystwo Funduszy Inwestycyjnych SA

On 15 September 2009, PKO Bank Polski SA signed an agreement with Credit Suisse Asset Management (Luxembourg) SA for the purchase of 45 000 shares of PKO Towarzystwo Funduszy Inwestycyjnych SA.

The purchase price (including additional costs) was PLN 117 934 thousand.

As a result of the said transaction, the PKO Bank Polski SA's share in the share capital of the Company and the voting rights at the Company's General Shareholders' Meeting increased from 75% to 100%.

d) concerning change in the names of certain PKO Bank Polski SA Group companies

As part of the process of unification of the names and symbols of the PKO Bank Polski SA Group companies, the following companies changed their names in 2009:

- the company Powszechne Towarzystwo Emerytalne BANKOWY SA changed its name to PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA,
- the company PKO Inwestycje Sp. z o.o. changed its name to PKO BP Inwestycje Sp. z o.o.,

e) concerning reclassification of the company Kolej Gondolowa Jaworzyna Krynicka SA to assets held for sale

In January 2009, PKO Bank Polski SA, taking into account the status of the activities associated with selling the shares of Kolej Gondolowa Jaworzyna Krynicka SA, reclassified 310 620 shares of this Company in its possession to assets held for sale. Total nominal value of the shares (equal to acquisition cost) amounted to PLN 15 531 thousand. The above shares constitute 37.53% of the share capital of the Company and 36.71% of voting rights on the General Shareholders' Meeting.

The above mentioned shares have been recognized as assets held for sale amounting to PLN 13.851 thousand, settled as a carrying amount at the date of reclassification.

The intention of the Bank's Management Board is to sell the package of the shares of Kolej Gondolowa Jaworzyna Krynicka SA being in possession of the Bank. PKO Bank Polski SA has already talked to potential buyers about the sale of the above shares and intends to continue such talks in 2010.

Until January 2009, the company was the Bank's associated entity.

f) concerning derecognizing the Ekogips SA shares

On 30 September 2009, the shares of Ekogips SA were derecognized from the PKO Bank Polski SA's books of account due to the fact that they no longer satisfied the definition of assets, which was inter alia due to the Company's bankruptcy procedure being completed.

Until then Ekogips SA was the Bank's associated entity.

24. Intangible assets

For the year ended 31 December 2009	Software	Other, including development costs	Total
Net value as at 1 January 2009	954 717	200 325	1 155 042
Purchase	-	280 982	280 982
Transfers	413 170	(413 170)	-
Amortisation	(161 042)	(1 692)	(162 734)
Other changes	(29)	(4 480)	(4 509)
Net value	1 206 816	61 965	1 268 781
<i>As at 1 January 2009</i>			
Carrying amount - gross	1 787 570	216 154	2 003 724
Accumulated amortisation and impairment allowance	(832 853)	(15 829)	(848 682)
Net value	954 717	200 325	1 155 042
<i>As at 31 December 2009</i>			
Carrying amount - gross	2 200 662	79 479	2 280 141
Accumulated amortisation and impairment allowance	(993 846)	(17 514)	(1 011 360)
Net value	1 206 816	61 965	1 268 781

The most significant item of intangible assets of the Bank relates to outlays on the Integrated Information System (ZSI). The cumulative capital expenditures incurred for the ZSI system during the years 2003 – 2009 amounted to PLN 983 150 thousand (during the years 2003 – 2008, they amounted to PLN 864 500 thousand). As at 31 December 2009 net carrying amount of the ZSI system amounted to PLN 682 052 thousand. The expected useful life of the ZSI system is 15 years. As at 31 December 2009, the remaining useful life is 12 years.

For the year ended 31 December 2008	Software	Other, including development costs	Total
Net value as at 1 January 2008	809 771	117 839	927 610
Purchase	-	363 110	363 110
Transfers	285 737	(285 737)	-
Amortisation	(140 546)	(2 345)	(142 891)
Other changes	(245)	7 458	7 213
Net value	954 717	200 325	1 155 042
<i>As at 1 January 2008</i>			
Carrying amount – gross	1 567 880	131 387	1 699 267
Accumulated amortisation and impairment allowance	(758 109)	(13 548)	(771 657)
Net value	809 771	117 839	927 610
<i>As at 31 December 2008</i>			
Carrying amount – gross	1 787 570	216 154	2 003 724
Accumulated amortisation and impairment allowance	(832 853)	(15 829)	(848 682)
Net value	954 717	200 325	1 155 042

Bank does not produce any software internally. In the period from 1 January 2009 to 31 December 2009, PKO Bank Polski SA incurred capital expenditures for the purchase of tangible fixed assets and intangible assets in the amount of PLN 387 980 thousand (in the period from 1 January 2008 to 31 December 2008: PLN 792 680 thousand).

25. Tangible fixed assets

For the year ended 31 December 2009	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	1 954 645	2 082 754	8 101	530 553	32 009	383 710	4 991 772
Increases, of which:	147 436	303 045	248	118 766	607	41 223	611 325
Purchases and other changes	6 891	952	122	118 766	607	2 533	129 871
Transfer from assets under construction to tangible fixed assets	140 545	302 093	126	-	-	38 690	481 454
Decreases, of which:	(38 049)	(265 046)	(4 536)	(488 957)	(31 885)	(18 388)	(846 861)
Disposals and sales	(26 824)	(264 242)	(4 487)	-	(31 885)	(17 826)	(345 264)
Transfer from assets under construction to tangible fixed assets	-	-	-	(481 454)	-	-	(481 454)
Other	(11 225)	(804)	(49)	(7 503)	-	(562)	(20 143)
Gross value of fixed assets at the end of the period	2 064 032	2 120 753	3 813	160 362	731	406 545	4 756 236
Accumulated depreciation as at the beginning of the period	(541 809)	(1 675 887)	(6 563)	-	(7 839)	(294 791)	(2 526 889)
Increases, of which:	(71 305)	(145 539)	(333)	-	(803)	(27 994)	(245 974)
Depreciation for the period	(70 847)	(145 065)	(211)	-	(803)	(25 733)	(242 659)
Other	(458)	(474)	(122)	-	-	(2 261)	(3 315)
Decreases, of which:	16 263	262 871	4 379	-	8 233	17 996	309 742
Disposal and sales	13 454	261 836	4 330	-	8 233	17 453	305 306
Other	2 809	1 035	49	-	-	543	4 436
Accumulated depreciation at the end of the period	(596 851)	(1 558 555)	(2 517)	-	(409)	(304 789)	(2 463 121)
Impairment allowances							
Opening balance	(1 216)	-	-	(700)	-	-	(1 916)
Increases	-	(3)	-	-	-	-	(3)
Decreases	53	-	-	700	-	-	753
Closing balance	(1 163)	(3)	-	-	-	-	(1 166)
Net book value	1 466 018	562 195	1 296	160 362	322	101 756	2 291 949
Opening balance	1 411 620	406 867	1 538	529 853	24 170	88 919	2 462 967
Closing balance	1 466 018	562 195	1 296	160 362	322	101 756	2 291 949

As at 31 December 2009, the off-balance sheet value of machinery and equipment used under operating lease agreements and operating lease with purchase options contracts amounted to PLN 43 124 thousand (as at 31 December 2008: PLN 3 623 thousand). In the years ended 31 December 2009 and 31 December 2008, respectively, there were no restrictions on the Bank's right to use its tangible fixed assets as a result of pledges.

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PKO BANK POLSKI
 Powszechna Kasa Oszczędności **Bank Polski** Spółka Akcyjna
 for the year ended 31 December 2009

(in PLN thousand)

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	1 922 591	2 311 757	12 433	271 305	39 012	367 183	4 924 281
Increases, of which:	40 824	86 840	558	432 349	-	36 928	597 499
Purchases and other changes	749	111	-	432 349	-	118	433 327
Transfer from assets under construction to tangible fixed assets	40 075	86 729	558	-	-	36 810	164 172
Decreases, of which:	(8 770)	(315 843)	(4 890)	(173 101)	(7 003)	(20 401)	(530 008)
Disposals and sales	(7 855)	(312 932)	(4 458)	-	(23)	(19 459)	(344 727)
Transfer from assets under construction to tangible fixed assets	-	-	-	(164 172)	-	-	(164 172)
Other	(915)	(2 911)	(432)	(8 929)	(6 980)	(942)	(21 109)
Transfer from assets under construction to tangible fixed assets							
Gross value of fixed assets at the end of the period	1 954 645	2 082 754	8 101	530 553	32 009	383 710	4 991 772
Accumulated depreciation as at the beginning of the period	(480 722)	(1 858 631)	(10 856)	-	(6 245)	(295 390)	(2 651 844)
Depreciation for the period	(66 286)	(130 666)	(311)	-	(1 594)	(19 634)	(218 491)
Other	(847)	(465)	(56)	-	-	(107)	(1 475)
Decreases, of which:	6 046	313 875	4 660	-	-	20 340	344 921
Disposals and sales	4 419	310 324	4 248	-	-	19 381	338 372
Other	1 627	3 551	412	-	-	959	6 549
Accumulated depreciation at the end of the period	(541 809)	(1 675 887)	(6 563)	-	(7 839)	(294 791)	(2 526 889)
Impairment allowances							
Opening balance	(1 257)	-	-	(700)	-	-	(1 957)
Decreases	41	-	-	-	-	-	41
Closing balance	(1 216)	-	-	(700)	-	-	(1 916)
Net book value	1 411 620	406 867	1 538	529 853	24 170	88 919	2 462 967
Opening balance	1 440 612	453 126	1 577	270 605	32 767	71 793	2 270 480
Closing balance	1 411 620	406 867	1 538	529 853	24 170	88 919	2 462 967

In 2009 and 2008, the Bank did not recognise in the income statement any compensation from third parties due to impairment or loss of tangible fixed assets.

26. Other assets

	31.12.2009	31.12.2008
Trade receivables	128 124	137 089
Settlements of payment cards transactions	114 793	124 344
Derivatives settlements	33 865	50 972
Accruals and prepayments	21 114	29 729
Receivables from unsettled transactions related to derivatives	20 598	7 446
Inventory (related to utilization, auxiliary operations and investment)	15 499	15 211
Receivables from the State budget due to distribution of Treasury stamps	13 800	8 883
Receivables relating to foreign exchange activity	9 551	7 255
Receivables from securities trading	6 679	8 628
Other*	61 337	81 000
Total	425 360	470 557
Including financial assets**	342 909	359 828

*An item "Other" includes mainly interbank and inter-branch settlements, receivables arising from internal operations, receivables arising from other transactions with financial, non-financial and public entities.

** Financial assets include all items of "Other assets", with the exception of "Accruals and prepayments" and "Other".

27. Amounts due to the central bank

	31.12.2009	31.12.2008
Up to 1 month	6 581	2 816
Total amounts due to the central bank	6 581	2 816

28. Amounts due to other banks

	31.12.2009	31.12.2008
Other bank deposits	1 399 985	2 835 727
Loans and advances	2 621 791	2 656 004
Current accounts	23 270	92 550
Other money market deposits	121 679	115 171
Total amounts due to other banks	4 166 725	5 699 452

29. Other financial liabilities at fair value through profit and loss

As at 31 December 2009 and 31 December 2008 PKO Bank Polski SA had no other financial liabilities at fair value through profit and loss.

30. Amounts due to customers

	31.12.2009	31.12.2008
Amounts due to corporate entities	27 736 114	19 164 051
Current accounts and overnight deposits	8 784 705	7 053 309
Term deposits	17 298 043	11 576 236
Loans and advances	1 421 527	378 009
Other	231 839	156 497
Amounts due to state budget entities	9 680 980	7 279 432
Current accounts and overnight deposits	3 355 753	3 873 849
Term deposits	6 279 377	3 356 859
Other	45 850	48 724
Amounts due to retail clients	86 627 306	75 413 447
Current accounts and overnight deposits	37 613 105	29 148 203
Term deposits	48 746 371	45 968 763
Other	267 830	296 481
Total amounts due to customers	124 044 400	101 856 930

31. 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 6M WIBOR plus a margin of 100 base points per annum.

As at 31 December 2009

Subordinated liabilities	Nominal value	Currency	Interest rate (%)	Maturity date	Balance
Subordinated bonds	1 600 700	PLN	5.30%	30.10.2017	1 612 178

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

Change in subordinated liabilities

	2009	2008
As at the beginning of the period	1 618 755	1 614 885
Increases, of which:	99 575	115 022
accrued interest	99 575	115 022
Decreases, of which:	(106 152)	(111 152)
repayment of interest	(106 152)	(111 152)
Subordinated liabilities as at the end of the period	1 612 178	1 618 755

32. Other liabilities

	31.12.2009	31.12.2008
Accounts payables	201 827	213 723
Deferred income	252 675	178 246
Other liabilities relating to:	865 415	963 427
liabilities relating to settlements of security transactions	276 221	205 896
inter-bank settlements	182 275	241 034
liabilities arising from social and legal transactions	127 156	116 903
liabilities arising from foreign currency activities	47 934	76 854
liabilities due to suppliers	36 776	29 308
financial instruments settlements	36 325	57 764
liabilities due to UOKiK (the Competition and Consumer Protection Office)	22 310	22 310
liabilities relating to investment activities and internal operations	12 345	51 164
liabilities arising from transactions with non-financial institutions	6 586	9 947
liabilities related to payment cards	5 949	4 815
settlement of acquisition of machines, materials, works and services regarding construction of tangible assets	3 570	34 465
other*	107 968	112 967
Total	1 319 917	1 355 396
Including financial liabilities**	959 274	1 064 183

* Item "other" includes: liabilities from sale of Treasury stamps, liabilities arising from bank transfers and other payment orders, amounts due to insurance companies.

** Financial liabilities include all items of "Other liabilities" with the exception of "Deferred income" and "Other".

As at 31 December 2009 and 31 December 2008, PKO Bank Polski SA had no overdue contractual liabilities.

33. Provisions

For the year ended 31 December 2009	Provision for legal claims	Provisions for anniversary bonuses and retirement benefits	Provisions for liabilities and guarantees granted	Other provisions*	Total
As at 1 January 2009, including:	6 841	364 945	77 782	111 785	561 353
short term portion	6 841	46 517	77 782	111 785	242 925
long term portion	-	318 428	-	-	318 428
Increase/reassessment	-	2 691	169 122	17 316	189 129
Use	-	-	(328)	(12 941)	(13 269)
Release	-	(345)	(135 934)	(2 308)	(138 587)
As at 31 December 2009, including:	6 841	367 291	110 642	113 852	598 626
short term portion	6 841	27 277	110 642	113 852	258 612
long term portion	-	340 014	-	-	340 014

* Included in "Other provisions" is: restructuring provision of PLN 72 604 thousand and provision of PLN 31 589 thousand for potential claims on impaired loans portfolios sold.

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	6 841	320 757	27 624	97 823	453 045
short term portion	6 841	40 985	27 624	97 823	173 273
long term portion	-	279 772	-	-	279 772
Increase/reassessment	-	46 609	136 062	29 446	212 117
Use	-	-	-	(14 700)	(14 700)
Release	-	(2 421)	(85 904)	(784)	(89 109)
As at 31 December 2008, including:	6 841	364 945	77 782	111 785	561 353
short term portion	-	46 517	77 782	111 785	242 925
long term portion	6 841	318 428	-	-	318 428

* Included in "Other provisions" is: restructuring provision of PLN 74 779 thousand and provision of PLN 25 350 thousand for potential claims on impaired loans portfolios sold.

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

34. Share capital

In the year ended 31 December 2009 compared to 31 December 2008, there were changes in the amount of the share capital of PKO Bank Polski SA.

As at 31 December 2009, the share capital of PKO Bank Polski SA amounted to PLN 1 250 000 thousand and consisted of 1 250 000 thousand ordinary shares with nominal value of PLN 1 each (as at 31 December 2008: PLN 1 000 000 thousand, 1 000 000 thousand ordinary shares with nominal value of PLN 1 each) – shares fully paid. All issued shares of PKO Bank Polski SA are not preferred shares.

The structure of PKO Bank Polski SA 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, bearer shares	105 000 000	PLN 1	105 000 000
Series C	ordinary, bearer shares	385 000 000	PLN 1	385 000 000
Series D	ordinary, bearer shares	250 000 000	PLN 1	250 000 000
Total	---	1 250 000 000	---	1 250 000 000

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, Resolution 1 of the Ministry of the State Treasury dated 29 January 2003 on specific rules for 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 constituted 10.5% of the share capital of the parent company (earlier it constituted 8.4% of the share capital of the parent company).

As at 31 December 2009, 609 490 thousand shares were subject to public trading (as at 31 December 2008: 487 565 thousand shares).

As at 31 December 2009 and 31 December 2008, the subsidiaries, jointly controlled entities and associates of the Bank did not hold shares of PKO Bank Polski SA.

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

35. Other capital and retained earnings

	31.12.2009	31.12.2008
Reserve capital	12 048 111	7 216 986
Revaluation reserve	102 994	(33 874)
General banking risk fund	1 070 000	1 070 000
Other reserves	3 276 260	1 395 000
Total	16 497 365	9 648 112

36. Transferred financial assets which do not qualify for derecognition

As at 31 December 2009 and 31 December 2008, PKO Bank Polski SA 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.

37. Pledged assets

PKO Bank Polski SA had the following pledged assets:

Liabilities from sell-buy-back transactions (SBB)

	31.12.2009	31.12.2008
Treasury bonds:		
nominal value	314 760	135 565
carrying amount	294 542	140 748
Treasury bills:		
nominal value	46 730	14 990
carrying amount	46 555	14 717

Bank deposit guarantee fund

PKO Bank Polski 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, No. 209 item 1315).

	31.12.2009	31.12.2008
Deposits guarantee fund as contributed by the Bank	442 092	238 273
Nominal value of the pledge	455 000	240 000
Type of the pledge	NBP bonds	NBP bonds
Maturity of the pledge	24.11.2010	01.03.2012
Carrying value of the pledged asset	464 532	251 535

The Bank's contribution to the Bank Guarantee 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.

Guarantee Fund for the Settlement of Stock Exchange Transactions

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 Guarantee Fund for the Settlement of Stock Exchange Transactions.

	31.12.2009	31.12.2008
Guarantee Fund for the Settlement of Stock Exchange Transactions	8 421	7 966

Each direct participant who 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.

38. Contingent liabilities

Underwriting programs

As at 31 December 2009, the Bank's underwriting agreements covered the following securities:

Issuer of securities underwritten	Type of underwritten securities	Off-balance sweet liabilities resulting from underwriting agreement	Contract period	Sub-issue type
Company A	corporate bonds	500 000	2025.12.31	Bonds Issue Agreement*
Company B	corporate bonds	199 786	2010.11.15	Bonds Issue Agreement*
Company C	corporate bonds	119 915	2012.01.02	Bonds Issue Agreement*
Company D	corporate bonds	44 500	2016.12.30	Bonds Issue Agreement*
Company E	corporate bonds	13 000	2018.12.31	Bonds Issue Agreement*
Entity A	municipal bonds	15 000	2025.12.31	Bonds Issue Agreement*
Total		892 201		

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

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

Issuer of securities underwritten	Type of underwritten securities	Off-balance sweet liabilities resulting from underwriting agreement	Contract period	Sub-issue type
Company A	commercial bills	299 482	2009.12.31	PKO Bank Polski SA Commercial Bill Issue Agreement
Company B	corporate bonds	199 753	2012.01.02	Bonds Issue Agreement*
Company C	corporate bonds	64 500	2009.12.31	Bonds Issue Agreement*
Company D	corporate bonds	43 000	2018.12.31	Bonds Issue Agreement*
Total		606 735		

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

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

Contractual commitments

As at 31 December 2009 the value of contractual commitments concerning intangible assets amounted to PLN 1 748 thousands.

Loan commitments

	31.12.2009	31.12.2008
Total loan commitments to:	27 628 880	26 196 875
financial sector	1 131 047	706 971
non-financial sector	24 683 557	25 068 238
public sector	1 814 276	421 666
of which: irrevocable loan commitments	7 360 144	7 714 609

Guarantees issued

Guarantees	31.12.2009	31.12.2008
Financial sector	373 918	302 600
Non-financial sector	5 066 241	4 052 870
Public sector	373 300	204 073
Total	5 813 459	4 559 543

In the years ended on 31 December 2009 and 31 December 2008, the Bank 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 33 'Provisions'.

Contingent liabilities by maturity as at 31 December 2009

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Financial liabilities	15 083 878	306 327	5 065 882	2 438 473	4 734 320	27 628 880
Guarantee liabilities issued	1 364 677	1 493 569	1 532 101	1 289 899	133 213	5 813 459
Total	16 448 555	1 799 896	6 597 983	3 728 372	4 867 533	33 442 339

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	13 715 875	161 208	3 540 008	4 261 722	4 518 062	26 196 875
Guarantee liabilities issued	1 438 278	157 129	1 134 675	1 480 767	348 694	4 559 543
Total	15 154 153	318 337	4 674 683	5 742 489	4 866 756	30 756 418

Contingent assets (by carrying amount)

	31.12.2009	31.12.2008
Received	3 331 191	3 829 183
financial	628 627	458 964
guarantees	2 702 564	3 370 219

Assets pledged as collateral for contingent liabilities

As at 31 December 2009 and 31 December 2008 the Bank had no assets pledged as collateral for contingent liabilities.

Right to sell or pledge collateral established for the Bank

As at 31 December 2009 and 31 December 2008, there was no collateral established for the Bank which the Bank was entitled to sell or encumber with another pledge in the event of fulfilment of all obligations by the owner of the collateral.

39. Legal claims

As 31 December 2009, the total value of court proceedings in which the Bank is a defendant was PLN 232 234 thousand (as at 31 December 2008: PLN 319 543 thousand), while the total value of court proceedings in which the Bank is the plaintiff was PLN 71 114 thousand (as at 31 December 2008: PLN 74 981 thousand).

The most significant disputes of PKO Bank Polski 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 Bank Polski 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 V of the Decision appealed against. The Court ruled that the banks participating in the proceedings, including PKO Bank Polski 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 Bank Polski SA for the unfair advertisement of the "Max Lokata" term deposit, as at the balance date the Bank recognised a provision in the amount of PLN 5 712 thousand. As at 31 December 2008

the Bank created a provision for PLN 5 712 PLN thousand. The decision of the UOKiK is not final and the Bank appealed against the verdict on 2 January 2009. As at 31 December 2009, the provision remained unchanged.

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

As at the date of these financial statements, three 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 2009 there had been no further developments with respect to this issue. The financial statements for the year ended 31 December 2009 do not contain any adjustments in respect of the potential liabilities resulting from re-privatization claims.

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

40. 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.

	31.12.2009	31.12.2008
Cash and balances with the central bank	6 993 966	5 758 248
Current receivables from other financial institutions	1 623 996	2 297 563
Total	8 617 962	8 055 811

Cash flow from interests and dividends, both received and paid

Interest income – received	2009	2008
Income from loans and advances	6 158 944	6 624 311
Income from securities at fair value through profit and loss	361 537	431 422
Income from placements with other banks	177 742	326 754
Income from investment securities	461 061	283 330
Income from trading securities	94 588	62 151
Other	1 707 398	1 083 013
Interest income – received – total	8 961 270	8 810 981

Dividend income - received	2009	2008
Dividend income from subsidiaries, associates and jointly controlled entities	96 179	108 940
Dividend income from other entities	5 381	21 956
Dividend income – received – total	101 560	130 896

Interest expense – paid	2009	2008
Interest expense on deposits	(2 370 793)	(1 507 024)
Interest expense on loans and advances	(52 709)	(90 061)
Interest expense on debt securities in issue	(106 556)	(111 152)
Other (mainly premium from debt securities, interest expense on cash collateral liabilities, interest expense on current account of special purpose funds)	(1 338 355)	(892 228)
Total	(3 868 413)	(2 600 465)

Dividend expense - paid	2009	2008
Dividend paid to shareholders	(1 000 000)	(1 090 000)
Total	(1 000 000)	(1 090 000)

Cash flow from operating activities - other adjustments

	2009	2008
Interest accrued, discount, premium on debt securities decreased by deferred tax on available for sale debt securities	(271 257)	(315 858)
Disposal and impairment allowances for tangible fixed assets and intangible assets	39 866	13 869
Valuation, impairment allowances for investments in jointly controlled entities and associates	81 935	261 049
Land brought as contribution in kind to a subsidiary	(23 651)	-
Other adjustments - total	(173 107)	(40 940)

Reconciliation of differences changes in the statement of financial position and the cash flow statement changes of items presented under operating activities in the cash flow statement

Gains (losses) on sale and disposal of tangible fixed assets and intangible assets under investing activities	2009	2008
Income from sale and disposal of tangible fixed assets and intangible assets	(17 236)	(6 226)
Costs of sale and disposal of tangible fixed assets and intangible assets	7 723	6 271
Contribution in kind net brought to a subsidiary	(19 895)	-
Gains (losses) on sale and disposal of tangible fixed assets and intangible assets under investing activities - total	(29 408)	45

Interests and dividends	2009	2008
Interest from investment securities of the available for sale portfolio, presented under investing activities	(461 061)	(283 330)
Dividends received, presented under investing activities	(101 277)	(130 846)
Total interests and dividends	(562 338)	(414 176)

Increase in amounts due from banks	2009	2008
Change in statement of financial position's amount	1 853 206	1 408 826
Change in impairment allowances on amounts due from banks	1 002	(27 835)
Exclusion of a change in the balance of cash and cash equivalents	(673 567)	(2 109 779)
Total change	1 180 641	(728 788)

Increase in loans and advances to customers	2009	2008
Change in the statement of financial position's amount	(16 323 770)	(24 279 826)
Change in the impairment allowances on amounts due from customers	(814 405)	(293 812)
Total change	(17 138 175)	(24 573 638)
Decrease in other assets	2009	2008
Change in the statement of financial position's amount	31 346	(40 858)
Exclusion of acquisition of new shares issue	-	48 737
Total change	31 346	7 879
Decrease in amounts due to other banks	2009	2008
Change in the statement of financial position's amount	(1 528 962)	2 076 534
Total change	(1 528 962)	2 076 534
Increase in amounts due to customers	2009	2008
Change in the statement of financial position's amount	22 187 470	16 641 467
Transfer of loans and advances received from non-financial entities/repayment of these loans and advances - to financing activities	(1 042 359)	35 820
Total change	21 145 111	16 677 287
Increase in impairment allowances and provisions	2009	2008
Change in the statement of financial position's amount	37 273	108 308
Impairment allowances on amounts due from banks	(1 002)	27 835
Impairment allowances on loans and advances to customers	814 405	293 812
Change in the balance of deferred tax provisions related to valuation of an available-for-sale portfolio included in deferred income tax	(32 104)	(2 011)
Total change	818 572	427 944
Decrease in other liabilities	2009	2008
Change in the statement of financial position's amount	(42 056)	(62 055)
Transfer of interests payments on advances received from non-financial institution to financing activities	43 022	90 049
Transfer of interest paid on own issue	106 152	111 152
Total change	107 118	139 146

Cash flows from investing activities – outflows

PKO Bank Polski SA excluded from investing activities the amount of PLN 43 546 thousand that refers to unrealized cash flows related to shares obtained in exchange for a contribution in kind made to the subsidiary.

41. 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 Bank's statement of financial position. 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 Bank Polski SA receives payments from the State budget in respect of interest receivable on those loans.

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	2009	2008
Income due to temporary redemption by the State budget of interest on housing loans from the "old" portfolio recognized for this period	157 393	93 754
Income due to temporary redemption by the State budget of interest on housing loans from the "old" portfolio received in cash	98 885	152 024
Difference between income recognized for this period and income received in cash – "Loans and advances to customers"	58 508	(58 270)

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

	2009	2008
Fee and commission income	6 771	4 527

The Act on the coverage of repayment of certain housing loans by State Treasury (Journal of Laws, 2000, No. 122 item 1310) 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 Bank receives commissions in this respect from the State Treasury.

	2009	2008
Fee and commission income	21 664	21 738

The Bank also recognizes fee and commission income 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.

	2009	2008
Fee and commission income	13	36

Dom Maklerski PKO BP SA (the brokerage house of PKO Bank Polski 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.

	2009	2008
Fee and commission income	40 127	63 168

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Significant transactions of PKO Bank Polski SA with the State Treasury's related entities

The transactions were concluded at arm's length.

Entity	31.12.2009								31.12.2008							
	Total receivables	Total liabilities	Contingent liabilities and commitments	Interest income	Fee and commission income	Other income	Interest expenses	Other expenses	Total receivables	Total liabilities	Contingent liabilities and commitments	Interest income	Fee and commission income	Other income	Interest expenses	Other expenses
Entity 1	1 533 250	-	1 155 500	19 539	40	-	-	-	-	-	-	-	-	-	-	-
Entity 2	414 164	-	400 225	13 843	1 189	-	(2 475)	-	655 219	-	393 730	5 899	253	-	(356)	-
Entity 3	357 919	-	286 807	7 127	426	-	(223)	-	-	-	-	-	-	-	-	-
Entity 4	327 619	141 797	245 258	10 345	1 060	-	(1 965)	-	208 237	-	222 355	6 891	408	-	(1 854)	-
Entity 5	316 667	-	130 146	9 706	102	-	(24)	-	126 667	-	438 578	168	125	-	(568)	-
Entity 6	250 000	182 813	-	9 643	23	-	(4 351)	-	70 000	50 141	180 000	1 897	9	-	(1 072)	(1 050)
Entity 7	200 000	179 408	85 000	5 953	1 188	-	(6 345)	-	-	-	-	-	-	-	-	-
Entity 8	78 498	-	-	4 307	6	-	(485)	-	90 575	12 432	-	3 322	2	-	(968)	-
Entity 9	59 466	39 944	106 898	2 656	19	-	(3 540)	-	69 593	75 456	12 402	1 302	27	-	(3 777)	-
Entity 10	54 613	-	-	3 632	5	-	(1 969)	-	72 817	68 522	-	4 766	2	-	(5 831)	-
Entity 11	42 978	-	-	2 593	5	-	(133)	-	51 945	-	-	1 997	1	-	(37)	-
Entity 12	41 082	-	-	751	7	-	(9)	-	41 724	-	-	1 470	4	626	(5)	(626)
Entity 13	38 272	-	11 644	2 512	363	-	(85)	-	24 999	5 872	30 714	910	45	-	(41)	-
Entity 14	35 905	25 192	4 139	-	401	-	(951)	-	18 359	28 638	17 641	1	194	-	(1 218)	-
Entity 15	29 469	-	945	1 470	120	-	-	-	21 787	-	5 497	1 171	1 730	-	(24)	-
Other entities' significant exposures	128 014	3 357 906	857 527	16 257	4 623	-	(61 838)	-	326 577	1 120 853	559 195	11 258	622	535	(35 120)	(579)
Total	3 907 916	3 927 060	3 284 089	110 334	9 577	-	(84 393)	-	1 778 499	1 361 913	1 860 112	41 051	3 422	1 161	(50 871)	(2 255)

In 2009, no significant impairment charges on these exposures were recognised in the income statement.

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42. Related party transactions

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 2009

Entity	Capital relation	Net receivables	including gross loans	Liabilities	Total income	including interest and fee and commission income	Total expense	including interest and fee and commission expense	Contingent liabilities and commitments
PKO BP BANKOWY Powszechnie Towarzystwo Emerytalne SA	Direct subsidiary	37	-	14 895	582	582	757	757	-
Centrum Finansowe Puławska Sp. z o.o.	Direct subsidiary	75 678	74 765	28 632	3 586	3 586	45 397	1 247	-
KREDOBANK SA	Direct subsidiary	322 573	263 416	1 282	18 684	18 684	-	-	268 792
PKO Inwestycje Sp. z o.o.	Direct subsidiary	113 310	-	6 291	947	947	2	2	-
Inteligo Financial Services SA	Direct subsidiary	10	-	113 229	1 833	1 833	54 250	688	-
Centrum Elektronicznych Usług Płatniczych 'eService' SA	Direct subsidiary	780	-	48 375	5 503	4 823	42 324	41 894	2 500
Bankowy Fundusz Leasingowy SA	Direct subsidiary	341 337	95 285	5 196	27 415	27 415	12 554	1 477	423 569
Bankowe Towarzystwo Kapitałowe SA	Direct subsidiary	-	-	4 535	4	4	263	263	10 000
PKO Towarzystwo Funduszy Inwestycyjnych SA	Direct subsidiary	8 590	-	3 875	91 219	90 733	318	318	466
PKO Finance AB	Direct subsidiary	-	-	-	-	-	230	-	-
Fort Mokotów Inwestycje Sp. z o.o.	Direct subsidiary	8 053	-	6 836	-	-	-	-	-
Fort Mokotów Sp. z o.o.	Indirect subsidiary	-	-	8 253	1	1	40	40	-
POMERANKA Sp. z o.o.	Indirect subsidiary	142 045	142 045	11 420	8 419	8 419	399	399	2 000
Wilanów Investments Sp. z o.o.	Indirect subsidiary	149 642	149 642	1 007	7 775	7 775	-	-	358
PKO Inwestycje - Międzyzdroje Sp. z o.o.	Indirect subsidiary	12 668	12 668	286	34	34	676	227	1 500
UKRPOLINWESTYCJE Sp. z o.o.	Indirect subsidiary	-	-	-	-	-	-	-	-
Bankowy Leasing Sp. z o.o.	Indirect subsidiary	544 216	543 827	713	16 962	16 962	40	40	72 469
BFL Nieruchomości Sp. z o.o.	Indirect subsidiary	226 248	226 248	3 068	8 372	8 372	60	60	-
Finanse – Agent Transferowy Sp. z o.o.	Indirect subsidiary	-	-	4 870	7	7	179	179	-
Wisłok Inwestycje Sp. z o.o.	Indirect subsidiary	57 427	57 427	158	3 371	3 371	2	2	-
Baltic Dom Sp. z o.o.	Indirect subsidiary	15 260	15 260	823	881	881	-	-	-
PKO BP Factoring SA	Indirect subsidiary	13 667	12 500	219	326	326	4	4	22 833
CENTRUM HAFFNERA Sp. z o.o.	Direct jointly controlled entity	-	-	151	12	12	321	321	4 108
Centrum Obsługi Biznesu Sp. z o.o.	Direct jointly controlled entity	32 627	32 627	23 313	1 146	1 146	686	686	-
Centrum Majkowskiego Sp. z o.o.	Indirect jointly controlled entity	-	-	4 904	5	5	151	151	-
Kamienica Morska Sp. z o.o.	Indirect jointly controlled entity	-	-	328	5	5	-	-	-
Sopot Zdrój Sp. z o.o.	Indirect jointly controlled entity	229 852	229 852	6 999	10 196	10 196	27	27	-
Promenada Sopocka Sp. z o.o.	Indirect jointly controlled entity	45 555	45 555	689	1 926	1 926	1	1	-
Bank Pocztowy SA	Associate	-	-	294	28	28	3 229	3 229	1 156
Kolej Gondolowa Jaworzyna Krynicka SA	Associate available for sale	-	-	4	5	5	46	46	-
Poznański Fundusz Poręczeń Kredytowych Sp. Z o.o.	Associate	-	-	437	1	1	47	47	-
Agencja Inwestycyjna 'CORP' SA	Associate	-	-	58	-	-	1 784	-	-
TOTAL		2 339 575	1 901 117	301 140	209 245	208 079	163 787	52 105	809 751

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31 December 2008

Entity	Capital relation	Net receivables	including gross loans	Liabilities	Total revenues	including interest and fee and commission income	Total expense	including interest and fee and commission costs	Contingent liabilities and commitments
Powszechne Towarzystwo Emerytalne BANKOWY SA	Direct subsidiary	-	-	14 848	262	79	219	219	-
Centrum Finansowe Puławska Sp. z o.o.	Direct subsidiary	88 168	84 694	23 488	22 085	5 458	41 867	1 429	-
KREDOBANK SA	Direct subsidiary	684 522	677 360	428	20 880	20 880	13	13	28 474
PKO Inwestycje Sp. z o.o.	Direct subsidiary	113 310	-	5 299	62	62	1 135	665	1 785
Inteligo Financial Services SA	Direct subsidiary	15	-	96 885	1 696	1 669	56 018	5 456	-
Centrum Elektronicznych Usług Płatniczych 'eService' SA	Direct subsidiary	876 625	-	37 232	4 341	3 915	40 329	40 329	2 500
Bankowy Fundusz Leasingowy SA	Direct subsidiary	595 512	186 937	24 954	38 096	37 279	10 207	1 928	365 560
Bankowe Towarzystwo Kapitałowe SA	Direct subsidiary	-	-	4 088	3	3	289	289	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	Direct subsidiary	8 165	-	6 667	234 182	141 932	1 608	1 608	467
Fort Mokotów Sp. z o.o.	Indirect subsidiary	-	-	5 018	2	2	143	143	-
POMERANKA Sp. z o.o.	Indirect subsidiary	129 599	129 599	6 955	6 497	6 497	155	155	24 609
Wilanów Investments Sp. z o.o.	Indirect subsidiary	106 476	106 476	3 177	4 714	4 714	30	30	43 514
PKO Inwestycje - Międzyzdroje Sp. z o.o.	Indirect subsidiary	12 667	12 667	376	1 165	1 165	4	4	-
UKRPOLINWESTYCJE Sp. z o.o.	Indirect subsidiary	-	-	-	-	-	-	-	-
Bankowy Leasing Sp. z o.o.	Indirect subsidiary	161 514	161 514	3 277	3 818	3 818	37	37	40 866
BFL Nieruchomości Sp. z o.o.	Indirect subsidiary	164 007	164 007	9	7 082	7 082	11	11	2 559
Finanse – Agent Transferowy Sp. z o.o.	Indirect subsidiary	-	-	6 808	5	5	25	25	-
Wisłok Inwestycje Sp. z o.o.	Indirect subsidiary	60 368	60 368	4 116	5 040	5 040	30	30	-
Baltic Dom Sp. z o.o.	Indirect subsidiary	15 260	15 260	604	1 716	1 716	52	52	-
CENTRUM HAFFNERA Sp. z o.o.	Direct jointly controlled entity	-	-	1 183	17	17	54	54	4 172
Centrum Obsługi Biznesu Sp z o.o.	Direct jointly controlled entity	33 752	33 598	27 226	2 316	2 311	622	622	-
Centrum Majkowskiego Sp. z o.o.	Indirect jointly controlled entity	-	-	8 812	4	4	318	-	-
Kamienica Morska Sp. z o.o.	Indirect jointly controlled entity	-	-	1 139	12	11	14	-	3 755
Sopot Zdrój Sp. z o.o.	Indirect jointly controlled entity	154 192	151 656	3 175	3 681	3 681	20	20	80 421
Promenada Sopocka Sp. z o.o.	Indirect jointly controlled entity	29 083	28 605	395	700	700	10	10	20 996
Bank Pocztowy SA	Associate	-	-	197	7	-	2 102	2 102	-
Kolej Gondolowa Jaworzyna Krynicka SA	Associate	1 361	1 361	1	36	36	8	8	139
Agencja Inwestycyjna 'CORP' SA	Associate	-	-	47	509	-	139	-	-
TOTAL		3 234 596	1 814 102	286 404	358 928	248 076	155 459	55 239	619 817

43. Remuneration – PKO Bank Polski SA key management

a) short-term employee benefits

Remuneration received from PKO Bank Polski SA

Name	Title	2009	2008
The Management Board of the Bank			
Jagiełło Zbigniew	Acting Chairman of the Bank's Management Board	60	-
Drabikowski Bartosz	Vice-Chairman of the Bank's Management Board	279	176
Dresler Krzysztof	Vice-Chairman of the Bank's Management Board	280	149
Myjak Jarosław	Vice-Chairman of the Bank's Management Board	236	10
Papierak Wojciech	Vice-Chairman of the Bank's Management Board	278	149
Zarzycki Mariusz	Vice-Chairman of the Bank's Management Board	280	112
Remuneration of The Management Board Members who ceased their functions in 2009 or 2008			
Pruski Jerzy	Chairman of the Bank's Management Board	281	154
Mirończuk Tomasz	Vice-Chairman of the Bank's Management Board	160	176
Klimczak Mariusz	Vice-Chairman of the Bank's Management Board	-	260
Juszczak Rafał	Chairman of the Bank's Management Board	-	270
Duda-Uhryn Berenika	Vice-Chairman of the Bank's Management Board	-	206
Działak Robert	Vice-Chairman of the Bank's Management Board	-	204
Kwiatkowski Wojciech	Vice-Chairman of the Bank's Management Board	-	103
Michalak Aldona	Vice-Chairman of the Bank's Management Board	-	112
Skowroński Adam	Vice-Chairman of the Bank's Management Board	-	205
Świątkowski Stefan	Vice-Chairman of the Bank's Management Board	-	205
Total short-term employee benefits of the Bank's Management Board		1 854	2 491
The Supervisory Board of the Bank			
Banasiński Cezary	Chairman of the Bank's Supervisory Board	25	-
Zganiacz Tomasz	Vice-Chairman of the Bank's Supervisory Board	10	-
Bossak Jan	Member of the Bank's Supervisory Board	40	29
Czekaj Mirosław	Member of the Bank's Supervisory Board	10	-
Fąfara Ireneusz	Member of the Bank's Supervisory Board	10	-
Lepczyński Błażej	Member of the Bank's Supervisory Board	25	-
Nowak Alojzy Zbigniew	Member of the Bank's Supervisory Board	10	-
Krześniak Eligiusz	Vice-Chairman of the Bank's Supervisory Board	15	29
Osiatyński Jerzy	Member of the Bank's Supervisory Board	15	29
Pałaszek Urszula	Member of the Bank's Supervisory Board	15	37
Sobiecki Roman	Member of the Bank's Supervisory Board	15	29
Gdański Jacek	Member of the Bank's Supervisory Board	14	-
Piszczyk Marzena	Chairman of the Bank's Supervisory Board	30	29
Stachowicz Jerzy	Member of the Bank's Supervisory Board	15	-
Wierzba Ryszard	Member of the Bank's Supervisory Board	30	29
Głuchowski Marek	Chairman of the Bank's Supervisory Board	-	9
Siemiątkowski Tomasz	Secretary of the Bank's Supervisory Board	-	9
Michałowski Jerzy	Member of the Bank's Supervisory Board	-	9
Winnik-Kalemba Agnieszka	Member of the Bank's Supervisory Board	-	9
Czapiewski Maciej	Member of the Bank's Supervisory Board	-	9
Total short-term employee benefits of the Bank's Supervisory Board		279	256
Total short-term employee benefits		2 133	2 747

Remuneration received from related entities (other than the State Treasury and the State Treasury's related entities)

Name	Title	2009	2008
The Management Board of the Bank			
Jagiełło Zbigniew	Acting Chairman of the Bank's Management Board	8	-
Drabikowski Bartosz	Vice-Chairman of the Bank's Management Board	219	38
Dresler Krzysztof	Vice-Chairman of the Bank's Management Board	219	102
Myjak Jarosław	Vice-Chairman of the Bank's Management Board	142	-
Papierak Wojciech	Vice-Chairman of the Bank's Management Board	82	54
Zarzycki Mariusz	Vice-Chairman of the Bank's Management Board	219	64
Pruski Jerzy	Chairman of the Bank's Management Board	135	116
Mirończuk Tomasz	Vice-Chairman of the Bank's Management Board	115	56
Klimczak Mariusz	Vice-Chairman of the Bank's Management Board	-	179
Działak Robert	Vice-Chairman of the Bank's Management Board	-	110
Kwiatkowski Wojciech	Vice-Chairman of the Bank's Management Board	-	62
Skowroński Adam	Vice-Chairman of the Bank's Management Board	-	56
Świątkowski Stefan	Vice-Chairman of the Bank's Management Board	-	88
Total short-term employee benefits of the Bank's Management Board		1 139	1 096
The Supervisory Board of the Bank			
Gdański Jacek	Member of the Bank's Supervisory Board	21	-
Głuchowski Marek	Chairman of the Bank's Supervisory Board	-	41
Winnik-Kalemba Agnieszka	Member of the Bank's Supervisory Board	-	50
Total short-term employee benefits of the members of the Bank's Supervisory Board		21	91
Total short-term employee benefits		1 160	1 187

b) post-employment benefits

In the years ended 31 December 2009 and 31 December 2008 no post-employment benefits were paid.

c) other long-term benefits

In the years ended 31 December 2009 and 31 December 2008 no "other long-term benefits" were paid.

d) benefits due to termination of employment

In the years ended 31 December 2009 and 31 December 2008 no benefits were paid due to termination of employment.

e) share-based payments

In the years ended 31 December 2009 and 31 December 2008 no benefits were granted in the form of share-based payments.

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

	31.12.2009	31.12.2008
Employees	1 384 420	1 217 814
The Management Board members	135	150
The Supervisory Board members	2 466	71
Total	1 387 021	1 218 035

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

44. Fair value of financial assets and financial liabilities

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.

Categories of valuation at fair value of financial assets and liabilities measured at fair value in the statement of financial position

On the basis of applied methods of valuation at fair value, the Bank classifies financial assets and liabilities to the following categories:

- 1) **Level 1:** Financial assets and liabilities whose fair value is stated directly at prices quoted (not adjusted) from active markets for identical assets and liabilities. The Bank classified to that category the following items:
 - debt securities valued at fixing from Bondspot platform,
 - debt and equity securities in Dom Maklerski portfolio,
 - shares classified as trading shares and shares available for sale quoted on the Warsaw Stock Exchange (GPW).
- 2) **Level 2:** Financial assets and liabilities whose fair value is determined with use of valuation models, where all significant entry data are observable on the market directly (as prices) or indirectly (based on prices). The Bank classified to that category the following items:
 - debt securities valued to the curve or those whose price comes from Bloomberg platform but for which market is not active,
 - non-treasury debt securities issued by other financial entities, local government bodies, non-financial entities quoted on the stock exchange or traded on a regulated OTC market,
 - derivative instruments.
- 3) **Level 3:** Financial assets and liabilities whose fair value is determined with use of valuation models, for which available data are not derived from observable markets. The Bank classified to this category shares that are not quoted on the Warsaw Stock Exchange.

Note 2 'Summary of significant accounting policies' provides detailed information on the method of fair value calculation.

The table below presents a reconciliation of fair value in the period on the third level of the fair value hierarchy:

Assets and liabilities valued at fair value as at 31 December 2009 (in PLN thousand)	Carrying amount	Level 1	Level 2	Level 3
Trading assets	2 212 955	890 480	1 322 475	-
Debt securities	2 202 847	880 372	1 322 475	-
Shares in other entities	10 108	10 108	-	-
Derivative financial instruments	2 029 921	72	2 029 849	-
Hedging instruments	352 261	-	352 261	-
Trade instruments	1 667 660	72	1 667 588	-
Financial assets designated at fair value through profit and loss	12 356 532	92 882	12 263 650	-
Debt securities	12 356 532	92 882	12 263 650	-
Shares in other entities	-	-	-	-
Investment securities available for sale	7 965 697	3 653 050	4 306 779	5 868
Debt securities	7 891 586	3 584 807	4 306 779	-
Equity securities	74 111	68 243	-	5 868
Financial assets at fair value - total	24 565 105	4 636 484	19 922 753	5 868
Derivative financial instruments	1 544 370	-	1 544 370	-
Hedging instruments	25 312	-	25 312	-
Trade instruments	1 519 058	-	1 519 058	-
Financial liabilities at fair value through profit and loss - total	1 544 370	-	1 544 370	-

In the course of 2009 there were no significant transfers between level 1 and 2 related to the financial result and the total amount of assets and liabilities.

	Investment securities available for sale
As at 1 January 2009	4 708
Total gains or losses	3 379
in financial result	3 379
Purchase	22
Sale	(10)
Settlement	(2 231)
Closing balance as at 31 December 2009	5 868
Total gains or losses for the period presented in the financial result for assets held at the end of the period	3 379

Assets and financial liabilities not presented at the fair value in the statement of financial position.

The Bank holds certain financial instruments which are not presented at fair value in the statement of financial position.

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 involves the following groups of assets:

- loans and advances to clients: 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, 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.

With regard 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 quarter ended as of the balance date.

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

Financial lease receivables were estimated on the basis of expected discounted cash flows with the use of internal rate of return for similar lease transactions concluded by the Bank 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 statement of financial positions as at 31 December 2009 and 31 December 2008:

	31.12.2009		31.12.2008	
	Carrying amount (PLN thousand)	Fair value (PLN thousand)	Carrying amount (PLN thousand)	Fair value (PLN thousand)
Cash and balances with the central bank	6 993 966	6 993 966	5 758 248	5 758 248
Amounts due from banks	2 053 767	2 053 767	3 906 973	3 907 048
Loans and advances to customers	114 425 789	109 893 261	98 102 019	97 797 651
<i>Corporate loans</i>	40 575 820	39 398 610	33 047 815	32 748 923
<i>Consumer loans</i>	22 186 928	21 650 604	20 017 539	20 109 730
<i>Mortgage loans</i>	51 663 041	48 844 047	45 036 665	44 938 998
Other financial assets	342 909	342 909	359 828	359 828
Amounts due to the central bank	6 581	6 581	2 816	2 816
Amounts due to other banks	4 166 725	4 164 478	5 699 452	5 700 257
Amounts due to customers	124 044 400	124 016 929	101 856 930	101 837 809
<i>due to corporate entities</i>	27 736 114	27 734 293	19 164 051	19 164 008
<i>due to state budget entities</i>	9 680 980	9 681 128	7 279 432	7 279 431
<i>due to retail clients</i>	86 627 306	86 601 508	75 413 447	75 394 370
Subordinated liabilities	1 612 178	1 618 093	1 618 755	1 629 537
Other financial liabilities	959 274	959 274	1 064 183	1 064 183

45. 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, provides custody services, and acts as Depository Bank 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 its statement of financial position. As a member of the Council of Depository Banks and the Council of Non-treasury Debt Securities by the Polish Bank Association, PKO Bank Polski SA takes part in developing regulations and market standards.

46. Information on sale of impaired loan portfolios

The Bank did not enter any securitisation transactions, although:

- in 2008, there were conducted activities aiming at the sale of approximately 150 thousand of receivables classified as default of total net value of approximately PLN 2 billion. Receivables were divided into four packages. In 2008, transactions related to the sale of three packages were completed. One package was sold to a securitisation fund, and two were sold to SPV. The total nominal value of the receivables sold amounted to ca. PLN 1.22 billion,
- in the second and third quarter of 2009, the Bank terminated the operations related to packaging sell of 3 packages: package I and II are 59 thousand of retail receivables at the total amount of PLN 627.8 million, package III – 2.9 thousand of economic receivables at the total amount of PLN 885.3 million,

- at present, the Bank is taking steps to sell approx. 60 000 retail receivables with a total nominal value of ca. PLN 630 million (the contracts will enter into force after the balance date). The completion of this work and settlement of the sale are expected in the second quarter of 2010,
- the total carrying amount of securitisation provisions created in connection with sale transactions as at 31 December 2009 was PLN 31 589 thousand (as at 31 December 2008: PLN 25 350 thousand). The Bank did not receive any securities as a result of these transactions.

47. Differences between previously published financial statements and the related information in these financial statements

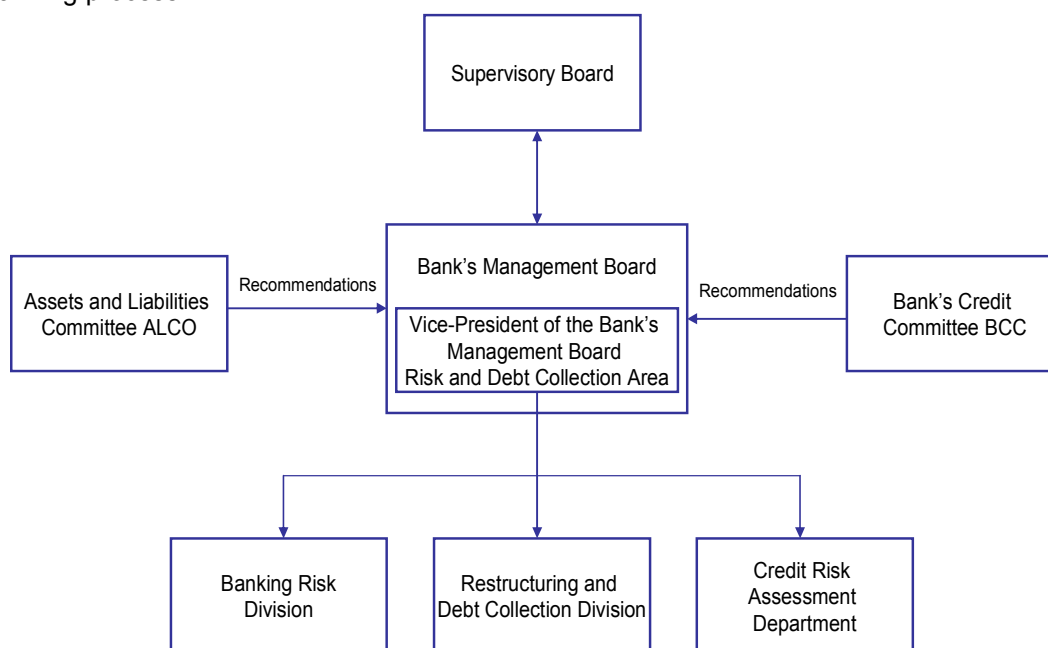
Presented below are significant changes included in the prior published data, restated for comparability purposes:

INCOME STATEMENT OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA			
Title (in relation to changed positions)	2008 presented previously	2008 comparative data	Difference
Net income from financial instruments at fair value through profit and loss	(195 430)	(156 998)	38 432 ¹⁾
Net foreign exchange gain	734 567	696 135	(38 432) ¹⁾

1) Change in the presentation of selected gains and losses from derivatives financial instruments. The change results from the transfer of valuation at fair value of currency options (in 2009) from 'Net income from financial instruments at fair value through profit and loss' to 'Net foreign exchange gains'. The adopted new method of presentation of the net result from valuation of currency options renders more precisely economic sense of currency options together with hedging spot and forward transactions (transactions hedging the currency position generated as a result of changes in the market parameters influencing an open position in currency options).

48. Objectives and principles of risk management related to financial instruments

Banking activity is exposed to a number of risks, including credit risk, interest rate risk, currency risk, liquidity risk, derivatives risk, operational risk, compliance risk, strategic risk and reputation risk. Controlling the impact of these risks on the operations of PKO Bank Polski SA is one of the most important objectives in the management of the Bank. The level of the risks plays an important role in the planning process.



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 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 enacts internal regulations defining the risk management system. Operational risk management is conducted by organizational units of the Bank's head Office (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.

Market risk management and portfolio credit risk management in the Bank are supported by the following committees:

- Assets & Liabilities Committee (ALCO),
- Bank's Credit Committee (BCC),
- Central Credit Committee (CCC) and regional credit committees in detail and corporate branches.

ALCO and BCC are committees chaired by the Vice-President of the Bank's Management Board who is in charge of the Risk and Debt Collection Area.

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

BCC makes loan decisions with regard to significant individual loan exposures, or issues recommendations in this respect to the Bank's Management Board.

CCC supports the decisions taken by the relevant managing directors and Board Members with its recommendations and the credit committees operating in the regions support branch directors and directors of the Regional Corporate Branches in matters bearing a higher risk level.

In 2009, the financial crisis continued to affect the situation on the Polish financial market. The progressing economic decline (limitation of the GDP growth, lower supply of loans, slow-down in the market growth dynamics in a number of industries, increased unemployment) and the difficult conditions on the financial market had an adverse effect on the results of the banking sector (continued deterioration of bank loan portfolios, continued setting up of additional provisions against credit risk, a highly restrictive lending policy and high costs of obtaining deposits).

In 2009, the Bank's priority was to sustain strong capital position and stable growth of deposit base that determine the growth of Bank's credit portfolio.

As a result, in 2009 the Bank:

- issued own shares
- continued intensive actions aimed at gaining new deposits from retail clients
- considered the influence of financial crisis in the methods used to assess relevant risks (eg. in stress-test scenarios).

In 2009 the Bank continued to follow the restricted policy regarding retail credits in foreign currency, by setting higher own contribution requirements in case of mortgages, restricting the credits available for the high-risk clients and increasing the credit margins for the newly granted credits for the corporate and retail clients.

Credit risk

Definitions, aims and principles

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 objective of credit risk management is to optimize the loan portfolio in terms of its quality and value, which at the same time is characterized by its high profitability and safety understood as minimizing the risk of loans threatened with impairment.

The Bank applies 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 i.e. advanced credit risk management method, which can be used while calculating capital requirements for credit risk after being approved by the Financial Supervision Authority.

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 scoring method is defined by Bank's internal regulations whose main aim is to ensure uniform and objective assessment of credit risk during the credit process.

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 2009 the Bank continued developing such credit risk assessment methods relating to retail clients, specifically by carrying out validation of dedicated consumer loans scoring models. Credit risk relating to the financing of corporate clients is assessed on two levels: the client and the transaction (excluding selected types of transactions for small and medium enterprises which are assessed based on a scoring method). 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.

In 2009 the Bank continued to upgrade the functionality of Early Warning System (EWS) and developed an application dedicated to support EWS.

In 2009, as regards corporate clients, the Bank introduced new methods of risk assessment related to transactions involving derivatives and of monitoring limits set on those transactions.

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.

PKO Bank Polski SA performs analysis and stress-tests regarding the influence of potential changes in macroeconomic environment on the quality of Bank's credit portfolio. The test results are reported to the Bank's Executives. The above-mentioned information enables the Bank to identify and take measures to limit the negative influence of unfavourable market changes on the Bank's performance.

Collateral policy

Bank collateral management is meant to secure properly the interests of the Bank by way of establishing collateral that will ensure the highest possible level of recovery in the event of realisation of collateral. The policy regarding legal collateral is defined by internal regulations.

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 an effective mortgage is established, the following types of collateral are used (depending on type and amount of loan): an increased credit margin, a temporary collateral in the form of a cession of receivables related to the construction agreement, bill of exchange, guarantee or an 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.

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).

Credit risk reporting

The Bank prepares monthly and quarterly credit risk reports for i.a. ALCO, the Central Credit Committee, the Management Board and the Supervisory Board. The reports contain information on historical credit risk amounts and credit risk forecasts.

Bank's exposure to credit risk

Amounts due from banks	Exposure	
	31.12.2009	31.12.2008
Amounts due from banks impaired	27 496	28 486
of which assessed on an individual basis	27 013	28 486
Amounts due from banks not impaired	2 053 380	3 906 598
<i>neither past due nor impaired</i>	2 052 387	3 905 135
<i>past due but not impaired</i>	993	1 463
Gross total	2 080 876	3 935 084
Impairment allowances	(27 109)	(28 111)
Net total	2 053 767	3 906 973

Loans and advances to customers	Exposure	
	31.12.2009	31.12.2008
Loans and advances impaired	7 500 728	3 161 595
of which assessed on an individual basis	3 939 557	1 438 770
Loans and advances not impaired	110 340 006	97 540 964
<i>neither past due nor impaired</i>	109 572 952	96 324 805
<i>past due but not impaired</i>	767 054	1 216 159
Gross total	117 840 734	100 702 559
Impairment allowances	(3 414 945)	(2 600 540)
Net total	114 425 789	98 102 019

In 2009, the Bank began to recognize restructurisation events, delays in consumer loans repayments of 3 to 6 months, deterioration of the financial and economic situation of the client to G rating as an indicator of individual impairment, which resulted in an increase in the portfolio of loans with recognized impairment. The above-mentioned change did not result in an increase in impairment allowances. However it had an influence on the amount of impaired receivables. Due to this reclassification impaired receivables' balance increased by PLN 3 380 221 thousand as at 31 December 2009.

Investment securities available for sale – debt securities	Exposure	
	31.12.2009	31.12.2008
Debt securities impaired	13 183	18 104
of which assessed on an individual basis	13 183	18 104
Debt securities not impaired	7 891 586	8 683 375
<i>neither past due nor impaired</i>	7 891 586	8 683 375
<i>with external rating</i>	4 872 460	6 007 211
<i>with internal rating</i>	3 019 126	2 600 720
<i>without rating</i>	-	75 444
Gross total	7 904 769	8 701 479
Impairment allowances	(13 183)	(15 791)
Net total	7 891 586	8 685 688

Other assets – other financial assets	Exposure	
	31.12.2009	31.12.2008
Other assets impaired	152 903	36 200
Other assets not impaired	320 981	359 311
<i>neither past due nor impaired</i>	320 828	345 521
<i>past due but not impaired</i>	153	13 790
Gross total	473 884	395 511
Impairment allowances	(130 975)	(35 683)
Net total (carrying amount)	342 909	359 828

Maximum exposure to credit risk

The table below presents maximum exposure to credit risk of the Bank as at 31 December 2009 and as at 31 December 2008, excluding collaterals value and connected with them improvement of credit situation stated at net carrying amount.

Items of the statement of financial position	31.12.2009	31.12.2008
Operations with the central bank	4 625 073	3 419 832
Amounts due from banks	2 053 767	3 906 973
Trading assets – debt securities	2 202 847	1 491 524
issued by non-financial institutions	1 799	-
issued by the State Treasury	2 198 840	1 491 398
issued by local government bodies	2 208	126
Derivative financial instruments	2 029 921	3 599 545
Other financial instruments at fair value through profit and loss - debt securities	12 356 532	4 546 497
issued by the State Treasury	5 362 314	4 373 621
issued by central banks	6 994 218	-
issued by other banks	-	172 876
Loans and advances to customers	114 425 789	98 102 019
Financial entities (other than banks)	3 280 198	2 545 376
<i>corporate loans</i>	3 280 198	2 545 376
Non-financial entities	106 199 350	92 364 724
<i>consumer loans</i>	22 186 928	20 017 539
<i>mortgage loans</i>	51 663 041	45 036 665
<i>corporate loans</i>	32 349 381	27 310 520
State budget entities	4 946 241	3 191 919
<i>corporate loans</i>	4 946 241	3 191 919
Investment securities available for sale - debt securities	7 891 586	8 685 688
issued by the State Treasury	4 782 374	3 286 726
issued by central banks	-	2 673 729
issued by other banks	90 086	46 756
issued by other financial institutions	245 215	481 128
issued by non-financial institutions	773 690	779 250
issued by local government bodies	2 000 221	1 418 099
Other assets - other financial assets	342 909	359 828
Total	145 928 424	124 111 906
Off-balance sheet items	31.12.2009	31.12.2008
Irrevocable liabilities granted	7 360 144	7 714 609
Guarantees granted	4 274 985	3 186 778
Letters of credit granted	230 078	551 760
Guarantees of issue (underwriting)	1 308 396	821 005
Total	13 173 603	12 274 152

Analysis of portfolio by rating class

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 (including mainly housing co-operatives),
- small and medium enterprises (excluding certain product groups which are assessed in a simplified manner).

Financial assets neither past due nor impaired	31.12.2009	31.12.2008
Amounts due from banks	2 052 387	3 905 135
of which:		
with rating	2 017 825	3 172 029
without rating	34 562	733 106
Loans and advances to customers	109 572 952	96 324 805
with rating – financial, non-financial and public sector (corporate loans)	35 529 992	30 829 548
A (first rate)	955 973	1 184 628
B (very good)	3 042 110	2 474 397
C (good)	5 043 565	4 639 476
D (satisfactory)	10 682 141	9 373 219
E (average)	7 677 225	6 811 983
F (acceptable)	8 128 978	6 345 845
with rating – non-financial sector (consumer and mortgage loans)	65 674 943	58 560 511
A (first rate)	13 744 126	12 909 565
B (very good)	23 597 457	14 809 811
C (good)	18 830 587	23 649 272
D (average)	3 985 809	4 382 491
E (acceptable)	5 516 964	2 809 372
without rating – non-financial sector (other consumer and mortgage loans)	8 368 017	6 934 746
Other assets – other financial assets	320 828	345 521
Total	111 946 167	100 575 461

Loans and advances 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 mortgages) which are not individually significant and thus do not create significant credit risk.

Structure of debt securities and amounts due from banks, neither past due nor impaired by external rating class is presented below:

31 December 2009

Rating/ portfolio	held for trading			at fair value through profit and loss			available for sale			Amounts due from banks
	issued by the State Treasury	issued by local government bodies	issued by banks	issued by the State Treasury	issued by other non-financial entities	issued by central banks	issued by the State Treasury	issued by central banks	issued by other banks	
AA- to AA+	-	-	-	-	-	-	-	-	-	666 261
A- to A+	2 198 840	-	-	5 362 314	-	6 994 218	4 782 374	-	-	896 064
BBB- to BBB+	-	-	-	-	-	-	-	-	50 901	131 868
BB- to BB+	-	-	-	-	-	-	-	-	39 185	-
CCC- to CCC+	-	-	-	-	-	-	-	-	-	323 632
without rating	-	2 208	1 799	-	-	-	-	-	-	34 562
Total	2 198 840	2 208	1 799	5 362 314	-	6 994 218	4 782 374	-	90 086	2 052 387

31 December 2008

Rating/ portfolio	held for trading		at fair value through profit and loss		available for sale				Amounts due from banks
	issued by the State Treasury	issued by local government bodies	issued by the State Treasury	issued by other banks	issued by the State Treasury	issued by central banks	issued by other banks	issued by other financial institutions	
AA- to AA+			-	23 943	-	-	-	-	1 102 679
A- to A+	1 491 398		4 373 621	148 933	3 286 726	2 673 729	12 567	-	1 105 427
BBB- to BBB+			-	-	-	-	34 189	-	257 410
B- to B+			-	-	-	-	-	-	706 513
without rating		126	-	-	-	-	-	75 444	733 106
Total	1 491 398	126	4 373 621	172 876	3 286 726	2 673 729	46 756	75 444	3 905 135

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

Entities with rating	31.12.2009		31.12.2008	
	carrying amount		carrying amount	
A (first rate)		98 658		21 313
B (very good)		771 797		448 931
C (good)		842 518		1 403 775
D (satisfactory)		226 150		391 905
E (average)		412 533		153 571
F (acceptable)		667 470		181 225
TOTAL		3 019 126		2 600 720

Concentration of credit risk within the Bank

The Bank 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 Bank 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. 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 own funds if any of these entities is related to the Bank, or 25% of the Bank's 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 2009 and 31 December 2008, those concentration limits had not been exceeded.

As at 31 December 2009, the level of concentration risk with respect to individual exposures was low – the biggest exposure to a single entity was equal to 16.0%* and 5.0% of the Bank's own funds.

* concentration in respect of the entities exempted from concentration limits

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

31.12.2009			31.12.2008		
No.	Exposure*	Share in the loan portfolio**	No.	Exposure*	Share in the loan portfolio**
1.	1 542 437 ***	1.31%	1.	656 139	0.65%
2.	744 334	0.63%	2.	592 759	0.59%
3.	544 230	0.46%	3.	457 525	0.45%
4.	415 957	0.35%	4.	412 857	0.41%
5.	358 614	0.31%	5.	334 019	0.33%
6.	340 278	0.29%	6.	305 746	0.30%
7.	328 965	0.28%	7.	292 682	0.29%
8.	316 892	0.27%	8.	243 106	0.24%
9.	301 523	0.26%	9.	242 046	0.24%
10.	296 439	0.25%	10.	235 382	0.23%
11.	295 076	0.25%	11.	235 221	0.23%
12.	275 120	0.23%	12.	233 201	0.23%
13.	256 380	0.22%	13.	231 369	0.23%
14.	250 000	0.21%	14.	230 981	0.23%
15.	249 806	0.21%	15.	218 941	0.22%
16.	245 140	0.21%	16.	218 030	0.22%
17.	241 129	0.21%	17.	217 275	0.22%
18.	232 169	0.20%	18.	215 637	0.21%
19.	231 779	0.20%	19.	201 442	0.20%
20.	229 852	0.20%	20.	197 176	0.20%
Total	7 696 120	6.55%	Total	5 971 534	5.92%

*Total exposure includes loans, advances, purchased debts, discounts on bills of exchange, realized guarantees and interest receivable.

** The credit portfolio value does not include off-balance sheet and capital exposures.

*** Concentration in respect of the entities exempted from concentration limits under the Article 71.3 of the Banking Law.

Concentration by the biggest Capital Groups

As at 31 December 2009, the concentration of credit risk by the largest capital groups was low. The greatest exposure of the Bank towards a capital group amounted to 9.7%* and 8.5% of the Bank's own funds.

* Concentration in respect of the entities exempted from concentration limits.

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

31.12.2009			31.12.2008		
No.	Exposure*	Share in the loan portfolio**	No.	Exposure*	Share in the loan portfolio**
***1	1 625 430	1.38%	1	1 654 951	1.65%
2	1 439 703	1.23%	2	1 402 841	1.39%
3	1 356 212	1.15%	3	1 315 589	1.31%
4	1 078 403	0.92%	4	1 283 533	1.28%
5	736 516	0.63%	5	792 757	0.79%
Total	6 236 264	5.31%	Total	6 449 671	6.42%

*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.

***concentration in respect of the entities exempted from concentration limits (Banking Law, art. 71 item 3)

Concentration of credit risk by industry

The Bank 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.

As at 31 December 2009, compared with 31 December 2008, the largest increase was recorded in the following sectors: "Public administration and national defence" (+ PLN 1.7 billion), "Maintenance and rental of real estate..." (+ PLN 1.3 billion), "Industrial processing" (+ PLN 1.0 billion).

The total exposure in the four largest industry sectors: "Industrial processing", "Wholesale and retail trade, repair of cars, motorcycles...", "Maintenance and rental of real estate..." and "Public administration and national defense..." amounted to approx. 68% of the total loan portfolio covered by an analysis of the sector.

Analysis of exposure to industry segments as at 31 December 2009 and 31 December 2008 is presented in the table below.

Section	Description	31.12.2009		31.12.2008	
		Exposure	Number of entities	Exposure	Number of entities
D	Industrial processing	25.27%	13.27%	27.02%	13.49%
G	Wholesale and retail trade, repair of motor vehicles and personal and household goods	16.96%	29.92%	17.89%	30.65%
K	Property management, lease and services related to the running of business activities	14.25%	10.81%	13.17%	10.73%
L	Public administration and national defense. obligatory social security and public health insurance	11.63%	0.57%	8.85%	0.60%
F	Construction	6.94%	14.17%	6.25%	12.88%
E	Electricity, gas and water production and supply	2.91%	0.18%	3.38%	0.19%
Other exposure		22.04%	31.08%	23.44%	31.46%
Total		100.00%	100.00%	100.00%	100.00%

Concentration of credit risk by geographical regions

The Bank's loan portfolio is diversified in terms of geographical location.

As at 31 December 2009, the largest concentration of the Bank's loan portfolio was 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, which is consistent with the regions' domination both in terms of population and economy in Poland.

Region	31.12.2009	31.12.2008
Poland		
mazowiecki	18.82%	18.59%
śląsko-opolski	12.60%	12.52%
wielkopolski	9.96%	10.28%
małopolsko-świętokrzyski	9.11%	9.26%
dolnośląski	7.65%	7.77%
pomorski	6.57%	7.17%
lubelsko-podkarpacki	6.56%	6.54%
zachodnio-pomorski	6.45%	7.24%
łódzki	5.77%	6.24%
kujawsko-pomorski	4.67%	5.17%
warmińsko-mazurski	3.49%	3.55%
podlaski	2.92%	3.08%
other	5.43%	2.59%
Total	100.00%	100.00%

Concentration of credit risk by currency

As at 31 December 2009, the share of currency exposures in the total credit portfolio of the Bank amounted to 23.4%. The greatest parts of currency exposures, other than PLN, are those in CHF (77.7% of currency credit portfolio), whose share in the loan portfolio decreased by 1.9 p.p. (y/y), which result mainly from granted mortgage loans.

A decrease in the share of loans denominated in foreign currencies in 2009 results from concentration of new sales of mortgage loans in the Polish currency.

Concentration of credit risk by currency (in %)

Currency	31.12.2009	31.12.2008
PLN	76.59%	72.16%
Foreign currencies, of which:	23.41%	27.84%
CHF	18.20%	22.17%
EUR	4.06%	4.09%
USD	1.13%	1.57%
GBP	0.02%	0.01%
Total	100.00%	100.00%

Other types of concentration

In accordance with the Recommendation S the Bank implemented internal limits with regard to loans granted to individual clients for purchase of properties. In 2009 these limits have not been exceeded.

Renegotiated receivables

The purpose of the restructuring activity of the Bank is to maximize the effectiveness of non-performing loan 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.

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 for which 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	
	31.12.2009	31.12.2008
Loans and advances to customers, by gross value	117 840 734	100 702 559
including renegotiated:	455 285	72 732
Non-financial entities	453 559	70 717
consumer loans	315 569	18 336
mortgage loans	105 780	35 381
corporate loans	32 210	17 000
State budget entities	1 726	2 015
corporate loans	1 726	2 015

Past due financial assets

Financial assets which are past due at the reporting date but not impaired include the following financial assets:

Financial assets	31.12.2009			31.12.2008		
	up to 3 months	over 3 months	Total	up to 3 months	over 3 months	Total
Loans and advances to clients:	767 054	-	767 054	1 216 159	-	1 216 159
financial sector	59	-	59	1 259	-	1 259
non-financial sector	766 995	-	766 995	1 195 295	-	1 195 295
public sector	-	-	-	19 605	-	19 605
Other assets – other financial assets	153	-	153	13 790	-	13 790
Total	767 207	-	767 207	1 229 949	-	1 229 949

* Financial assets as at 31 December 2008 have been brought to comparability due to improvement of the tools supporting the process of loan exposure assessment.

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

The Bank made an assessment which proved that for the above-mentioned loan exposures the expected cash flows exceed the carrying amount of these exposures.

Individually determined to be impaired financial assets for which individual impairment allowance has been recognised by carrying amount gross

	31.12.2009	31.12.2008
Amounts due from banks	27 013	28 486
Loans and advances to customers	3 939 557	1 438 770
Financial entities	6 209	14 436
corporate loans	6 209	14 436
Non-financial entities	3 917 272	1 414 795
consumer loans	33 454	18 525
mortgage loans	616 568	105 716
corporate loans	3 267 250	1 290 554
State budget entities	16 076	9 539
corporate loans	16 076	9 539
Financial assets available for sale	13 183	23 862
issued by financial entities	-	2 599
issued by non-financial entities	13 183	21 263
Total	3 979 753	1 491 118

As at 31 December 2009, financial assets individually determined to be impaired were secured by the following collaterals established for the Bank:

- for loans and advances to customers: ceiling mortgages and ordinary mortgages, registered pledges, promissory notes and transfers of receivables - with a total amount of PLN 2 936 193 thousand (as at 31 December 2008 the amount was PLN 1 200 747 thousand),
- for investment securities available for sale: blank promissory notes, registered pledges on the bank account and on debtor's shares.

In determining impairment allowances for the above assets, the Bank 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 filing 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 ("G", "H" rating),
- restructuring actions taken and payment reliefs applied,
- 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 position of the client,
- the extent of execution of forecasts by the client.

In 2009 the Bank began to recognize restructuring events, delays in consumer loans repayments of 3 to 6 months, worsening of the financial and economic situation of the client to G rating as a indicator of individual impairment resulted in increase in loan with recognized impairment. The above-mentioned change did not result in an increase in impairment allowances. However it has affected the impaired receivables. Due to this reclassification impaired receivables' balance increased by PLN 3 380 221 thousand as at 31 December 2009.

Allowances for credit losses

PKO Bank Polski SA performs a monthly review of loan exposures in order to identify loan exposures threatened with impairment, measure the impairment of loan exposures and record impairment charges or provisions. The process of determining the impairment charges and provisions consists of the following stages:

- identifying the indications of impairment and events significant from the point of view of identifying those indications;
- registering in the Bank's IT systems the events that are material from the point of view of identifying any indications of impairment of loan exposures;
- determining the method of measuring impairment;
- measuring impairment and determining an impairment charge or provision;
- verifying and aggregating the results of the impairment measurement;
- recording the results of impairment measurement.

The method of determining the amount of impairment charges is dependent on the type of indications of impairment identified and the individual significance of a given loan exposure. The events considered as constituting indications of individual impairment are, in particular, as follows:

- a loan being overdue for at least 3 months;
- a significant deterioration in a customer's internal rating.

When determining the overdue period of a loan, the amounts of interest or principal instalments not paid according to the schedule are taken into account.

PKO Bank Polski SA applies three methods of estimating impairment:

- the individualized method applied in respect of individually significant loans, which show the indications of impairment or are restructured;
- the portfolio method applied in respect of individually insignificant loans, in the case of which indications of individual impairment have been recognized,
- the group method (IBNR) applied in respect of the loans in the case of which indications of individual impairment have not been identified, but there is a possibility of losses incurred but not recognized occurring.

Impairment allowances in respect of a loan exposure correspond to the difference between the carrying amount of the exposure and the present value of the expected future cash flows from a given exposure:

- under the individualized method, the expected future cash flows are estimated for each loan exposure individually, taking into account the possible scenarios relating to contract execution, weighted by the probability of their realization;
- an impairment charge in respect of loan exposures under the portfolio method or the group method corresponds to the difference between the carrying amount of the exposures and the present value of the expected future cash flows estimated using statistical methods, based on historic observations of exposures from homogenous portfolios.

A provision for off-balance sheet loan exposures is recorded in an amount equal to the resulting expected (and possible to estimate) loss of economic benefits.

When determining a provision for off-balance sheet loan exposures, PKO Bank Polski SA:

- uses the individualized method in respect of the individually significant loan exposures which show indications of individual impairment or those relating to debtors whose other exposures show such indications,
- the portfolio method (if an exposure shows indications of individual impairment) or the group method (if an exposure only shows indications of group impairment) - in the case of the remaining off-balance sheet loan exposures.

The provision is determined as the difference between the expected amount of exposure in the statement of financial position, which will arise as a result of an off-balance sheet commitment (from the date at which the assessment is performed till the date of overdue amounts due arising considered as constituting an indication of individual impairment) and the present value of the expected future cash flows obtained from the exposure in the statement of financial position arising out of the commitment.

When determining a provision under the individualized method, the expected future cash flows are estimated for each loan exposure separately.

When determining a provision under the portfolio method or the group method, the portfolio parameters are used, estimated using statistical methods, based on the historic observation of exposures with the same features.

The structure of the loan portfolio and the recorded impairment charges in respect of PKO Bank Polski SA's loan exposures are presented in the table below.

	31.12.2009	31.12.2008
Loans and advances to customers		
Valued using the individual method, of which:		
impaired	4 677 152	1 879 162
not impaired	3 939 557	1 438 770
Valued using the portfolio method – impaired	737 595	440 392
Valued using the group method – not impaired	3 561 171	2 133 726
	109 602 411	96 689 671
Loans and advances to customers - gross	117 840 734	100 702 559
Allowances on receivables valued using the individual method, of which:		
Allowances on receivables valued using the portfolio method – impaired	(971 326)	(648 853)
Allowances on receivables valued using the group method – not impaired	(1 885 369)	(1 279 179)
Allowances on receivables valued using the group method – not impaired	(558 250)	(672 508)
Total impairment allowances	(3 414 945)	(2 600 540)
Loans and advances to customers – net	114 425 789	98 102 019

As at 31 December 2009, the share of loans with indications of impairment (i.e. receivables assessed under the individualized method or the portfolio method) amounted to 7.0% (as at 31 December 2008: 4.0%); whereas the coverage ratio for the loans assessed under the individualized method or the portfolio method (calculated as total impairment allowances on receivables divided by gross carrying amount of receivables assessed under the individualized method or the portfolio method) amounted to 41.5% (as at 31 December 2008: 64.8%).

As at 31 December 2009, the share of impaired loans amounted to 6.4% (as at 31 December 2008: 3.1%); whereas the coverage ratio for loans with recognized impairment (calculated as total impairment allowances on loans with recognized impairment divided by gross carrying amount of these loans) amounted to 45.5% (as at 31 December 2008: 82.3%).

A significant influence on ratios changes resulted from adopted changes to the methodology of determining impairment charges regarding loans exposures and widening the range of indications of impairment by the following factors: deterioration of the financial and economic situation to G rating, a conclusion of a restructurisation agreement and delays in consumer loans repayments of 3 to 6 months.

An increase in the volume of loans assessed under the portfolio method in 2009 by PLN 1 427 445 thousand resulted mainly from the increase in delays in repayment in the portfolio of consumer loans and housing loans granted to individuals.

Credit risk of financial institutions

As at 31 December 2009, the greatest exposures of PKO Bank Polski SA on the interbank market were as follows:

Counterparty	Interbank portfolio* [PLN thousand]				Total
	Deposits	Securities	Credit Default Swap	Other derivatives	
Counterparty 1	308 115	-	-	(4 648)	308 115
Counterparty 2	287 574	-	-	-	287 574
Counterparty 3	237 073	-	-	68	237 141
Counterparty 4	142 515	-	-	-	142 515
Counterparty 5	77 451	-	-	(21 743)	77 451
Counterparty 6	-	-	-	72 529	72 529
Counterparty 7	-	-	-	72 284	72 284
Counterparty 8	-	-	-	45 798	45 798
Counterparty 9	-	-	-	42 354	42 354
Counterparty 10	-	-	-	41 953	41 953
Counterparty 11	41 492	-	-	(2 102)	41 492
Counterparty 12	-	-	-	41 232	41 232
Counterparty 13	-	41 082	-	-	41 082
Counterparty 14	-	-	-	38 250	38 250
Counterparty 15	607	-	-	32 454	33 061
Counterparty 16	-	-	-	28 920	28 920
Counterparty 17	-	-	-	23 408	23 408
Counterparty 18	20 000	-	-	(2 724)	20 000
Counterparty 19	-	-	-	15 089	15 089
Counterparty 20	-	-	-	14 038	14 038

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

The table below presents the greatest exposures of PKO Bank Polski SA on the interbank market as at 31 December 2008:

Counterparty**	Interbank portfolio* [PLN thousand]				Total
	Instrument type				
	Deposit	Securities	Credit Default Swap	Other derivatives	
Counterparty 21	222 135	-	-	-	222 135
Counterparty 22	196 098	-	-	-	196 098
Counterparty 1	168 084	-	-	2 480	170 564
Counterparty 23	159 803	-	-	8 700	168 503
Counterparty 11	154 077	-	-	(17 350)	154 077
Counterparty 19	-	-	118 472	(193 941)	118 472
Counterparty 24	100 000	-	-	(3 401)	100 000
Counterparty 14	-	-	88 854	(78 015)	88 854
Counterparty 25	-	83 448	-	-	83 448
Counterparty 26	-	-	-	70 308	70 308
Counterparty 8	-	-	-	61 528	61 528
Counterparty 27	26 656	-	-	33 994	60 650
Counterparty 9	-	-	-	54 085	54 085
Counterparty 28	50 000	-	-	-	50 000
Counterparty 13	-	41 724	-	(104)	41 724
Counterparty 29	-	20 862	-	-	20 862
Counterparty 3	9 655	-	-	(40 332)	9 655
Counterparty 30	-	95 965	(88 854)	-	7 111
Counterparty 31	6 259	-	-	-	6 259
Counterparty 32	-	-	-	4 191	4 191

* 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 PKO Bank Polski SA on the interbank market" as at 31 December 2008.

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. 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.

As at 31 December 2009 the Bank had signed master agreements with 25 local banks and 36 foreign banks and credit institutions (all the counterparties listed in the table as at 31 December 2009, with whom PKO Bank Polski SA had derivatives, signed master agreements with the Bank). Additionally the Bank was a party of 28 CSA agreements (Credit Support Annex) and 3 ISMA agreements (International Securities Market Association), which allow to compensate liabilities resulting from concluded transactions.

Geographical localization of counterparties:

The counterparties generating the 20 largest exposures on the interbank market as at 31 December 2009 and 31 December 2008 come from the following countries (classified by location of registered office):

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

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).

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

Management of foreclosed collateral

Foreclosed collaterals as a result of restructuring or debt collection activities are either used by the Bank 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 Bank for internal purposes. All of the assets taken over as a result of restructuring and debt collection activities in the years ended 31 December 2009 and 31 December 2008, respectively, were designated for sale.

Activities undertaken by the Bank 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 Bank, 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 Bank.

The Bank takes steps to disseminate broadly to the public the information about assets being sold by publishing it on the Bank'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 Bank Polski 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 Bank as a result of restructuring and debt collection activities. The Bank has also entered into cooperation agreements with external companies, which perform valuations of the movable and immovable properties that the Bank 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 2009 and 31 December 2008 are presented in Note 26, "Other assets", in line item "Other".

Interest rate risk

The interest rate risk is a risk of incurring losses on the Bank's assets and liabilities sensitive to interest rate fluctuations, as a result of unfavourable changes in the interest rates on the market.

The objective of interest rate risk management is to mitigate the risk of incurring losses arising from market interest rate changes to an acceptable level.

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

The value at risk (VaR) is defined as a potential loss arising from the maintained structure of statement of financial position and off-balance sheet items and the volatility of interest rates, with the assumed probability level and taking into account the correlation between the risk factors. 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.

The sensitivity of interest income is a measure showing changes in interest income resulting from abrupt changes in the interest rates. This measure takes into account the diversity of revaluation dates of the individual interest-bearing items in each of the selected time horizons.

Stress-tests are used to estimate potential losses arising from a held structure of the statement of financial position and off-balance sheet items 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 yield curve along with portfolio positions, a bend of yield curve of peak and twist types, the largest historical non-parallel fluctuation of the interest rate curves for securities and derivative instruments that hedge them.

The revaluation gap shows the difference between the present value of assets and liabilities exposed to interest rate risk, subject to revaluation in a given time range, and these balances are recognized on the transaction date.

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)								31.12.2009
Periodic gap	26 246 173	28 202 011	(28 721 022)	(11 760 226)	(1 765 471)	1 492 090	266 161	13 959 716
Cumulative gap	26 246 173	54 448 184	25 727 162	13 966 936	12 201 465	13 693 555	13 959 716	-
PLN (PLN thousand)								31.12.2008
Periodic gap	(4 942 713)	6 770 631	11 376 342	1 416 117	(7 163 638)	(707 711)	24 038	6 773 066
Cumulative gap	(4 942 713)	1 827 918	13 204 260	14 620 377	7 456 739	6 749 028	6 773 066	-
USD (USD thousand)								31.12.2009
Periodic gap	181 330	(132 246)	(129 154)	(139 582)	(1 287)	35	23	(220 881)
Cumulative gap	181 330	49 084	(80 070)	(219 652)	(220 939)	(220 904)	(220 881)	-
USD (USD thousand)								31.12.2008
Periodic gap	44 859	(156 960)	(28 162)	6 439	(14 779)	21 630	15 059	(111 914)
Cumulative gap	44 859	(112 101)	(140 263)	(133 824)	(148 603)	(126 973)	(111 914)	-
EUR (EUR thousand)								31.12.2009
Periodic gap	(310 527)	115 694	(42 316)	(82 772)	2 585	(2 571)	(3 795)	(323 702)
Cumulative gap	(310 527)	(194 833)	(237 149)	(319 921)	(317 336)	(319 907)	(323 702)	-
EUR (EUR thousand)								31.12.2008
Periodic gap	(314 370)	(17 991)	51 775	37 842	(13 962)	31 639	(7 973)	(233 040)
Cumulative gap	(314 370)	(332 361)	(280 586)	(242 744)	(256 706)	(225 067)	(233 040)	-
CHF (CHF thousand)								31.12.2009
Periodic gap	(56 944)	(245 727)	1 937	(6 517)	1 280	875	6 044	(299 052)
Cumulative gap	(56 944)	(302 671)	(300 734)	(307 251)	(305 971)	(305 096)	(299 052)	-
CHF (CHF thousand)								31.12.2008
Periodic gap	4 983 161	(4 900 577)	(2 780)	(1 577)	(97)	-	3 092	81 222
Cumulative gap	4 983 161	82 584	79 804	78 227	78 130	78 130	81 222	-

As at the end of 2009, PKO Bank Polski SA had a positive cumulative gap in PLN in all the time spans.

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 established limits and thresholds for interest rate risk comprising the following: price sensitivity, interest income sensitivity, limits and threshold for losses and limits on instruments sensitive to interest rate fluctuations. These limits have been set with regard to the Bank's portfolios.

Exposure of the Bank to interest rate risk was within accepted limits. The Bank was mainly exposed to PLN interest rate risk, which represents about 87% of Bank's value at risk (VaR) as at 31 December 2009 and about 83% as at 31 December 2008.

VaR of the Bank and stress testing analysis of the Bank's exposure to the interest rate risk are presented in the following table:

Name of sensitivity measure	31.12.2009	31.12.2008
VaR for a 10-day time horizon (PLN thousand)	17 086	72 337
Parallel move of interest rate curves by +200 base points (PLN thousand)* (stress test)	164 418	133 919*

* Data brought to comparability

As at 31 December 2009, the interest rate VaR for the holding period of 10 days amounted to PLN 17 086 thousand, which accounted for approximately 0.10% of the value of the Bank's own funds. As at 31 December 2008, VaR for the Bank amounted to PLN 72 337 thousand, which accounted to approximately 0.60% of the Bank's own funds. In 2009 the interest rate risk was generated mainly by the risk of a mismatch between the repricing dates of assets and liabilities.

PKO Bank Polski SA prepares daily, weekly, monthly, quarterly and semi-annually reports addressing interest rate risk. Reports gather the information on interest rate risk exposure and updates on available limits regarding the risk. Reports are prepared mainly for ALCO, the Bank's Management Board and the Bank's Supervisory Board.

Currency risk

Currency risk is the risk of incurring losses due to unfavourable exchange rate changes. The risk is generated by maintaining open currency positions in a given foreign currency.

The objective of managing the currency risk is to mitigate the risk of incurring losses arising from the structure of the Bank's currency mismatch to an acceptable level.

The Bank measures currency risk using the Value at Risk model and stress tests.

The value at risk (VaR) is defined as a potential loss arising from the maintained structure of statement of financial position and off-balance sheet items and the volatility of interest rates, with the assumed probability level and taking into account the correlation between the risk factors. 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 crash-testing 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.

Main tools used in currency risk management include:

- 1) written procedures for currency risk management,

- 2) limits and thresholds for currency risk,
- 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.

The level of the currency risk was low both as at 31 December 2009 and as at 31 December 2008.

VaR of the Bank and stress-testing of the Bank's financial assets exposed to currency risk are stated cumulatively in the table below:

Name of sensitivity measure	31.12.2009	31.12.2008
VaR for a 10-day time horizon with 99% threshold (PLN thousand)	1 092	11 297*
Change of WAL/PLN +15% (PLN thousand) (stress-tests)	4 440	10 631

*VaR as at 31 December 2008 resulted mainly from USD position due to the acquisition of KREDOBANK SA shares, registered on 31 December 2008.

The Bank's currency positions are presented in the table below:

	31.12.2009	31.12.2008
	Position	Position
USD	(6 777)	(97 267)
GBP	1 507	(1 497)
CHF	(3 594)	(10 304)
EUR	24 748	20 134
Other (Global Net)	13 715	18 062

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 in the statement of financial position (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 as at 31 December 2009 amounted to approx. 0.01%).

PKO Bank Polski SA prepares daily, weekly, monthly, quarterly and semi-annually reports addressing currency risk. Reports gather the information on interest rate risk exposure and updates on available limits regarding the risk. Reports are prepared mainly for ALCO, the Bank's Management Board and the Bank's Supervisory Board.

Currency structure

The tables below present currency exposure by the specific types of assets, liabilities and contingent liabilities and commitments.

<i>Currency translated to PLN – 31.12.2009</i>					
	PLN	EUR	CHF	Other	Total
ASSETS, of which					
Cash and balances with the central bank	6 553 246	262 956	17 235	160 529	6 993 966
Amounts due from banks	252 619	1 075 202	190 404	562 651	2 080 876
Loans and advances to customers	90 805 491	4 631 260	21 370 299	1 033 684	117 840 734
Securities	22 511 172	39 587	-	1	22 550 760
Tangible assets	8 805 973	-	-	-	8 805 973
Other assets and derivatives	2 773 887	109 606	367	20 716	2 904 576
TOTAL ASSETS (GROSS)	131 702 388	6 118 611	21 578 305	1 777 581	161 176 885
DEPRECIATION / AMORTISATION / IMPAIRMENT	(7 287 223)	(37 200)	(181 384)	(23 599)	(7 529 406)
TOTAL ASSETS (NET)	124 415 165	6 081 411	21 396 921	1 753 982	153 647 479
EQUITY AND LIABILITIES, of which					
Amounts due to the central bank	6 581	-	-	-	6 581
Amounts due to other banks	1 288 670	183 966	2 622 002	72 087	4 166 725
Amounts due to customers	116 103 469	4 843 387	934 399	2 163 145	124 044 400
Subordinated liabilities	1 612 178	-	-	-	1 612 178
Provisions	598 626	-	-	-	598 626
Other liabilities, derivatives and deferred tax liabilities	2 833 616	166 249	61	39 526	3 039 452
Equity	20 179 517	-	-	-	20 179 517
TOTAL EQUITY AND LIABILITIES	142 622 657	5 193 602	3 556 462	2 274 758	153 647 479
CONTINGENT LIABILITIES GRANTED	29 762 320	2 316 999	306 355	1 056 665	33 442 339

<i>Currency translated to PLN – 31.12.2008</i>					
	PLN	EUR	CHF	Other	Total
ASSETS, of which:					
Cash and balances with the central bank	5 439 916	158 624	17 693	142 015	5 758 248
Amounts due from banks	1 072 185	1 554 911	82 106	1 225 882	3 935 084
Loans and advances to customers	73 557 038	3 866 255	22 362 049	917 217	100 702 559
Securities	14 244 665	384 793	-	191 247	14 820 705
Tangible assets	8 145 158	-	-	-	8 145 158
Other assets and derivatives	4 171 865	113 819	393	79 364	4 365 441
TOTAL ASSETS (GROSS)	106 630 827	6 078 402	22 462 241	2 555 725	137 727 195
DEPRECIATION / AMORTISATION / IMPAIRMENT	(6 380 152)	(70 812)	(28 881)	(2 523)	(6 482 368)
TOTAL ASSETS (NET)	100 250 675	6 007 590	22 433 360	2 553 202	131 244 827
EQUITY AND LIABILITIES, of which:					
Amounts due to the central bank	2 816	-	-	-	2 816
Amounts due to other banks	2 545 840	3 940	2 656 016	493 656	5 699 452
Amounts due to customers	96 040 953	3 466 685	111 077	2 238 215	101 856 930
Subordinated liabilities	1 618 755	-	-	-	1 618 755
Provisions	561 353	-	-	-	561 353
Other liabilities, derivatives and deferred tax liabilities	7 615 013	271 288	7 387	82 461	7 976 149
Equity	13 529 372	-	-	-	13 529 372
TOTAL EQUITY AND LIABILITIES	121 914 102	3 741 913	2 774 480	2 814 332	131 244 827
CONTINGENT LIABILITIES GRANTED	25 899 924	3 047 516	1 121 951	687 027	30 756 418

Liquidity risk

The liquidity risk is defined as the lack of the possibility to pay the debts on time due to the lack of liquid assets. Lack of liquidity may arise from inconvenient structure of the statement of financial position, misfit cash flows, not received payments from contractors, sudden withdraw of cash by clients or other market events.

The objective of liquidity risk management is to shape the structure of the Bank's statement of financial position and contingent liabilities and commitments to ensure the continuous and future (and potential) 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 method and the liquidity gap in real terms method,
- 2) the surplus liquidity method,
- 3) analysis of stability of deposit and loan portfolios,
- 4) stress testing.

The main tools for liquidity risk management in the Bank 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 Bank's lending activities.

To ensure an adequate liquidity level, the Bank 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.

The principal measure used by the Bank to assess long-term liquidity risk is the liquidity gap in real terms. For the assessment of liquidity risk as regards shorter periods, the Bank applies liquidity provisions. Liquidity gaps in real terms presented below include table of assets and liabilities and has additionally been adjusted to real values concerning the following:

- permanent balances on deposits outside interbank market and their maturity – clients deposits (current and saving accounts, deposits) have been classified to proper time schedules with regard to their stability (sustaining appropriate balance and renewability after the maturity day),
- permanent balances on loans in current accounts for non-financial entities and their maturity – loans in current account have been classified to proper time schedule, with regard to renewability of the loans,
- liquid securities and their maturity – liquid have been classified up to 1 month according to possible date of liquidity (pledge, sales).

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(in PLN thousand)

	a'vista	0 - 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 36 months	36 - 60 months	over 60 months
31.12.2009								
Adjusted gap	7 011 756	15 934 717	(3 179 007)	430 828	3 538 553	1 468 080	4 446 685	(29 651 612)
Cumulative adjusted gap	7 011 756	22 946 473	19 767 466	20 198 294	23 736 847	25 204 927	29 651 612	-
31.12.2008								
Adjusted gap	4 568 859	5 852 435	(2 914 818)	(1 798 141)	1 989 986	4 250 512	1 924 377	(13 873 210)
Cumulative adjusted gap	4 568 859	10 421 294	7 506 476	5 708 335	7 698 321	11 948 833	13 873 210	-

In all time horizons, the Bank's cumulative adjusted liquidity gap in real terms as at 31 December 2009 and 31 December 2008 was positive. This means a surplus of assets receivable over liabilities payable.

The table below presents liquidity reserve as at 31 December 2009 and 31 December 2008.

Name of sensitivity measure	31.12.2009	31.12.2008
Liquidity reserve to 1 month* (PLN million)	16 030	6 666

*Liquidity reserve equals the gap between the most liquid assets and expected and potential liabilities which mature in a given period of time.

As at 31 December 2009 the level of permanent balances on deposits constituted about 95.5% of all deposits in the Bank (except for interbank market), which means an increase by approximately 1.5 p.p. compared to the end of 2008.

Current and non-current assets and liabilities of the Bank as at 31 December 2009

	Short-term	Long-term	Impairment allowances	Total carrying amount
Assets				
Cash and balances with the central bank	6 993 966	-	-	6 993 966
Amounts due from banks	1 769 181	311 695	(27 109)	2 053 767
Financial assets held for trading	1 534 181	678 774	-	2 212 955
Derivative financial instruments	684 775	1 345 146	-	2 029 921
Financial instruments at fair value through profit and loss	12 356 532	-	-	12 356 532
Loans and advances to customers	25 447 641	92 393 093	(3 414 945)	114 425 789
Investment securities available for sale	3 516 114	4 465 159	(15 576)	7 965 697
Other assets	746 458	5 476 033	(613 639)	5 608 852
TOTAL ASSETS	53 048 848	104 669 900	(4 071 269)	153 647 479
Liabilities				
Amounts due to the central bank	6 581	-	-	6 581
Amounts due to other banks	1 538 930	2 627 795	-	4 166 725
Derivate financial instruments	514 054	1 030 316	-	1 544 370
Amounts due to customers	122 063 063	1 981 337	-	124 044 400
Subordinated liabilities	-	1 612 178	-	1 612 178
Other liabilities	2 093 708	-	-	2 093 708
TOTAL LIABILITIES	126 216 336	7 251 626	-	133 467 962
EQUITY	-	20 179 517	-	20 179 517
TOTAL EQUITY AND LIABILITIES	126 216 336	27 431 143	-	153 647 479

Current and non-current assets and liabilities of the Bank as at 31 December 2008

	Short-term	Long-term	Impairment allowances	Total (carrying amount)
Assets				
Cash and balances with the central bank	5 758 248	-	-	5 758 248
Amounts due from banks	3 057 721	877 363	(28 111)	3 906 973
Financial assets held for trading	1 340 931	155 216	-	1 496 147
Derivative financial instruments	3 599 545	-	-	3 599 545
Financial instruments at fair value through profit and loss	3 521 974	1 024 523	-	4 546 497
Loans and advances to customers	20 628 373	80 074 186	(2 600 540)	98 102 019
Investment securities available for sale	1 142 702	7 613 809	-	8 756 511
Other assets	3 250 940	2 299 918	(471 971)	5 078 887
TOTAL ASSETS	42 300 434	92 045 015	(3 100 622)	131 244 827
Liabilities				
Amounts due to the central bank	2 816	-	-	2 816
Amounts due to other banks	2 973 138	2 726 314	-	5 699 452
Derivate financial instruments	6 150 337	-	-	6 150 337
Amounts due to customers	90 622 850	11 234 080	-	101 856 930
Subordinated liabilities	-	1 618 755	-	1 618 755
Other liabilities	2 028 110	359 055	-	2 387 165
TOTAL LIABILITIES	101 777 251	15 938 204	-	117 715 455
EQUITY	-	13 529 372	-	13 529 372
TOTAL EQUITY AND LIABILITIES	101 777 251	29 467 576	-	131 244 827

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(in PLN thousand)

Outstanding contractual liabilities of the Bank as at 31 December 2009 by maturity

	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	6 581	-	-	-	-	6 581	6 581
Amounts due to other banks	1 439 131	108 098	7 955	2 645 718	105 427	4 306 329	4 166 725
Derivative financial instruments	991 914	2 195 028	7 412 837	14 926 893	2 773 816	28 300 486	1 544 370
Amount due to customers	71 645 951	20 316 475	29 302 799	3 296 711	648 278	125 210 214	124 044 400
Subordinated liabilities	-	-	84 997	255 224	1 940 921	2 281 142	1 612 178
Other liabilities	1 107 004	-	212 868	-	-	1 319 872	1 319 917
Off-balance sheet financial liabilities – granted	15 083 878	306 327	5 065 882	2 438 473	4 734 320	27 628 880	-
Off-balance sheet guarantee liabilities – issued	1 364 677	1 493 569	1 532 101	1 289 899	133 213	5 813 459	-

Outstanding contractual liabilities of the Bank as at 31 December 2008 by maturity

	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	2 355 325	629 482	34 097	2 821 132	-	5 840 035	5 699 452
Derivative financial instruments	6 476 728	5 399 820	7 228 909	21 651 941	5 876 889	46 634 287	6 150 337
Amounts due to customers	61 570 663	17 465 715	11 532 200	12 407 953	3 853	102 980 384	101 856 930
Subordinated liabilities	-	-	126 135	506 893	2 121 604	2 754 632	1 618 755
Other liabilities	380 988	148 334	785 447	23 638	16 989	1 355 396	1 355 396
Off-balance sheet financial liabilities – granted	13 715 875	161 208	3 540 008	4 261 722	4 518 062	26 196 875	-
Off-balance sheet guarantee liabilities – issued	1 438 278	157 129	1 134 675	1 480 767	348 694	4 559 543	-

Other price risks

Taking into consideration other price risks, at the end of the year 2009, the Bank was exposed to:

- 1) price risk of equity securities, (excluding investment fund participation units in collective investment funds),
- 2) price risk of investment fund participation units in collective investment funds.

These risks are immaterial – a capital requirement, pursuant to Resolution No 380/2008 of the Financial Supervision Authority, to cover the first requirement was at the end of the year 2009 lower than PLN 1 million; as regards the second requirement it was lower than PLN 2 million.

Derivative instruments risk

The risk of derivative instruments is a risk of incurring losses arising from the Bank taking up a position in financial instruments, which meet all of the following conditions:

- 1) the value of an instrument changes with the change of the underlying instrument;
- 2) it does not require any initial net investment or requires only a small initial net investment compared with other types of contracts which similarly respond to changes in market terms;
- 3) it is to be settled at a future date.

The derivative instruments risk includes the following risk types: credit risk, market risk (interest rate or currency risk) and liquidity risk.

The objective of managing the derivative instrument risk is to mitigate the risk of incurring losses arising from derivative instruments to the level acceptable by the Bank's general risk profile. The process of derivatives management in the Bank is integrated with the management of interest rate, currency, liquidity and credit risks.

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 Association), 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 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).

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 Bank to events which are beyond its control.

As part of managing the operating risk, PKO Bank Polski SA introduced the principles and procedures for identifying, assessing, monitoring, reporting and mitigating operating risk. Moreover, a formalized procedure has been implemented for accumulating and reporting the information on operating events and their financial effects. The effects of the materialization of the operating events in PKO Bank Polski SA are immaterial.

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 in monitored products or internal processes 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,

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 Bank.

The main tools for managing the operational risk are as follows:

- 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 risk reducing 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.

PKO Bank Polski SA prepares reports concerning operating risk on a quarterly basis. The reports contain information on the operating risk profile of PKO Bank Polski SA resulting from the process of identifying and assessing the threats, information on the results of measuring and monitoring operating risk and on operating events and their financial effects. The reports are addressed to the Bank's Management Board and Supervisory Board.

In 2009, the Bank implemented SAS OpRisk Management application providing system support to operating risk management.

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 Bank 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.

Strategic risk

The strategic risk is defined as a risk related to the possibility of negative financial consequences caused by erroneous decisions, decisions made on the basis of an inappropriate assessment or failure to make correct decisions relating to the direction of the Bank's strategic development.

The objective of managing the strategic risk is to take actions aimed at maintaining this risk at an acceptable level.

Management of the Bank's strategic risk comprises:

- measuring the level of the strategic risk;
- reporting the level of the strategic risk and its changes;
- actions taken in the event of a high strategic risk arising.

In measuring the strategic risk, the Bank takes the following into account:

- external factors;
- factors related to the growth and development of the banking operations;
- factors related to the management of human resources;
- factors related to investment activities;
- factors related to the organization's culture.

Monitoring and measuring the strategic risk level are performed on an annual basis. The reports on the level of strategic risk are addressed to the Bank's Management Board and managing directors in the Bank's Head Office.

Reputation risk

The reputation risk is defined as the risk related to a possibility of negative variations from the planned results of the Bank due to the deterioration of the Bank's image.

The objective of managing the reputation risk is to protect the Bank's image and limit the probability of the occurrence and level of reputation-related losses.

The management of the Bank's reputation risk comprises in particular:

- monitoring the external and internal communication channels of the Bank with the environment in terms of identifying the negative impact of image-related events;
- accumulating and analyzing information related to the occurrence or a possibility of occurrence of image-related events;
- recording data on the identified negative impact of image-related events at the Bank;
- selecting effective tools for protective measures aimed at eliminating, mitigating or minimizing the unfavourable effect of image-related events on the Bank's image, and their realization;
- analyzing the nature, importance, scale and dynamics of the negative effects of image-related events;
- determining the level of reputation risk.

The Bank monitors and records image-related events on an ongoing basis and measures the level of the reputation risk annually.

Capital adequacy

Capital adequacy is the maintenance of a level of capital by PKO Bank Polski SA 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 Bank's activities.

The process of managing the Bank'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 2009 remained on a safe level and was significantly above the statutory limits.

Compared with 31 December 2008, the Bank's capital adequacy level increased by 3.03%, which was mainly caused by an increase in the Bank's own funds, the result of the Bank's own issue, by PLN 5 billion; simultaneously there was observed an increase of capital requirements because of credit risk, which was mainly due to high dynamics in the growth of the loan portfolio

Own funds for the capital adequacy requirements

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 falling below nil, the amount is subtracted from the basic funds.

The own funds of the Bank include also short-term capital.

In 2009, the Bank's own funds increased by PLN 4 548 846 thousand, which was mainly due to the issuance of shares at PLN 5 081 125 thousand and simultaneous increase in capital exposure decreasing the Bank's own funds by approximately PLN 522 620 thousand. The net profit for 2009 was not recognized in the own funds.

The structure of the Bank's own funds is presented in the table below:

BANK'S OWN FUNDS	31.12.2009	31.12.2008
Basic funds (Tier 1 capital)	15 755 513	11 003 657
Share capital	1 250 000	1 000 000
Reserve capital	12 048 111	7 216 986
Other reserves	3 276 260	1 395 000
General banking risk fund	1 070 000	1 070 000
Net profit for the current period (for the first half of 2008) in the part verified by a certified auditor after deduction of forecasted charges	-	1 824 745
Unrealised losses on debt and equity instruments classified as available for sale	(52 555)	(41 820)
Intangible assets	(1 268 781)	(1 155 042)
Equity exposures	(567 522)	(306 212)
Supplementary funds (Tier 2 capital)	1 052 650	1 294 488
Subordinated liabilities classified as supplementary 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)	19 472	-
Equity exposures	(567 522)	(306 212)
Short-term equity (Tier 3 capital)	129 876	91 048
TOTAL EQUITY	16 938 039	12 389 193

Capital requirements (Pillar 1)

Since January 2008, the Bank calculates capital requirements in accordance with Resolution No. 1/2007 of the Banking Supervision Authority dated 13 March 2007 (since January 2009 Resolution No. 380/2008 of the Financial Supervision Authority dated 17 December 2008) (Basel II): in respect of credit risk – using the standardized approach; in respect of operational risk – for the year 2008 using the basic indicator approach, for the year 2009 standardized approach and in respect of market risk – using the basic approach.

The scale of the Bank'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.

An increase in the capital requirement in respect of credit risk resulted from a significant increase by 17% in the volume of loan portfolio in 2009.

The tables below show the Bank's exposure to credit risk and other types of risk. The amounts have been calculated in accordance with the so-called Basel II.

Capital requirements	31.12.2009	31.12.2008
Credit risk	8 303 240	7 462 777
credit risk (banking book)	8 228 968	7 300 610
counterparty risk (trading book)	74 272	162 167
Market risk	230 171	202 677
equity securities risk	2 390	1 069
specific risk of debt instruments	192 460	167 505
general risk of interest rates	35 321	34 103
Operational risk	957 102	1 156 386
Total capital requirements	9 490 513	8 821 840
Capital adequacy ratio	14.28%	11.24%

The Bank calculates capital requirements on account of credit risk according to the following formula:

- in case of statement of financial position items (instrument in the statement of financial position) – a product of a carrying amount, a risk weight of the exposure calculated according to the standardized method of credit risk requirement and 8% (considering collateral),
- in case of granted contingent liabilities and commitments – a product of nominal value of liability, a risk weight of the product, a risk weight of exposure calculated according to the standardized method of credit risk requirement and 8% (considering collateral),
- in case of off-balance sheet transactions (derivative instruments) – a product of risk weight of the exposure calculated according to the standardized method of credit risk requirement, equivalent in the statement of financial position of off-balance sheet transaction and 8% (the value of the equivalent in the statement of financial position is calculated in accordance with the mark-to-market method).

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 2009 is as follows:

Instrument type	Carrying amount	Risk - weighted value
Bank portfolio	147 511 239	93 144 737
Trading portfolio	6 136 240	1 424 857
Total instruments in the statement of financial position	153 647 479	94 569 594

Instrument type	Nominal value	Statement of financial position equivalent	Risk - weighted value
Bank portfolio	32 133 943	10 923 408	9 179 934
Trading portfolio	1 308 396	1 308 396	1 010 769
Total off-balance sheet instruments	33 442 339	12 231 804	10 190 703

Instrument type	Nominal value*	Statement of financial position equivalent	Risk - weighted value
Bank portfolio	47 224 887	1 643 096	537 420
Trading portfolio	134 243 449	1 948 488	928 404
Total derivative instruments	181 468 336	3 591 584	1 465 824

* the above nominal values for SBB and repo transactions constitute a difference between fair values of underlying assets, operations and amounts received or granted, for options the value of delta equivalent

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
Bank portfolio	126 734 745	81 947 341
Trading portfolio	4 510 082	1 449 027
Total instruments in the statement of financial position	131 244 827	83 396 368

Instrument type	Nominal value	Statement of financial position equivalent	Risk - weighted value
Bank portfolio	29 935 413	10 107 369	8 873 489
Trading portfolio	821 005	821 005	658 148
Total off-balance sheet instruments	30 756 418	10 928 374	9 531 637

Instrument type	Nominal value*	Statement of financial position equivalent	Risk - weighted value
Bank portfolio	44 127 146	1 616 891	436 796
Trading portfolio	195 001 018	3 929 604	2 027 089
Total derivative instruments	239 128 164	5 546 495	2 463 885

* the above nominal values for SBB and repo transactions constitute a difference between fair values of underlying assets, operations and amounts received or granted, for options the value of delta equivalent

Internal capital (Pillar 2)

Internal capital is designated in accordance with Resolution No 383/2008 of the Financial Supervision Authority of 17 December 2008 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 (Financial Supervision Authority's Journal of Laws 2008, No. 8, item 37).

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.

In 2009, the relation of the Bank's own funds to its internal capital remained on a safe level exceeding both the threshold set by the law and the Bank's internal limits.

The internal capital in PKO Bank Polski SA is intended to cover each of the significant risk types:

- 1) credit risk, including default risk
- 2) currency risk
- 3) interest rate risk
- 4) liquidity risk
- 5) operational risk;
- 6) business risk (including strategy risk and reputation risk).

The total internal capital of the Bank is the sum of internal capital amount necessary to cover all of the significant risks for the Bank.

The correlation coefficient for different types of risk and different companies of the Bank's 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.

Disclosures (Pillar 3)

In accordance with § 6 of Resolution 385/2008 of the Banking Supervision Authority of 17 December 2008, 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 (Banking Supervision Authority's Journal of Laws 2008, No. 8, item 39), 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 Bank Polski SA Capital Adequacy Information Policies, which are available on the Bank's website (www.pkobp.pl).

49. Influence of the global crisis on the Bank's results

The economic slowdown in Poland following a sharp economic downturn in the U.S. and in the euro zone, resulting from the crisis in international financial markets, had a significant impact on business and the financial situation of the Bank in 2009. In the first months of 2009, following a strong decrease in foreign demand, Polish export and domestic demand have fallen as well. The crisis in international financial markets resulted also in a strong decline in stock market indices, weakening of the zloty, and a significant reduction of liquidity in the interbank market. At the same time, the banking sector risk significantly increased. Those factors resulted in a limited access to funding and an increase in risk aversion leading to stricter bank's lending policies and pressure on deposits acquisition.

Anti-crisis measures taken by the developed countries resulted in gradual stabilization in global economy and in international financial markets. Those tendencies, along with favorable situation in Polish economy and banking sector before the crisis, with the support from the National Bank of Poland and Polish government, resulted in improvement in situation of Polish economy and the domestic financial market since the second quarter of 2009, and an increase in economic activity by the end of the year. Eventually, Polish economy proved to be the only one in the EU to observe a positive rate of economic growth. Moreover, there was a gradual improvement in the liquidity in the interbank market and liberalization of lending policies (since the fourth quarter of 2009). The stability of the banking sector and its growth potential increased due to the significant increase in capital base.

Macroeconomic situation described above proved the rightness of the measures taken by the Bank, which foundations are dynamic development of business activities based on a stable deposit and capital base as well as concern about efficiency of operations and effective cost control.

Taking into consideration the influence of macroeconomic situation on the Bank's clients, resulting in an increase in credit risk, the Bank applied conservative approach to risk and continued to create allowances on impairment. Their scale and structure reflects the influence of current macroeconomics on the Bank's financial statements.

The Bank's priority in 2009 was to elevate the share capital, sustain the strong capital position and stable deposit base that determine an increase in loan portfolio. As a consequence, in 2009 PKO Bank Polski SA conducted the biggest in the history of WSE share issuance with drawing rights for the then-current Bank's shareholders. The share issuance conducted in the second half of 2009 was successful and the Group gained over PLN 5 billion. The Bank intends to use the funding to finance the organic growth until the end of 2011. Following the current policy of loan portfolio growth, the Group will allocate 81% of the funding to an increase in lending action.

The high level of the Bank's own funds, as a result of share issuance and accumulated income, ensured the coverage for growing need for capital, resulting from an increase in lending action and enabled further, stable development of business activity.

The Bank achieved in 2009 positive financial results, including net interest income and net fee and commission income, increasing simultaneously its market share as a result of dynamic growth in deposit and loan portfolios.

On 24 February 2010 the Bank's Supervisory Board adopted the Strategy for PKO Bank Polski SA for the years 2010-2012, which aims at strengthening the leading position of the Group's parent company in all important market segments. The strategy assumes continuation of sustainable development, while maintaining stable profitability in line with shareholders' expectations and maintaining conservative risk management policy. The stable growth will be based on capital acquired from the share issuance and stable lending policy. The lending action will be financed mainly from the Bank's own deposit base. The strategy also assumes the synergy and utilization of the Group's full potential.

Due to the commitment made in the subsidiary KREDOBANK SA, the Bank is also exposed to effects typical of the Ukrainian market. Ukrainian banking sector was affected by the global financial crisis to a much greater extent than the Polish banking sector. Ukraine suffered from a deep recession, limitation of inflow of foreign capital and the depreciation of the Ukrainian hryvna. As a result, at the beginning of 2009, Ukraine was granted help from the International Monetary Fund granted to the countries experiencing problems with settlement of international liabilities. After the 50% devaluation of hryvna that took place at the turning of 2008 and 2009, the improvement in global financial markets, along with the support from the IMF and National Bank of Ukraine (NBU) resulted in stabilization of currency and by the end of 2009 a slight increase in the exchange rate of UAH. The persistent recession and the change in conditions of economic activity affected the operations of the Bank's subsidiary – KREDOBANK SA. In case of deeper recession and unfavorable change in conditions of economic activity, further allowances for KREDOBANK SA loan portfolio's impairment might need to be created.

PKO Bank Polski SA continues the efforts to ensure safe operations of KREDOBANK SA in conditions of financial crisis by, among others strengthening the supervision and monitoring of funds transferred from the Bank in the form of increase in capital and loans and advances granted, as well as monitoring regulatory requirements set by the National Bank of Ukraine.

50. Information on the entity authorised to audit financial statements

Entity authorised to audit financial statements with which PKO Bank Polski SA concluded an agreement is PricewaterhouseCoopers Sp. z o.o. The agreement concerns auditing the financial statements of PKO Bank Polski SA as well as auditing the consolidated financial statements of PKO Bank Polski SA Group. The above agreement was concluded on 12 May 2008.

Total net remuneration of PricewaterhouseCoopers Sp. z o.o. for the audit of the separate financial statements and consolidated financial statements of PKO Bank Polski SA amounted in 2009 to PLN 1 225 thousand (2008: PLN 342 thousand); total net remuneration of PricewaterhouseCoopers Sp. z o.o. for the certifying services, including the review of the financial statements amounted in 2009 to PLN 560 thousand (2008: PLN 781 thousand).

Total net remuneration of PricewaterhouseCoopers Sp. z o.o. related to rendering PKO Bank Polski SA other services amounted in 2009 to PLN 2 492 thousand (2008: PLN 131 thousand).

51. Events after the reporting period

On 27 January 2010, the Supervisory Board of PKO Bank Polski SA passed the resolution entrusting Jakub Papierski with the duties of the Vice-President of the Bank's Management Board as of 1 April 2010. In accordance with the appropriate resolutions, Jakub Papierski has been appointed with the duties described above in PKO Bank Polski SA for the joint term of the Board that began on 20 May 2008.

On 9 February 2010, PKO Bank Polski SA granted KREDOBANK SA a subordinated loan amounted to USD 15 million. The contract concerning the loan has been registered by the National Bank of Ukraine.

On 24 February 2010, PKO Bank Polski Supervisory Board accepted the strategy for the years 2010-2012. The strategy assumes that the Bank will remain a universal bank staying in line with Polish tradition, will reinforce its position of the leader in all important segments of the market, will continue the sustainable development and will focus on recognizing and meeting customers' needs with whom the Bank intends to build long-term relationship. Thanks to the enhanced operating activity, the Bank will improve substantially the quality of customer service. At the same time, the Bank will focus on sustaining stable profitability in accordance with shareholders' expectations and will run a conservative risk management policy. It will be perceived both as a safe bank and as a modern bank that staying in line with traditions.

On 26 February 2010, all the shares in possession of PKO BP Inwestycje Sp. z o.o., the subsidiary of PKO Bank Polski SA, comprising shares in the entity WISŁOK Inwestycje Sp. z o.o. changed its holder and became the property of the entity JEDYNKA SA with headquarters in Rzeszów due to the fact that all the criteria included in Contingent Agreement of Shares Sale dated from 23 November 2009 have been met.

On 26 February 2010, PKO Bank Polski SA transferred to KREDOBANK SA UAH 366 million related to the subscription for the new 20th share issue (1st stage of the subscription).

Signatures of all Members of the Management Board of the Bank

09.03.2010	Zbigniew Jagiełło	Acting President of the Board (signature)
09.03.2010	Bartosz Drabikowski	Vice-President of the Board (signature)
09.03.2010	Krzysztof Dresler	Vice-President of the Board (signature)
09.03.2010	Jarosław Myjak	Vice-President of the Board (signature)
09.03.2010	Wojciech Papierak	Vice-President of the Board (signature)
09.03.2010	Mariusz Zarzycki	Vice-President of the Board (signature)

Signature of person responsible for
maintaining the books of account

09.03.2010

Danuta Szymańska

Director of the Bank
(signature)