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**Independent registered auditor's opinion  
To the General Shareholders' Meeting and the Supervisory  
Board of Powszechna Kasa Oszczędności Bank Polski SA**

We have audited the accompanying consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski SA Group (hereinafter called "the Group"), of which Powszechna Kasa Oszczędności Bank Polski SA is the parent company (hereinafter called "the Parent Company"), with its registered office at 15 Puławska Street, in Warsaw, which comprise:

- (a) the consolidated statement of financial position as at 31 December 2009, showing total assets and total liabilities & equity of PLN 156,478,685 thousand;
- (b) the consolidated income statement for the period from 1 January to 31 December 2009, showing a net profit of PLN 2,311,784 thousand;
- (c) the consolidated statement of comprehensive income for the period from 1 January to 31 December 2009 showing a total net comprehensive income of PLN 2,401,214 thousand;
- (d) the consolidated statement of changes in equity for the period from 1 January to 31 December 2009, showing an increase in equity of PLN 6,437,854 thousand;
- (e) the consolidated statement of cash flows for the period from 1 January to 31 December 2009, showing a net increase in cash and cash equivalents of PLN 722,150 thousand;
- (f) additional information on adopted accounting policies and other explanatory notes.

The Management Board of the Parent Company is responsible for preparing the consolidated financial statements and a Directors' Report for the Group in accordance with the applicable regulations. Our responsibility was to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit in accordance with the following:

- (a) the provisions of Chapter 7 of the Accounting Act of 29 September 1994 (*Journal of Laws* of 2009, No. 152, item 1223 with subsequent amendments, hereinafter called "the Accounting Act");
- (b) knowledge and experience acquired from applying the previously effective auditing norms issued by the National Chamber of Registered Auditors;
- (c) International Standards on Auditing.

Our audit was planned and performed to obtain reasonable assurance that the consolidated financial statements were free of material misstatements and omissions. The audit included examining, on a test basis, accounting documents and entries supporting the amounts and disclosures in the consolidated financial statements. The audit also included an assessment of the accounting policies applied by the Group and significant estimates made in the preparation of the consolidated financial statements as well as an evaluation of the overall presentation thereof. We believe that our audit provided a reasonable basis for our opinion.

**Independent registered auditor's opinion  
To the General Shareholders' Meeting and the Supervisory Board of  
Powszechna Kasa Oszczędności Bank Polski SA (cont.)**

The information in the Group Directors' Report for the year ended 31 December 2009 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state ("the Decree" – Journal of Laws No. 33, item 259) and is consistent with the information presented in the audited consolidated financial statements.

In our opinion, and in all material respects, the accompanying consolidated financial statements:

- (a) have been prepared in accordance with the applicable accounting principles (policies) on the basis of properly maintained consolidation documentation;
- (b) comply in form and contents with the relevant laws applicable to the Group;
- (c) give a fair and clear view of the Group's financial position as at 31 December 2009 and of the results of its operations for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union.

Conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:

Antoni F. Reczek  
President of the Management Board of PricewaterhouseCoopers Sp. z o.o.  
Key Registered Auditor  
No. 90011

Warsaw, 10 March 2010

# **Powszechna Kasa Oszczędności Bank Polski SA Group**

**Independent Registered Auditor's Report  
on the consolidated financial statements as at and for the year  
ended 31 December 2009**

**Independent Registered Auditor's Report  
on the consolidated financial statements  
to the General Shareholders' Meeting and the Supervisory Board  
of Powszechna Kasa Oszczędności Bank Polski SA**

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# **Powszechna Kasa Oszczędności Bank Polski SA Group**

## **Independent Registered Auditor's report**

### **on the consolidated financial statements**

### **as at and for the year ended 31 December 2009**

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#### **I. General information about the Group**

- (a) Powszechna Kasa Oszczędności Bank Polski SA (the Parent Company, the Bank) was established in 1919 as Poczta Kasa Oszczędnościowa (Postal Savings Bank).

In 1950, the Bank started operating as Powszechna Kasa Oszczędności Bank Państwowy (state-owned bank). On 18 January 2000, on the basis of a Decree of the Council of Ministers, Powszechna Kasa Oszczędności Bank Państwowy was transformed into a joint-stock company wholly owned by the State Treasury, under the name of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna. On 12 April 2000, the Bank was entered in the Business Register maintained by the District Court for the City of Warsaw, Business Court, 16<sup>th</sup> Registration Division. Currently, the Bank is registered under the number KRS0000026438, and the District Court for the City of Warsaw, 13<sup>th</sup> Business Division of the National Court Register is the competent registration court.

On 14 June, 1993, the Parent Company was assigned a tax identification number (NIP) 525-000-77-38 for making tax settlements. On 18 April 2000, the Parent Company was assigned a REGON number 016298263 for statistical purposes.

- (b) As at 31 December 2009, the Parent Company's registered share capital amounted to PLN 1,250,000 thousand and consisted of 1,250,000,000 ordinary shares with PLN 1 par value each, including:
- 510,000,000 A-series registered shares;
  - 105,000,000 B-series bearer shares;
  - 385,000,000 C-series bearer shares;
  - 250,000,000 D-series bearer shares.
- (c) In the audited period, the Group's operations comprised i.a.:
- performing activities typical of a universal bank;
  - brokerage activities;
  - managing pension funds;
  - managing investment funds;
  - managing real estate;
  - services in the area of technical assistance for electronic banking;
  - services in the area of card transaction processing and settlement;
  - leasing.
- (d) During the year, the following people were on the Parent Company's Management Board:

Zbigniew Jagiełło	acting President of the Management Board	from 1 October 2009
Bartosz Drabikowski	Vice-President of the Management Board	throughout the year
Krzysztof Dresler	Vice-President of the Management Board	throughout the year
Jarosław Myjak	Vice-President of the Management Board	throughout the year
Wojciech Papierak	Vice-President of the Management Board	throughout the year
Mariusz Zarzycki	Vice-President of the Management Board	throughout the year
Jerzy Pruski	President of the Management Board	to 7 July 2009
Tomasz Mironczuk	Vice-President of the Management Board	to 7 July 2009

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**I. General information about the Group (cont.)**

(e) As at 31 December 2009, the Powszechna Kasa Oszczędności Bank Polski SA Group comprised the following entities:

Entity name	Nature of equity relationship (% shareholding)	Consolidation method	Auditor	Type of opinion	Balance date
Powszechna Kasa Oszczędności Bank Polski SA	Parent Company	n/a	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2009
Bankowe Towarzystwo Kapitałowe SA	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	During the audit	31 December 2009
Bankowy Fundusz Leasingowy SA	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	During the audit	31 December 2009
Centrum Elektronicznych Usług Płatniczych eService SA	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2009
Centrum Finansowe Puławska Sp. z o.o.	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2009
PKO BP Finat Sp. z o.o.	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2009
Fort Mokotów Inwestycje Sp. z o.o.	Subsidiary (99,99%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	n/a <sup>1</sup>	31 December 2009
Inteligo Financial Services SA	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2009
Kredobank SA	Subsidiary (99,49%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	During the audit	31 December 2009
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2009
PKO BP Inwestycje Sp. z o.o.	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	During the audit	31 December 2009
PKO Finance AB	Subsidiary (100%)	Full	Öhrlings Pricewaterhouse-Coopers AB	Unqualified opinion	31 December 2009
PKO Towarzystwo Funduszy Inwestycyjnych SA	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2009

and subsidiaries of Bankowe Towarzystwo Kapitałowe SA, Bankowy Fundusz Leasingowy SA, Inteligo Financial Services SA oraz PKO BP Inwestycje Sp. z o.o.

<sup>1</sup> The audit was conducted on the basis of the consolidation documentation.

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**I. General information about the Group (cont.)**

Key financial data of the companies consolidated as at and for the year ended 31 December 2009 are as follows:

Entity name	Total assets PLN thousand	Total income PLN thousand	Equity PLN thousand	Net profit PLN thousand
Powszechna Kasa Oszczędności Bank Polski SA	153,647,479	12,911,218	20,179,517	2,432,152
Bankowy Fundusz Leasingowy SA	2,479,646	219,851	90,084	3,184
Kredobank SA	1,934,378	384,248	232,124	(190,192)
PKO BP Inwestycje Sp. z o.o.	644,569	176,763	179,523	(6,623)
Centrum Finansowe Puławska Sp. z o.o.	290,955	49,286	210,871	12,491
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	255,742	75,334	225,483	23,619
Inteligo Financial Services SA	178,496	91,842	136,072	13,473
Centrum Elektronicznych Usług Płatniczych eService SA	113,055	172,311	90,203	31,981
PKO Towarzystwo Funduszy Inwestycyjnych SA	109,627	251,169	86,512	60,850
Fort Mokotów Inwestycje Sp. z o.o.	107,102	3	105,871	(602)
Bankowe Towarzystwo Kapitałowe SA	24,028	1,132	9,564	(4,693)
PKO Finance AB	411	234	359	63
<b>Total</b>	<b>159,785,488</b>	<b>14,333,391</b>	<b>21,546,183</b>	<b>2,375,703</b>
Consolidation adjustments	(3,306,803)	(406,031)	(1,110,313)	(63,919)
<b>Total</b>	<b>156,478,685</b>	<b>13,927,360</b>	<b>20,435,870</b>	<b>2,311,784</b>

(f) The Parent Company owned also the following jointly controlled entities and associates valued using the equity method:

Centrum Haffnera Sp. z o.o.	-	jointly controlled entity
Centrum Obsługi Biznesu Sp. z o.o	-	jointly controlled entity
Agencja Inwestycyjna CORP SA	-	associate
Bank Pocztowy SA	-	associate
Kolej Gondolowa Jaworzyna Krynicka SA	-	associate
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	associate

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**I. General information about the Group (cont.)**

- (g) The Parent Company is an issuer of securities admitted to trading on the Warsaw Stock Exchange and in accordance with the Accounting Act it prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

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**II. Information about the audit**

- (a) PricewaterhouseCoopers Sp. z o.o. was appointed a registered auditor to the Group by Resolution No. 26/2008 of the Supervisory Board passed on 17 April 2008, in accordance with section 15, subsection 1, item 3 of the Parent Company's Memorandum of Association.
- (b) PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the Group entities within the meaning of art. 56, clause 2-4 of the Act on registered auditors and their council, entities entitled to provide audit of financial statements and public supervision of 7 May 2009 (Journal of Laws 2009, No. 77, item 649).
- (c) The audit was conducted in accordance with an agreement signed on 12 May 2008, in the following periods:
- Interim audit                      from 12 October to 11 December 2009;
  - Final audit                              from 11 January to 10 March 2010.

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### **III. The Group's results and financial position**

The following comments are based on information obtained during the audit of the consolidated financial statements:

The consolidated financial statements do not take account of inflation. The consumer price index (on a December to December basis) amounted to 3,5% in the audited year (3,3% in 2008).

Powszechna Kasa Oszczędności Bank Polski SA is the parent company of the Group which, in the audited year, comprised 11 direct subsidiaries and 11 indirect subsidiaries. The financial data of 4 direct associates and 2 jointly controlled entities have been presented in the consolidated financial statements under the equity accounting method. In the year preceding the audited year, the Group consisted of 10 direct subsidiaries and 10 indirect subsidiaries; the data of 5 direct associates and 2 indirect associates and the data of 2 jointly controlled entities were presented in the consolidated financial statements under the equity accounting method.

- As at 31 December 2009, the Group's total assets amounted to PLN 156,478,685 thousand and were PLN 21,842,699 thousand (i.e. 16%) higher than as at 31 December 2008.
- This increase was financed mainly with an increase in amounts due to customers of PLN 22,133,653 thousand, (i.e. 22%) as a result of an increase in deposits and equity of PLN 6,437,854 thousand (i.e. 46%) as a result of the Parent Company issuing shares and a simultaneous decrease in losses on valuation of derivatives of PLN 4,605,967 thousand (i.e. 75%) and the balance of amounts due to other banks of PLN 1,842,555 thousand (i.e. 26%).
- In 2009, assets were financed mainly with amounts due to customers (similarly to the prior year). As at the balance date, amounts due to customers amounted to PLN 125,072,934 thousand and represented 80% of total liabilities and equity (an increase of 3 p.p. compared with the balance as at 31 December 2008). The change in amounts due to customers was mainly the effect of a significant increase in amounts due to individuals (an increase of PLN 11,234,595 thousand, i.e. 15% compared with the balance as at 31 December 2008) and business entities (an increase of PLN 8,501,645 thousand, i.e. 44% compared with the balance as at 31 December 2008) (see Note 14).
- Amounts due to other banks amounted to PLN 5,146,048 thousand as at the balance date and comprised mainly the syndicated loan received by the Bank in Swiss francs, the value of which in the Polish currency amounted to PLN 2,621,791 thousand (PLN 2,656,004 thousand as at 31 December 2008) and loans from other banks received by the Bankowy Fundusz Leasingowy Group of PLN 894,030 thousand (PLN 1,226,302 thousand as at 31 December 2008). The drop in the total balance of PLN 1,842,555 thousand (i.e. 26%) compared with the balance as at 31 December 2008 resulted mainly from a decrease in the balance of other banks' deposits – a change of PLN 1,435,742 thousand (i.e. 51%) (see Note 13).

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**III. The Group's results and financial position (cont.)**

- As at 31 December 2009, liabilities in respect of losses on valuation of derivative financial instruments amounted to PLN 1,544,370 thousand (PLN 6,150,337 thousand as at 31 December 2008). The drop in the balance as at the balance date was mainly the result of a decrease in the volume of transactions concluded and lower exchange rates compared with the end of 2008 (see Note 4).
- The balance of subordinated debt issued amounted to PLN 1,612,178 thousand as at the balance date (PLN 1,618,755 thousand as at 31 December 2008) and related to the valuation of bonds issued by the Bank in 2007 in the nominal value of PLN 1,600,700 thousand (see Note 16).
- The value of consolidated equity as at 31 December 2009 amounted to PLN 20,435,870 thousand (PLN 13,998,016 thousand as at 31 December 2008). The increase in the balance of PLN 6,437,854 thousand (i.e. 46%) was mainly impacted by the increase in the share capital of PLN 250,000 thousand in 2009 and a transfer of funds to the supplementary capital from share premium (PLN 4,831,125 thousand). At the same time, the Parent Company decided to earmark PLN 1,000,000 thousand from the profit for 2008 for the payment of dividend. The remaining portion of the profit for 2008 was earmarked for an increase in other reserves (PLN 1,881,260 thousand) (see Note 19).
- As at 31 December 2009, the value of regulatory capital amounted to PLN 17,865,344 thousand (PLN 12,885,283 thousand as at 31 December 2008) and was PLN 8,116,012 thousand higher than the total capital requirement (PLN 9,749,332 thousand as at the end of 2009). The capital adequacy ratio calculated as at the balance date on the basis of the banking and trading portfolios amounted to 14.66% and increased by 3.37 p.p. compared with the end of the prior year.
- Higher level of financing was reflected mainly in the increase in the balance of loans and advances to customers as at the balance date – an increase of PLN 15,464,694 thousand (i.e. 15%) and in financial instruments designated at fair value through profit and loss – a change of PLN 7,805,146 thousand (i.e. 171%). As at the balance date, those balances amounted to PLN 116,572,585 thousand and PLN 12,360,690 thousand respectively.
- As at the balance date, loans and advances to customers comprised 75% of the total assets (no change compared with the end of 2008). The gross value of the loan portfolio as at 31 December 2009 amounted to PLN 120,509,709 thousand and increased by PLN 16,483,942 thousand (i.e. 16%) compared with the balance as at 31 December 2008. This increase was mainly the result of an increase in the balance of mortgage loans and corporate loans granted to customers from the non-financial sector (of PLN 6,735,843 thousand, i.e. 15% and PLN 4,911,122 thousand, i.e. 15%) respectively (see Note 6).

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**III. The Group's results and financial position (cont.)**

- The quality of the Group's loans and advances and lease receivables portfolio measured with the share of impaired loans to the total loans and advances balance as at the balance date deteriorated compared with the end of 2008. As at 31 December 2009, the share of impaired loans in the total loans and advances balance increased by 4.0 p.p. and amounted to 7.6%. At the same time, the ratio of coverage of the impaired loan receivables with impairment allowances amounted to 36.6% as at 31 December 2009 and dropped by 21,3 p.p. compared with the end of the prior year. These changes were influenced by the Bank's extending the range of individual impairment indicators. If the range of individual loan impairment indicators had not been extended, as at 31 December 2009 the ratio would have amounted to 4.8% and would have been 1.2 p.p. higher than as at the end of 2008. Similarly, the coverage of impaired loans with impairment allowances would have amounted to 58.2% and would have been 0,3 p.p. higher than as at the end of 2008. The deterioration in the quality of the loan portfolio was mainly due to deterioration in the economic and financial standing of the borrowers.
- The balance of financial instruments designated at fair value through profit and loss amounted to PLN 12,360,690 thousand as at the balance date. An increase in the balance (of PLN 7,805,146 thousand, i.e. 171%) resulted mainly from the Bank's exposure to NBP bills – the balance of the item as at 31 December 2009 amounted to PLN 6,994,218 thousand (there was no exposure as at 31 December 2008) and an increase in exposure to State Treasury debt securities of PLN 988,693 thousand (i.e. 23%) (see Note 5).
- The balance of available-for-sale investment securities amounted to PLN 7,944,317 thousand as at the balance date and was PLN 670,596 thousand (i.e. 8%) lower than the balance as at the end of 2008. The decrease related mainly to NBP bonds (a decrease of PLN 2,673,729 thousand, i.e. 100%) in the Bank's portfolio and was partly offset by an increase in the Bank's exposure to Treasury bills and bonds – an increase of PLN 1,466,284 PLN, i.e. 42% (see Note 7).
- The balance of liquid assets of the Group, comprising cash and balances with the central bank, amounts due from banks, financial assets held for trading and derivative financial instruments dropped in total by PLN 934,826 thousand (i.e. 7%) as at the balance date, which was mainly the result of a decrease in amounts due from banks and lower gains on valuation of derivative instruments than last year, which was partly offset with an increase in cash and balances with the central bank (see Notes 1-4).
- The Group's 1-month and 3-month cumulative adjusted liquidity gaps calculated on the basis of data on assets receivable and liabilities payable adjusted to reflect actual maturities amounted to PLN 22,543,741 thousand and PLN 18,934,151 thousand respectively (PLN 10,278,524 thousand and 6,899,132 thousand as at the end of 2008).
- The share of interest-bearing assets in total assets increased by 2.1 p.p. compared with the balance as at 31 December 2008 and amounted to 93.1% as at the end of 2009.

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**III. The Group's results and financial position (cont.)**

- The operating profit for 2009 amounted to PLN 2,942,928 thousand and was PLN 1,018,821 thousand (i.e. 26%) lower than in 2008. This was mainly a result of the following: net interest income of PLN 5,051,182 thousand, net fee and commission income of PLN 2,583,003 thousand and net foreign exchange gains of PLN 909,139 thousand and other operating costs at the amount of PLN 584,949 thousand. At the same time, in 2009 the operating profit was decreased by administrative expenses of PLN 4,243,835 thousand and net impairment allowance of PLN 1,681,075 thousand.
- The Group's net interest income in 2009 amounted to PLN 5,051,182 thousand and was PLN 1,076,133 thousand (i.e. 18%) lower than in 2008. The main reason for the drop were higher interest expenses on amounts due to customers and on loans received from banks (of PLN 1,075,110 thousand, i.e. 40%) resulting from the fact that interest on deposits offered by the Bank had to be competitive. In 2009, the interest margin calculated as the ratio of net interest income to interest income dropped by 12 p.p. compared with 2008 and amounted to 56% (see Note 21). The ratio of interest income on interest-bearing assets was also lower than in 2008 and amounted to 6.7% in 2009 (a drop of 1.4 p.p.). On the other hand, the cost of borrowings increased (from 2.8% in 2008 to 3.3% in 2009).
- In 2009, net fee and commission income was higher than in 2008 and amounted to PLN 2,583,003 thousand (an increase of PLN 171,194 thousand, i.e. 7%). Compared with 2008, fee and commission income increased by PLN 190,587 thousand (a 6% increase to PLN 3,335,347 thousand), mainly due to insurance on loans, payment cards and servicing bank accounts. At the same time, fee and commission expenses increased by PLN 19,393 thousand (i.e. 3%) to PLN 752,344 thousand (Note 22).
- In the audited year, net foreign exchange gains amounted to PLN 909,139 thousand and were PLN 207,814 thousand (i.e. 30%) higher than in 2008. Net foreign exchange gains comprise the total of foreign exchange gains net of foreign exchange losses in the amount of PLN 2,712,617 thousand on financial instruments designated at fair value through profit and loss (PLN 2,245,016 thousand of net foreign exchange losses in 2008), and losses on valuation of other assets and liabilities and realized foreign exchange differences of PLN 1,803,478 thousand (gains of PLN 2,946,341 thousand in 2008).
- In 2009, net impairment allowance amounted to PLN 1,681,075 thousand (PLN 1,130,396 thousand in 2008). The increase in the net allowance charge (recognized in the income statement) related mainly to consumer and mortgage loans granted to customers – an increase of PLN 395,623 thousand, i.e. 93% and PLN 150,698 thousand, i.e. 151% respectively (see Note 26).

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**III. The Group's results and financial position (cont.)**

- In 2009, administrative expenses were PLN 52,440 thousand (i.e. 1%) lower than in the prior year and amounted to PLN 4,243,835 thousand. Limiting employee benefits by PLN 121,880 thousand (i.e. 5%) to PLN 2,307,514 thousand (see Note 27) had the largest impact on the drop. The overall effectiveness of operations calculated as the ratio of costs to income (C/I ratio) deteriorated in 2009 (the ratio increased by 2.1 p.p. to 47.9%). The adverse change in this ratio was caused mainly by lower net interest income than in 2008.
- Gross profitability (measured as the profit before tax to total revenues) amounted to 21.1% in the audited year, and dropped by 8.4 p.p. compared with the prior year.
- In 2009 the tax charge amounted to PLN 631,486 thousand (PLN 838,156 thousand in 2008). The effective income tax rate in 2009 amounted to 21.5% and was 0.4 p.p. higher than in 2008.
- As a result, in 2009, the Group earned a net profit of PLN 2,311,784 thousand, which was PLN 827,403 thousand (i.e. 26%) lower than in 2008. Net profitability (calculated as the net profit to total income) amounted to 16.6% in 2009 (23.3% in 2008).
- Return on assets (calculated as the ratio of net profit to average total assets) amounted to 1.6% in 2009 and dropped by 1.0 p.p. compared with 2008. In the audited year, return on equity amounted to 13.4% and was 10.8 p.p. lower than in 2008.

The consolidated financial statements have been prepared on the going concern basis.

**Powszechna Kasa Oszczędności Bank Polski SA Group**  
**Independent Registered Auditor's report on the consolidated financial statements**  
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**IV. Discussion of consolidated financial statement components**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2009**

ASSETS	Note	31.12.2009	31.12.2008	Change	Change	31.12.2009	31.12.2008
		PLN'000	PLN'000	PLN'000	(%)	Structure (%)	Structure (%)
Cash and balances with the central bank	1	7,094,350	5,836,892	1,257,458	22	5	4
Amounts due from banks	2	2,023,055	3,363,599	(1,340,544)	(40)	1	3
Trading assets	3	2,212,955	1,496,147	716,808	48	2	1
Derivative financial instruments	4	2,029,122	3,597,670	(1,568,548)	(44)	1	3
Financial instruments designated at fair value through profit and loss	5	12,360,690	4,555,544	7,805,146	171	8	3
Loans and advances to customers	6	116,572,585	101,107,891	15,464,694	15	75	75
Investment securities - available for sale	7	7,944,317	8,614,913	(670,596)	(8)	5	6
Securities held to maturity		9,894	-	9,894	-	-	-
Investments in associates and jointly-controlled entities	8	228,692	247,145	(18,453)	(7)	-	-
Non-current assets held for sale		13,851	-	13,851	-	-	-
Inventories	9	653,075	622,410	30,665	5	-	1
Intangible assets	10	1,572,577	1,352,778	219,799	16	1	1
Tangible fixed assets	11	2,777,694	2,964,659	(186,965)	(6)	2	2
Current income tax receivables	28	7,184	6,649	535	8	-	-
Deferred income tax asset	28	403,218	239,237	163,981	69	-	-
Other assets	12	575,426	630,452	(55,026)	(9)	-	1
<b>Total assets</b>		<b>156,478,685</b>	<b>134,635,986</b>	<b>21,842,699</b>	<b>16</b>	<b>100</b>	<b>100</b>

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**IV. Discussion of consolidated financial statement components (cont.)**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2009 (cont.)**

EQUITY AND LIABILITIES	Note	31.12.2009	31.12.2008	Change	Change	31.12.2009	31.12.2008
		PLN'000	PLN'000	PLN'000	(%)	Structure (%)	Structure (%)
Amounts due to central bank		6,581	2,816	3,765	134	-	-
Amounts due to other banks	13	5,146,048	6,988,603	(1,842,555)	(26)	4	5
Derivative financial instruments	4	1,544,370	6,150,337	(4,605,967)	(75)	1	5
Amounts due to customers	14	125,072,934	102,939,281	22,133,653	22	80	77
Debt securities in issue	15	289,360	211,573	77,787	37	-	-
Subordinated liabilities	16	1,612,178	1,618,755	(6,577)	-	1	1
Other liabilities	17	1,566,623	1,667,776	(101,153)	(6)	1	1
Current income tax liabilities	28	181,893	472,228	(290,335)	(61)	-	-
Deferred income tax liability	28	20,534	20,585	(51)	-	-	-
Provisions	18	602,294	566,016	36,278	6	-	-
<b>Total liabilities</b>		<b>136,042,815</b>	<b>120,637,970</b>	<b>15,404,845</b>	<b>13</b>	<b>87</b>	<b>89</b>
Share capital		1,250,000	1,000,000	250,000	25	1	1
Other capital		16,732,988	9,835,307	6,897,681	70	11	7
Currency translation differences from foreign operations		(108,791)	(57,413)	(51,378)	89	-	-
Retained earnings		248,806	53,232	195,574	367	-	-
Net profit for the period		2,305,538	3,120,674	(815,136)	(26)	1	3
<b>Capital and reserves attributable to equity holders of the parent company</b>		<b>20,428,541</b>	<b>13,951,800</b>	<b>6,476,741</b>	<b>46</b>	<b>13</b>	<b>11</b>
Minority interest		7,329	46,216	(38,887)	(84)	-	-
<b>Equity</b>	19	<b>20,435,870</b>	<b>13,998,016</b>	<b>6,437,854</b>	<b>46</b>	<b>13</b>	<b>11</b>
<b>Total equity and liabilities</b>		<b>156,478,685</b>	<b>134,635,986</b>	<b>21,842,699</b>	<b>16</b>	<b>100</b>	<b>100</b>

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**IV. Discussion of consolidated financial statement components (cont.)**

**CONSOLIDATED INCOME STATEMENT**  
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		2009	2008	Change	Change	2009	2008
	Note	PLN'000	PLN'000	PLN'000	(%)	Structure (%)	Structure (%)
Interest and similar income		9,031,330	9,033,781	(2,451)	-	65	67
Interest expense and similar charges		(3,980,148)	(2,906,466)	(1,073,682)	37	36	31
<b>Net interest income</b>	<b>21</b>	<b>5,051,182</b>	<b>6,127,315</b>	<b>(1,076,133)</b>	<b>(18)</b>		
Fee and commission income		3,335,347	3,144,760	190,587	6	24	23
Fee and commission expense		(752,344)	(732,951)	(19,393)	3	7	8
<b>Net fee and commission income</b>	<b>22</b>	<b>2,583,003</b>	<b>2,411,809</b>	<b>171,194</b>	<b>7</b>		
Dividend income		5,381	21,956	(16,575)	(75)	-	-
Net income from financial instruments designated at fair value		60,872	(162,697)	223,569	(137)	-	2
Losses less gains from investment securities		(2,622)	(2,986)	364	(12)	-	-
Net foreign exchange gains	23	909,139	701,325	207,814	30	7	6
Other operating income	24	584,949	522,425	62,524	12	4	4
Other operating expenses	25	(324,066)	(230,727)	(93,339)	40	3	2
Net impairment allowance charge	26	(1,681,075)	(1,130,396)	(550,679)	49	15	12
Administrative expenses	27	(4,243,835)	(4,296,275)	52,440	(1)	38	45
<b>Operating profit</b>		<b>2,942,928</b>	<b>3,961,749</b>	<b>(1,018,821)</b>	<b>(26)</b>		
Share in profits/ (losses) of associates and jointly-controlled entities		342	15,594	(15,252)	(98)	-	-
<b>Profit before income tax</b>		<b>2,943,270</b>	<b>3,977,343</b>	<b>(1,034,073)</b>	<b>(26)</b>		

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**IV. Discussion of consolidated financial statement components (cont.)**

**CONSOLIDATED INCOME STATEMENT**  
**for the year ended 31 December 2009 (cont.)**

		2009	2008	Change	Change	2009	2008
	Note	PLN'000	PLN'000	PLN'000	(%)	Structure (%)	Structure (%)
<b>Profit before tax</b>		<b>2,943,270</b>	<b>3,977,343</b>	<b>(1,034,073)</b>	<b>(26)</b>		
Income tax expense	28	(631,486)	(838,156)	206,670	(25)		
<b>Net profit (including minority interest)</b>		<b>2,311,784</b>	<b>3,139,187</b>	<b>(827,403)</b>	<b>(26)</b>		
Net profit attributable to minority interest		(6,246)	(18,513)	12,267	(66)		
<b>Net profit attributable to the Parent Company</b>		<b>2,305,538</b>	<b>3,120,674</b>	<b>(815,136)</b>	<b>(26)</b>		
Total income		13,927,360	13,439,841	487,519	4	100	100
Total expenses		(10,984,090)	(9,462,498)	(1,521,592)	16	100	100
<b>Profit before tax</b>		<b>2,943,270</b>	<b>3,977,343</b>	<b>(1,034,073)</b>	<b>(26)</b>		

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**IV. Discussion of consolidated financial statement components (cont.)**

**Selected ratios characterising the Group's financial position and results**

The following ratios characterize the Group's activities, results of operations during the audited year and its financial position as at the balance date compared with prior years (1):

	<b>2009</b>	<b>2008</b>
<b>Profitability ratios</b>		
Gross profitability (profit before tax/total income)	21.1%	29.5%
Net profitability (net profit / total income)	16.6%	23.3%
Return on equity (net profit /average net assets) (2)	13.4%	24.2%
Return on assets (net profit /average total assets) (2)	1.6%	2.6%
Profitability ratio on interest-bearing assets (interest income / average interest-bearing assets) (2)	6.7%	8.1%
Cost / income ratio (total administrative expenses / profit on banking activities) (3)	47.9%	45.8%
Cost of borrowings (interest expense / average interest-bearing liabilities) (2)	3.3%	2.8%
<b>Quality of assets ratios</b>		
Interest-bearing assets to total assets (4)	93.1%	91.0%
Impaired loans to total gross loans and advances to customers	7.6%	3.6%
Impairment allowances on impaired loans and advances to customers	36.7%	57.6%
<b>Liquidity ratios</b>		
1-month cumulative adjusted gap (PLN'000) (5)	22,543,741	10,278,524
3-month cumulative adjusted gap (PLN'000) (5)	18,934,151	6,899,132
<b>Other ratios</b>		
Capital adequacy ratio	14.66%	11.29%
Equity (PLN'000)	17,865,344	12,885,283
Total capital requirement (PLN'000)	9,749,332	9,126,735

(1) The values of the individual ratios may differ from the values presented in the consolidated financial statements due to a different method of calculation being applied.

(2) The average balances of financial statements items were calculated on the basis of the balances of individual items at the beginning and at the end of the audited and prior financial year.

(3) The result on banking activities defined as the operating result less the Group's operating expenses and net impairment allowance.

(4) Interest-bearing assets defined as balances with the central bank net of cash, amounts due from banks and from customers and securities held for trading.

(5) Liquidity ratios relate to the Parent Company and account for the ratio of assets and liabilities falling due adjusted by real maturity as at the balance date.

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**IV. Discussion of consolidated financial statement components**

**Consolidated statement of financial position as at 31 December 2009**

**1. Cash and balances with the central bank**

As at 31 December 2009 cash and balances with the central bank amounted to PLN 7,094,350 thousand (PLN 5,836,892 thousand as at the end of 2008), of which 99% (PLN 6,993,966 thousand) related to the Bank. More than one-half of the total balance (PLN 4,625,073 thousand) comprised funds maintained by the Bank in the account with the National Bank of Poland (PLN 3,419,832 thousand as at 31 December 2008).

As at the balance date, the Bank calculated and maintained a mandatory reserve in accordance with Resolution No. 15/2004 of the Management Board of the National Bank of Poland dated 13 April 2004 on the terms and procedures for calculating and maintaining mandatory reserves by banks. The declared mandatory reserve with the NBP to be held in December 2009 amounted to PLN 3,491,459 thousand (PLN 3,519,554 thousand in December 2008).

**2. Amounts due from banks**

As at the balance date, the balance of amounts due from banks was PLN 2,023,055 thousand, of which PLN 1,731,194 thousand (i.e. 86%) related to the Bank (PLN 3,222,451 thousand, i.e. 96% as at 31 December 2008). The balance of amounts due from banks and respective changes in balances as at particular balance dates are shown in the table below:

	<b>31.12.2009</b>	<b>31.12.2008</b>	<b>Change</b>	<b>Change</b>
	<b>PLN'000</b>	<b>PLN'000</b>	<b>PLN'000</b>	<b>(%)</b>
Deposits with other banks	1,160,377	2,106,309	(945,932)	(45)
Current accounts	617,388	383,847	233,541	61
Loans and advances granted	134,365	262,408	(128,043)	(49)
Reverse repo transactions	105,427	603,200	(497,773)	(83)
Receivables due from unsettled transactions	27,013	28,067	(1,054)	(4)
Cash in transit	5,594	7,879	(2,285)	(29)
<b>Total</b>	<b>2,050,164</b>	<b>3,391,710</b>	<b>(1,341,546)</b>	<b>(40)</b>
Impairment allowances	(27,109)	(28,111)	1,002	(4)
<b>Total net</b>	<b>2,023,055</b>	<b>3,363,599</b>	<b>(1,340,544)</b>	<b>(40)</b>

Compared with the balance as at 31 December 2008, the decrease in amounts due from banks (of PLN 1,340,544 thousand, i.e. 40%) was mainly due to a decrease in the balance of deposits with other banks (a drop of PLN 945,932 thousand, i.e. 45%) and a decrease in exposure to reverse repo transactions (a drop of PLN 497,773 thousand, i.e. 83%), which were partly offset by an increase in the balance of current accounts (an increase of PLN 233,541 thousand, i.e. 61%).

As at the balance date, receivables denominated in foreign currencies amounted to the equivalent of PLN 1,790,545 thousand, i.e. 87% of the balance (PLN 2,300,092 thousand, i.e. 68% of the balance as at 31 December 2008).

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**IV. Discussion of consolidated financial statement components (cont.)**

**2. Amounts due from banks (cont.)**

The balance of deposits with other banks comprised mainly funds deposited with banks with ratings exceeding A- according to S&P and Fitch of PLN 1,641,846 thousand, i.e. 83% (PLN 2,208,106 thousand, i.e. 66% as at 31 December 2008).

The total impairment allowance on receivables of PLN 27,013 thousand (PLN 28,067 thousand as at 31 December 2008) related to receivables from unsettled transactions in derivatives which have been declared due.

**3. Trading assets**

Trading assets amounted to PLN 2,212,955 thousand as at 31 December 2009 and related exclusively to the Bank (similarly as at 31 December 2008). This item comprised the following assets:

	<b>31.12.2009</b>	<b>31.12.2008</b>	<b>Change</b>	<b>Change</b>
	<b>PLN'000</b>	<b>PLN'000</b>	<b>PLN'000</b>	<b>(%)</b>
Treasury bonds (PLN)	1,810,340	699,119	1,111,221	159
Treasury bills	388,500	772,803	(384,303)	(50)
Treasury bonds (EUR)	-	19,476	(19,476)	(100)
Other	14,115	4,749	9,366	197
<b>Total</b>	<b>2,212,955</b>	<b>1,496,147</b>	<b>716,808</b>	<b>48</b>

The increase in the value of trading assets of PLN 716,808 thousand (i.e. 48%) as at the balance date was mainly due to the increase in the Bank's exposure to Treasury bonds (PLN), which was accompanied by a decrease in the exposure to Treasury bills. A particularly significant increase in the value of Treasury bonds in the portfolio of trading assets took place in September 2009 – an increase of PLN 655,454 thousand in relation to August 2009.

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**IV. Discussion of consolidated financial statement components (cont.)**

**4. Derivative financial instruments**

The balance of receivables arising on the valuation of derivative instruments decreased by PLN 1,568,548 thousand (i.e. 44%) compared with 2008 and as at 31 December 2009 amounted to PLN 2,029,122 thousand. The balance of liabilities arising on the valuation of derivative instruments amounted to PLN 1,544,370 thousand and decreased by PLN 4,605,967 thousand (i.e. 75%) compared with the end of 2008. The Bank's share in both items was close to 100% and comprised valuations of the following transactions:

	<b>31.12.2009</b> <b>Assets</b> <b>PLN'000</b>	<b>31.12.2009</b> <b>Liabilities</b> <b>PLN'000</b>	<b>31.12.2008</b> <b>Assets</b> <b>PLN'000</b>	<b>31.12.2008</b> <b>Liabilities</b> <b>PLN'000</b>
Interest Rate Swaps	1,716,740	1,338,133	2,784,337	5,070,104
- including CIRS	402,221	33,699	56,289	2,391,272
Foreign exchange and equity options	198,159	127,847	574,434	585,414
Forex forwards	114,223	76,530	226,706	494,759
Other	-	1,860	12,193	60
<b>Total</b>	<b>2,029,122</b>	<b>1,544,370</b>	<b>3,597,670</b>	<b>6,150,337</b>

Changes in the above balances as at 31 December 2009 compared with the balance as at 31 December 2008 are shown in the table below:

	<b>Change</b> <b>Assets</b> <b>PLN'000</b>	<b>Change</b> <b>Assets</b> <b>%</b>	<b>Change</b> <b>Liabilities</b> <b>PLN'000</b>	<b>Change</b> <b>Liabilities</b> <b>%</b>
Interest Rate Swaps	(1,067,597)	(38)	(3,731,971)	(74)
- including CIRS	345,932	615	(2,357,573)	(99)
Foreign exchange and equity options	(376,275)	(66)	(457,567)	(78)
Forex forwards	(112,483)	(50)	(418,229)	(85)
Other	(12,193)	(100)	1,800	3,000
<b>Total</b>	<b>(1,568,548)</b>	<b>(44)</b>	<b>(4,605,967)</b>	<b>(75)</b>

In 2009, the balance of both receivables and liabilities arising on the valuation of derivative transactions dropped significantly. With reference to foreign currency and equity options and forex forwards the change resulted mainly from the customers' lower activity on the derivative transactions market.

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**IV. Discussion of consolidated financial statement components (cont.)**

**4. Derivative financial instruments (cont.)**

A significant decrease in liabilities arising on CIRS transactions resulted mainly from stabilization on the foreign exchange market compared with the end of 2008 and restoring foreign exchange market liquidity (especially in respect of CHF) which resulted in a significant reduction in base margins taken into account in the CIRS valuation model.

The valuation of derivative transactions as at the balance date accounts for fair value valuation in respect of counterparty credit risk of PLN 6,463 thousand (a drop of PLN 108,985 thousand compared with the balance as at 31 December 2008).

In 2009, the Bank for the first time applied macro cash flow hedge accounting in accordance with IAS 39 F6.2 - F6.3. As at the balance date, the following hedge relationships were set up:

- hedges against fluctuations in cash flows from foreign currency mortgage loans (CHF) and negotiated term deposits (PLN) following from the risk of fluctuations in interest rates and foreign exchange rates. The hedging instrument designated by the Bank to hedge this risk is the portfolio of basis swap (CIRS) transactions with a nominal value of CHF 5,600,000 thousand;
- hedges against fluctuations in cash flows from variable interest rate loans (PLN) following from fluctuations in interest rates. The Bank hedges this risk using four IRS contract with a nominal value of PLN 430,000 thousand.

In accordance with the Bank's accounting policies the hedging derivative transactions were deconstructed to be valued which had an impact on the following items:

- foreign exchange differences on revaluation of the nominal value – net foreign exchange gains;
- interest accrued as at the balance date – net interest income;
- mark to market (MTM) – revaluation reserve and net income on financial instruments designated at fair value through profit and loss (in respect of the ineffective portion).

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**IV. Discussion of consolidated financial statement components (cont.)**

**4. Derivative financial instruments (cont.)**

As at the balance date, the net valuation of CIRS transactions designated for hedge accounting amounted to PLN 319,432 thousand:

	<b>Assets</b> <b>31.12.2009</b> <b>PLN'000</b>	<b>Liabilities</b> <b>31.12.2009</b> <b>PLN'000</b>	<b>Net</b> <b>31.12.2009</b> <b>PLN'000</b>
<b>Mark-to-market, including:</b>	<b>220,180</b>	<b>19,953</b>	<b>200,227</b>
- MTM until the introduction of hedge accounting (net gains/(losses) on financial instruments measured at fair value)	145,777	108,943	36,834
- MTM from the date of introduction of hedge accounting (revaluation reserve)	74,403	(88,990)	163,393
Foreign exchange differences on revaluation of the nominal value (net foreign exchange gains/(losses))	53,790	7,515	46,275
Accrued interest (net interest income/(expenses))	70,681	(2,249)	72,930
<b>Total</b>	<b>344,651</b>	<b>25,219</b>	<b>319,432</b>

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**IV. Discussion of consolidated financial statement components (cont.)**

**5. Financial instruments designated at fair value through profit and loss**

The balance of financial instruments designated at fair value through profit and loss increased by PLN 7,805,146 thousand (i.e. 171%) compared with the end of 2008. As at 31 December 2009, the balance was PLN 12,360,690 thousand and almost exclusively related to the Bank (similarly as at 31 December 2008). The portfolio comprised the following categories of securities:

	<b>31.12.2009</b>	<b>31.12.2008</b>	<b>Change</b>	<b>Change</b>
	<b>PLN'000</b>	<b>PLN'000</b>	<b>PLN'000</b>	<b>(%)</b>
<b>Debt securities</b>				
NBP bills	6,994,218	-	6,994,218	-
issued by the State Treasury	5,362,314	4,373,621	988,693	23
issued by non-financial entities	4,158	9,047	(4,889)	(54)
foreign currency bonds	-	172,876	(172,876)	(100)
<b>Total</b>	<b>12,360,690</b>	<b>4,555,544</b>	<b>7,805,146</b>	<b>171</b>

The increase in the balance of financial instruments designated at fair value through profit and loss as at the balance date resulted mainly from the Group's exposure to NBP bills which was offset by the redemption of NBP bonds by the issuer in January 2009 (a decrease of PLN 2,673,729 thousand, i.e. 100%) which were in the available-for-sale investment securities portfolio as at the end of 2008 (see Note 7). Moreover, in 2009, the Group increased its exposure to Treasury bills (an increase of PLN 988,693 thousand, i.e. 23%).

At the same time, throughout the year 2009 the Group gradually reduced its portfolio of foreign currency bonds issued by banks – a decrease of PLN 172,876 thousand (i.e. 100%). This change was due to the macroeconomic situation resulting in a growth in the issuers' credit risk and lower liquidity on the market of bank debt securities.

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**IV. Discussion of consolidated financial statement components (cont.)**

**6. Loans and advances to customers**

In 2009 the portfolio of loans and advances granted to the customers measured with reference to the gross value of loans granted increased by 16,483,942 thousand (i.e. 16%) compared with the balance as at 31 December 2008, and amounted to PLN 120,509,709 thousand.

The analysis of the structure and quality of the loan portfolio is shown in the paragraphs below.

**a) Structure of the Group's loan portfolio by type of loans**

The gross value of the loan portfolio as at the balance date comprised:

	<b>31.12.2009</b> <b>PLN'000</b>	<b>31.12.2008</b> <b>PLN'000</b>	<b>Change</b> <b>PLN'000</b>	<b>Change</b> <b>(%)</b>
<b>Financial sector (excluding banks)</b>	<b>2,461,210</b>	<b>2,116,248</b>	<b>344,962</b>	<b>16</b>
corporate loans	2,461,210	2,116,248	344,962	16
<b>Non-financial sector</b>	<b>113,080,762</b>	<b>98,694,129</b>	<b>14,386,633</b>	<b>15</b>
consumer loans	23,658,366	20,918,698	2,739,668	13
mortgage loans	52,673,207	45,937,364	6,735,843	15
corporate loans	36,749,189	31,838,067	4,911,122	15
<b>Public sector</b>	<b>4,967,737</b>	<b>3,215,390</b>	<b>1,752,347</b>	<b>54</b>
corporate loans	4,967,737	3,215,390	1,752,347	54
<b>Gross total loans and advances</b>	<b>120,509,709</b>	<b>104,025,767</b>	<b>16,483,942</b>	<b>16</b>
Impairment allowances	(3,937,124)	(2,917,876)	(1,019,248)	35
<b>Net total loans and advances</b>	<b>116,572,585</b>	<b>101,107,891</b>	<b>15,464,694</b>	<b>15</b>

As at the balance date, the balance of loans and advances granted to customers amounted to PLN 116,572,585 thousand, of which PLN 112,973,218 thousand (i.e. 97%) related to the Bank (97,067,186 thousand, i.e. 96% as at 31 December 2009). The remaining 3% comprised, among other things, lease receivables of the Bankowy Fundusz Leasingowy SA Group of PLN 2,286,883 thousand (PLN 2,351,891 thousand as at 31 December 2008) and loans and advances granted by Kredobank SA with a value of PLN 1,295,867 thousand (PLN 1,688,813 thousand as at 31 December 2008)

As at 31 December 2009, 24% (i.e. PLN 29,125,914 thousand) of the gross balance of loans and advances related to loans and advances granted in foreign currencies (including 74% denominated in Swiss francs). As at 31 December 2008, amounts due in foreign currencies comprised 28% of the balance, i.e. PLN 29,552,567 thousand (of which 76% related to the Swiss franc).

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**IV. Discussion of consolidated financial statement components (cont.)**

**6. Loans and advances to customers (cont.)**

**b) Structure of the Group's loan portfolio in terms of quality**

	31.12.2009	31.12.2008	31.12.2009	31.12.2008
	PLN'000	PLN'000	Structure %	Structure %
Impaired loans and advances	8,842,254	3,667,210	7.3	3.5
Non-impaired loans and advances, gross	109,308,751	97,962,004	90.7	94.2
Impaired lease receivables	265,896	116,883	0.3	0.1
Non-impaired lease receivables, gross	2,092,808	2,279,670	1.7	2.2
<b>Total loans and advances, gross</b>	<b>120,509,709</b>	<b>104,025,767</b>	<b>100.0</b>	<b>100.0</b>
Allowance for impairment on loans and advances	(3,271,823)	(2,156,135)	83.2	73.9
Allowance for incurred but not reported impairment on loans and advances (IBNR)	(593,479)	(717,081)	15.1	24.6
Allowance for impairment on lease receivables	(62,143)	(35,587)	1.5	1.2
Allowance for incurred but not reported impairment on lease receivables (IBNR)	(9,679)	(9,073)	0.2	0.3
<b>Total impairment allowances on loans and advances</b>	<b>(3,937,124)</b>	<b>(2,917,876)</b>	<b>100.0</b>	<b>100.0</b>
<b>Total loans and advances, net</b>	<b>116,572,585</b>	<b>101,107,891</b>		

In 2009, the Bank extended the range of individual impairment indicators. As a result, the share of impaired loans and lease receivables in the total Group loan portfolio deteriorated compared with the end of 2008 and amounted to 7.6% (3.6% as at 31 December 2008). At the same time, the coverage of impaired loans and advances by impairment allowances dropped by 21,3 p.p. and amounted to 36.6%. If the range of impairment indicators in the Bank had not been extended, as at 31 December 2009 the share of the Group's impaired loans would have amounted to 4.8%, i.e. would have been 1.2 p.p. higher than at the end of 2008. Similarly, the coverage of impaired loans with impairment allowances would have amounted to 58.2% and would have been 0.3 p.p. higher than at the end of 2008.

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**IV. Discussion of consolidated financial statement components (cont.)**

**6. Loans and advances to customers (cont.)**

**b) Structure of the Group's loan portfolio in terms of quality (cont.)**

The deterioration of portfolio as at 31 December 2009 was also noticeable among subsidiaries of Kredobank SA and Bankowy Fundusz Leasingowy SA Group. The share of impaired loans/ lease receivables in 'total loans and advances' balance amounted to 78.1% and 11,3% respectively as at the balance date and was higher by 58,0 p.p and by 4,9 p.p respectively than as at 31 December 2008. The above resulted in higher impairment allowance balance by PLN 178,197 thousand (i.e. 65%) for Kredobank SA and by PLN 27,162 thousand (i.e. 61%) for the Bankowy Fundusz Leasingowy SA Group as at 31 December 2009.

Reconciliation of the change in the balance of impairment allowances on loans and advances to customers presented in the statement of financial position and the net impairment allowance as at 31 December 2009 is shown below (in PLN'000):

	consumer loans	mortgage loans	corporate loans and lease receivables	<b>Total</b>
Balance of impairment allowances on loans and advances to customers presented in the statement of financial position as at 31 December 2008	(715,653)	(535,713)	(1,666,510)	<b>(2,917,876)</b>
Net impairment allowance on loans and advances and amounts due from banks – total	(819,044)	(250,553)	(513,779)	<b>(1,583,376)</b>
Net impairment allowance on amounts due from banks – charged to the income statement			52	<b>52</b>
Decrease in impairment allowances due to derecognition of assets, not affecting the income statement	169,786	45,604	319,197	<b>534,587</b>
Foreign exchange and other differences	2,290	5,902	21,297	<b>29,489</b>
<b>Balance of impairment allowances on loans and advances to customers presented in the statement of financial position as at 31 December 2009</b>	<b>(1,362,621)</b>	<b>(734,760)</b>	<b>(1,839,743)</b>	<b>(3,937,124)</b>

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**IV. Discussion of consolidated financial statement components (cont.)**

**7. Investment securities – available for sale**

As at 31 December 2009, 'Investment securities available for sale' amounted to PLN 7,944,317 thousand and 97% of the balance related to the Bank (PLN 8,349,810 thousand, i.e. 97% as at 31 December 2008). The breakdown of the balance as at the balance date is shown below:

	<b>31.12.2009</b> <b>PLN'000</b>	<b>31.12.2008</b> <b>PLN'000</b>	<b>Change</b> <b>PLN'000</b>	<b>Change</b> <b>(%)</b>
<b>Debt securities available for sale</b>				
issued by the State Treasury	4,982,606	3,516,322	1,466,284	42
municipal bonds	2,000,221	1,418,099	582,122	41
issued by non-financial entities	794,812	815,210	(20,398)	(3)
issued by other banks	90,086	46,756	43,330	93
NBP bonds	-	2,673,729	(2,673,729)	(100)
issued by other financial institutions	-	74,427	(74,427)	(100)
Impairment of available-for-sale debt securities	(19,155)	(19,932)	777	(4)
<b>Net total debt securities available for sale</b>	<b>7,848,570</b>	<b>8,524,611</b>	<b>(676,041)</b>	<b>(8)</b>
Equity investment securities available for sale	98,164	96,061	2,103	2
Impairment on available-for-sale equity securities	(2,417)	(5,759)	3,342	(58)
<b>Net total equity securities available for sale</b>	<b>95,747</b>	<b>90,302</b>	<b>5,445</b>	<b>6</b>
<b>Net total</b>	<b>7,944,317</b>	<b>8,614,913</b>	<b>(670,596)</b>	<b>(8)</b>

The change in the balance as at the balance date was mainly due to an earlier redemption (before maturity) of bonds in the Bank's portfolio by the National Bank of Poland in January 2009. This decrease was partly offset by an increase in the Group's exposure to securities issued by the State Treasury (an increase of PLN 1,466,284 thousand, i.e. 42%) and an increase in the portfolio of municipal bonds (of PLN 582,122 thousand, i.e. 41%).

The impairment allowance for debt securities at the amount of PLN 19,155 thousand comprised the allowance related to the impairment of corporate debt securities in the Bank's portfolio at the amount of PLN 13,183 thousand (PLN 15,791 thousand as at 31 December 2008). The impairment allowance for equity debt securities at the amount of PLN 2,417 thousand (PLN 5,759 thousand as at 31 December 2008) comprised the allowance related to the unquoted shares of the entities in the Bank's portfolio at the amount of PLN 2,393 thousand (PLN 5,759 thousand as at 31 December 2008).

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**IV. Discussion of consolidated financial statement components (cont.)**

**8. Investments in associates and jointly-controlled entities**

The balance of investments in associates and jointly-controlled entities as at 31 December 2009 amounted to PLN 228,692 thousand and decreased by PLN 18,453 thousand (i.e. 7%) compared with the end of 2008:

	<b>31.12.2009</b>	<b>31.12.2008</b>	<b>Change</b>	<b>Change</b>
	<b>PLN'000</b>	<b>PLN'000</b>	<b>PLN'000</b>	<b>(%)</b>
<b>Jointly-controlled entities</b>	<b>49,240</b>	<b>56,682</b>	<b>(7,442)</b>	<b>(13)</b>
Centrum Haffnera Sp. z o.o. Group	38,058	45,748	(7,690)	(17)
Centrum Obsługi Biznesu Sp. z o.o.	11,182	10,934	248	2
<b>Associates</b>	<b>184,480</b>	<b>194,823</b>	<b>(10,343)</b>	<b>(5)</b>
Bank Pocztowy SA	179,173	175,871	3,302	2
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	5,028	1,615	3,413	158
Agencja Inwestycyjna Corp SA	279	278	1	-
Kolej Gondolowa Jaworzyna Krynicka SA	-	13,851	(13,851)	(100)
Ekogips SA (in liquidation)	-	3,208	(3,208)	(100)
<b>Investments in associates and jointly-controlled entities – total gross</b>	<b>233,720</b>	<b>251,505</b>	<b>(17,785)</b>	<b>(7)</b>
Impairment allowances	(5,028)	(4,360)	(668)	15
<b>Investments in associates and jointly-controlled entities</b>	<b>228,692</b>	<b>247,145</b>	<b>(18,453)</b>	<b>(7)</b>

The decrease in the balance of investments in associates and jointly-controlled entities was mainly due to the reclassification of investments in Kolej Gondolowa Jaworzyna Krynicka SA to non-current assets held for sale and a drop in the Group's share in the net assets of the Centrum Haffnera Sp. z o.o. Group.

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**IV. Discussion of consolidated financial statement components (cont.)**

**9. Inventories**

As at the balance date, inventories amounted to PLN 653,075 thousand, of which PLN 534,117 thousand (i.e. 82%) related to the PKO BP Inwestycje Group (PLN 558,820, i.e. 90% as at 31 December 2008). The balance comprised:

	<b>31.12.2009</b>	<b>31.12.2008</b>	<b>Change</b>	<b>Change</b>
	<b>PLN'000</b>	<b>PLN'000</b>	<b>PLN'000</b>	<b>(%)</b>
Work in progress – construction investments	424,824	403,175	21,649	5
Finished goods	144,347	100,270	44,077	44
Supplies	105,252	113,533	(8,281)	(7)
Materials	12,666	5,432	7,234	133
Impairment allowances on inventories	(34,014)	-	(34,014)	-
<b>Total</b>	<b>653,075</b>	<b>622,410</b>	<b>30,665</b>	<b>5</b>

The largest portion of the remaining part of the balance comprised assets of the subsidiary Bankowy Fundusz Leasingowy SA with a value of PLN 66,982 thousand (10% of the total balance) relating to non-current assets waiting to be leased and previously leased assets currently recovered, presented in the 'Supplies' balance. Finished goods referred mainly to finished construction investments.

Impairment allowances at the amount of PLN 34,014 thousand as at 31 December 2009 concerned mainly impairment allowances for recovered lease items in the Bankowy Fundusz Leasingowy SA Group at the amount of PLN 7,403 thousand and impairment allowances for land and capitalised development costs at the amount of PLN 26,587 thousand in the PKO BP Inwestycje Group.

**10. Intangible assets**

As at the balance date, intangible assets amounted to PLN 1,572,577 thousand and 81% of the balance related to the Bank (PLN 1,078,682 i.e. 80% as at 31 December 2008). The analysis of the balance is shown in the table below.

	<b>31.12.2009</b>	<b>31.12.2008</b>	<b>Change</b>	<b>Change</b>
	<b>PLN'000</b>	<b>PLN'000</b>	<b>PLN'000</b>	<b>(%)</b>
Software	2,254,339	1,828,366	425,973	23
Goodwill acquired as a result of business combinations	344,695	241,080	103,615	43
Other, including development costs	183,540	321,381	(137,841)	(43)
<b>Gross total</b>	<b>2,782,574</b>	<b>2,390,827</b>	<b>391,747</b>	<b>16</b>
Accumulated amortization	(1,130,235)	(961,689)	(168,546)	18
Impairment allowance	(79,762)	(76,360)	(3,402)	4
<b>Net total</b>	<b>1,572,577</b>	<b>1,352,778</b>	<b>219,799</b>	<b>16</b>

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**IV. Discussion of consolidated financial statement components (cont.)**

**10. Intangible assets (cont.)**

The increase in goodwill acquired as a result of business combination of PLN 103,615 thousand (i.e. 43%) resulted mainly from acquiring 25% of all shares in PKO Towarzystwo Funduszy Inwestycyjnych SA at a cost of PLN 117,934 thousand from Credit Suisse Asset Management Luxembourg. Goodwill recognized in this respect in accordance with IFRS 3 of PLN 100,214 thousand constitutes the excess of the value of the acquirer in the net fair value of identifiable assets, liabilities and contingent liabilities over the acquisition cost.

The impairment allowance at the amount of PLN 79,762 thousand as at the balance date was related to the allowance for goodwill of Kredobank SA.

The wear and tear of intangible assets measured as the ratio of accumulated amortization to gross value amounted to 41% as at the balance date (40% as at 31 December 2008).

**11. Property, plant and equipment**

As at the balance date, the net value of property, plant and equipment amounted to PLN 2,777,694 thousand and 82% of the balance related to the Bank (83% as at 31 December 2008). The analysis of the balance is shown in the table below.

	<b>31.12.2009</b>	<b>31.12.2008</b>	<b>Change</b>	<b>Change</b>
	<b>PLN'000</b>	<b>PLN'000</b>	<b>PLN'000</b>	<b>(%)</b>
Land and buildings	2,444,010	2,346,187	97,823	4
Plant and machinery	2,430,397	2,382,497	47,900	2
Fixed assets under construction	207,251	560,319	(353,068)	(63)
Vehicles	72,073	81,853	(9,780)	(12)
Investment properties	731	32,009	(31,278)	(98)
Other	454,305	430,035	24,270	6
<b>Gross value of fixed assets</b>	<b>5,608,767</b>	<b>5,832,900</b>	<b>(224,133)</b>	<b>(4)</b>
Accumulated depreciation	(2,829,217)	(2,866,206)	36,989	(1)
Impairment allowance	(1,856)	(2,035)	179	(9)
<b>Net value of fixed assets</b>	<b>2,777,694</b>	<b>2,964,659</b>	<b>(186,965)</b>	<b>(6)</b>

As at the balance date, the gross carrying amount of property, plant and equipment decreased by PLN 224,133 thousand (i.e. 4%) compared with the prior year. The drop in the balance related mainly to sales and scrapping of plant and machinery of PLN 280,307 thousand.

In the balance of fixed assets there are also included assets under operating lease at the amount of PLN 9,737 thousand PLN (PLN 14,170 thousand as at 31 December 2008)

The wear and tear of Property, plant and equipment measured as the ratio of accumulated depreciation to the gross book value amounted to 50% as at the balance date (49% as at 31 December 2008).

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**IV. Discussion of consolidated financial statement components (cont.)**

**12. Other assets**

In 2009, the value of other assets dropped by PLN 55,026 thousand (i.e. 9%) and amounted to PLN 575,426 thousand as at the balance date, of which PLN 385,107 thousand (i.e. 67%) was related to the Bank and PLN 94,027 thousand (i.e. 16%) to PKO BP Bankowy Powszechnie Towarzystwo Emerytalne SA (PLN 495,032 thousand, i.e. 79% and PLN 90,580 thousand i.e. 16% respectively as at 31 December 2008) This balance comprised the following categories of assets:

	<b>31.12.2009</b>	<b>31.12.2008</b>	<b>Change</b>	<b>Change</b>
	<b>PLN'000</b>	<b>PLN'000</b>	<b>PLN'000</b>	<b>(%)</b>
Trade receivables	177,885	218,234	(40,349)	(18)
Settlements of payment cards transactions	114,060	123,732	(9,672)	(8)
Accruals and prepayments	112,543	115,454	(2,911)	(3)
Settlement of financial instruments	33,865	50,972	(17,107)	(34)
Receivables from the state budget due to distribution of marks of value	13,800	8,883	4,917	55
Settlements of investment securities turnover	9,551	7,255	2,296	32
Receivables relating to foreign exchange transactions	6,679	8,628	(1,949)	(23)
Other	107,043	97,294	9,749	10
<b>Total</b>	<b>575,426</b>	<b>630,452</b>	<b>(55,026)</b>	<b>(9)</b>

As at the balance date, prepayments concerned mainly deferred acquisition costs at the amount of PLN 84,113 thousand (PLN 86,061 thousand as at 31 December 2008) incurred by PKO BP Bankowy Powszechnie Towarzystwo Emerytalne SA were related to agreements of membership in the fund, which will have an effect on the prospective revenue for management of fee settlements.

The item "Other" comprised mainly interbank settlements, amounts due relating to deficits and losses and settlements with employees.

The gross value of "Other assets" amounted to PLN 744,635 thousand (PLN 732,600 thousand as at 31 December 2008) was adjusted by the impairment allowances at the amount of PLN 169,209 thousand (PLN 102,148 thousand as at 31 December), of which 95%, i.e. PLN 161,422 thousand was related to the Bank (78%, i.e. PLN 79,799 thousand as at 31 December 2008). The above mentioned allowances comprised mainly allowances for unsettled, negotiable currency exchange and derivatives transactions in the Bank at the amount of PLN 103,142 thousand (PLN 5,952 thousand as at 31 December 2008).

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**IV. Discussion of consolidated financial statement components (cont.)**

**13. Amounts due to other banks**

As at 31 December 2009 amounts due to other banks amounted to PLN 5,146,048 thousand (PLN 6,988,603 thousand as at the end of 2008), of which 81% related to the Bank (82% as at 31 December 2008). Apart from the Bank, the Bankowy Fundusz Leasingowy SA Group also had material liabilities (17% of the balance) in respect of other banks (18% as at 31 December 2008). The balance comprised:

	<b>31.12.2009</b>	<b>31.12.2008</b>	<b>Change</b>	<b>Change</b>
	<b>PLN'000</b>	<b>PLN'000</b>	<b>PLN'000</b>	<b>(%)</b>
Loans and advances	3,597,839	3,943,895	(346,056)	(9)
Other bank deposits	1,399,985	2,835,727	(1,435,742)	(51)
Other money market deposits	121,679	115,171	6,508	6
Current accounts	26,545	93,810	(67,265)	(72)
<b>Total amounts due to other banks</b>	<b>5,146,048</b>	<b>6,988,603</b>	<b>(1,842,555)</b>	<b>(26)</b>

The decrease in the amounts due to other banks compared with the balance as at 31 December 2008 was mainly due to a decrease in the balance of deposits from other banks of PLN 1,435,742 thousand (i.e. 51%), which was mainly the consequence of a lower balance of deposits in PLN.

The balance of loans and advances received related mainly to the Bank's liabilities in respect of the syndicated loan in Swiss francs of PLN 2,621,791 thousand (PLN 2,656,004 thousand as at 31 December 2008) granted by a consortium of Polish and foreign banks in 2007 for five years, with an extension option, and loans from other banks received by the Bankowy Fundusz Leasingowy SA Group of PLN 894,030 thousand (PLN 1,226,302 thousand as at 31 December 2008).

As at the balance date, 64% of the balance of amounts due to other banks comprised foreign currency liabilities (52% as at 31 December 2008).

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**IV. Discussion of consolidated financial statement components (cont.)**

**14. Amounts due to customers**

As at the balance date, the amounts due to customers amounted to PLN 125,072,934 thousand, of which PLN 123,791,581 thousand (i.e. 99%) related to the Bank (PLN 101,621,999 thousand, i.e. 99% as at 31 December 2008).

	<b>31.12.2009</b> <b>PLN'000</b>	<b>31.12.2008</b> <b>PLN'000</b>	<b>Change</b> <b>PLN'000</b>	<b>Change</b> <b>(%)</b>
Amounts due to retail clients	87,557,401	76,322,806	11,234,595	15
Amounts due to corporate entities	27,834,542	19,332,897	8,501,645	44
Amounts due to state budget entities	9,680,991	7,283,578	2,397,413	33
<b>Total</b>	<b>125,072,934</b>	<b>102,939,281</b>	<b>22,133,653</b>	<b>22</b>

In 2009, the Bank continued to concentrate on increasing its deposit base. In order to achieve this objective, new products addressed to retail customers were introduced (Lokata 3+3, Poliso-Lokata and Extra Lokaty 6M and 12M). The Bank also actively sought new funds through offering negotiated deposits to corporate customers.

As at the balance date, 7% of the balance comprised liabilities denominated in foreign currencies (no change compared with the balance as at 31 December 2008).

As at 31 December 2009 the gross value of deposit to loan ratio increased and amounted to 104% as at 31 December 2009 (99% as at 31 December 2008).

**15. Debt securities in issue**

The balance of debt securities in issue as at 31 December 2009 amounted to PLN 289,360 thousand (PLN 211,573 thousand as at 31 December 2008), of which PLN 289,251 thousand related to the Bankowy Fundusz Leasingowy SA Group, and PLN 109 thousand to Kredobank SA (PLN 183,594 thousand and PLN 27,979 thousand respectively as at 31 December 2008)

The balance relating to Bankowy Fundusz Leasingowy resulted from corporate bonds issued bearing an average interest rate of 5.77% as at the balance date (7.23% as at 31 December 2008). All the securities in issue as at 31 December 2009 matured within 12 months.

In respect of Kredobank the balance resulted from debt securities denominated in hryvna issued on the Ukrainian market bearing an average interest rate of 22.00% as at the balance date (13.07% as at 31 December 2008). All the securities in issue as at 31 December 2009 mature within 5 years.

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**IV. Discussion of consolidated financial statement components (cont.)**

**16. Subordinated liabilities**

The balance of subordinated liabilities as at 31 December 2009 of PLN 1,612,178 thousand (PLN 1,618,755 thousand as at 31 December 2008) comprised bonds issued by the Bank in 2007 with a total nominal value of PLN 1,600,700 thousand maturing on 30 October 2017.

The valuation of these bonds as at 31 December 2009 changed by PLN 6,577 thousand compared with 31 December 2008 due to a decrease in the amount of interest accrued not due resulting from a decrease in the bonds interest rate to 5.30% (7.88% as at 31 December 2008).

The bonds were issued based on the Act on Bonds dated 29 June 1995 with a view to increasing the Bank's supplementary funds in accordance with art. 127 par. 3, clause 2b of the Banking Law, pursuant to a decision of the Banking Supervision Commission No. 91 dated 5 December 2007 (the supplementary capital is increased by the nominal value of the bonds).

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**IV. Discussion of consolidated financial statement components (cont.)**

**17. Other liabilities**

As at the balance date, other liabilities amounted to PLN 1,566,623 thousand, of which PLN 1,310,054 thousand (i.e. 84%) related to the Bank (PLN 1,346,525 thousand, i.e. 81% as at 31 December 2008). Apart from the Bank, the Bankowy Fundusz Leasingowy Group had a material share in the balance of other liabilities (PLN 95,941 thousand, i.e. 6% and PLN 96,881 thousand, i.e. 6% as at 31 December 2008 respectively) and the PKO BP Inwestycje Group (PLN 76,744 thousand, i.e. 5% and PLN 148,661 thousand, i.e. 9% as at 31 December 2008 respectively). The balance comprised:

	<b>31.12.2009</b> <b>PLN'000</b>	<b>31.12.2008</b> <b>PLN'000</b>	<b>Change</b> <b>PLN'000</b>	<b>Change</b> <b>(%)</b>
Deferred income	291,704	262,867	28,837	11
Accounts payables	227,492	237,520	(10,028)	(4)
<b>Other liabilities relating to:</b>	<b>1,047,427</b>	<b>1,167,389</b>	<b>(119,962)</b>	<b>(10)</b>
liabilities relating to settlements of security transactions	276,221	205,896	70,325	34
interbank settlements	182,275	241,922	(59,647)	(25)
liabilities due to suppliers	148,896	146,745	2,151	1
liabilities due to legal settlements	137,194	123,448	13,746	11
liabilities arising from foreign currency activities	47,934	76,854	(28,920)	(38)
liabilities relating to financial instruments	36,325	57,764	(21,439)	(37)
liabilities due to UOKiK (the Competition and Consumer Protection Office)	22,310	22,310	-	-
liabilities relating to investment activities and internal operations	12,689	52,059	(39,370)	(76)
liabilities arising from other settlements	8,058	8,271	(213)	(3)
liabilities relating to payment cards	1,468	1,663	(195)	(12)
realised guarantees of the State Treasury on unpaid mortgage loans	-	39,226	(39,226)	(100)
Other	174,057	191,231	(17,174)	(9)
<b>Total</b>	<b>1,566,623</b>	<b>1,667,776</b>	<b>(101,153)</b>	<b>(6)</b>

As at the balance date, deferred income (19%) of PLN 291,704 thousand – an increase of PLN 28,837 thousand (i.e. 11%) compared with the balance as at 31 December 2008, and settlements in respect of security transactions (18%) of PLN 276,221 thousand – an increase of PLN 70,325 thousand (i.e. 34%) compared with the balance as at 31 December 2008 had the largest share in the balance of other liabilities.

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**IV. Discussion of consolidated financial statement components (cont.)**

**17. Other liabilities (cont.)**

An item "Other" of PLN 174,057 thousand related mainly to the Bank (PLN 112,898 thousand, i.e. 65%) and to the Bankowy Fundusz Leasingowy SA Group (PLN 41,945 thousand, i.e. 24%). "Other" comprised mainly liabilities of BFL SA related to guarantee deposits at the amount of PLN 30,266 thousand, liabilities related to the settlements with the State Treasury concerned temporary buyout of loans interests of the "old loan" portfolio at the amount of PLN 27,060 thousand and liabilities with insurance agencies at the amount of PLN 18,859 thousand.

**18. Provisions**

As at the balance date provisions amounted to PLN 602,294 thousand, of which PLN 598,626 thousand (i.e. 99%) related to the Bank (PLN 561,353, i.e. 99% as at 31 December 2008). As at as at 31 December 2009, provisions comprised:

	<b>31.12.2009</b>	<b>31.12.2008</b>	<b>Change</b>	<b>Change</b>
	<b>PLN'000</b>	<b>PLN'000</b>	<b>PLN'000</b>	<b>(%)</b>
Provisions for anniversary bonuses and retirement benefits	368,295	365,186	3,109	1
Provision for liabilities and guarantees granted	111,721	78,250	33,471	43
Provisions for legal claims	8,128	9,352	(1,224)	(13)
Other provisions	114,150	113,228	922	1
<b>Total</b>	<b>602,294</b>	<b>566,016</b>	<b>36,278</b>	<b>6</b>

The increase in the balance of provisions as at the end of 2009 resulted mainly from an increase in the level of provisions for liabilities and guarantees granted of PLN 33,471 thousand (i.e. 43%). This increase was mainly the result of an increase in the balance of off-balance sheet liabilities granted of PLN 2,438,497 thousand compared with the balance as at 31 December 2008 (Note 30).

As at the balance date provision for anniversary bonuses and retirement bonuses related mainly to the Bank (PLN 367,291 thousand at the end of 2009 and PLN 364,945 thousand at the end of 2008) and was based on the calculation of an independent actuary, that was included in the report from the beginning of 2010. The report was prepared on the basis of balances at the balance date.

As at the balance date other provisions related among other things to provisions for claims associated with the portfolios of receivables sold at the amount of PLN 31,589 thousand and the restructuring provision at the amount of PLN 72,604 thousand (PLN 25,350 thousand and 74,779 thousand as at 31 December 2008). The restructuring provision relates to future liabilities in respect of compensations and severance payments to employees whose employment contracts will be terminated for reasons that are without their fault. In accordance with IAS 37.72, the basis for creating this provision is the employment restructuring plan.

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**IV. Discussion of consolidated financial statement components (cont.)**

**19. Equity**

The value of consolidated equity as at 31 December 2009 amounted to PLN 20,435,870 thousand (PLN 13,998,016 thousand as at 31 December 2008). Changes in equity during the year are shown in the table below:

	As at 31.12.2008	Share issue	Profits recognized directly in equity	Net profit for 2009	Carryforward of retained earnings	Appropriation of profit to equity	Appropriation of profit to dividend	Other changes	As at 31.12.2009
Share capital	1,000,000	250,000	-	-	-	-	-	-	1,250,000
Reserve capital	7,274,717	4,831,125	-	-	-	43,840	-	-	12,149,682
Revaluation reserve	(33,237)	-	21,475	-	-	-	-	-	(11,762)
General Banking Risk Fund	1,070,000	-	-	-	-	-	-	-	1,070,000
Other reserves	1,523,827	-	-	-	-	1,881,260	-	-	3,405,087
Valuation of the associate	-	-	-	-	-	-	-	705	705
Cash flow hedge	-	-	119,276	-	-	-	-	-	119,276
Currency translation differences from foreign operations	(57,413)	-	(51,378)	-	-	-	-	-	(108,791)
Retained earnings	53,232	-	-	-	3,120,674	(1,925,100)	(1,000,000)	-	248,806
Net profit	3,120,674	-	-	2,305,538	(3,120,674)	-	-	-	2,305,538
<b>Total</b>	<b>13,951,800</b>	<b>5,081,125</b>	<b>89,373</b>	<b>2,305,538</b>	<b>-</b>	<b>-</b>	<b>(1,000,000)</b>	<b>705</b>	<b>20,428,541</b>
Minority interest	46,216	-	57	6,246	-	-	(32,620)	(12,570)	7,329
<b>Total equity</b>	<b>13,998,016</b>	<b>5,081,125</b>	<b>89,373</b>	<b>2,311,841</b>	<b>-</b>	<b>-</b>	<b>(1,032,620)</b>	<b>(11,865)</b>	<b>20,435,870</b>

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**IV. Discussion of consolidated financial statement components (cont.)**

**20. Equity (cont.)**

On 30 June 2009, the General Shareholders' Meeting of Powszechna Kasa Oszczędności Bank Polski passed a resolution relating to the appropriation of profit for 2008, in the amount of PLN 2,881,260 thousand, according to which PLN 1,881,260 thousand was to be transferred to reserves and PLN 1,000,000 thousand to be paid out as dividend.

On 28 April 2009, the Ordinary General Shareholders' Meeting of PKO Towarzystwo Funduszy Inwestycyjnych SA passed the resolution no. 3 on earmarking the company's profit for 2008 for payment of dividend to the Bank in the amount of PLN 78,750 thousand and to minority interest in the amount of PLN 26,250 thousand. On 30 March 2009, the Ordinary General Shareholders' Meeting of Fort Mokotów Sp. z o.o. passed the resolution no. 17 on the payout from the reserve capital (established from the income from previous years) of dividends for PKO BP Inwestycje Sp. z o.o. at the amount of PLN 5,100 thousand and for minority shareholders at the amount of PLN 4,900 thousand. On 18 June 2009, the Extraordinary Shareholders' Meeting of Fort Mokotów Sp. z o.o. passed resolution no. 5 regarding payout from the reserve capital (established from the income from previous years) dividends for PKO BP Inwestycje Sp. z o.o. at the amount of PLN 1,530 thousand and for minority shareholders at the amount of PLN 1,470 thousand.

In 2009, the Bank increased its share capital. The increase was made in accordance with the resolution of the General Shareholders' Meeting dated 30 June 2009, amended by the resolution of the Extraordinary General Shareholders' Meeting dated 31 August 2009 on issuing no more than 300,000,000 D series ordinary bearer shares with a nominal value of PLN 1 per share. The issue price was determined at PLN 20.50 per share. The increase in the Bank's share capital by way of issuing 250,000,000 series D shares was registered on 11 December 2009. The nominal value of registered shares (PLN 250,000 thousand) increased the Bank's share capital and the share premium of PLN 4,831,125 thousand was credited to supplementary capital.

As at 31 December 2009, the Bank's share capital amounted to PLN 1,250,000 thousand and consisted of 1,250,000,000 ordinary shares, each with a nominal value of PLN 1, including:

- 510,000,000 series A registered shares;
- 105,000,000 series B bearer shares;
- 385,000,000 series C bearer shares;
- 250,000,000 series D bearer shares.

The changes in the minority interest in 2009 at the amount of PLN 12,570 thousand resulted mainly from the acquisition of 25% shares of PKO Towarzystwo Funduszy Inwestycyjnych SA from Credit Suisse Asset Management Luxembourg, which led to the drop in the minority interest by PLN 17,720 thousand and the Kredobank SA shares issue, which led to the increase in minority interest of PLN 3,402 thousand.

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**IV. Discussion of consolidated financial statement components (cont.)**

**19. Equity (cont.)**

As at the balance date, the Group's equity calculated in accordance with the Banking Law and Resolution No. 2/2007 of the Banking Supervision Commission amounted to PLN 17,865,344 thousand (PLN 12,885,283 thousand as at 31 December 2008) and was PLN 8,116,012 thousand higher than the total capital requirement which as at the balance date amounted to PLN 9,749,332 thousand (PLN 9,126,735 thousand as at 31 December 2008). The capital adequacy ratio calculated as at the balance date amounted to 14.66% (11.29% as at 31 December 2008).

**20. Reconciliation of the net assets of the consolidated entities with the Group's consolidated net assets**

The reconciliation of net assets of consolidated entities with the net assets of the Group as at the balance date is as follows:

	<b>31.12.2009</b>	<b>31.12.2008</b>
	<b>PLN'000</b>	<b>PLN'000</b>
<b>Net assets of companies / Groups:</b>		
Powszechna Kasa Oszczędności Bank Polski SA	20,179,517	13,529,372
Kredobank SA	232,124	43,398
PKO BP BANKOWY Powszechnie Towarzystwo Emerytalne SA	225,483	200,906
Centrum Finansowe Puławska	210,871	205,756
PKO BP Inwestycje Sp. z o.o.	179,523	86,842
Inteligo Financial Services SA	136,072	128,415
Fort Mokotów Inwestycje Sp. z o.o.	105,871	-
Bankowy Fundusz Leasingowy SA	90,084	125,099
Centrum Elektronicznych Usług Płatniczych eService SA	90,203	68,180
PKO Towarzystwo Funduszy Inwestycyjnych SA	86,512	174,805
Bankowe Towarzystwo Kapitałowe SA	9,564	14,256
PKO Finance AB	359	282
<b>Total net assets</b>	<b>21,546,183</b>	<b>14,577,311</b>
<b>Eliminations:</b>		
- of share capitals of subsidiaries	(1,222,882)	(824,938)
- of other equity items of subsidiaries	192,331	322,003
- impairment allowances for goodwill	(79,762)	(76,360)
<b>Total eliminations</b>	<b>(1,110,313)</b>	<b>(579,295)</b>
<b>Consolidated net assets:</b>	<b>20,435,870</b>	<b>13,998,016</b>

Impairment allowances at the amount PLN 79,762 thousand related to the goodwill recognised on the acquirement of Kredobank SA.

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**IV. Discussion of consolidated financial statement components (cont.)**

**Consolidated income statement for the year ended 31 December 2009**

**21. Net interest income**

The net interest income earned by the Group in 2009 amounted to PLN 5,051,182 thousand, of which PLN 4,763,344 thousand (i.e. 94%) related to the Bank (PLN 5,892,748 thousand, i.e. 96% as at 2008). Net interest income comprised the following items:

	<b>2009</b> <b>PLN'000</b>	<b>2008</b> <b>PLN'000</b>	<b>Change</b> <b>PLN'000</b>	<b>Change</b> <b>(%)</b>
Income from loans and advances to customers	7,562,344	7,776,107	(213,763)	(3)
Income from hedging financial instruments	403,899	-	403,899	-
Income from financial instruments designated at fair value through profit and loss	403,112	444,426	(41,314)	(9)
Income from investment securities	393,530	345,130	48,400	14
Income from placements with other banks	159,262	388,768	(229,506)	(59)
Income from trading securities	97,207	64,046	33,161	52
Other	11,976	15,304	(3,328)	(22)
<b>Interest income</b>	<b>9,031,330</b>	<b>9,033,781</b>	<b>(2,451)</b>	<b>-</b>
Interest expense on amounts due from banks and customers	(3,730,154)	(2,655,044)	(1,075,110)	40
Interest expense on debt securities in issue	(119,319)	(131,721)	12,402	(9)
Interest expense on deposits from other banks	(47,470)	(49,465)	1,995	(4)
Other	(83,205)	(70,236)	(12,969)	18
<b>Interest expense</b>	<b>(3,980,148)</b>	<b>(2,906,466)</b>	<b>(1,073,682)</b>	<b>37</b>
<b>Net interest income</b>	<b>5,051,182</b>	<b>6,127,315</b>	<b>(1,076,133)</b>	<b>(18)</b>

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**IV. Discussion of consolidated financial statement components (cont.)**

**21. Net interest income (cont.)**

In 2009, the balance of income from hedging instruments of PLN 403,899 thousand fully related to the Bank. This amount comprised interest income realized on hedging instruments covered by hedge accounting of PLN 358,550 thousand net of interest paid of PLN 44,077 thousand, interest accrued on hedging instruments in the net amount of PLN 72,930 thousand and the result of amortization of the valuation of hedging instruments, which was previously included in the revaluation reserve, of PLN 16,496 thousand.

The decrease in interest income of PLN 2,451 thousand in 2009 was mainly due to the fact that interest income on loans and advances to customers and banks, and income from deposits with other banks were lower than in 2008 (a decrease of PLN 213,763 thousand, i.e. 3% and PLN 229,506 thousand, i.e. 59%, respectively). This was mainly the result of a decrease in reference interest rates in 2009.

Interest expense increased at a greater pace than interest income and its dynamics amounted to 37%, which translated into an increase in interest expense of PLN 1,073,682 thousand in 2009. This resulted mainly from higher interest expense on amounts due to customers and loans received from banks (an increase of PLN 1,075,110 thousand, i.e. 40%). This increase was mainly due to the Bank's strategy of seeking financing in the form of customers' deposits, which required more competitive interest offered on deposits.

As a result, the interest margin calculated as the ratio of the net interest income to interest income amounted to 56% in 2009 (68% in 2008).

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**IV. Discussion of consolidated financial statement components (cont.)**

**22. Net fee and commission income**

In 2009, net fee and commission income earned by the Group amounted to PLN 2,583,003 thousand of which PLN 2,302,891 thousand (i.e. 89%) related to the Bank (PLN 2,020,463 thousand, i.e. 84% in 2008) and PLN 199,189 thousand (i.e. 8%) to PKO Towarzystwo Funduszy Inwestycyjnych SA (PLN 298,357 thousand, i.e. 12% in 2008). Net interest income comprised the following items:

	<b>2009</b> <b>PLN'000</b>	<b>2008</b> <b>PLN'000</b>	<b>Change</b> <b>PLN'000</b>	<b>Change</b> <b>(%)</b>
Income from payment cards	932,319	851,370	80,949	10
Income from maintenance of bank accounts	872,534	805,449	67,085	8
Income from loans and advances	367,955	315,641	52,314	17
Income from loan insurance	327,312	225,063	102,249	45
Income from maintenance of investment funds and OFE (including management income)	310,366	448,071	(137,705)	(31)
Income from cash transactions	189,221	188,345	876	-
Income from securities transactions	53,300	43,845	9,455	22
Income from foreign mass transactions servicing	41,524	41,181	343	1
Income from sale and distribution of marks of value	21,664	21,738	(74)	-
Other	219,152	204,057	15,095	7
<b>Fee and commission income</b>	<b>3,335,347</b>	<b>3,144,760</b>	<b>190,587</b>	<b>6</b>
Expenses on payment cards	(334,400)	(309,766)	(24,634)	8
Expenses on acquisition activities	(152,428)	(134,773)	(17,655)	13
Expenses on loan insurance	(92,937)	(94,140)	1,203	(1)
Expenses on portfolio and other management fees	(48,651)	(73,719)	25,068	(34)
Expenses on fee and commissions for operating services granted by other banks	(6,734)	(8,118)	1,384	(17)
Expenses on fee and commissions paid to Poczta Polska	(4,399)	(5,240)	841	(16)
Other	(112,795)	(107,195)	(5,600)	5
<b>Fee and commission expense</b>	<b>(752,344)</b>	<b>(732,951)</b>	<b>(19,393)</b>	<b>3</b>
<b>Net fee and commission income</b>	<b>2,583,003</b>	<b>2,411,809</b>	<b>171,194</b>	<b>7</b>

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**IV. Discussion of consolidated financial statement components (cont.)**

**22. Net fee and commission income (cont.)**

In 2009, fee and commission income increased by PLN 190,587 thousand (i.e. 6%). This increase was partly due to the fact that income from loan insurance was PLN 102,249 thousand (i.e. 45%) higher, income from payment cards was PLN 80,949 thousand (i.e. 10%) higher and income from servicing bank accounts was PLN 67,085 thousand (i.e. 8%) higher. This increase was partly offset by a drop in income on servicing investment and open pension funds in 2009. The drop of PLN 137,705 thousand (i.e. 31%) resulted mainly from lower income earned by PKO Towarzystwo Funduszy Inwestycyjnych SA (a drop of PLN 121,963 thousand, i.e. 33% compared with 2008) and was related to the lower activity of customers in this area and withdrawals of funds from investment funds.

Fee and commission expenses in 2009 increased by PLN 19,393 thousand (i.e. 3%) compared with 2008. This increase was mainly due to the fact that commission expenses on payment cards on behalf of card operators (VISA, MasterCard and Polcard) were PLN 24,634 thousand (i.e. 8%) higher.

**23. Net foreign exchange gains**

Net foreign exchange gains include gains and losses on revaluation and transactions in assets and liabilities in foreign currencies and fair value measurement of foreign exchange derivatives (FX forward, FX swap and CIRS). In 2009, net foreign exchange gains amounted to PLN 909,139 thousand, of which PLN 894,216 thousand (i.e. 98%) related to the Bank. Compared with 2008, the net foreign exchange gains increased by PLN 207,814 thousand (i.e. 30%) in 2009.

The results on the individual components of net foreign exchange gains were opposite to those recorded in 2008. Due to the decreasing exchange rates of the Swiss franc and euro over a major part of the year 2009 (ca. 22% of the Group's loan portfolio and ca. 5% of customers' deposits are denominated in these currencies), the net foreign exchange result (including the result on revaluation of loans and deposits) was negative and amounted to PLN (1,803,478) thousand (a decrease of PLN 4,749,819 thousand, i.e. 161% compared with the prior year).

At the same time, in 2009 the Group recognized a gain on valuation of instruments designated at fair value through profit and loss (a gain of PLN 2,712,617 thousand compared with a loss of PLN 2,245,016 thousand in 2008). This result was mainly determined by valuation of derivatives and resulted primarily from a change in the valuation of currency interest rate swaps (CIRS), which are used chiefly to manage interest rate risk. Their net value changed by PLN 2,703,505 thousand, i.e. by 116% (a change from a net loss of PLN 2,334,983 thousand as at the end of 2008 to a net gain of PLN 368,522 thousand as at the end of 2009; of this, CIRS used for hedging purposes accounted for PLN 319,432 thousand – see Note 4).

Moreover, due to the implementation of hedge accounting at the Bank, the income from interest on CIRS used as hedging instruments of PLN 403,899 thousand was reclassified to net interest income. (see Note 21).

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**IV. Discussion of consolidated financial statement components (cont.)**

**24. Other operating income**

In 2009, other operating income amounted to PLN 584,949 thousand. The PKO BP Inwestycje Group represented the largest part of the balance (PLN 177,553 thousand, i.e. 30% and PLN 131,128 thousand, i.e. 25% in 2008), the Bank (PLN 145,459 thousand, i.e. 25% and PLN 159,234 thousand, i.e. 30% in 2008) and Centrum Elektronicznych Usług Płatniczych eService SA (PLN 129,856 thousand, i.e. 22% and PLN 63,221 thousand, i.e. 12% in 2008) represented the largest part of the balance. The balance comprised:

	<b>31.12.2009</b>	<b>31.12.2008</b>	<b>Change</b>	<b>Change</b>
	<b>PLN'000</b>	<b>PLN'000</b>	<b>PLN'000</b>	<b>(%)</b>
Net income from sale of goods, commodities and materials	326,105	213,073	113,032	53
Sales and disposal of tangible fixed assets, intangible assets, and assets held for sale	67,224	15,065	52,159	346
Damages, penalties and fines received	32,390	14,228	18,162	128
Sundry income	21,614	25,162	(3,548)	(14)
Recovery of expired and written-off receivables	20,084	31,150	(11,066)	(36)
Sale of shares in subordinates	512	13,171	(12,659)	(96)
Other	117,020	210,576	(93,556)	(44)
<b>Total</b>	<b>584,949</b>	<b>522,425</b>	<b>62,524</b>	<b>12</b>

In 2009, net income from sale of goods, commodities and materials related mostly to income from development activities of the PKO BP Inwestycje Group (PLN 171,630 thousand, i.e. 53% of the balance) and activities of CEUP eService (PLN 128,907 thousand, i.e. 40% of the balance).

The increase in net revenue by PLN 113,032 thousand (i.e. 53%) from sell of products, commodities and materials in 2009 related mainly to the increase of CEUP eService income (an increase by 67,261 thousand, i.e. 109%) from sale of electronic charging entities and scratches and from the increase in income of PKO BP Inwestycje Group (rise of PLN 47,406 thousand, i.e. 38%), resulting from the sale of building investment in Gdańsk, with simultaneous decrease of income of Centrum Finansowe Puławska (drop of PLN 3,798 thousand, i.e. 68%)

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**IV. Discussion of consolidated financial statement components (cont.)**

**25. Other operating expenses**

In 2009, other operating expenses amounted to PLN 324,066 thousand, of which PLN 110,407 thousand, i.e. 34% related to the PKO BP Inwestycje Group (PLN 74,468 thousand, i.e. 32% in 2008), PLN 75,225 thousand (i.e. 23%) to the Bankowy Fundusz Leasingowy SA Group (PLN 19,140 thousand, i.e. 8% in 2008) and PLN 64,793 (i.e. 20%) to the Bank (PLN 105,588 thousand, i.e. 46% in 2008). The balance comprised:

	<b>31.12.2009</b>	<b>31.12.2008</b>	<b>Change</b>	<b>Change</b>
	<b>PLN'000</b>	<b>PLN'000</b>	<b>PLN'000</b>	<b>(%)</b>
Costs of sale of goods, commodities and materials	(179,385)	(81,114)	(98,271)	121
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(60,268)	(28,321)	(31,947)	113
Sundry expenses	(5,004)	(5,570)	566	(10)
Donations	(3,648)	(5,245)	1,597	(30)
Costs of tangible fixed assets construction and intangible assets development - not capitalized	(62)	(426)	364	(85)
Other	(75,699)	(110,051)	34,352	(31)
<b>Total</b>	<b>(324,066)</b>	<b>(230,727)</b>	<b>(93,339)</b>	<b>40</b>

In 2008, costs of sale of goods, commodities and materials related mostly to costs of development activities of the PKO BP Inwestycje Group (PLN 109,579 thousand, i.e. 61% of the balance) and activities of CEUP eService (PLN 69,302 thousand, i.e. 39% of the balance).

The increase in the costs of sold products, commodities and materials in 2009 by PLN 98,271 thousand (i.e. 121%) was related mainly to the increase in costs of CEUP eService (the increase by PLN 57,474 thousand, i.e. 486%) from the sale of materials (pre-paid charging) and the increase in activity cost of the PKO BP Inwestycje Group (the increase by PLN 39,868 thousand, i.e. 57%) mainly from the construction works.

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**IV. Discussion of consolidated financial statement components (cont.)**

**26. Net impairment allowance**

The net impairment allowance was negative (impairment allowances recognized exceeded those released) and amounted to PLN 1,681,075 thousand in 2009. The negative balance increased by PLN 550,679 thousand compared to 2008. The largest share in the losses was related to the impairment charges recognized by the Bank at the amount PLN 1,330,951 thousand, i.e. 79% (PLN 855,086 thousand, i.e. 76% in 2008). The rest of the balance constituted mainly a negative net impairment allowance of Kredobank SA at the amount of PLN 278,723 thousand, i.e. 17% (PLN 263,940 thousand, i.e. 23% in 2008) and of the Bankowy Fundusz Leasingowy SA Group at the amount of PLN 44,541 thousand, i.e. 3% (PLN 11,373 thousand, i.e. 3% in 2008).

	<b>2009</b> <b>PLN'000</b>	<b>2008</b> <b>PLN'000</b>	<b>Change</b> <b>PLN'000</b>	<b>Change</b> <b>(%)</b>
Loans and advances to customers and amounts due from other banks	(1,583,376)	(1,022,940)	(560,436)	55
Investments in entities measured using equity method	(3,876)	60,416	(64,292)	(106)
Intangible assets	(3,402)	(76,360)	72,958	(96)
Investment securities - available for sale	(3,292)	(2,214)	(1,078)	49
Non-current assets held for sale	(1,680)	-	(1,680)	-
Tangible fixed assets	161	541	(380)	(70)
Other	(85,610)	(89,839)	4,229	(5)
<b>Net impairment allowance</b>	<b>(1,681,075)</b>	<b>(1,130,396)</b>	<b>(550,679)</b>	<b>49</b>

The increase in net impairment allowance on consumer loans of PLN 395,623 thousand (i.e. 93%) and mortgage loans – an increase of PLN 150,698 thousand (i.e. 151%) had the largest impact on the change in the balance in 2009. Detailed information on the quality of the loan portfolio is included in Note 6.

The net impairment allowance recognised by Kredobank SA, which in 2009 amounted to PLN 278,723 thousand (i.e. 17% of the balance) constituted a significant portion of the balance. This was related to the macroeconomic situation in Ukraine which translated into a deterioration in the loan portfolio quality of Kredobank SA.

The other negative net impairment allowance at the amount of 85,610 thousand in 2009 concerned primarily the Bank with a negative net impairment allowance of PLN 41,015 thousand (i.e. 48%), PKO BP Inwestycje Group with a negative net impairment allowance of PLN 26,587 thousand (i.e. 31%) and Bankowy Fundusz Leasingowy Group with a negative net impairment allowance of PLN 15,479 thousand (i.e. 18%). The largest item was the negative net impairment allowance for off-balance sheet liabilities at the amount of PLN 36,645 thousand and impairment allowance for land for the loss of land and capitalised development costs at the amount of PLN 26,587 thousand.

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**IV. Discussion of consolidated financial statement components (cont.)**

**27. Administrative expenses**

Administrative expenses incurred by the Group in 2009 amounted to PLN 4,243,835 thousand and were PLN 52,440 thousand (i.e. 1%) lower than the expenses incurred in 2008. The Bank's expenses represented 90% of the total expense balance of the Group.

	<b>2009</b>	<b>2008</b>	<b>Change</b>	<b>Change</b>
	<b>PLN'000</b>	<b>PLN'000</b>	<b>PLN'000</b>	<b>(%)</b>
Staff costs	(2,307,514)	(2,429,394)	121,880	(5)
Overheads	(1,351,208)	(1,356,437)	5,229	-
Depreciation and amortisation expense	(469,152)	(429,904)	(39,248)	9
Taxes and other charges	(66,338)	(63,803)	(2,535)	4
Contribution and payments to Banking Guarantee Fund	(49,623)	(16,737)	(32,886)	196
<b>Total</b>	<b>(4,243,835)</b>	<b>(4,296,275)</b>	<b>52,440</b>	<b>(1)</b>

The decrease in total administrative expenses in 2009 resulted mainly from a drop in employee benefits (a drop of PLN 121,880 thousand, i.e. 5%) and was partly offset by an increase in amortization and depreciation expenses (an increase of PLN 39,248 thousand, i.e. 9%) and by contribution and payments to the Banking Guarantee Fund (an increase of PLN 32,886 thousand, i.e. 196%) in connection with the implementation of new secondary legislation relating to the method for calculating the contribution and covering the whole amount of the contribution by the Bank, whereas previously one-half of the amount was covered by the National Bank of Poland.

In 2009, the drop in staff costs comprised mainly lower wages and salaries – a drop of PLN 80,594 thousand (i.e. 4%). In 2009 staff costs amounted to PLN 1,943,269 thousand (PLN 2,023,863 thousand in 2008). The drop in staff costs resulted mainly from reducing the number of employees – the number of employees decreased by 1,627 full-time equivalents, from 33,609 in 2008 to 31,982 in 2009.

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**IV. Discussion of consolidated financial statement components (cont.)**

**27. Administrative expenses (cont.)**

The Group's effectiveness ratios in the audited year were as follows:

	<b>2009</b>	<b>2008</b>
	<b>PLN'000</b>	<b>PLN'000</b>
Administrative expenses	(4,243,835)	(4,296,275)
Average annual employment (in persons)	31,982	33,609
Administrative expenses per employee	(133)	(131)
Net profit per employee	72	96

The cost to income ratio amounted to 47.9% in the audited year (45.8% for 2008). At the same time, the net profit per employee dropped (a decrease of 25% compared with 2008). Administrative expenses per employee increased, mainly due to the decrease in the number of employees of 1,627 people, i.e. 5%.

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**IV. Discussion of consolidated financial statement components (cont.)**

**28. Income tax expense**

Total income tax expenses for the audited year were as follows:

	2009 PLN'000	2008 PLN'000	Change PLN'000	Change (%)
Deferred income tax	185,992	163,679	22,313	14
Current income tax expense	(817,478)	(1,001,835)	184,357	(18)
<b>Tax expense disclosed in the consolidated income statement</b>	<b>(631,486)</b>	<b>(838,156)</b>	<b>206,670</b>	<b>(25)</b>
Tax expense disclosed in equity	(21,690)	(12,735)	(8,955)	70
<b>Total</b>	<b>(653,176)</b>	<b>(850,891)</b>	<b>197,715</b>	<b>(23)</b>

The effective interest rate amounted to 21.5% in 2009 and was 0.4 p.p. lower than in the prior year.

**(a) Deferred income tax**

Deferred income tax relates to timing differences between the book values of assets and liabilities and their tax bases. The balance of deferred tax comprises deductible and taxable temporary differences:

	Statement of financial position 31.12.2009 PLN'000	Statement of financial position 31.12.2008 PLN'000	Income statement PLN'000
<b>Deferred income tax provision</b>			
Interest capitalized on normal mortgage loans	238,446	258,759	20,313
Interest accrued on receivables	88,454	100,892	12,438
Interest on securities	37,713	44,113	6,400
<b>Valuation of derivatives, including:</b>	<b>40,935</b>	<b>-</b>	<b>x</b>
- transferred to income statement	12,957	-	(12,957)
- transferred to equity	27,978	-	x
<b>Valuation of securities, including:</b>	<b>-</b>	<b>11,486</b>	<b>x</b>
- transferred to income statement	-	6,365	6,365
- transferred to equity	-	5,121	x
Difference between the book value and tax value of property, plant and equipment	233,516	196,000	(37,516)
<b>Other temporary taxable differences</b>	<b>23,190</b>	<b>34,612</b>	<b>x</b>
- transferred to income statement	22,940	23,662	722
- transferred to equity	250	10,950	x
<b>Deferred income tax liability, gross</b>	<b>662,254</b>	<b>645,862</b>	<b>x</b>
- transferred to income statement	634,026	629,791	(4,235)
- transferred to equity	28,228	16,071	x

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**IV. Discussion of consolidated financial statement components (cont.)**

**28. Income tax expense (cont.)**

**(a) Deferred income tax (cont.)**

	Statement of financial position 31.12.2009 PLN'000	Statement of financial position 31.12.2008 PLN'000	Income statement PLN'000
<b>Deferred income tax assets</b>			
Interest accrued on liabilities	326,419	223,004	103,415
<b>Valuation of securities, including:</b>	<b>15,090</b>	<b>27,825</b>	<b>x</b>
- transferred to the income statement	11,272	14,759	(3,487)
- transferred to equity	3,818	13,066	x
Adjustment to EIR valuation	191,507	166,449	25,058
Cost of provisions to be settled	236,494	159,789	76,705
Provision for anniversary bonuses and retirement bonuses	110,171	110,037	134
<b>Valuation of derivatives, including:</b>	<b>17,410</b>	<b>77,734</b>	<b>x</b>
- transferred to the income statement	17,410	77,734	(60,324)
- transferred to equity	-	-	x
<b>Other temporary deductible differences, including</b>			
	<b>147,847</b>	<b>99,676</b>	<b>x</b>
- transferred to the income statement	148,044	99,318	48,726
- transferred to equity	(197)	358	x
<b>Deferred tax assets, gross, including:</b>	<b>1,044,938</b>	<b>864,514</b>	<b>x</b>
- transferred to the income statement	1,041,317	851,090	190,227
- transferred to equity	3,621	13,424	x
<b>Total effect of temporary differences, including:</b>			
	<b>(382,684)</b>	<b>(218,652)</b>	
- transferred to the income statement	407,291	221,299	185,992
- transferred to equity	24,607	2,647	x
Deferred income tax assets	403,218	239,237	x
Deferred income tax liability	20,534	20,585	x
<b>Net impact of the deferred income tax on the income statement</b>	<b>-</b>	<b>-</b>	<b>185,992</b>

As the deductible temporary differences exceeded taxable temporary differences, as at the end of 2009 the Group recognized deferred income tax assets of PLN 403,218 thousand (PLN 239,237 thousand as at the end of 2008). The deferred income tax liability presented in the balance sheet amounted to PLN 20,534 thousand (PLN 20,585 thousand as at the end of 2008).

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**IV. Discussion of consolidated financial statement components (cont.)**

**28. Corporate income tax (cont.)**

**(b) Current income tax**

	2009 PLN'000	2008 PLN'000	Change PLN'000	Change (%)
<b>Profit before tax</b>	<b>2,943,270</b>	<b>3,977,343</b>	<b>(1,034,073)</b>	<b>(26)</b>
Current income tax at statutory rate (19%)	(559,221)	(755,695)	196,474	(26)
Effect of other income tax rates – in the Ukraine (25%)	13,183	(2,338)	15,521	(664)
<b>Permanent differences, including:</b>	<b>(71,965)</b>	<b>(84,280)</b>	<b>12,315</b>	<b>(15)</b>
Provisions released and positive revaluation not constituting taxable income	(43,301)	(123,743)	80,442	(65)
Other non-deductible costs	(43,185)	33,164	(76,349)	(230)
Dividend income	20,525	21,140	(615)	(3)
Other non-taxable income	17,098	2,330	14,768	634
Other	(23,102)	(17,171)	(5,931)	35
Other differences, including donations	(19,878)	(1,196)	(18,682)	1,562
Settlement of tax loss	6,395	5,353	1,042	19
<b>Total tax charge</b>	<b>(631,486)</b>	<b>(838,156)</b>	<b>206,670</b>	<b>(25)</b>
Effective tax rate	21,5%	21,1%	0,4%	2
Temporary difference resulting from deferred tax disclosed in the income statement	185,992	163,679	22,313	14
<b>Current income tax charge</b>	<b>(817,478)</b>	<b>(1,001,835)</b>	<b>184,357</b>	<b>(18)</b>

In the audited year, corporate income tax for Group companies was calculated at a rate of 19% (for Poland) and 25% (for the Ukraine), based on profit before tax determined on the basis of IFRS regulations as adopted by the EU, adjusted for non-taxable income and non-deductible costs. Corporate income tax for the year constitutes the sum of current income tax calculated by Group entities (including the Bank PLN 763,785 thousand and its subsidiaries – PLN 53,693 thousand).

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**IV. Discussion of consolidated financial statement components (cont.)**

**29. Reconciliation of the net profits/losses of the consolidated entities with the Group's consolidated net profit**

Reconciliation of the net profit/(losses) of the consolidated entities with the consolidated net profit of the Group for the audited year is shown below:

	<b>2009</b> <b>PLN'000</b>	<b>2008</b> <b>PLN'000</b>
<b>Net profit/(loss):</b>		
Powszechna Kasa Oszczędności Bank Polski SA	2,432,152	2,881,260
PKO Towarzystwo Funduszy Inwestycyjnych SA	60,850	104,815
Centrum Elektronicznych Usług Płatniczych eService SA	31,981	27,767
PKO BP BANKOWY Powszechnie Towarzystwo Emerytalne SA	23,619	23,519
Inteligo Financial Services SA	13,473	24,847
Centrum Finansowe Puławska	12,491	7,376
Bankowy Fundusz Leasingowy SA	3,184	10,081
PKO Finance AB	63	95
Fort Mokotów Inwestycje Sp. z o.o.	(602)	-
PKO BP Inwestycje Sp. z o.o.	(6,623)	(4,531)
Bankowe Towarzystwo Kapitałowe SA	(4,693)	1,704
Kredobank SA	(190,192)	(198,209)
<b>Total net profit of the consolidated entities</b>	<b>2,375,703</b>	<b>2,878,724</b>
<b>Consolidation eliminations</b>	<b>(63,919)</b>	<b>260,463</b>
including:		
- dividends	(96,179)	(108,877)
- impairment allowances on goodwill	(3,402)	(76,360)
- impairment allowances on investment of subsidiaries	67,622	318,030
- other	(31,960)	127,670
<b>Net profit of the Group</b>	<b>2,311,784</b>	<b>3,139,187</b>

The elimination of the impairment allowance of PLN 67,622 thousand related to the impairment allowance in 2009 recognised by the Bank for capital exposure in Kredobank SA.

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**IV. Discussion of consolidated financial statement components (cont.)**

**30. Off-balance sheet items**

The value of off-balance sheet liabilities granted and received as at the balance date is shown in the table below:

	<b>31.12.2009</b> <b>PLN'000</b>	<b>31.12.2008</b> <b>PLN'000</b>	<b>Change</b> <b>PLN'000</b>	<b>Change</b> <b>(%)</b>
<b>Off-balance sheet liabilities granted, including:</b>	<b>32,882,640</b>	<b>30,444,143</b>	<b>2,438,497</b>	<b>8</b>
Financial liabilities granted	27,385,159	26,141,444	1,243,715	5
Guarantees and warranties granted – nominal value	5,497,481	4,302,699	1,194,782	28
<b>Off-balance sheet liabilities received, including:</b>	<b>4,580,021</b>	<b>4,928,425</b>	<b>(348,404)</b>	<b>(7)</b>
Guarantees and warranties received	3,736,394	4,175,307	(438,913)	(11)
Other	843,627	753,118	90,509	12

The increase in off-balance sheet liabilities granted of PLN 2,438,497 thousand (i.e. 8%) was due to an increase in off-balance sheet financial liabilities of PLN 1,243,715 thousand (i.e. 5%) and an increase in the nominal value of guarantees and warranties granted of PLN 1,194,782 thousand (i.e. 28%). As at the balance date, the Bank's share in the balance amounted to 99,5% (99,7% as at 31 December 2008).

Off-balance sheet liabilities received in 2009 decreased by PLN 384,404 thousand (i.e. 7%). The Bank's share in the balance as at 31 December 2009 amounted to 73%, i.e. PLN 3,327,395 thousand (PLN 3,829,183 thousand, i.e. 78% as at 31 December 2008). Moreover, a significant share in the balance had Kredobank SA (24%, i.e. 1,090,527 thousand) and Bankowy Fundusz Leasingowy SA Group (4%, i.e. PLN 161,632 thousand). As at the end of 2008, off-balance sheet liabilities received balances by Kredobank and the Bankowy Fundusz Leasingowy SA Group amounted to PLN 868,510 thousand, i.e. 18% and PLN 230,732, i.e. 5% thousand respectively.

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**V. The independent registered auditor's statement**

- (a) The Management Board of the Parent Company provided all the information, explanations, and representations required by us in the course of the audit and provided us with a representation letter confirming the completeness of the information included in the consolidation documentation and the disclosure of all contingent liabilities and post-balance-sheet events which occurred up to the date on which that letter was signed.
- (b) The scope of the audit was not limited.
- (c) The consolidation documentation was complete and accurate and it is stored in a manner ensuring its proper safeguarding.
- (d) The accounting policies and disclosures specified by the Parent Company's Management complied with the International Financial Reporting Standards as adopted by the European Union in all material respects. There were no changes in the accounting policies and methods compared with the previous year.
- (e) The calculation of goodwill and its recognition in the consolidated financial statements complied with IFRSs as adopted by the European Union in all material respects.
- (f) The consolidation of equity items and the determination of minority interests were carried out properly in all material respects.
- (g) The elimination of mutual balances (receivables and payables) and transactions (revenue and costs) of the consolidated entities were carried out in accordance with the IFRSs as adopted by the European Union in all material respects.
- (h) Eliminations of gains/losses unrealized by the consolidated entities included in the value of assets and in respect of dividends were conducted in accordance with the IFRSs as adopted by the European Union in all material respects.
- (i) The Notes to the consolidated financial statements present all the material information required by the IFRSs as adopted by the European Union.
- (j) The information in the Group Directors' Report for the year ended 31 December 2009 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws No. 33, item 259) and is consistent with the information presented in the audited financial statements.
- (k) No significant violations of the law affecting the consolidated financial statements and significant violations of the Memorandum of Association of the Parent Company were noted in the course of the audit.

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**V. The independent registered auditor's statement (cont.)**

- (l) We determined the materiality levels at the planning stage. Materiality levels specify the limits up to which identified irregularities may be left unadjusted without any detriment to the quality of the financial statements and to the correctness of the underlying books of account, since failing to make such adjustments will not be misleading for the readers of the financial statements. Materiality measures both the quantity and quality of audited items and that is why it varies for different statement of financial position and income statement items. Due to the complexity and quantity of the materiality levels adopted for audit purposes, they are included in the audit documentation.
- (m) The total regulatory requirement, calculated on the consolidated basis, amounted to PLN 9,749,332 thousand as at the balance date. The capital adequacy ratio, calculated on the consolidated basis, as at 31 December 2009 amounted to 14.66%. As at the balance date, the Group complied with the prudence principle in all material respects.
- (n) The consolidated financial statements for the previous year were audited by PricewaterhouseCoopers Sp z o.o. The registered auditor issued an unqualified opinion.
- (o) The consolidated financial statements of the Group as at and for the year ended 31 December 2008 were approved by Resolution No. 38/2009 passed by the General Shareholders' Meeting of the Parent Company on 30 June 2009, filed with the National Court Register in Warsaw on 14 July 2009 and published in Monitor Polski B No.1792 on 29 September 2009.



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## VI. Final notes and comments

This report has been prepared in connection with our audit of the consolidated financial statements of Powszechna Kasa Oszczędności Bank Polski SA Group, of which Powszechna Kasa Oszczędności Bank Polski SA is the Parent Company with its registered office at 15 Puławska Street, in Warsaw. The audited consolidated financial statements comprised:

- (a) the consolidated statement of financial position as at 31 December 2009, showing total assets and total liabilities & equity of PLN 156,478,685 thousand;
- (b) the consolidated income statement for the period from 1 January to 31 December 2009, showing a net profit of PLN 2,311,784 thousand;
- (c) the consolidated statement of comprehensive income for the period from 1 January to 31 December 2009 showing a total net comprehensive income of PLN 2,401,214 thousand;
- (d) the consolidated statement of changes in equity for the period from 1 January to 31 December 2009, showing an increase in equity of PLN 6,437,854 thousand;
- (e) the consolidated statement of cash flows for the period from 1 January to 31 December 2009, showing a net increase in cash and cash equivalents of PLN 722,150 thousand;
- (f) additional information on adopted accounting policies and other explanatory notes.

The financial statements were signed by the Management Board of the Parent Company on 9 March 2010. This report should be read in conjunction with the Independent Registered Auditor's Opinion to the General Shareholders' Meeting and the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski SA, signed on 10 March 2010, concerning the above-mentioned financial statements. The opinion is a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the consolidated financial statements as a whole.

Conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:

Antoni F. Reczek  
President of the Management Board of PricewaterhouseCoopers Sp. z o.o.  
Key Registered Auditor  
No. 90011

Warsaw, 10 March 2010