



**PKO BANK POLSKI**  
**SPÓŁKA AKCYJNA**

**THE PKO BP SA DIRECTORS' REPORT**  
**FOR THE YEAR 2008**

WARSAW, APRIL 2009



**CONTENTS:**

|  |           |
|--|-----------|
| <b>1. INTRODUCTION</b>   | <b>4</b>  |
| 1.1 KEY FINANCIAL INDICATORS OF PKO BP SA                                | 4         |
| 1.2 PKO BP SA AGAINST ITS PEER GROUP                                     | 5         |
| <b>2. EXTERNAL ENVIRONMENT</b>   | <b>6</b>  |
| 2.1 MACROECONOMIC FACTORS  | 6         |
| 2.2 SITUATION ON THE STOCK EXCHANGE                                      | 6         |
| 2.3 SITUATION OF THE POLISH BANKING SECTOR                               | 7         |
| 2.4 THE MAIN AREAS OF RISK AND ANTI-CRISIS MEASURES ON THE POLISH MARKET | 8         |
| 2.5 REGULATORY ENVIRONMENT   | 9         |
| <b>3. FINANCIAL RESULTS OF PKO BP SA</b>                                 | <b>11</b> |
| 3.1 FACTORS INFLUENCING RESULTS OF PKO BP SA IN 2008                     | 11        |
| 3.2 INCOME STATEMENT   | 11        |
| 3.3 BALANCE SHEET OF PKO BP SA   | 15        |
| <b>4. BUSINESS DEVELOPMENT</b>   | <b>18</b> |
| 4.1 DIRECTION OF DEVELOPMENT   | 18        |
| 4.2 MARKET SHARE OF PKO BP SA  | 18        |
| 4.3 BUSINESS SEGMENTS  | 19        |
| 4.3.1 RETAIL SEGMENT   | 19        |
| 4.3.2 CORPORATE SEGMENT  | 22        |
| 4.3.3 INVESTMENT SEGMENT   | 25        |
| 4.4 INTERNATIONAL CO-OPERATION   | 27        |
| 4.5 ACTIVITIES IN THE AREA OF PROMOTION AND IMAGE BUILDING               | 27        |
| <b>5. INTERNAL ENVIRONMENT</b>   | <b>31</b> |
| 5.1 ORGANISATION OF PKO BP SA  | 31        |
| 5.2 PRINCIPLES OF RISK MANAGEMENT  | 31        |
| 5.2.1 CREDIT RISK  | 32        |
| 5.2.2 MARKET RISK  | 33        |
| 5.2.3 OPERATIONAL RISK   | 34        |
| 5.2.4 COMPLIANCE RISK  | 35        |
| 5.2.5 CAPITAL ADEQUACY   | 35        |
| 5.3 ORGANISATIONAL AND CAPITAL STRUCTURE                                 | 37        |
| 5.4 AGREEMENTS, BENEFITS AND COMPETENCES OF THE AUTHORITIES OF PKO BP SA | 40        |
| 5.5 HUMAN RESOURCES IN PKO BP SA   | 43        |
| 5.5.1 REMUNERATION AND INCENTIVE SYSTEM OF PKO BP SA                     | 43        |
| 5.5.2 REMUNERATION POLICY  | 44        |
| 5.5.3 BENEFITS FOR EMPLOYEES   | 44        |



|   |           |
|---|-----------|
| 5.5.4 NUMBER OF EMPLOYEES   | 45        |
| 5.5.5 TRAINING POLICY   | 45        |
| <b>6. INVESTOR RELATIONS</b>  | <b>47</b> |
| 6.1 SHARE PRICE OF PKO BP SA AND ITS COMPETITORS  | 47        |
| 6.2 CO-OPERATION WITH RATING AGENCIES   | 47        |
| <b>7. COMPLIANCE WITH THE RULES FOR CORPORATE GOVERNANCE</b>  | <b>49</b> |
| 7.1 THE RULES FOR CORPORATE GOVERNANCE AND THE SCOPE OF USE   | 49        |
| 7.2 MAIN CHARACTERISTICS OF PKO BP SA INTERNAL CONTROL SYSTEM   | 49        |
| 7.3 NUMBER OF SHARES AND SHAREHOLDERS OF PKO BP SA  | 50        |
| 7.4 THE MEMORANDUM OF ASSOCIATION AND MANNER OF FUNCTIONING OF ANNUAL GENERAL MEETING OF<br>PKO BP SA | 51        |
| 7.5 THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD OF PKO BP SA IN THE REPORTING PERIOD               | 53        |
| <b>8. OTHER INFORMATION</b>   | <b>59</b> |



## 1. INTRODUCTION

### 1.1 Key financial indicators of PKO BP SA

|                                 |     |          |         |       |       |   |
|---------------------------------|-----|----------|---------|-------|-------|---|
| NET PROFIT                      | PLN | 2 881.3  | million | 5.9%  | (y/y) | the result of increase in result on business activities by 24.9% (y/y), with 7.7% (y/y) increase in costs.  |
| RESULTS ON BUSINESS ACTIVITIES* | PLN | 8 816.0  | million | 24.9% | (y/y) | due to the increase in interest result by 32.5% (y/y) and in foreign exchange result by 40.5% (y/y).  |
| NET INTEREST INCOME             | PLN | 5 968.1  | million | 32.5% | (y/y) | the result of 32.9% (y/y) increase in net loan portfolio volume and higher deposit margins.   |
| FEE AND COMMISSION INCOME       | PLN | 2 132.8  | million | 7.0%  | (y/y) | the result of increase in fee and commission income due to granted loans as well as 2.7 % (y/y) increase in the number of banking cards and transactions made using those cards offset by a decrease in fee and commission income from management fees. |
| COSTS                           | PLN | -3 969.2 | million | 7.7%  | (y/y) | the result of 10.9% (y/y) increase in non-staff related expenses and staff costs by 5.3% (y/y).   |
| ROE net                         |     | 22.8%    |         | - 2.2 | pp.   | the result of 5.9% (y/y) increase in net profit and increase in equity by total of 15.3% (y/y).   |
| ROA net                         |     | 2.4%     |         | - 0.2 | pp.   | with 24.6% (y/y) increase in assets.  |

\* Result on business activities defined as operating profit before administrative expenses, net impairment allowance.

2008 was a very good year in terms of financial results realised by PKO BP SA. Nevertheless, there should be noted events, that took place in the second half of the year in the financial markets, including the Polish market, that confirmed the adequacy of strategy adopted by PKO BP SA, which bases on dynamic business activities development supported by stable deposit and capital base, along with efficiency enhancing and controlling of administrative expenses.

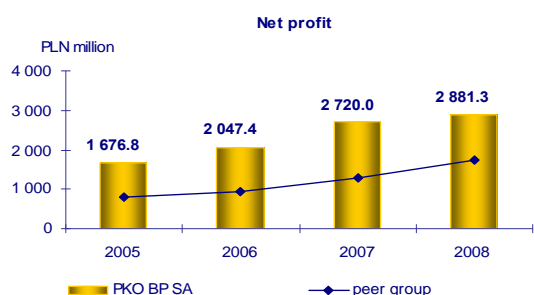
In 2008, net profit of the Bank amounted to PLN 2 881.3 million, which constitutes a change of PLN 161.3 million compared with the previous year. Such result was determined by the following factors:

- ⇒ high growth rate of result on business activities of PKO BP SA, which amounted to PLN 8 816.0 million (+24.9% y/y),
- ⇒ efficiency enhancement in cost management, which increased by 7.7% (y/y). Due to high growth rate of income of PKO BP SA, the C/I ratio declined by 7.2 pp. to 45.0% (y/y),
- ⇒ increase in the Bank's assets by PLN 25.9 billion (y/y) to PLN 131.2 billion resulting from intensive sales of loans financed by the increase in amounts due to customers of PKO BP SA,
- ⇒ effective structure of the balance sheet – significant increase in deposits of PKO BP SA by PLN 16.6 billion enabled a dynamic growth of the loan portfolio by 32.9% (y/y). As at the end of 2008, the ratio of loans to deposits within the Bank amounted to 96.3%, remaining at a lower level than the average for the banking sector.

High net profit in 2008 resulted in high return on equity of PKO BP SA. ROE net amounted to 22.8% and remained stable compared with the previous year.

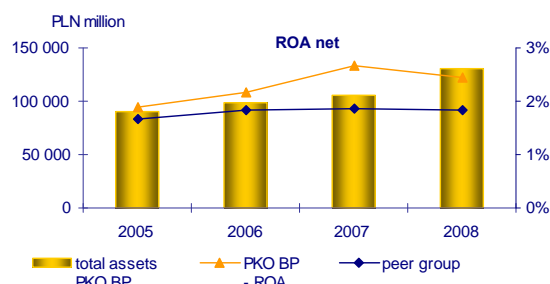


## 1.2 PKO BP SA against its peer group<sup>1</sup>



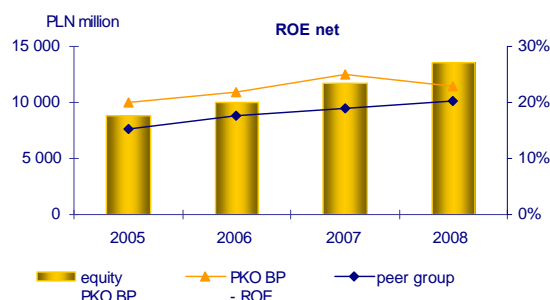
Relatively favourable macroeconomic situation in the Polish economy, growing scale of operations and increase in interest rates contributed to increase in financial results of the banks in the first three quarters of 2008. Negative trends appeared in the 4th quarter of 2008 and were a reflection of the financial crisis on international markets.

In 2008, PKO BP SA also achieved record profits, significantly above the average of its peer group.



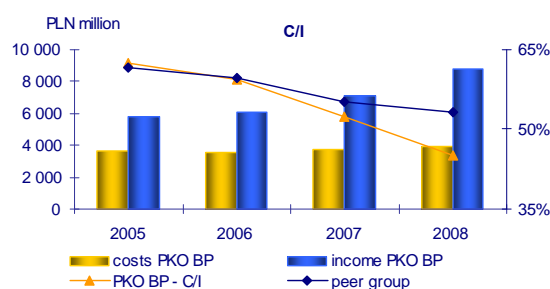
Fast growth rate, resulting from aggressive development strategy pursued by particular institutions in order to quickly win the market, was reflected in increased total assets of the banks.

The PKO BP SA's active policy also contributed to a significant increase in its total assets, accompanied by high return on assets (ROA net amounted to 2.4% as at the end of 2008, compared with 2.7% as at the end of 2007).



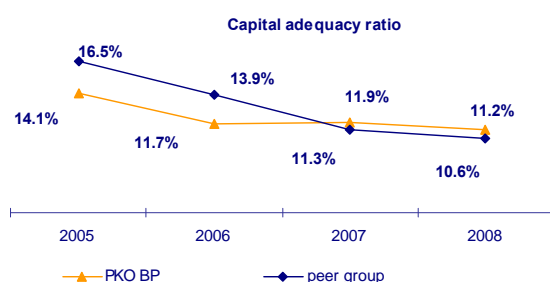
In 2008 net profit of the banking sector was significantly higher than in the same period of 2007. Better results were mainly the effect of increase in interest result combined with a corresponding slower growth of operating expenses.

In 2008, PKO BP SA maintained its profitability at a stable level (ROE net amounted to 22.8% as at the end of 2008, compared with 25.0% in 2007).



The accelerated growth of business resulted in an increase in operating expenses in the banking sector, both in staff costs and overhead expenses. Regardless of this increase in costs, the cost to income ratio (C/I) of the banks decreased (on a year-on-year basis), because the growth rate of income significantly exceeded the growth rate of costs.

In 2008 PKO BP SA also significantly improved the relation of costs to income, which remained significantly lower than average in the peer group.



The capital adequacy of the banking sector in 2008 remained at the level, which allows a further stable development.

The capital adequacy ratio in PKO BP SA was maintained at a considerably higher level than in the peer group, mainly due to capital accumulation.

<sup>1</sup> Peer group includes: Pekao SA, BRE Bank SA, ING Bank Śląski SA, BZ WBK SA. Ratios calculations are based on data available in financial statements issued by the banks constituting peer group. Data are weighted by total assets.



## 2. EXTERNAL ENVIRONMENT

### 2.1 Macroeconomic factors

In 2008 there was a deterioration of economic situation in the US and EU and financial crisis on the international markets, followed by a substantial downfall of domestic economy. In 2008, GDP growth rate amounted to 4.8% (y/y), with a decrease from 6.0% in the first half of 2008 to 3.7% in the second half of 2008. Among the factors which contributed to deceleration of the GDP growth, the decrease in the growth rate of gross capital expenditure on fixed assets due to a dramatic fall in new capital expenditure projects realized by the companies was the most significant. The dynamics of private consumption remained at a stable, high level (exceeding 5%). Despite a strong decline in export sales, the contribution of foreign trade to the GDP growth was only minimally negative, due to the fact that there was also a slight fall in the dynamics of imports.

In 2008, the average inflation rate measured by reference to the consumer price index increased to 4.2%, from 2.5% in 2007. During the first eight months of the year, the inflation rate increased to 4.8% (y/y), as a result of a high growth in prices of foods and fuels (the global effect of high prices for raw materials), and an increase in core inflation, in an environment of high demand in the economy and high growth rate of salaries and wages. As a result of slump in fuel prices (which in turn was a consequence of decrease of price and demand on fuels) there was a significant decrease in inflation rate (to 3.3% y/y in December) in the last months of 2008. The appreciation of the Polish zloty noted in the first half of the year had a dampening effect on inflation, but the reversal of the trend in the zloty market reduced the scale of inflation decrease towards the end of the year.

In accordance with the "Monetary Policy Guidelines for 2008", the monetary policy objective was to maintain inflation at 2.5%, with a symmetrical tolerance range for deviations of +/- 1 percentage point. An increase in inflation above the inflation target in the monetary policy horizon, in the context of high dynamics of wages in the economy and strong domestic demand, led the Monetary Policy Council to continue the cycle of monetary policy tightening (commenced in 2007). As a result, by June interest rates were increased by 100 basis points to 6.0% for the NBP reference rate. The deepening of the global financial crisis which was reflected in deterioration in the global, and subsequently, domestic macroeconomic situation; and the loosening of the monetary policy worldwide (e.g. Fed, ECB) contributed to a reversal of the monetary policy bias and to interest rates cuts in November and December 2008 totalling 100 basis points, to a level of 5.0% for the NBP reference rate.

After a period of strong appreciation of PLN which lasted until July 2008, a net outflow of foreign capital from emerging markets (including Poland), resulting from increase in risk aversion (to historically high levels) due to financial crisis aggravation, resulted in sharp decrease of PLN exchange rate (in particular during the 4th quarter of 2008). This effect resulted in PLN exchange rate decreasing by 16.5% as compared to EUR, 21.5% as compared to USD and almost 30% as compared to CHF.

The spillover of the financial crisis to the Polish interbank market required the NBP to take new measures supporting banking sector, mainly starting to provide liquidity to commercial banks, both in the national currency (through repo operations) and in foreign currencies, particularly CHF (through FX swap transactions).

The slowdown in economic growth in the second half of the year resulted in the deterioration of the situation in the labour market, which was very good in the first months of 2008. During 2008, the registered unemployment rate decreased by 2 pp. to 9.5% in December 2008, and in October it fell to as low as 8.8%. In the last months of the year, the employment and salary growth rates also decreased notably.

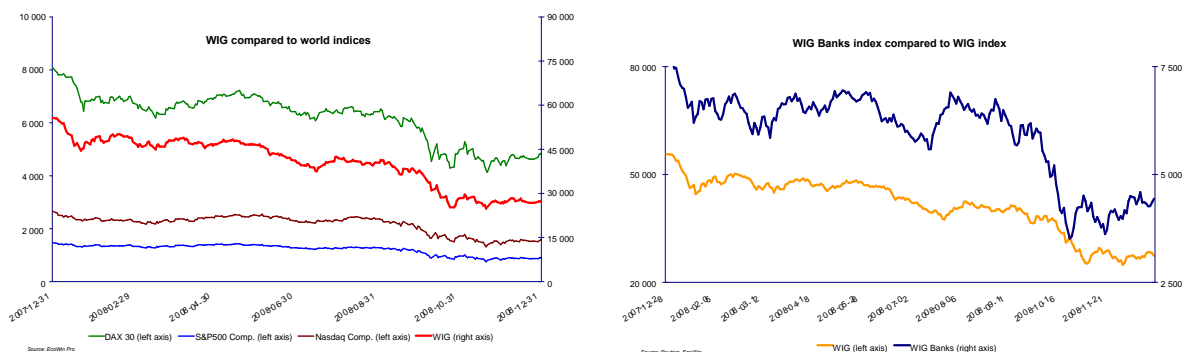
### 2.2 Situation on the Stock Exchange

In 2008, situation on Warsaw Stock Exchange was strongly influenced by the negative indicators on the foreign stock exchanges and uncertainty concerning future standing of the Polish economy. As a result, investors became more risk-averse and there was an outflow of both domestic and foreign capital from the stock exchange.



Changes in the main share price indices on WSE were strongly positively correlated with the changes of share prices in the USA and Europe. WIG Index has fallen by 49.8% y/y, while WIG Banks by 55.2% y/y. Market capitalization of all listed companies at the end of 2008 declined by 70% y/y and reached PLN 465.5 billion.

Situation on the WSE determined banking and financial non-banking markets. The negative consequences were mostly experienced by the investment funds, whose assets decreased by almost 45% y/y, i.e. to PLN 73.7 billion. During 2008 investment funds recognized a net outflow of almost PLN 29 billion (balance of inflows and redemptions).



### 2.3 Situation of the Polish banking sector

The global financial crisis resulted in changes of banking environment with consequences clearly visible in the 4th quarter of 2008. Decrease of trust resulted in reduced availability of financing on interbank market. This situation, as well as reduced financing from foreign based parent companies, resulted in increased competition on deposit market. Cost of capital for banking operations has risen. Moreover, the banks have tightened the loan granting criteria.

#### Lending activity

The first three quarters of 2008 were a period of extensive growth in lending activity, positively affected by the favourable macroeconomic situation, fast growth in deposits and inflow of foreign funds and the loosening of credit policies by banks.

In the last quarter of 2008, the situation reversed. Due to the impact of the global crisis, the deteriorating economic outlook and significant reduction in liquidity in the interbank market (especially in CHF), banks tightened their credit policies and limited sales of loans denominated in foreign currencies. Increase of loans volume derived mainly from Polish currency depreciation increasing the value in Polish zloty of loans denominated in foreign currencies. As at the end of 2008, loans denominated in foreign currencies constitute 33% of all loans.

During 2008, loans volume grew by 37% y/y (by PLN 169 billion), including 45.5% y/y increase in consumer loans, 28% y/y increase in corporate loans. Mortgage loan portfolio was the fastest growing (by 65% y/y), as 70% of this consisted of loans denominated in foreign currencies.

#### Financing sources of activities

Major financing source of credit activity in 2008 were foreign funds. Banks owned by foreign investors received financing within their groups. Polish banking sector received PLN 77 billion from foreign financial institutions, of which PLN 64 billion came from foreign banks.

In the second half of 2008, the period of cheap and easily available sources of financing ended. The financing conditions changed, and banks had to adjust their strategies to the new situation. Continuing credit growth exceeding the deposit growth, liquidity pressures and limited access to financing from the interbank market, and in particular, the possibility of losing financial support from foreign parent banks resulted in an increasing demand from banks for stable sources of financing. The need to have its own, stable deposit base became an important driver of the banks' policies towards customers. Total amounts due to customers grew by 20% y/y (approximately PLN 96 billion) mainly as a result of 24% (y/y) growth of amounts due to retail clients. Amounts due to corporate entities increased by 3.7% y/y.



## **Results of the banking sector in 2008**

Poor financial results of the banks in the last quarter of 2008 significantly reduced the annual profit dynamics in the banking sector. In the same period, unfavourable situation in the area of FX derivatives materialized, the borrowers' situation deteriorated, as did the quality of the loan portfolio. The growth rate of net profit in the banking sector exceeding 20% y/y as at the end of 3rd quarter fell to 8% y/y. Sector's net profit amounted to PLN 14.7 billion. Negative position of net impairment allowance increased threefold compared to 2007.

Net interest income in the banking sector increased by 23% y/y. Substantial increase in loans and their interest rates enabled the banks to retain high interest income. In the 4th quarter of 2008 interest expenses increased dynamically, as a result of an aggressive pricing policy implemented by Bank's in order to expand financing base.

The efficiency of the banking sector remained at a high level. ROE ratio amounted to 22.4%, ROA – 2%. However, the unfavorable situation in the 4th quarter had a dampening effect on the growth tendency – the level as at the end of 2008 was lower than in the previous periods. Operating costs ratio (C/I) amounted to 53.9%, i.a. as a result of increase in number of branches and employment.

Increasing operating risk affecting the bank's higher capital requirements contributed to the decrease in capital adequacy ratio. Its average level in the banking sector accounted for 10.8%, compared with 12.1% as at the end of 2007.

### **2.4 The main areas of risk and anti-crisis measures on the Polish market**

#### **Liquidity risk**

In 2008, the liquidity situation in the banking sector changed:

- the gap between loans and deposits widened (to 109%);
- the period of easily available external financing came to an end:
  - ⇒ as a result of trust crisis, the interbank market stagnated,
  - ⇒ the cost of financing in the international financial markets increased,
  - ⇒ the risk that a flow of funds from foreign parent companies would stop increased as a result of deterioration in their financial position.
- the deposit market became the main source of financing the lending activities.

#### **Capital**

The change in regulations on capital adequacy (based on the principles of the New Capital Accord) caused increase of total bank's capital requirement (including credit risk and operational risk). Increase in the loan portfolio volume increased capital requirements. Despite growth in own funds, capital adequacy deteriorated and the capital adequacy ratio fell to 10.8% from 12.1% in 2007.

#### **Credit risk**

Under conditions of deteriorating overall economic situation the risk of loan portfolio quality deterioration increased – net impairment allowance increased by 173% (y/y). Banks tightened conditions and criteria of loan granting, including: margins, assessing the debt capacity, required collateral. Further deterioration of financial situation negatively influencing standing of individual and corporate clients may result in the increase of credit risk.

#### **Currency risk – fierce depreciation of Polish zloty**

A strong depreciation of the Polish currency in the second half of 2008 contributed to:

- a material increase in the volume of loans denominated in foreign currencies;
- a decrease in the value of collateral;
- a higher default risk of corporate clients relating to settlements of derivative transactions (currency options).



The weak zloty contributed to higher costs which banks have to incur to renew swaps used to finance long-term loans denominated in foreign currencies. In future periods, a weakening zloty may result in losses due to materialization of credit risk associated with loans denominated in foreign currencies and in an increase of liquidity risk.

### **Anti-crisis measures**

The government adopted *The Plan for Stability and Growth*. The majority of initiatives included in the Plan will be implemented in 2009. The Plan envisages supplying Polish economy with PLN 91.3 billion during 2009 and 2010 and includes:

- activities supporting stability of the financial system, including guarantees for bank deposits and guarantees for interbank loans,
- activities supporting economic growth, including reduction of fiscal and para-fiscal liabilities and increasing the investment demand,
- the anti-crisis plan includes:
  - ⇒ increasing the availability of loans for enterprises,
  - ⇒ support for the financial market institutions,
  - ⇒ strengthening the system of guarantees and warranties for SME,
  - ⇒ accelerating investments financed with the EU funds,
  - ⇒ introduction of a higher investment relief for newly established firms, removing barriers to investments in the data communications infrastructure, improving the position of recipients of power.

The National Bank of Poland announced *The Trust Package* for banks, in order to:

- enable banks to obtain funds in PLN for periods longer than one day,
- enable banks to obtain funds in foreign currencies,
- increase the ability to obtain liquidity in PLN by expanding the list of collateral eligible to secure transactions with the NBP.

## **2.5 Regulatory environment**

In 2008, the banking sector was affected by the following new regulations:

- Resolutions 1-5 of the Commission for Banking Supervision dated 13 March 2007 (NBP Official Journal Nos. 2 and 3, with subsequent amendments), which have implemented the EU directives based on the New Capital Accord to the Polish law;
- Resolution 9/2007 of the Commission for Banking Supervision dated 13 March 2007 on determining liquidity norms applicable to banks (NBP Official Journal No 3), effective as of 1 January 2008, which obliged banks from 30 June, to comply with the four supervisory current- and long term liquidity measures specified in this resolution and to report exceeds,
- Resolutions of the Banking Guarantee Fund Board, which, as of 1 January 2008, amended banks' obligations with respect to the setting up of a guaranteed money protection fund and the obligatory annual payments to be made to the Banking Guarantee Fund,
- Decree of the President of the Council of Ministers dated 27 December 2007 on payments to cover costs of banking supervision (Journal of Laws No. 249, item 1855), which set out the level of costs incurred by the banks due to being covered, as of 1 January 2008, by financial supervision;
- Decree of the Council of Ministers dated 24 December 2007 on the specific accounting principles for investment funds (Journal of Laws No. 248, item 1859), effective from 31 December 2007;
- Financial Supervision Authority recommendations on review of credit policies and lending procedures, and preparing amendments to Recommendation S (Recommendation SII published on 17 December 2008) and recommendation T (in progress), which contributed to the tightening of lending policies by banks;
- The act of 4 September 2008 – amendment to the Banking Act (Journal of Laws 192, item 1179), which imposed additional information duties on banks, related to widened access to bank secrecy (effective as of 12 November 2008),
- Amendment to the Act on the Social Security System (Journal of Laws of 2007, no. 11, item 74), changing the additional costs of labor by decreasing the pension contribution payable by employers as of 1 January 2008,



- Resolution No. 12/1170/2007 of the Warsaw Stock Exchange Council of 4 July 2007 implementing new corporate governance rules (*Good Practices for Companies Listed on the WSE*), effective from 1 January 2008, which, *inter alia*, imposed new information requirements on issuers;
- The act of 7 November 2008 – amendment to the Value Added Tax Act and other acts (Journal of Laws No. 209, item 1320), effective as of 1 December 2008 (introduced simplifications for VAT registered companies).

The situation of banks was also affected by:

- 'Trust Package' of the National Bank of Poland aimed at improving liquidity on the interbank market by, among others:
  - ⇒ repo operations with maturity date of 3 months,
  - ⇒ introducing currency SWAP operations,
  - ⇒ using currency deposits as a refinanced loans collateral,
  - ⇒ introducing modifications in lombard loan operational system.
- Implementation of a uniform system of payments in Euro (SEPA), which introduces uniform principles, rules and standards for domestic and trans-border payments in Euro. The directive of the Parliament and of the Council of European Union of 13 November 2007 (PSD) constitutes the legal basis for SEPA.



### 3. FINANCIAL RESULTS OF PKO BP SA<sup>2</sup>

PKO BP SA did not publish any forecasts of financial results for the year 2008.

#### 3.1 Factors influencing results of PKO BP SA in 2008

First three quarters of 2008 were a period of prosperity for both PKO BP SA and the whole Polish banking sector. In this period, PKO BP SA generated 93.1 % of its net profit for the year 2008. Net interest income increased by 32.5% (y/y) as a result of dynamic growth in sales of loans and interest on loans (growth of market interest rates), which allowed to maintain high interest income.

Net profit of PKO BP SA in the 4th quarter of 2008 was influenced by worsening economic situation in Poland, following steep economic downturn in USA and the Eurozone as well as economic slowdown in Ukraine, where a subsidiary company of PKO BP SA, Kredobank SA, operates. Crisis aggravation in high developed economies led to sudden limitation of the capital inflow to the Ukrainian market, which in turn resulted in significant deterioration of perspectives of financial situation of enterprises and banks in this country.

In the 4th quarter of 2008 interest expenses grew rapidly as a result of attractive deposit offer for the customers of PKO BP SA. Moreover, depreciation of PLN resulted in sharp value increase of foreign currency denominated balance sheet items, creating an urgent demand for new financing.

Despite that situation, the Bank has managed to cope with all the challenges. Banks efficiency remained at high level - ROE amounted to 22.8% as at the end of 2008. However, negative events of the 4th quarter had a dampening effect on the growth tendency – ROE level achieved as at the end of 2008 was lower than in previous quarters.

High level of capital adequacy of PKO BP SA was enough to cover increasing capital demand resulting from increase in credit action. As at the end of 2008, it amounted to 11.24%, while the minimum threshold was set at 8% according to the Banking Act.

In the 4th quarter of 2008, PKO BP SA recognized a write-down on capital exposure in the subsidiary company Kredobank SA in the amount of PLN (-)356.1 million. Without this adjustment, the net result of PKO BP SA would have amounted to PLN 3 237.4 million in 2008.

#### 3.2 Income statement

In 2008, net profit of PKO BP SA ("the Bank") amounted to PLN 2 881.3 million ((+) 5.9% y/y).

In the income statement of PKO BP SA for the year 2008 the sum of income items amounted to PLN 8 816.0 million and was PLN 1 758.5 million higher than in 2007 (increase by 24.9% y/y).

<sup>2</sup> In this section of the Report, any differences in total balances and percentages result from rounding the amounts to PLN million and rounding percentages to one decimal place.



Table 1. Income statement of PKO BP SA (PLN million)

| INCOME STATEMENT<br>OF Powszechna Kasa Oszczędności Bank Polski SA                    |                |                |                    |               |
|---|----------------|----------------|--------------------|---------------|
|   | 2008           | 2007           | Change<br>(in PLN) | Change<br>(%) |
| Interest income   | 8 646.4        | 6 245.1        | 2 401.3            | 38.5%         |
| Interest expense  | (2 678.3)      | (1 742.0)      | (936.4)            | 53.8%         |
| <b>Net interest income</b>  | <b>5 968.1</b> | <b>4 503.1</b> | <b>1 465.0</b>     | <b>32.5%</b>  |
| Fee and commission income   | 2 813.1        | 2 648.1        | 165.0              | 6.2%          |
| Fee and commission expense  | (680.3)        | (654.3)        | (25.9)             | 4.0%          |
| <b>Net fee and commission income</b>  | <b>2 132.8</b> | <b>1 993.8</b> | <b>139.0</b>       | <b>7.0%</b>   |
| Dividend income   | 130.9          | 52.1           | 78.8               | 2.5x          |
| Net income from financial instruments designated at fair value through profit or loss | (195.4)        | (76.7)         | (118.7)            | 2.5x          |
| Gains less losses from investment securities  | (1.0)          | 6.5            | (7.5)              | -114.6%       |
| Net foreign exchange gains  | 734.6          | 522.7          | 211.9              | 40.5%         |
| Other operating income  | 160.7          | 140.6          | 20.1               | 14.3%         |
| Other operating expenses  | (114.7)        | (84.6)         | (30.1)             | 35.6%         |
| <b>Net other operating income and expense</b>   | <b>46.0</b>    | <b>56.1</b>    | <b>(10.0)</b>      | <b>-17.9%</b> |
| Net impairment allowance  | (1 148.9)      | (44.9)         | (1 104.0)          | 25.6x         |
| Administrative expenses   | (3 969.2)      | (3 685.4)      | (283.8)            | 7.7%          |
| <b>Operating profit</b>   | <b>3 697.9</b> | <b>3 327.1</b> | <b>370.7</b>       | <b>11.1%</b>  |
| <b>Profit before income tax</b>   | <b>3 697.9</b> | <b>3 327.1</b> | <b>370.7</b>       | <b>11.1%</b>  |
| Income tax expense  | (816.6)        | (607.2)        | (209.4)            | 34.5%         |
| <b>Net profit</b>   | <b>2 881.3</b> | <b>2 720.0</b> | <b>161.3</b>       | <b>5.9%</b>   |

Table 2. Main income statement items of PKO BP SA (PLN million)

| Income statement item         | 2008      | 2007      | Change (%) | Comment   |
|-------------------------------|-----------|-----------|------------|---|
| Net interest income           | 5 968.1   | 4 503.1   | 32.5%      | ↑ (+) 32.5% (y/y) mainly as a result of increase in deposit margins due to higher market interest rates and increase in the volume of loan portfolio.   |
| Net fee and commission income | 2 132.8   | 1 993.8   | 7.0%       | ↑ (+) 7.0% (y/y) mainly as a result of increase in fee and commission income related to loans and increase in the number of payment cards (by +2.7% y/y) and related card transactions; offset by a decrease in commission income from management fees.   |
| Other net income              | 715.1     | 560.6     | 27.6%      | ↑ (+) 27.6% (y/y) as a result of:<br>1) higher by PLN 78.8 million dividend income,<br>2) increase of foreign exchange result by 40.5% (y/y) - the effect of higher spreads between PLN interest rate and foreign interest rates and the effect of an increase in sales of loans denominated in foreign currencies,<br>offset by a decrease in net income from financial activities deriving from increased risk aversion in financial markets. |
| Administrative expenses       | (3 969.2) | (3 685.4) | 7.7%       | ↓ Increase of 7.7% (y/y) and C/I at the level of 45.0% (-7.20 pp. y/y) as a result of:<br>1) overhead costs increase of 10.9% (y/y) - i.e. as a result of increase in advertising and promotional costs,<br>2) staff costs increase of 5.3% offset by employment reduction of 1463 full time equivalents (y/y),<br>offset by an increase in income items of 24.9% (y/y).  |
| Net impairment allowance      | (1 148.9) | (44.9)    | 25.6x      | ↓ A 25.6 fold increase (y/y) as a result of:<br>1) impairment loss on subsidiary company Kredobank SA in the amount of PLN (-)356.1 million,<br>2) deterioration in the quality of the consumer loan portfolio and an increase in impairment charges for corporate loans.<br><br>Without considering impairment loss on Kredobank SA, the result in 2008 would have amounted to PLN (-)792.8 million. i.e. a 17.6 fold increase.                |

### Net interest income

Net interest income indicated high growth rate of 32.5% compared to last year and amounted to PLN 5 968.1 million. Dynamic growth of income was possible due to significant increase of PKO BP SA's loan portfolio as well as widening of deposit margins under conditions of growing interest rates in 2008. As a consequence, average interest on loans amounted to 8.6% and average interest on



deposits in 2008 amounted to 2.7%. Positive tendencies related to net interest income were continued also due to efficient balance sheet structure, i.e. dynamic growth of loans was accompanied by significant growth of amounts due to customers of PKO BP SA. Nevertheless, the positive influence of interest rates level in the first half of 2008 was partially offset in the second half of the year – as a result of observed increase in costs of deposit base acquisition and narrowing interest margins due to growing competition and change in liquidity of banking sector (crisis in international financial markets).

Structure of interest income:

- the structure of interest income is dominated by income from loans and advances to customers whose share in interest income amounted to 85.5% (i.e. PLN 7 388.6 million in 2008), which reflects the dynamic growth of loan portfolio, especially growth of mortgage loan portfolio.
- income from financial assets designated at fair value through profit or loss decreased from 8.8 pp. as at the end of 2007 to 5.0 pp. as at the end of 2008.

Interest expenses:

- the main factor determining increase in interest expense was the deposit policy adopted by PKO BP SA aimed at comprehensive and competitive offer for customers, which contributed to increase of interest expense on customers by 58.8% y/y.
- interest expense on debt securities issued in 2007 increased more than 6 fold (as a result of accumulation through 12 months of 2008).

Table 3. Interest income and expense of PKO BP SA (PLN million)

| NET INTEREST INCOME OF<br>POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA |                  |                   |                  |                   |                     |
|---|------------------|-------------------|------------------|-------------------|---------------------|
| Items   | 2008             | Structure<br>2008 | 2007             | Structure<br>2007 | Change<br>2008/2007 |
| <b>Interest income, of which:</b>                                     | <b>8 646.4</b>   | <b>100.0%</b>     | <b>6 245.1</b>   | <b>100.0%</b>     | <b>38.5%</b>        |
| Loans and advances to customers                                       | 7 388.6          | 85.5%             | 4 927.0          | 78.9%             | 50.0%               |
| Financial assets designated at fair value through profit or loss      | 434.0            | 5.0%              | 549.2            | 8.8%              | -21.0%              |
| Placements with other banks   | 389.3            | 4.5%              | 490.3            | 7.9%              | -20.6%              |
| Investment securities   | 355.5            | 4.1%              | 249.7            | 4.0%              | 42.3%               |
| Trading securities  | 64.0             | 0.7%              | 24.5             | 0.4%              | 2.6x                |
| Other   | 15.1             | 0.2%              | 4.4              | 0.1%              | 3.4x                |
| <b>Interest expenses, of which:</b>                                   | <b>(2 678.3)</b> | <b>100.0%</b>     | <b>(1 742.0)</b> | <b>100.0%</b>     | <b>53.8%</b>        |
| Amounts due to customers  | (2 497.0)        | 93.2%             | (1 572.9)        | 90.3%             | 58.8%               |
| Debt securities in issue  | (115.3)          | 4.3%              | (17.5)           | 1.0%              | 6.6x                |
| Placements with other banks   | (60.8)           | 2.3%              | (106.7)          | 6.1%              | -43.0%              |
| Other   | (5.3)            | 0.2%              | (45.0)           | 2.6%              | -88.3%              |
| <b>Net interest income</b>  | <b>5 968.1</b>   | <b>x</b>          | <b>4 503.1</b>   | <b>X</b>          | <b>32.5%</b>        |

### Net fee and commission income

Net fee and commission income amounted to PLN 2 132.8 million, which implicates a change of 7,0% compared to previous year, of which:

- a positive trend related to the position constitutes increase in income from loans and advances,
- income from banking cards increased significantly. Net income from payment cards is determined by both increase in the number of payment cards and, above all, related card transactions.

At the same time, net fee and commission result in 2008 was significantly affected by the downturn on capital markets, which determined the level of commission income from portfolio and other management fees (its share in the total fee and commission income decreased by 3.4 pp. compared to 2007).



Table 4. Fee and commission income of PKO BP SA (PLN million)

| NET FEE AND COMMISSION INCOME OF<br>POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA |                |                   |                |                   |                     |
|---|----------------|-------------------|----------------|-------------------|---------------------|
| Items   | 2008           | Structure<br>2008 | 2007           | Structure<br>2007 | Change<br>2008/2007 |
| <b>Fee and commission income, of which:</b>                                     | <b>2 813.1</b> | <b>100.0%</b>     | <b>2 648.1</b> | <b>100.0%</b>     | <b>6.2%</b>         |
| Payment cards   | 848.6          | 30.2%             | 701.8          | 26.5%             | 20.9%               |
| Maintenance of bank accounts  | 780.8          | 27.8%             | 748.8          | 28.3%             | 4.3%                |
| Credit related fee and commissions  | 313.3          | 11.1%             | 262.6          | 9.9%              | 19.3%               |
| Loan insurance intermediary   | 225.1          | 8.0%              | 202.3          | 7.6%              | 11.3%               |
| Cash transactions   | 188.3          | 6.7%              | 203.9          | 7.7%              | -7.6%               |
| Portfolio and other management fees   | 159.6          | 5.7%              | 240.3          | 9.1%              | -33.6%              |
| Securities transactions   | 43.9           | 1.6%              | 87.7           | 3.3%              | -50.0%              |
| Other*  | 253.5          | 9.0%              | 200.8          | 7.6%              | 26.3%               |
| <b>Fee and commission expenses, of which:</b>                                   | <b>(680.3)</b> | <b>100.0%</b>     | <b>(654.3)</b> | <b>100.0%</b>     | <b>4.0%</b>         |
| Payment cards   | (348.2)        | 51.2%             | (283.9)        | 43.4%             | 22.7%               |
| Acquisition services  | (134.8)        | 19.8%             | (129.0)        | 19.7%             | 4.5%                |
| Loan insurance intermediary   | (94.1)         | 13.8%             | (155.7)        | 23.8%             | -39.5%              |
| Other**   | (103.1)        | 15.2%             | (85.7)         | 13.1%             | 20.2%               |
| <b>Net fee and commission income</b>  | <b>2 132.8</b> | <b>x</b>          | <b>1 993.8</b> | <b>x</b>          | <b>7.0%</b>         |

\* Included in "Other" are: commissions received; for public offering services, for servicing bond sale transactions and for home banking and revenues from arrangement fees, fees received from the State budget due to distribution of Treasury stamps, mass foreign operations, trust services, guarantees granted, issued letters of credit and other similar operations.

\*\* included in "Other" are: commissions paid to PPUP, commissions paid to other banks, fees paid by DM to Warsaw Stock Exchange (GPW), National Depository for Securities (KDPW), cost of currency turnover, accounting and clearing services, commissions paid to intermediaries.

### Administrative expenses

Administrative expenses amounted to PLN 3 969.2 million, which represents a change of PLN 283.8 million compared with the previous year. Increase in advertising and promotional costs deriving from more intensive promotional activities of PKO BP SA was significant. At the same time staff costs increased by PLN 114.4 million, i.e. by 5.3% as compared to 2007.

Simultaneously, a dynamic growth of PKO BP SA income (24.9% compared with 2007) considerably exceeded the growth of administrative expenses. As a result, the operating efficiency of PKO BP SA increased (as reflected by a significant decrease in the C/I ratio – by 7.2 pp. compared to 2007).

Table 5. Administrative expenses of PKO BP SA (PLN million)

| ADMINISTRATIVE EXPENSES<br>OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA |                  |                   |                  |                   |                     |
|---|------------------|-------------------|------------------|-------------------|---------------------|
| Items   | 2008             | Structure<br>2008 | 2007             | Structure<br>2007 | Change<br>2008/2007 |
| Staff costs   | (2 269.5)        | 57.2%             | (2 155.1)        | 58.5%             | 5.3%                |
| Overhead and other costs  | (1 338.3)        | 33.7%             | (1 206.6)        | 32.7%             | 10.9%               |
| Depreciation and amortisation   | (361.4)          | 9.1%              | (323.8)          | 8.8%              | 11.6%               |
| <b>TOTAL</b>  | <b>(3 969.2)</b> | <b>100%</b>       | <b>(3 685.4)</b> | <b>100%</b>       | <b>7.7%</b>         |

### Net impairment allowance

Net impairment allowance reflects a conservative approach of PKO BP SA to credit risk, which is believed to translate into stable financial results in the coming years. The increase in net impairment allowance (25.6x y/y) was a consequence of:

- deterioration of economic situation in the second half of 2008 which influenced financial standing of the Bank's clients;
- a change in the risk profile related to consumer loans resulting from an increase in the share of the *consumer finance* loan (the product of the highest profitability and credit risk) in the entire portfolio;
- recognising allowance for the investment in Kredobank SA as a response to the outcome of the review of the credit portfolio, and deterioration of economic situation on the Ukrainian market.



### Main financial indicators

The main financial indicators are presented in the table below:

Table 6. Main financial indicators of PKO BP SA

| Items  | RATIOS           |                  |           |
|--|------------------|------------------|-----------|
|  | As at 31.12.2008 | As at 31.12.2007 | Change    |
| <b>ROA gross</b> (gross profit / average total assets) | 3.1%             | 3.2%             | -0.12 pp. |
| <b>ROA net</b> (net profit / average total assets)     | 2.4%             | 2.7%             | -0.22 pp. |
| <b>ROE gross</b> (gross profit / average total equity) | 29.3%            | 30.6%            | -1.29 pp. |
| <b>ROE net</b> (net profit / average total equity)     | 22.8%            | 25.0%            | -2.18 pp. |
| <b>C/I</b> (costs to income ratio)                     | 45.0%            | 52.2%            | -7.2 pp.  |

### 3.3 Balance sheet of PKO BP SA

#### Main items of the balance sheet

The year 2008 was important in terms of the net profit and total assets of PKO BP SA. Significant events in financial markets in the second half of the year confirmed the adequacy of policy adopted by PKO BP SA, which is based on stable business activities development along with a balance in sale of loans and deposits.

Total assets of PKO BP SA reached PLN 131.2 billion and increased by PLN 25.9 billion (i.e. by 24.6% y/y) compared to 2007, resulting in PKO BP SA becoming the biggest financial institution of the Polish banking sector.

Loans and advances to customers grew by PLN 24.3 billion, i.e. 32.9% (y/y), which was mainly financed by the increase in amounts due to customers of PLN 16.6 billion (+19,5% y/y).

Within equity and liabilities, a significant increase was recorded in other liabilities – 2.7 fold increase (y/y). This increase was mainly due to changes in the valuation of derivative financial instruments.

Table 7. Main balance-sheet items of PKO BP SA (PLN million)

| BALANCE SHEET OF<br>POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA |                     |                   |                     |                   |                     |
|---|---------------------|-------------------|---------------------|-------------------|---------------------|
| Items   | As at<br>31.12.2008 | Structure<br>2008 | As at<br>31.12.2007 | Structure<br>2007 | Change<br>2008/2007 |
| Cash and balances with the central bank                         | 5 758.2             | 4.4%              | 4 594.1             | 4.4%              | 25.3%               |
| Amounts due from banks  | 3 907.0             | 3.0%              | 5 315.8             | 5.0%              | -26.5%              |
| Loans and advances to customers                                 | 98 102.0            | 74.7%             | 73 822.2            | 70.1%             | 32.9%               |
| Securities  | 14 799.2            | 11.3%             | 15 146.0            | 14.4%             | -2.3%               |
| Other assets  | 8 678.4             | 6.6%              | 6 462.2             | 6.1%              | 34.3%               |
| <b>TOTAL ASSETS</b>   | <b>131 244.8</b>    | <b>100.0%</b>     | <b>105 340.3</b>    | <b>100.0%</b>     | <b>24.6%</b>        |
| Amounts due to other banks                                      | 5 702.3             | 4.3%              | 3 625.7             | 3.4%              | 57.3%               |
| Amounts due to customers  | 101 856.9           | 77.6%             | 85 215.5            | 80.9%             | 19.5%               |
| Debt securities in issue and subordinated liabilities           | 1 618.8             | 1.2%              | 1 614.9             | 1.5%              | 0.2%                |
| Other liabilities   | 8 537.5             | 6.5%              | 3 154.6             | 3.0%              | 2,7x                |
| <b>TOTAL LIABILITIES</b>  | <b>117 715.5</b>    | <b>89.7%</b>      | <b>93 610.7</b>     | <b>88.9%</b>      | <b>25.7%</b>        |
| Total equity  | 13 529.4            | 10.3%             | 11 729.5            | 11.1%             | 15.3%               |
| <b>TOTAL LIABILITIES AND EQUITY</b>                             | <b>131 244.8</b>    | <b>100.0%</b>     | <b>105 340.3</b>    | <b>100.0%</b>     | <b>24.6%</b>        |

#### Loans and advances to customers

As at the end of December 2008, loans and advances to customers amounted to PLN 98.1 billion (a growth of PLN 24.3 billion compared to 2007). As far as loans and advances are concerned, the largest increase was noted in loans and advances to the non-financial sector, which grew by PLN 23.7 billion (mainly caused by growth of mortgage loans – growth by PLN 12.4 billion, i.e. 38.1% (y/y), along with an increase in portfolio of corporate loans to non-financial sector - growth by PLN 8.9 billion as compared to 2007 (+) 48.4 y/y).



Table 8. Loans and advances to customers of PKO BP SA – structure by type (PLN million)

| LOANS AND ADVANCES TO CUSTOMERS OF<br>POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA |                     |                   |                     |                   |                     |
|---|---------------------|-------------------|---------------------|-------------------|---------------------|
| Structure   | As at<br>31.12.2008 | Structure<br>2008 | As at<br>31.12.2007 | Structure<br>2007 | Change<br>2008/2007 |
| <b>Gross loans and advances to customers, of which:</b>                           | <b>98 102.0</b>     | <b>100.0%</b>     | <b>73 822.2</b>     | <b>100.0%</b>     | <b>32.9%</b>        |
| financial sector (other than banks)   | 2 545.4             | 2.6%              | 1 465.2             | 2.0%              | 73.7%               |
| non-financial sector  | 92 364.7            | 94.2%             | 68 706.7            | 93.1%             | 34.4%               |
| consumer loans  | 20 017.5            | 20.4%             | 17 696.7            | 24.0%             | 13.1%               |
| mortgage loans  | 45 036.7            | 45.9%             | 32 610.1            | 44.2%             | 38.1%               |
| corporate loans   | 27 310.5            | 27.8%             | 18 399.8            | 24.9%             | 48.4%               |
| public sector   | 3 191.9             | 3.3%              | 3 650.3             | 4.9%              | -12.6%              |

Loan maturity structure is dominated by long term loans which is due to significant increase in mortgage loans granted by PKO BP SA. Share of long term loans increased by 7.5 pp. compared to 2007. Reverse change is related to short term loans with due date below one year.

Table 9. Loans and advances to customers of PKO BP SA – structure by contractual terms (PLN million)

| LOANS AND ADVANCES TO CUSTOMERS<br>OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA |                     |                   |                     |                   |                     |
|---|---------------------|-------------------|---------------------|-------------------|---------------------|
| Term structure  | As at<br>31.12.2008 | Structure<br>2008 | As at<br>31.12.2007 | Structure<br>2007 | Change<br>2008/2007 |
| <b>Contractual values of gross loans and advances, of which:</b>                  | <b>100 702.6</b>    | <b>100.0%</b>     | <b>76 128.9</b>     | <b>100.0%</b>     | <b>32.3%</b>        |
| short-term  | 20 628.4            | 20.5%             | 21 338.9            | 28.0%             | -3.3%               |
| long-term   | 80 074.2            | 79.5%             | 54 790.0            | 72.0%             | 46.1%               |
| <b>Impairment allowances, adjustment and accrued interests</b>                    | <b>(2 600.5)</b>    | <b>x</b>          | <b>(2 306.7)</b>    | <b>X</b>          | <b>12.7%</b>        |
| <b>Net loans and advances</b>   | <b>98 102.0</b>     | <b>x</b>          | <b>73 822.2</b>     | <b>X</b>          | <b>32.9%</b>        |

Detailed information on the maturities of loans and advances to customers of PKO BP SA is included in notes to the financial statements of PKO BP SA.

### Amounts due to customers

In 2008, PKO BP SA recorded a dynamic growth in the volume of deposits (19.5% (y/y), i.e. PLN 16.6 billion in nominal terms). As a result of active deposit policy the Bank presented a comprehensive offer of deposits for its customers. Consequently, the volume of deposits increased in all client groups (Table 10).

Table 10. Amounts due to customers of PKO BP SA – structure by type (PLN million)

| AMOUNTS DUE TO CUSTOMERS<br>OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA |                     |                   |                     |                   |                     |
|--|---------------------|-------------------|---------------------|-------------------|---------------------|
| Structure  | As at<br>31.12.2008 | Structure<br>2008 | As at<br>31.12.2007 | Structure<br>2007 | Change<br>2008/2007 |
| Amounts due to corporate entities  | 19 164.1            | 18.8%             | 15 238.9            | 17.9%             | 25.8%               |
| Amounts due to state budget entities                                       | 7 279.4             | 7.1%              | 4 688.0             | 5.5%              | 55.3%               |
| Amounts due to retail clients  | 75 413.4            | 74.0%             | 65 288.6            | 76.6%             | 15.5%               |
| <b>Total amounts due to customers</b>                                      | <b>101 856.9</b>    | <b>100.0%</b>     | <b>85 215.5</b>     | <b>100.0%</b>     | <b>19.5%</b>        |

Liabilities maturing within 1 month dominate in the ageing structure of amounts due to customers, although in connection with the introduction of an attractive offer of deposits (Table 16) their share dropped significantly (by 12.1 pp.) and the share of amounts due with longer maturities increased as follows:

- the share of liabilities with maturity from 1 to 3 months increased by 5.6 pp. (y/y),
- the share of liabilities with maturity from 1 to 5 years increased by 10.5 pp. (y/y).

As at the end of 2008, the following regions had the biggest share in the geographical structure of the deposit base<sup>3</sup> (excluding interbank deposits and cash on Internet accounts): mazowiecki (27.3%), śląsko-opolski (12.1%) and wielkopolski (10.7%). Their combined share in the total balance of deposits of PKO BP SA amounted to 50.1% and was 1.8 pp. higher than as at the end of 2007.

<sup>3</sup> Structure on the basis of Bank's Management Information.



Table 11. Amounts due to customers of PKO BP SA – structure by contractual terms (PLN million)

| AMOUNTS DUE TO CUSTOMERS<br>OF Powszechna Kasa Oszczędności Bank Polski SA |                     |                   |                     |                   |                     |
|--|---------------------|-------------------|---------------------|-------------------|---------------------|
| Term structure   | As at<br>31.12.2008 | Structure<br>2008 | As at<br>31.12.2007 | Structure<br>2007 | Change<br>2008/2007 |
| up to 1 month  | 61 570.7            | 59.8%             | 61 453.9            | 71.9%             | 0.2%                |
| from 1 to 3 months   | 17 465.7            | 17.0%             | 9 748.9             | 11.4%             | 79.2%               |
| from 3 months to 1 year  | 11 532.2            | 11.2%             | 12 959.0            | 15.2%             | -11.0%              |
| from 1 year to 5 years   | 12 408.0            | 12.0%             | 1 286.4             | 1.5%              | 9.6x                |
| above 5 years  | 3.9                 | 0.0%              | 11.0                | 0.0%              | -65.0%              |
| Accrued interests  | (1 123.5)           | x                 | (243.8)             | x                 | 4.6x                |
| <b>Total</b>   | <b>101 856.9</b>    | <b>x</b>          | <b>85 215.5</b>     | <b>x</b>          | <b>19.5%</b>        |

### Own funds and capital adequacy ratio

Own funds increased by 15.3% y/y and constituted 10.3% of total equity and liabilities of PKO BP SA as at the end of year 2008. Including high dynamics of Bank's liabilities, own funds share in total equity and liabilities has decreased by 0.8 pp.

As at the end of 2008, capital adequacy ratio amounted to 11.24%. This level significantly exceeds the minimum threshold of that ratio as determined in the Banking Act. Capital adequacy measured by capital adequacy ratio remained at high level mainly due to capital accumulation along with dynamic growth of loan portfolio of PKO BP SA.

Table 12. Equity of PKO BP SA (PLN million)

| EQUITY OF<br>Powszechna Kasa Oszczędności Bank Polski SA |                     |                   |                     |                   |                     |
|--|---------------------|-------------------|---------------------|-------------------|---------------------|
| Items  | As at<br>31.12.2008 | Structure<br>2008 | As at<br>31.12.2007 | Structure<br>2007 | Change<br>2008/2007 |
| <b>Equity, of which:</b>                                 | <b>13 529.4</b>     | <b>100.0%</b>     | <b>11 729.5</b>     | <b>100.0%</b>     | <b>15.3%</b>        |
| Share capital  | 1 000.0             | 7.4%              | 1 000.0             | 8.5%              | 0.0%                |
| Reserve capital  | 7 217.0             | 53.3%             | 5 592.0             | 47.7%             | 29.1%               |
| Other reserves   | 1 395.0             | 10.3%             | 1 390.0             | 11.9%             | 0.4%                |
| General banking risk fund                                | 1 070.0             | 7.9%              | 1 070.0             | 9.1%              | 0.0%                |
| Revaluation reserve                                      | (33.9)              | -0.3%             | (42.4)              | -0.4%             | -20.2%              |
| Retained earnings  | -                   | 0.0%              | -                   | 0.0%              | x                   |
| Net profit for the period                                | 2 881.3             | 21.3%             | 2 720.0             | 23.2%             | 5.9%                |
| <b>Own funds</b>   | <b>12 389.2</b>     | <b>x</b>          | <b>9 543.3</b>      | <b>x</b>          | <b>29.8%</b>        |
| <b>Capital adequacy ratio (%)</b>                        | <b>11.24</b>        | <b>x</b>          | <b>11.87*</b>       | <b>x</b>          | <b>-0.63 pp.</b>    |

\* As a result of the publication and implementation of the Banking Supervisory Authority Resolution 2/2007, the capital adequacy ratio for the comparative period is prepared under a different basis (at 31 December 2008, capital requirements have been calculated in accordance with the New Basel Accord, where the basic difference between this and the calculation as at 31 December 2007 are new methodologies for calculation of credit and operational risk requirements)



## **4. BUSINESS DEVELOPMENT**

### **4.1 Direction of development**

Powszechna Kasa Oszczędności Bank Polski has been and will be a universal bank with a Polish profile for whom the client is the most important asset. Keeping its strong position in retail banking and the leading role in the market of housing loans, the Bank strengthens its position related to the service of legal entities, including small and medium enterprises. The Bank ensures effective management of capital provided by its shareholders and creates conditions for its employees to thrive professionally.

In 2008, PKO BP SA focused on achieving its main strategic goals. The Bank consolidates its leading position on the Polish market in the most effective segment of retail banking in the following ways: it improves the efficiency and quality of customer service, expands the range of products and services, adopts a rational pricing policy. One of the most important challenges in 2008 was providing stable financing base for PKO BP SA – strengthening the Bank's position on deposit market, in particular retail clients deposits. This process commenced in September 2008.

In the corporate banking segment, the important aims were focused on increase in effectiveness of the service model, which involves expanding the range of products and services in line with modifications made to the sales and customer service model. It allowed the Bank to become a partner of Polish enterprises.

PKO BP SA is going to focus on developing the companies which expand the PKO BP SA Group's product offer, in particular leasing and by developing factoring services. Consistent employment of the strategy will result in further strengthening of PKO BP SA market position.

In 2008, the Bank continued the implementation of the Integrated IT System (ZSI) software. As a result the ZSI has been introduced into all Bank's branches and agencies. This constituted a final step in the creation of one of the largest and the most complex IT projects in Poland. Currently products used by all branches and agencies for more than 11 million accounts are processed in this system. Introduction of ZSI has been an important step towards further restructuring of Bank's operations.

### **4.2 Market share of PKO BP SA**

PKO BP SA is a market leader in the banking sector in terms of assets and equity.

Compared to 2007, PKO BP SA maintained its market shares at a stable level. Regarding deposits, it is worth to point out the increase of share in the respect of corporate entities and high market share in respect of retail customers (as the result of implementation starting from September 2008, competitive and comprehensive proposal for the clients).

With reference to the loan and advances to customers, PKO BP SA recognized increase in the market share in respect of corporate entities, which enabled keeping the leader position on the Polish credits' market.



Table 13. Equity of PKO BP SA (PLN million)

| <b>MARKET SHARE OF<br/>POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA*</b> |                             |                             |                             |
|---|-----------------------------|-----------------------------|-----------------------------|
|   | <b>As at<br/>31.12.2008</b> | <b>As at<br/>31.12.2007</b> | <b>Change<br/>2008/2007</b> |
| <b>Loans and advances to:</b>   | <b>16.0</b>                 | <b>16.6</b>                 | <b>-0.6 pp.</b>             |
| retail clients, of which:   | 19.2                        | 22.5                        | -3.3 pp.                    |
| <i>consumer loans</i>   | 17.3                        | 20.0                        | -2.7 pp.                    |
| <i>mortgage loans</i>   | 20.4                        | 24.4                        | -4.0 pp.                    |
| corporate clients   | 12.8                        | 11.6                        | 1.2 pp.                     |
| <b>Amounts due to:</b>  | <b>17.3</b>                 | <b>17.3</b>                 | <b>0.0 pp.</b>              |
| retail clients  | 23.2                        | 25.8                        | -2.6 pp.                    |
| corporate clients   | 10.9                        | 9.5                         | 1.4 pp.                     |

\* Data source: NBP reporting system – WEBIS.

### 4.3 Business segments<sup>4</sup>

#### 4.3.1 Retail segment

Activities of PKO BP SA aimed at retail client, including private banking clients, were mainly focused on increasing attractiveness and modernisation of product range as well as quality improvement of customer service along with increase in sales efficiency.

In the retail segment, PKO BP SA focused on providing comprehensive banking services which, on the one hand satisfy the credit needs, and on the other – the deposit and settlements needs of the clients. The bank intensified its sales of consumer loans (mainly the “Max Pożyczka, Mini Rata” cash loan) and mortgage loans.

In the 4th quarter of 2008, PKO BP SA introduced a series of actions stemming from high volatility of external conditions. As a result of PLN depreciation, the value of foreign currency loan portfolio increased, particularly of mortgage loans. Sales of mortgage loans in foreign currencies have decreased, while at the same time market share of sales of mortgage loans in PLN increased.

Tense situation on financial markets resulted in intensification of market competition for retail deposits. This resulted in the introduction a new, broad deposit offer for retail clients in the 4th quarter of 2008.

The increase in total deposits of retail clients was mainly due to the introduction of new deposit products (Max Lokata, Progresja 18-miesięczna) and a savings account. In the personal and private banking segment, PKO BP SA offered, in addition to traditional forms of saving, advanced structured products. This actions provided financing for further development of credit action.

The Bank made efforts to improve the quality of the service and make changes to the standard of providing personal and private banking services. Moreover, cycles of training courses were organized for employees (product training courses, the PKO Academy).

Completion of Alnova system introduction in 3rd quarter of 2008 was one of the most important developments in retail segment. The system functionalities provide a strong basis for the Bank to develop competitive advantage, both in respect of range of products offered and cooperation with clients.

<sup>4</sup> In this chapter Bank's management information is presented; any differences in total balances and percentages result from rounding; gross loans and advances to customers presented without interest due and interest not due.



Table 14. Loans and advances to customers in the retail segment (PLN million)

| Items   | As at<br>31.12.2008 | As at<br>31.12.2007* | Change<br>2008/2007 |
|---|---------------------|----------------------|---------------------|
| Gross loans and advances to customers, of which:                    |                     |                      |                     |
| - retail and private banking  | 18 820              | 16 414               | 14.7%               |
| - small and medium entities   | 9 762               | 6 907                | 41.3%               |
| - mortgage banking  | 41 396              | 30 299               | 36.6%               |
| - housing market clients (including refinanced by the State budget) | 6 053               | 4 467                | 35.5%               |
| <b>Total</b>  | <b>76 032</b>       | <b>58 087</b>        | <b>30.9%</b>        |

\* data for the year 2007 restated for comparative purposes

Table 15. Amounts due to customers in the retail segment (PLN million)

| Items                        | As at<br>31.12.2008 | As at<br>31.12.2007 | Change<br>2008/2007 |
|------------------------------|---------------------|---------------------|---------------------|
| Client deposits, of which:   |                     |                     |                     |
| - retail and private banking | 65 749              | 53 767              | 22.3%               |
| - small and medium entities  | 8 239               | 6 958               | 18.4%               |
| - housing market clients     | 9 966               | 10 290              | -3.1%               |
| <b>Total deposits</b>        | <b>83 954</b>       | <b>71 014</b>       | <b>18.2%</b>        |

The activities of PKO BP SA were focused on improving the quality of the service and the Bank's competitive position in the small and medium enterprises segment (SME) by implementing a new service model (proper segmentation of customers with regard to their income potential), as well as on introducing numerous changes to the product offer. The most important ones include the introduction of four sales packages and the Quick Investment Loan (Szybki Kredyt Inwestycyjny, SKI). The changes in the SME segment brought significant volume increases, both on the credit side (41.3%) and on the deposit side (18.4%).

For small and medium enterprises segment's sake, taking advantages of synergy effect within the PKO BP SA Group, in 2008 process of sale of leasing products through Bank' branch network was prepared and implemented.



Table 16. Products of PKO BP SA in the retail segment in 2008

| New products and services     | Activity  |
|-------------------------------|---|
| <b>Max Lokata</b>             | The Bank offered one year subscribed deposit called 'Max Lokata' with an interest rate of 6%. The product offered flexibility in terms of making partial payments during the agreed-upon period. The deposit was one of the most attractive on the market. The total volume collected within the deposit amounted to PLN 7.5 billion.   |
| <b>Term Deposit 9, 12, 15</b> | From 22 September to 31 December 2008, the Bank offered 9-, 12-, 15-month term deposits with a fixed interest rate. The interest rate depends on the saving period, for a 9-month period it amounted to 5% annually, for a 12-month period to 5.5% annually and for a 15-month period accounted for 6.0% annually. The minimum amount of the deposit was PLN 5 000. The Group has collected almost PLN 1 billion on Term Deposit 9,12,15.   |
| <b>Progresja Term Deposit</b> | From 22 September to 31 December 2008, the Bank offered a 18-month Term Deposit called 'Lokata Progresja' with a fixed interest rate of 7% annually (for the 18-month period the interest rate will amount to 10.5%) The deposit allowed for cash withdrawals without losing accrued interest which depended on the saving period. The minimum amount of the term deposit was PLN 5 000. There was no possibility to roll the deposit over to the next period. The Bank has collected PLN 10.3 billion on Progresja Term Deposit.   |
| <b>Saving account</b>         | <p>Saving account is an a'vista account, which enables clients to have interest rate similar to that of term deposit providing a limited transactional functionality at the same time. The product was introduced in PKO BP SA in 2008 in the following three segments:</p> <ol style="list-style-type: none"> <li>1. saving account for Inteligo account (April 2008) with interest rate up to 5.3% (for deposits of PLN 100 000 or higher),</li> <li>2. saving account for PKO BP SA (October 2008) with an attractive 5% interest rate annually. Since 12 December 2008, the Bank made the offer more attractive by increasing the interest rate for saving account to 6% for customers who have deposited over PLN 50 000.</li> <li>3. saving account in GBP for Poles working in the United Kingdom – sold by London branch of the Bank PKO BP SA (August 2008).</li> </ol> <p>Till the end of 2008 more than PLN 1.3 billion has been collected, and the trend was continued in the first months of 2009.</p> |
| <b>Standard deposits</b>      | Increasing the price attractiveness of standard term deposits – interest rate increase of approx. 1 pp. for all terms and amount brackets from 22 September 2008.   |
| <b>Investment products</b>    | The Bank offered numerous investment/ structured products, dedicated mainly to the personal and private banking segment (16-month structured deposit based on the PLN/EUR exchange rate, Trend Spotter Indexed Bonds, "Tygrys gospodarczy" ("Economic Tiger") Indian Bonds, Power Bonds, bonds of the agricultural goods market, structured bonds based on the Spectrum investment strategy).   |
| <b>Bankassurance</b>          | The Bank extended its offer of insurance products for retail and SME clients (Superochrona Domów i Lokali Mieszkalnych, SuperAssistance Zdrowie, Dom i Samochód, SuperAssistance Biznes, SuperUbezpieczenie Podrózne, Ubezpieczenie na szóstkę). The deposit with an insurance policy "Gwarantowany Zysk", which was introduced to the Bank's offer in cooperation with PZU Życie SA, was also sold successfully (sales of almost PLN 1 billion).   |
| <b>Product packages</b>       | New deposit products, BUSINESS PACKAGES (debut, development, comfort, success), were added to the offer on 14 February 2008. The individual packages include products and services which satisfy the needs of firms at different stages of their development.   |
| <b>SKI</b>                    | On 18 February 2008 new product was introduced – Szybki Kredyt Inwestycyjny (Quick Investment Loan). It was designed to maximize customers' satisfaction by providing fast and easy access to loan.   |
| <b>Rating Sales Package</b>   | On 1 September 2008 new lease product was introduced (Pakiet Sprzedażowy Rating). This product is a part of agreement between the Bank and Bankowy Fundusz Leasingowy.  |
| <b>Electronic Banking</b>     | <p>The following new functionalities were introduced to Inteligo electronic accounts in 2008:</p> <ul style="list-style-type: none"> <li>- savings account for individuals was implemented;</li> <li>- the terms for obtaining Inteligo revolving loans were changed significantly;</li> <li>- a new version of the WAP service was introduced;</li> <li>- encrypted bank statements were implemented. This new function is particularly useful for holders of business accounts and all clients who want the financial data contained in their bank statements to be kept strictly confidential.</li> </ul>  |



## Current accounts, Inteligo and banking cards

Table 17. Accounts and payment cards of PKO BP SA (thousands of units)

| Items   | As at<br>31.12.2008 | As at<br>31.12.2007 | Change<br>2008/2007 |
|---|---------------------|---------------------|---------------------|
| <b>Total number of accounts, of which:</b>      | <b>6 366</b>        | <b>6 207</b>        | <b>159</b>          |
| - Inteligo current accounts                     | 692                 | 659                 | 34                  |
| <b>Total number of banking cards, of which:</b> | <b>7 493</b>        | <b>7 296</b>        | <b>197</b>          |
| - credit cards                                  | 1 046               | 1 010               | 37                  |

Table 18. Operational data in the retail segment – branches, ATMs, and agencies

| Items                        | As at<br>31.12.2008 | As at<br>31.12.2007 | Change<br>2008/2007 |
|------------------------------|---------------------|---------------------|---------------------|
| Total number of branches     | 1 228               | 1 233               | -5                  |
| <b>- Retail Market Area:</b> | <b>1 160</b>        | <b>1 150</b>        | <b>10</b>           |
| Regional retail branches     | 12                  | 12                  | -                   |
| Independent branches*        | 496                 | 574                 | -78                 |
| Subordinated branches        | 652                 | 564                 | 88                  |
| <b>Number of ATM's</b>       | <b>2 313</b>        | <b>2 106</b>        | <b>207</b>          |
| <b>Number of Agencies</b>    | <b>2 196</b>        | <b>2 240</b>        | <b>-44</b>          |

\*decrease as a result of change in type and branches operational model

Continued restructuring of the Bank's own branches network was an important element of the Bank's activity in the retail segment. These activities were focused on:

- network optimization – 183 branches were modernized;
- introduction of a new model of network management by changing the typology of branches. Independent and subordinated branches were replaced with three types of branches (branches A, B and C), the type of branch being dependent on, inter alia, the number of employees and the micro-market growth potential.

The network of the Bank's own ATMs was extended by adding 207 new ATMs (the total number is now 2 313), which allowed the Bank to reduce the costs of cash operations and increase the availability of services for the clients. Furthermore, the process of the modernization of self-service devices was completed.

The network of agencies remains an important supplement to Bank branches and ATMs.

The Super Express programme was introduced in the PKO BP SA sales network. Its aim is to increase the efficiency of sales. The programme was focused on four main areas:

- branch organization;
- training, motivating and supporting the sales staff;
- central cross-selling actions;
- sales monitoring.

Centralization of crediting processes was commenced in 2008. The processes of granting and managing mortgage loans for retail clients were centralized. Five Credit Analysis Centres were established. In each of them, there is a unit of the Bank's Settlement Centre, which provides post-sales services. To date, 72% of the branches have been covered by the centralization process, which it is anticipated will be completed in the second half of 2009.

PKO BP SA opened a branch in the UK and began cooperation with the National Westminster Bank PLC on the basis of an exclusive agreement. The PKO BP SA branch in London offers (among other things) products dedicated to the British market, e.g. a savings account in GBP.

### 4.3.2 Corporate segment

In year 2008, PKO BP SA focused on further strengthening its market position and the image of PKO BP SA as a financial institution active on the corporate market.

In 2008, the corporate banking segment at PKO BP SA comprised business entities with a turnover exceeding PLN 5 million a year and local and central administration units (state budget entities).



2008 was a year of dynamic development for the PKO BP SA corporate banking segment (its growth significantly exceeded the market growth rate). The Bank increased its share in both the loan and the deposit market. The loan portfolio grew by more than 40.5% y/y (the market growth amounted to 28% on a year-to-year basis). At the same time, the deposit portfolio grew by 25.8% y/y in all segments of corporate and state budget clients (the market growth amounted to 12% y/y). The dynamic development in corporate banking was a result of the growing scale of the Bank's cooperation with its existing clients (cross-selling) and obtaining new clients. In 2008, the PKO BP SA corporate banking segment attracted more than 1 700 new clients, thus increasing its client base by almost 12%, which was the highest result in the history of this segment at PKO BP SA.

Market share of corporate segment increased for loans by 1.2 pp. to the level of 12% and for the deposits by 1.4 pp. to the level of 10.9% respectively.

Table 19. Gross loans and advances to customers and deposits in the corporate segment (PLN million)

| Items                 | As at<br>31.12.2008 | As at<br>31.12.2007 | Change<br>2008/2007 |
|-----------------------|---------------------|---------------------|---------------------|
| Gross corporate loans | 25 251              | 17 974              | 40.5%               |
| Corporate deposits    | 17 036              | 13 542              | 25.8%               |

Due to the stability of PKO BP SA, its impeccable reputation on the market and the fact that the Bank does not rely on external financing, the clients started to see PKO BP SA as one of the safest institutions in the Polish banking sector (*safe heaven*). Corporate clients reduced the scale of their investments and shifted their attention to revolving loans and overdrafts. PKO BP SA adjusted its credit and transaction offer to the current situation in a flexible manner. The Bank took steps to increase monitoring and establish closer relationships with its clients. The Bank evaluated the prospects of higher risk sectors. However, unlike a number of other banks, PKO BP SA did not limit financing for new clients. The Bank launched client and product review programmes in order to link credit margins to the marginal cost of financing credit activity and the risk profile (risk based pricing), without the need to limit structural financing and financing of development activities.

Table 20. Significant activities in the corporate segment

| Scope of activity                     | Activity   |
|---------------------------------------|--|
| loan activity                         | In 2008 the Bank organized:<br>- 9 syndicated loans in the total amount of PLN 1 186.1 million (the Banks' share),<br>- 11 bilateral loans which amounted to PLN 2 230.2 million,<br>- according to the Corporate regions data, Bank has drawn 2 296 credit agreements for a total amount of PLN 11.5 billion. |
| deposit activity                      | In 2008 the corporate segment deposit portfolio has increased by more than PLN 1.2 billion.  |
| issue of non-treasury debt securities | In 2008 the Bank entered into 2 contracts for the issue of corporate bonds, in the total amount of PLN 250 million.  |

PKO BP SA is the forerunner and the leader in complex services European funds beneficiaries. In financing application in action "4.4. New investments of a high innovative potential" of Operational Program Innovative Economy" the loans granted by PKO BP SA amounted to PLN 490.3 million (14% of the market share). The PKO BP SA's offer – The European program – has been several times honored and rewarded in the banks' offers rankings. The experience connected with implementation of assistance programs, allowed the Bank to gain the leading position among the banks servicing supported enterprises.

In 2008, PKO BP SA was also the leader on the market for providing financing and services in respect of the issue of non-treasury debt securities to public finance sector entities. The Bank improved its position and at the same time increased its revenues in this sector. In the 4th quarter of 2008, the Bank was also the leader in financing large local administration units (individual loans exceeding PLN 100 million).



Table 21. Significant activities in the budget segment

| Scope of activity                     | Activity  |
|---------------------------------------|---|
| loan activity                         | In 2008 Bank took part in tenders for financing of budget clients and signed 84 contracts for a total amount of more than PLN 800 million.  |
| deposit activity                      | In 2008 the budget segment deposit portfolio has increased by more than PLN 2.3 billion.  |
| issue of non-treasury debt securities | In 2008 the Bank has signed 35 agreement for the issue of municipal bonds for a total amount of PLN 311.2 million and has become market leader in this segment with 40% share in the market (total value of municipal bonds issued by PKO BP SA amounted to PLN 1.8 billion). |

The corporate banking sales network comprises Regional Corporate Branches and Corporate Centres (which report to Regional Corporate Branches), and employs 165 advisors and 14 product specialists. In 2008, in order to improve operating efficiency and adapt the network to the clients' needs, the management functions were concentrated in 55 Corporate Centres.

Table 22. Operational data in the corporate segment – branches

| Items                       | As at 31.12.2008 | As at 31.12.2007 | Change 2008/2007 |
|-----------------------------|------------------|------------------|------------------|
| Total number of branches    | 1 228            | 1 233            | -5               |
| - Corporate Market Area:    | 68               | 83               | -15              |
| Regional Corporate Branches | 13               | 13               | 0                |
| Corporate Centers           | 55               | 70               | -15              |

### Product strategy

Strategy of non-credit product development in 2008 has been focused on three main areas: clients, products and processes.

#### Clients

According to the clients' opinion poll (more than 50% of votes), introducing modern corporate client customer service model, has been one of the most important strategic goals of transaction banking. The model was based on best practices in European transaction banking. The model of customer services, being a factor distinguishing PKO BP SA among peer group, is going to be continuously developed in 2009, in particular in the field of new IT systems designed to monitor quality of services.

In respect of product's sale support, especially regarding the managing financial assets, starting from the 3rd quarter 2008 the centralized specialists team for products' sale was created and the centralized team for implementation of transaction products was established. The new organizational form makes the corporate customers database available for the products' specialists in order to increase the cross-sale of non-credit products, which in turn allows the diversification of revenue amounts in respect of credit and non-credit products and maximizes the rate of return on capital employed.

The increase in the effectiveness of sales activities and continuous strive for better quality of provided services led to the introduction of a new model for negotiated term deposits. This new sales model allowed significant increase in sales volume (40%).

#### Products

In 2008 PKO BP SA focused on mass implementation of the centralized IT system. Simultaneously, the corporate segment, according to previously adopted strategy, introduced new products, not only to enhance competitive standing, but also to increase total assets and improve ROE indicator. The goal has been accomplished by, i.a. introducing innovative products, described in table below:



Table 23. New products and services of PKO BP SA in the corporate segment

| New products and services     | Activity  |
|-------------------------------|---|
| liquidity management products | Liquidity management products (implemented in 4th quarter of 2008) – automatization and widening functionalities of products, involving current account consolidation. The products provide the possibility to manage enterprises and municipalities current liquidity.   |
| Mikrorachunki service         | Mikrorachunki (implemented in 2nd quarter of 2008) – a product designated for municipalities, courts and other entities engaged in process of collecting and settlement of recognizance's, bid bonds, collaterals and other fees, allowing for the process to be automated.   |
| prepaid cards                 | Prepaid cards (implemented in 4th quarter of 2008) – prepaid cards in contradiction to Electronic Payment Instrument have a wide range of possible usages, especially in the area of automatization of payouts of different types of benefits. This includes doles, scholarships. Product is designated for municipalities, schools and universities and other business entities. |

Development of electronic banking platform – iPKO Biznes – has been a strategic challenge in transaction banking products sector. The platform itself is a response to growing expectations of internet banking clients. In 2008 the Bank has acquired more than 1 900 active internet banking clients. Further development of the platform, along with improving its competitive standing and functionality will be a challenge for 2009.

### Processes

Financial crisis has forced banks to act more proactively in optimising operating expenses. Standardisation and centralisation of operating processes that begun in 2008 will become a base for reorganisation of business processes in corporate segment in 2009. The reorganisation is aimed at lightening corporate segment of all activities not related to sales and transferring those activities to business operations cells, without changes in employment. This action shall have a direct impact on Bank's effectiveness, both in sale of credit and non-credit products of the Bank and PKO BP SA Group.

In 2009 and in the following years corporate segment, together with other segments is prepared to constantly increase the total assets of PKO BP SA, by expanding credit and deposit action, basing on acquiring diversified financing sources and increasing cross selling (in the area of transaction banking).

#### 4.3.3 Investment segment

In 2008, the global financial markets were affected by a serious crisis. The bankruptcy of the American investment bank Lehman Brothers caused an avalanche sale of assets on a global scale. The world's leading central banks implemented aid programmes to restore market liquidity. As part of such programmes, the governments carried out a coordinated interest rate reductions and in some cases took over shares in financial institutions.

Price decreases on the global stock markets and unfavourable conditions in the real economy also led to a deterioration in the mood on the capital market. 2008 was a year of economic downturn. The main Warsaw Stock Exchange index, WIG, lost over 50% compared to 2007; the largest companies' index, WIG20, dropped by 48%; mWIG40 dropped by 63%.

Despite limitation of activity by other competitors on the Polish money and capital market, PKO BP SA remained (especially in the 4th quarter) one of the most active financial institutions in 2008.



Table 24. Activities and achievements of PKO BP SA in the investment segment – treasury activities

|                     | Investment activity        | Activity  |
|---------------------|----------------------------|---|
| Treasury Activities | sales of treasury products | <p><b>Development strategy and result</b></p> <p>2008 was another year of growth of the Bank's activity in this market segment. Foreign exchange operations generated very good results, the turnover realized on SPOT transactions increased by 30%, which led to an increase in the Bank's profit.</p> <p>The Bank actively executed its strategy of developing the sales of treasury products with high added value. The share of both exchange rate and interest rate derivative transactions in the total sales of treasury products increased by 20% compared with the previous year.</p> <p><b>Risk</b></p> <p>PKO BP intensively monitors exposure to credit risk of its clients. Transactions are concluded with clients on the basis of framework agreements. These agreements, as well as the products' rules and regulations, contain provisions confirming that the client has performed an independent assessment of the risks and benefits associated with different types of transactions. It should also be noted that derivative transactions are only concluded in connection with the real risk of the client declared as at the transaction date, resulting from cash flows in foreign currencies and/or interest rates, and therefore they are of the nature of hedging transactions.</p>   |
|                     | interbank market           | <p><b>Results achieved</b></p> <p>The Bank maintained a high level of turnover on the interbank interest rate and currency markets. As at the end of December 2008, the Bank's share in the IRS and SPOT transactions market amounted to 11% and 7% respectively. As a result of its active approach, the Bank ranked 4th in the Treasury Securities Dealer ranking (among competing banks). The Bank also performed the function of a Money Market Dealer. In order to guarantee secure trading, in 2008 the Bank concluded framework and hedging agreements, both with domestic and foreign entities.</p> <p><b>Risk</b></p> <p>Due to its strong market position and knowledge of financial markets the Bank is able to support sales actively by applying solutions with high added value. At the time of high volatility of the financial markets, the Bank paid particular attention to stabilizing its deposit base. The Bank actively managed liquidity risk and market risks (including the interest rate and currency risk), focusing on minimizing exposure. The funds obtained were invested in short-term Treasury securities and NBP bills. The rate of obtaining funds in CHF, which had been maintained on a high level until the end of September, in line with increasing credit activity, slowed down visibly in the 4th quarter of 2008.</p> <p>The Bank maintained a portfolio of investment securities, which was financed with a surplus of deposits denominated in PLN, EUR and USD. State Treasury bonds constituted the largest component of this portfolio, and bonds issued by financial institutions constituted a small percentage (3%)..</p> |

Table 25. Activities and achievements of PKO BP SA in the investment segment – brokerage activities

|                      | Investment activity           | Activity  |
|----------------------|-------------------------------|---|
| Brokerage Activities | stock market                  | <p>Turnover on the stock market amounted to almost PLN 19 billion, which gave PKO BP SA a 6% share in the market and the 7th position (up one level in relation to the previous year). The amount of turnover generated as a result of performing the function of a stock market animator was PLN 5 billion, and the number of agreements signed by the Bank with the issuers and the Warsaw Stock Exchange acting in its role of market animator and issuer was 39 and 29 respectively, which gave the Bank the 4th position. Turnover on the NewConnect stock market amounted to almost PLN 65 million and gave PKO BP SA the 4th position (with the largest number of serviced companies, i.e. 30).</p>  |
|                      | primary market                | <p>On the primary market PKO BP SA acted as an offeror for the following companies: Selena FM, SONEL, Krosno. The Bank acted as a selling consortium member for the following companies: Zakłady Azotowe TARNÓW, PZ Cormay, Power Media, CAM Media, AD Dragowski, Enea, Domex-Bud Dev, IZNS. PKO BP SA provided preliminary services with respect to the incentive programmes of the following companies: TIM S.A. and Elektroim S.A. The Bank also processed subscriptions for convertible bonds and then shares as part of the 2007 incentive programme for Drozapol-Profil.</p> <p>In line with its assumptions regarding development of primary market services, PKO BP SA carried out subscriptions for four issues of structured bonds issued by Barclays Bank PLC in London, and commenced the distribution of 32 investment funds. Overall, as at the end of 2008, the Bank provided services to 144 Funds managed by 10 Investment Fund Companies.</p> |
|                      | bond market                   | <p>Due to the situation on the capital market and a significant increase in the aversion to risk, Treasury bonds became an important element of the PKO BP SA product offer. As the only distributor of retail Treasury bonds, PKO BP SA offered its clients in 2008 four types of bonds with both fixed and variable interest rates. Turnover on the bond market increased by nearly 45% compared with the previous year, which allowed the Bank to maintain its leading position on the market.</p>   |
|                      | number of securities accounts | <p>As at the end of 2008, PKO BP SA maintained 327.9 thousand securities accounts, including 90.6 thousand securities and cash accounts and 237.3 thousand active registration accounts. The number of securities accounts maintained puts PKO BP SA in 5th position among 40 members of the National Depository for Securities. The award granted to the Bank by the Warsaw Stock Exchange for being the most active participant of the <i>NewConnect</i> market confirmed the Bank's high position on the capital market.</p>   |



Table 26. Activities and achievements of PKO BP SA in the investment segment – trustee activities

|                    | Investment activity     | Activity   |
|--------------------|-------------------------|--|
| Trustee activities | market strategy         | The Bank is a direct participant in the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych) and the Securities Register (at the National Bank of Poland). The Bank provides its clients with trustee services. As a member of the Council of Depository Banks and the Council of Non-treasury Debt Securities by the Polish Bank Association, PKO BP SA takes part in developing regulations and market standards. In 2008, PKO BP SA launched depository services for pension and investment funds. Since November 2008, the Bank provides depository services to OFE WARTA SA. |
|                    | value of trustee assets | As at the end of the year 2008, market value of trustee assets amounted to PLN 20 billion, which represents a 6 fold increase compared to 2007.  |

#### 4.4 International co-operation

##### **Co-operation with the European Bank for Reconstruction and Development**

PKO BP SA participated in the *Loan Window* programme forming part of the “EU/EBRD SME Finance Facility” (based on a Loan Agreement with the European Bank for Reconstruction and Development concluded on 21 February 2003 for the financing of small and medium-sized enterprises). By 30 June 2008, 3 139 loans had been granted totalling EUR 63.34 million. The cooperation with EBRD within the framework of the “EU/EBRD Finance Facility” ended in 2008.

##### **Co-operation with other foreign institutions**

In 2008 PKO BP SA:

- completed 4 ISDA Master Agreement with foreign banks, 4 Credit Support Annexes to the previous ISDA agreement and completed an agreement with the Council of Europe Development Bank, granting the Bank a credit line of EUR 100 million for co-financing the investment needs of small- and medium-sized enterprises,
- completed a loan agreement and 6 revolving loans with the directly related entity (operating in banking sector) in total amount of USD 201 million (transaction at an arm's length),
- completed two agreements with *National Westminster Bank PLC* on the basis of which co-operation with *NatWest* was prolonged till 28 February 2009.

#### 4.5 Activities in the area of promotion and image building

In 2008 PKO BP SA's activities in the area of promotion focused on actions intended to:

1. strengthen the image of PKO BP SA among its shareholders and clients as the leader of the Polish banking sector – a modern institution with an established reputation, a friendly (close) partner in every segment of the market;
2. increasing prestige of PKO BP SA brand;
3. intensifying promotional activities which support sales of products and services offered by PKO BP SA.

As part of promoting the products and services of PKO BP SA, promotional campaigns of particular products were organized, as well as image-building campaigns and direct marketing activities intended to attract new clients and strengthen relations with the existing business partners. In 2008, public relations activities were conducted based on sponsoring and charity activities. PKO BP SA, as a patron and sponsor, supported the organization of cultural and sport events, social and community projects, in the framework of creative sponsoring programmes.

##### **Sponsorship activities**

Sponsoring activities realized by the Bank were aimed at creating the image of PKO BP SA as a reliable financial institution, open to the needs and expectations of its clients, engaged in the development of the country and local communities.



Table 27. Structure of the main sponsorship areas of PKO BP SA (percentage)

| Area   | Number of projects | Share in budget (%) | Share in budget (PLN) |
|--|--------------------|---------------------|-----------------------|
| PKO Bank Polski Blisko Ciebie (Close to You) | 294                | 42%                 | 10 891 103            |
| PKO Bank Polski Reprezentacji Olimpijskiej   | 80                 | 43%                 | 11 360 490            |
| PKO Bank Polski Kulturze Narodowej           | 187                | 10%                 | 2 396 491             |
| Sector sponsorship                           | 102                | 5%                  | 1 447 721             |
| <b>TOTAL</b>                                 | <b>663</b>         | <b>100%</b>         | <b>26 095 805</b>     |

Table 28. Sponsorship activities by amount (PLN)

| Sponsorship activities (by amount) | Number of projects |
|------------------------------------|--------------------|
| 0 – 100 000                        | 642                |
| 100 000 – 500 000                  | 15                 |
| more than 500 000                  | 5                  |

42% of the budget was assigned for activity within the area “PKO Bank Polski Blisko Ciebie”. The supported initiatives intended to show the Bank as an organization that is dynamic, modern, friendly, and open to the needs of local communities. Actions undertaken were aimed at education and social sponsorship.

Sports projects constituted 43% of the budget and were realized within the area of the Bank's Olympic-related activities “PKO Bank Polski Reprezentacji Olimpijskiej”. The agreement which was concluded in 2007 with the Polish Olympics Committee was extended. On the basis of the agreement, PKO BP SA became the sponsor of the Polish Olympic Movement. PKO BP SA continued also cooperation with the Polish handball association Związek Piłki Ręcznej w Polsce and with the women's basketball team LOTOS PKO BP Gdynia.

About 10% of PKO BP SA's sponsoring budget was earmarked for cultural and national heritage projects, which is the effect of realizing the programme “PKO Bank Polski Kulturze Narodowej” (PKO BP for national culture), which started in 2001. The purpose of the programme is to create the image of PKO BP SA as the patron of culture and national heritage. The most important cultural events of the prior year sponsored by PKO BP SA included: the exhibition “Voyage to the interwar period” organized by the National Museum in Warsaw.

The following internal regulations regulate the sponsorship and charity activities:

1. “Regulations on marketing activities in PKO BP SA”
2. “Mode of marketing activities in PKO BP SA”

In accordance with the internal regulations of PKO BP SA in 2008, sponsorship activities do not require the acceptance of the Supervisory Board. The Supervisory Board did not assess the sponsorship activities.

PKO BP SA monitors on an ongoing basis the realization of particular sponsorship projects (media range, amount of participants, brand exposition) and orders research concerning sponsorship and image (both qualitative and quantitative).

Cyclical research conducted by ABC Rynek i Opinie (Sponsoring Monitor 2005/2006/2007/2008) indicates that the sponsorship activities of PKO BP SA is the most visible of all banks conducting such activities.

### Charity activities

Charity activities play an important role in forming a positive image of PKO BP SA as a socially sensitive institution. Apart from the image issues, participation in charity activities creates the possibility of contacts with opinion-setting circles and local authorities.

Table 29. Main areas of charity activities

| Area                           | Number of donations | Share in budget (%) | Amount paid (PLN) |
|--------------------------------|---------------------|---------------------|-------------------|
| Social aid                     | 314                 | 40%                 | 1 757 852         |
| Health                         | 239                 | 25%                 | 1 088 735         |
| Education and entrepreneurship | 211                 | 15%                 | 663 600           |
| Culture and national heritage  | 41                  | 14%                 | 618 577           |
| Sport and leisure              | 68                  | 3%                  | 135 250           |
| Other                          | 36                  | 2%                  | 105 200           |
| <b>TOTAL:</b>                  | <b>909</b>          | <b>100%</b>         | <b>4 369 214</b>  |



Table 30. Sponsorship activities by amount (PLN)

| Charity activities<br>(by amount) | Number<br>of donations |
|-----------------------------------|------------------------|
| 0 – 5 000                         | 772                    |
| 5 001 – 20 000                    | 131                    |
| 20 001 – 100 000                  | 4                      |
| more than 100 000                 | 2                      |

A spectacular event in the area of protection of culture and national heritage was the purchase of letters from the field post office, which operated during the Warsaw Uprising, by the Museum of the Warsaw Uprising. Another event also related to the war period was the erection of the monument commemorating the Uprising in the Warsaw Ghetto. The renovation of works of art of the Raczyński Library in Poznań was also provided with additional financing.

In the area of social aid, the agreement with Fundacja Polsko-Niemieckie Pojednanie, which was signed in 2007, is in force. The Bank provides additional finance to the humanitarian and social aid programme for former Home Army (Armia Krajowa) soldiers. This is a joint initiative under the aegis of the President of the Republic of Poland.

PKO BP SA supported the scholarship fund for underprivileged talented children, educational and entrepreneurship projects and was engaged in the issues of health protection and promotion as well as sport and entertainment.

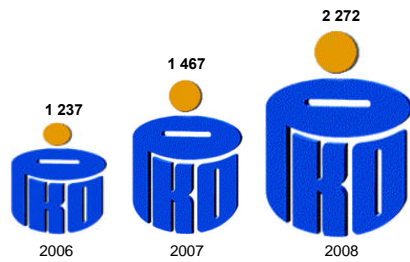
### **Prizes and awards granted to PKO BP SA**

In 2008 PKO BP SA has been granted numerous prizes and awards, including:

1. "Business - Friendly Bank" – 10 branches of PKO BP SA were the finalists in the 9th contest organized by the Polish Commercial Chamber, Polish-American Foundation for Counseling Small and Medium Business, and the Warsaw Institute of Banking.
2. Financial Order for 2008 granted by the Institute of Business Analyses and the editors of the "Home & Market" monthly for PKO BP SA, for the SUPERKONTO account.
3. Dom Maklerski PKO BP SA was granted two awards by the Warsaw Stock Exchange: for the most active market maker on the Main Market of the Warsaw Stock Exchange in 2007, for the most active market maker on the *NewConnect* Market in 2007.
4. Leopards – awards granted by bankers for the most admired creation of the bank brand image – PKO BP SA ranked 3rd in the retail banking category.
5. "European Medal" for the iPKO Biznes product offer. This was already the 16th edition of the undertaking organized by the Office of the Committee for European Integration and Business Centre Club.
6. The Bank received the "Golden Statuette of the Most Trusted Brand" in the category of "Bank" in the biggest European consumer survey "The Most Trusted Brands 2008" conducted by the "Reader's Digest".
7. 1st place, in the ranking of the 50 biggest Polish banks, organized by the "Bank" magazine, for the best financial results.
8. Award of the "Dlaczego" magazine and the student portal [www.korba.pl](http://www.korba.pl) for the products and brands most liked by students - PKO BP SA won in two categories – "student bank" and "student employers".
9. Donor of the Year for PKO BP SA and Inteligo Financial Services SA for supporting the programme for the Polish Artificial Heart.
10. Diamond to the Golden Statue of Leader of Polish Business during the Summer BCC Gala.
11. "Brand of the best reputation 2008" received in the "Finance" category, granted by the Independent Polish Brands Reputation Ranking.
12. 1st place in the SEO/SEM ranking (search engine optimization/search engine marketing). The ranking is based on a detailed analysis of the level of presence and activity of the bank in web search engines.
13. Once again PKO BP SA won the ranking for the strongest brand in the financial sector, organised by Rzeczpospolita. This position has been held already for three years. In category of the most valuable brands in Poland PKO BP SA is ranked second. The valuation of PKO BP SA brand was accounted for PLN 2.3 billion. It means that the value of the brand has increased by 55% (y/y).



Value of the PKO BP SA brand\*



\* valuation of Rzeczpospolita for the strongest brand ranking purposes (PLN million)

For the purposes of the ranking, a worldwide used method 'relief from royalty' was adopted. It is based on hypothetical licensing fees that the owner would have to pay to licensee if he did not hold the ownership right to the brand. Such a fee is settled in relation to net income on sales. The value of the brand was calculated as a sum of discounted future license fees (after tax).

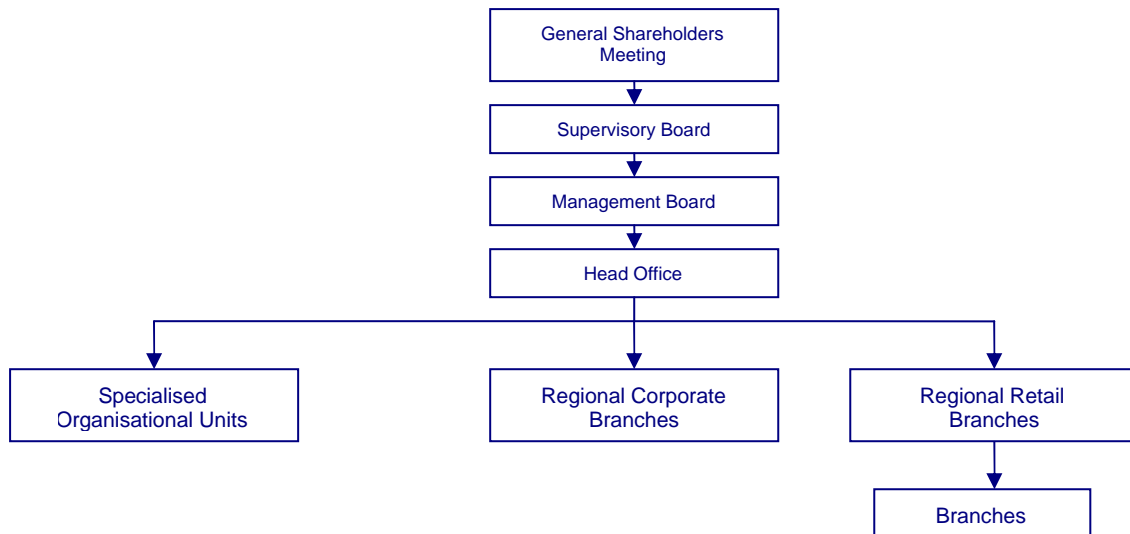
14. 1st place in the "PremiumBrand" ranking, in the "finance" category. This is a promotional project aimed at determining a list of the most valued brands operating on the Polish market. The ranking is developed on the basis of investigations carried out by TNS OBOP.
15. For the fourth time PKO Visa *Infinite* card has won the prestigious credit cards ranking organized by the *Forbes* magazine.
16. The Title of Warsaw Culture Patron granted by the Warsaw Town Hall. PKO BP SA received the title for "the biggest financial contribution for the organization of culture events".
17. PKO BP SA received a laureate title of the Polish Certification Programme 'Client's Friendly Company' (4th edition), indicating joining the Top 20 group of companies and institutions deserving such a title and special promotional logo.



## 5. INTERNAL ENVIRONMENT

### 5.1 Organisation of PKO BP SA

Table 31. Organisational structure of PKO BP SA



Activities relating to the Bank's organization carried out in 2008 concerned mainly the structures responsible for selling products and services and were aimed at increasing their efficiency and improving their management. In particular, a new specialized unit was established to execute tasks relating to the processing of retail customers' applications for mortgage housing loans. Additionally, the organization of the distribution network was changed, in particular by implementing a new customer service model and a new typology of departments, which adjusted the branches' structures to the market potential. Furthermore, dedicated advisors were appointed for different customer segments. These changes have improved the quality of customer service, sales efficiency and sales management.

Moreover, in order to improve the management and supervision of the individual elements of the Bank's organizational structure, changes were made to the organization of isolated areas of the Bank's operations and their individual functions supervised by particular Management Board members. The structure of the Head Office organizational units and special organizational units was also changed.

### 5.2 Principles of risk management

Risk management is one of the most important internal processes in PKO BP SA as well as in the other entities comprising the PKO BP SA Group. The objectives of risk management are to ensure an adequate level of security and profitability of business operations in the changing legal and economic environment.

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

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

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



4th quarter of 2008 was characterized by higher interbank market risk and aggressive policy of banks in the area of retail clients deposits. At the end of III quarter of 2008 PKO BP made its retail deposits offer more attractive that enable the bank to limit the negative influence of the market situation. From the point of view of higher variability of currency rate and limited availability of long term CHF transactions PKO BP Management Board on current basis monitors market situation and takes adequate decisions. Moreover PKO BP SA actively manages the decrease of banks mutual trust by adjusting its internal regulations to the actual market situations.

Due to the depreciation of polish currency towards EUR and USD, PKO BP SA analyzes the potential influence of currency rates fluctuations and the changes in economy in Poland with reference to debtors. PKO BP SA monitors the change of credit profiles of the debtors in order to adjust it to the changing needs of the debtors and economic environment.

### 5.2.1 Credit risk

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

PKO BP SA applies the following principles of credit risk management:

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

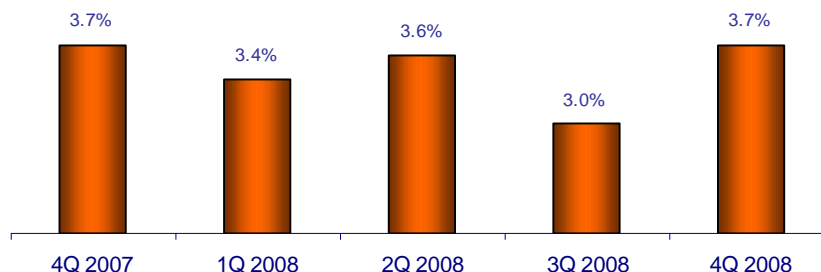
The above-mentioned policies are executed by PKO BP SA through the use of advanced credit risk management methods, both on the level of individual exposures and on the level of the whole credit portfolio of PKO BP SA. These methods are verified and developed to ensure compliance with the internal ratings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

In 2008, PKO BP SA continued developing such credit risk assessment methods relating to retail clients. Among other things, it extended the behavioural scoring system by adding more revolving facilities offered by PKO BP SA to retail clients, such as credit cards and Inteligo revolving loans. In 2008, PKO BP SA also updated the minimum values of the parameters used for assessing the borrowing power of retail clients applying for consumer loans, mortgage loans, credit cards, revolving loans. The changes in the parameter values involved increasing, among others, the minimum fixed expenses of a household and its outgoings on consumption.

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



Chart 1. Share of non-performing loans of PKO BP SA (in compliance with IFRS)



In the 4th quarter of 2008, the volume of non-performing loans in corporate market area increased as a result of deterioration in the clients' financial standing.

In 2008, due to the ongoing financial crisis which affected financial institutions in particular, the Bank performed reviews of these institutions more often than in prior years. As a result, the Bank reduced the credit and settlement limits granted to these institutions, limited the range of transactions performed and shortened the periods for which such transactions are concluded.

### 5.2.2 Market risk

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

#### Interest rate risk

Purpose of interest rate risk management is to identify areas of interest rate risk and shaping the structure of balance sheet and off-balance sheet liabilities in a manner that maximizes net assets value and net interest income within the adopted interest rate risk profile.

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

Exposure of PKO BP SA to interest rate risk was within accepted limits. PKO BP SA was mainly exposed to PLN interest rate risk which amounted to 83% of Value at Risk of PKO BP SA (VaR) as at 31 December 2008 and 48% as at 31 December 2007.

VaR and stress-test analysis of PKO BP SA exposure to interest rate risk is presented in the table below:

Table 32. VaR and stress test analysis of the Bank's exposure to the interest rate risk (PLN thousand)

| Name of sensitivity measure  | 31.12.2008 | 31.12.2007 |
|--|------------|------------|
| VaR for a 10-day time horizon  | 72 337     | 36 300*    |
| Parallel move of interest rate curves by +200 base points (PLN thousand) | 499 041    | 101 905    |

\* VaR calculated as at 31 December 2007 reflects the changes in the VaR methodology introduced in 2008 due to the financial crisis. VaR calculated according to the methodology used on 31 December 2007 amounted to PLN 10 521 thousand.

As at 31 December 2008, the interest rate VaR for the a 10-day time horizon (10-day VaR) amounted to PLN 72 337 thousand, which accounted for approximately 0.60% of the Bank's own funds. As at 31 December 2007, VaR for the Bank accounted for approximately 0.33% of the Bank's own funds. The interest rate risk was generated mainly by the risk of a mismatch between the repricing dates of assets and liabilities and basis risk.

#### Currency risk

The objective of currency risk management is to identify the areas of currency risk and to take measures to reduce the currency risk to acceptable levels.



PKO BP SA measures currency risk using the Value at Risk model and stress tests.

VaR of PKO BP SA and stress test analysis of PKO BP SA financial assets exposed to currency risk are stated cumulatively in the table below:

*Table 33. VaR of the Bank and stress test analysis of the financial assets of PKO BP SA (PLN thousand)*

| Name of sensitivity measure    | 31.12.2008 | 31.12.2007 |
|--------------------------------|------------|------------|
| VaR for a 10-day time horizon  | 11 297*    | 1 646      |
| Change of currency/PLN (15%)** | 10 631     | 6 975      |

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

\*\* In 2008, stress-test analyses were changed by replacing the 10% PLN appreciation or depreciation scenario with the 15% PLN appreciation or depreciation scenario. The data for 2007 was restated for comparability purposes.

The level of currency risk was low both as at 31 December 2008 and as at 31 December 2007.

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

*Table 34. The Bank's currency positions (PLN thousand)*

| Currency           | Currency position as at 31.12.2008 | Currency position as at 31.12.2007 |
|--------------------|------------------------------------|------------------------------------|
| USD                | (97 267)                           | (32 684)                           |
| EUR                | 20 134                             | (32 882)                           |
| CHF                | (10 304)                           | 37 786                             |
| GBP                | (1 497)                            | (3 137)                            |
| Other (global net) | 18 062                             | 11 637                             |

### Liquidity risk

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

The PKO BP SA's policy concerning liquidity is based on keeping a portfolio of liquid securities and accumulation of stable deposit base. In its liquidity risk management policy, the Bank also uses money market instruments, including NBP open market operations.

To ensure an adequate liquidity level, PKO BP SA accepted limits and thresholds for liquidity risk. The limits and thresholds were set for both current liquidity measures and medium and long-term liquidity measures. Liquidity reserve as at the end of 2008 and as at the end of 2007 is presented below:

*Table 35. Liquidity reserve of PKO BP SA*

|  | 31.12.2008 | 31.12.2007 |
|--|------------|------------|
| Liquidity reserve up to 1 month* (PLN million) | 6 666      | 9 248      |

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

On 15 December 2008 the Bank introduced new deposit products. As at 10 January 2009, the liquidity reserve up to 1 month amounted to approx. PLN 8 930 million.

As at 31 December 2008, the level of permanent balances on deposits from non-financial entities constituted approximately 94% of all deposits of PKO BP SA's non-financial clients, while as at 31 December 2007 the level of permanent balances on deposits constituted approximately 96% of all deposits of PKO BP SA's non-financial clients.

### 5.2.3 Operational risk

Operational risk is defined as the risk of occurrence of a loss due to non-compliance or unreliability of internal processes, people and systems or external events. The purpose of operational risk management is to optimize operational efficiency by reducing operating losses, costs streamlining and improving the timing and adequacy of the response of the PKO BP SA to events which are beyond its control.



Operational risk management is performed through systemic solutions as well as regular ongoing management of the risk. Systemic operational risk management is centralised at PKO BP SA's head office level.

The ongoing operational risk management is conducted by every organizational unit of the Bank.

In order to limit exposure to operational risk, PKO BP SA applies solutions of various kinds, such as:

- control solutions,
- human resources management (proper staff selection, enhancement of professional qualification of employees, motivation packages),
- setting threshold values of Key Risk Indicators (KRI),
- contingency plans,
- insurances,
- outsourcing
- business continuity plan.

In the second half of 2008 PKO BP SA commenced work in the area of implementation of key operational risk indicators and IT system supporting operational risk management process.

#### **5.2.4 Compliance risk**

Compliance risk is defined as the risk of legal sanctions, incurring financial losses or losing reputation or reliability due to failure of the Bank, its employees or entities acting on its behalf to comply with the provisions of the law, internal regulations, standards adopted by the Bank, including ethical standards.

The objective of compliance risk management is to strengthen the image of the PKO BP SA as of institution that is reliable, fair, honest and compliant with law and adopted standards. This is achieved through mitigating compliance risk, reputation risk and legal sanction risk as well as mitigating risk of potential financial loss or legal sanction that may be caused by violation of laws and regulations.

Compliance risk management involves in particular:

- preventing involvement of the Bank in illegal activities;
- ensuring data protection;
- development of ethical standards and monitoring of their application;
- conflict of interest management;
- preventing situations where the Bank's employees could be perceived as pursuing their own interest in the professional context;
- professional, fair and transparent formulation of offers of products, advertising and marketing messages;
- prompt, fair and professional consideration of complaints, requests and quality claims of clients.

#### **5.2.5 Capital adequacy**

Capital adequacy is the maintenance of a level of capital by PKO BP SA which is sufficient to meet regulatory capital requirements (the so-called Pillar 1) and internal capital requirements (the so-called Pillar 2). The objective of capital adequacy management is to maintain capital on a level that is adequate to the risk scale and profile of PKO BP SA's activities.

The process of managing PKO BP SA's capital adequacy comprises:

- identifying and monitoring of all of significant risks,
- assessing internal capital to cover the individual risk types and total internal capital,
- monitoring, reporting, forecasting and limiting of capital adequacy,
- performing internal capital allocations to business segments, client segments and entities in the PKO BP SA Group in connection with profitability analyses,
- using tools affecting the capital adequacy level (including: tools affecting the level of own funds, the



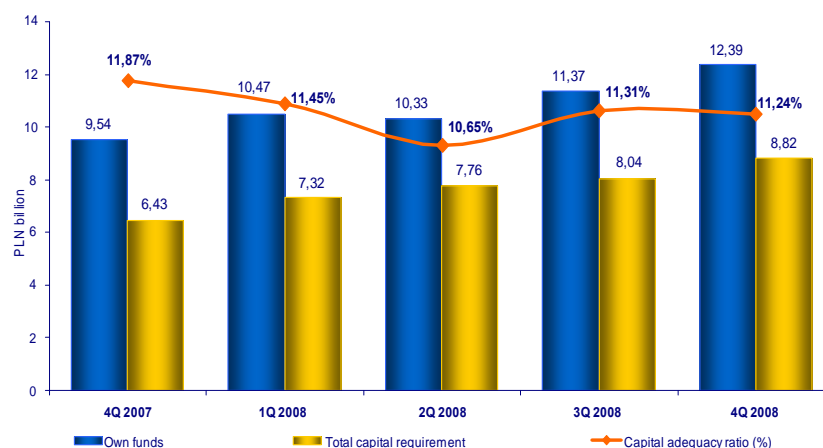
scale of own funds item reductions and the level of the loan portfolio).

Main measures of capital adequacy are:

- the capital adequacy ratio whose minimum level in accordance with the Banking Act is 8%;
- the ratio of equity to internal capital whose acceptable minimum level in accordance with the Banking Act is 1.0.

The capital adequacy level of the Bank in 2008 remained on a safe level and was significantly above the statutory limits.

Chart 2. Chart 2. Capital adequacy of PKO BP SA



Compared with 31 December 2007, PKO BP SA's capital adequacy level dropped by 0.63 pp., which was mainly due to high growth rate of the loan portfolio and the negative effect of implementing Basel II on the capital requirement level.

In 2008, the value of own funds of PKO BP SA increased by PLN 2.85 billion, which was mainly due to contribution of approximately 60% of the net profit for 2007 and 100% of the net profit for the first half of 2008.

Since January 2008, PKO BP SA calculates capital requirements in accordance with Resolution No. 1/2007 of the Banking Supervision Authority dated 13 March 2007 (Basel II): in respect of credit risk – using the standardized approach; in respect of operational risk – using the basic indicator approach, and in respect of market risk – using the basic approach.

In 2008, the increase in the capital requirement in respect of credit risk resulted from a significant increase in the volume of loan portfolio (32.9%). Except for increase in sales of loans, growth of loan portfolio volume was determined by foreign exchange rates increase in the second half of 2008. The increase in the capital requirement of PKO BP SA in respect of operational risk (using the basic indicator approach) was due to an increase of result on banking activities in 2008.

Implementation of Basel II as of the beginning of 2008 resulted in an increase in the total capital requirement for the Bank of approximately PLN 0.5 billion, which was mainly due to introducing a new capital requirement for operational risk (+ PLN 1.0 billion), accompanied by a decrease in the capital requirement in respect of credit risk (- PLN 0.5 billion).

Chart 3. Capital requirements of PKO BP SA





### 5.3 Organisational and capital structure

#### Investment activities

PKO BP SA holds stocks and shares in other financial and non-financial entities. The main direct and indirect investments of PKO BP SA are presented below.

Table 36. Subsidiaries, associates and jointly controlled entities of PKO BP SA

| No.                                | Entity name   | Cost<br>(PLN thousand) | Voting rights on<br>General<br>Shareholding<br>Meeting<br>(%) |
|------------------------------------|---|------------------------|---|
| <b>Subsidiaries</b>                |   |                        |   |
| 1                                  | KREDOBANK SA <sup>1</sup>                             | 356 102                | 98.5619   |
| 2                                  | Powszechnie Towarzystwo Emerytalne BANKOWY SA         | 205 786                | 100   |
| 3                                  | Centrum Finansowe Puławska Sp. z o.o.                 | 128 288                | 100   |
| 4                                  | PKO Inwestycje Sp. z o.o.*                            | 117 813                | 100   |
| 5                                  | Bankowy Fundusz Leasingowy SA                         | 70 000                 | 100   |
| 6                                  | PKO Towarzystwo Funduszy Inwestycyjnych SA            | 69 055                 | 75  |
| 7                                  | Inteligo Financial Service SA                         | 59 602                 | 100   |
| 8                                  | Centrum elektronicznych Usług Płatniczych eService SA | 55 500                 | 100   |
| 9                                  | Bankowe Towarzystwo Kapitałowe SA                     | 18 566                 | 100   |
| 10                                 | PKO Finance AB  | 172                    | 100   |
| <b>Jointly controlled entities</b> |   |                        |   |
| 11                                 | CENTRUM HAFFNERA Sp. z o.o.                           | 44 371                 | 49.43   |
| 12                                 | Centrum Obsługi Biznesu Sp. z o.o.                    | 17 498                 | 41.44   |
| <b>Associates</b>                  |   |                        |   |
| 13                                 | Bank Pocztowy SA                                      | 146 500                | 25.0001   |
| 14                                 | Kolej Gondolowa Jaworzyna Krynicka SA                 | 15 531                 | 36.71   |
| 15                                 | Ekogips SA – in liquidation                           | 5 400                  | 23.52   |
| 16                                 | Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.     | 1 500                  | 33.33   |
| 17                                 | Agencja Inwestycyjna CORP SA                          | 29                     | 22.31   |

\* value of shares at acquisition cost, inclusive of specific capital injections.

<sup>1</sup> both cost and share in capital of KREDOBANK SA include the XVIII share issue, acquired by PKO BP SA on 31 December 2008, and presented in the balance sheet of PKO BP SA as receivables

Subsidiaries of PKO BP SA were established with an aim to support the basic business activities of PKO BP SA within sales goals through complementation of the offer as well as providing services to PKO BP SA and increase of the Bank's share in the international financial markets.



Table 37. Indirect subsidiaries of PKO BP SA

| No.   | Entity name                                       | Cost<br>(PLN thousand) | Voting rights on<br>General<br>Shareholding<br>Meeting<br>(%) |
|---|---|------------------------|---|
| <b>Subsidiaries of PKO Inwestycje Sp. z o.o.</b>      |   |                        |   |
| 1   | Wilanów Investments Sp. z o.o.*                   | 82 981                 | 100   |
| 2   | POMERANKA Sp. z o.o. *                            | 19 000                 | 100   |
| 3   | PKO Inwestycje - Międzyzdroje Sp. z o.o.*         | 7 575                  | 100   |
| 4   | Baltic Dom 2 Sp. z o.o.                           | 6 619                  | 56  |
| 5   | WISŁOK Inwestycje Sp. z o.o.*                     | 2 800                  | 80  |
| 6   | Fort Mokotów Sp. z o.o. *                         | 2 040                  | 51  |
| 7   | UKRPOLINWESTYCJE Sp. z o.o.                       | 519                    | 55  |
| <b>Subsidiaries of Bankowy Fundusz Leasingowy SA</b>  |   |                        |   |
| 8   | Bankowy Leasing Sp. z o.o.                        | 1 309                  | 100   |
| 9   | BFL Nieruchomości Sp. z o.o.                      | 1 109                  | 100   |
| <b>Subsidiary of Inteligo Financial Services SA</b>   |   |                        |   |
| 10  | Finanse Agent Transferowy Sp. z o.o. <sup>1</sup> | 7 600                  | 80.33   |
| <b>Subsidiaries of Inteligo Financial Services SA</b> |   |                        |   |
| 11  | Sopot Zdrój Sp. z o.o.*                           | 58 923                 | 100   |
| 12  | Promenada Sopocka Sp. z o.o.                      | 10 058                 | 100   |
| 13  | Centrum Majkowskiego Sp. z o.o.                   | 6 609                  | 100   |
| 14  | Kamienica Morska Sp. z o.o.                       | 976                    | 100   |

\* value of shares at acquisition cost, inclusive of specific capital injections.

<sup>1</sup> other shares of Finanse Agent Transferowy Sp. z o.o. are in possession of Powszechnie Towarzystwo Emerytalne BANKOWY SA – a subsidiary of PKO BP SA

More information relating to the subsidiaries of PKO BP SA are included in the Directors' Report of the PKO BP SA Group.

### Changes in organisation of subordinated entities

In 2008, there were following changes in capital and organisational structure within the subordinated entities:

#### 1. Shares acquisition of PKO Finance AB

According to the contract signed by PKO BP SA and Svenska Standardbolag AB (Sweden), the Bank acquired 100% shares of Aktiebolaget Grundstenen 108756 (Sweden) with a nominal value of PLN 170 thousand and changed the name from Aktiebolaget Grundstenen 108756 to PKO Finance AB. The Company's activity is to rise funds for PKO BP SA deriving from issue of eurobonds.

#### 2. Shares acquisition in increased share capital of Bankowy Fundusz Leasingowy SA

PKO BP SA acquired shares within the increase of share capital of Bankowy Fundusz Leasingowy SA with a nominal value of PLN 30 million. Following the above-mentioned issue, PKO BP SA holds 100% of the share capital of the company.

#### 3. Shares acquisition in increased share capital of Kredobank SA

On 31 December 2008, PKO BP SA acquired shares within the capital increase of KREDOBANK SA with total nominal value of UAH 130 445 018.52. As a result of above-mentioned acquisition PKO BP SA increased its share in share capital and voting rights on General Shareholders Meeting from 98.1815% to 98.5619%.

#### 4. Reimbursement of a capital contribution made by PKO BP SA to PKO Inwestycje Sp. z o.o.

PKO Inwestycje Sp. z o.o. (PKO BP SA subsidiary) returned to PKO BP SA a capital contribution received for an execution of investment projects of PLN 5.5 million.

#### 5. Change of the name ARKADIA Inwestycje Sp. z o.o.

A change of name of ARKADIA Inwestycje Sp. z o.o. – a subsidiary of PKO Inwestycje Sp. z o.o. - to PKO Inwestycje – Międzyzdroje Sp. z o.o. was registered.

#### 6. Capital contribution to PKO Inwestycje – Międzyzdroje Sp. z o.o.

PKO Inwestycje Sp. z o.o. made a capital contribution to PKO Inwestycje – Międzyzdroje (former ARKADIA Inwestycje Sp. z o.o.) in the amount of PLN 4 074 800.



#### **7. Shares acquisition in increased share capital of PKO Inwestycje – Międzyzdroje Sp. z o.o.**

PKO Inwestycje Sp. z o.o. acquired shares in increased share capital of PKO Inwestycje – Międzyzdroje Sp. z o.o. in the total amount of PLN 1 500 thousand. Following the above-mentioned issue, PKO Inwestycje Sp. z o.o. held 100% of the share capital and 100% of the voting rights on Shareholders' Meeting.

#### **8. Chares acquisition of WISŁOK Inwestycje Sp. z o.o.**

PKO Inwestycje Sp. z o.o. acquired 80% of shares in newly established entity WISŁOK Inwestycje Sp. z o.o. with total nominal value of PLN 400 thousand. Entity was founded to execute a housing project in Rzeszów called "Osiedle Wisłok".

#### **9. Capital injection to WISŁOK Inwestycje Sp. z o.o.**

PKO Inwestycje Sp. z o.o. made a capital injection into WISŁOK Inwestycje Sp. z o.o. in the amount of PLN 2 400 thousand.

#### **10. Acquisition of shares of Baltic Dom 2 Sp. z o.o.**

PKO Inwestycje Sp. z o.o. concluded 3 transactions in which it purchased shares in Baltic Dom 2 Sp. z o.o. with a nominal value of PLN 28 thousand, representing 56% of the entity's share capital and entitling to 56% of votes at the Shareholders' Meeting. The entity carries out works related to the execution of a housing project ("Sarnia Dolina") in Jankowo near Gdańsk.

#### **11. Capital contribution to Finanse Agent Transferowy Sp. z o.o.**

Powszechne Towarzystwo Emerytalne BANKOWY SA – direct subsidiary of PKO BP SA – made a capital contribution to Finanse Agent Transferowy Sp. z o.o. in the amount of PLN 1 500 thousand.

#### **12. Shares acquisition in increased share capital of Finanse Agent Transferowy Sp. z o.o.**

Inteligo Financial Services SA (direct subsidiary of PKO BP SA) acquired shares in increased share capital of Finanse Agent Transferowy Sp. z o.o. with total nominal value amounting to PLN 7 600 thousand, representing 80.33% of entity's share capital and entitling to 80.33% of votes at the Shareholders' Meeting. At the same time, as a result of above-mentioned acquisition, share of PTE BANKOWY SA – former only shareholder – decreased to 19.67%.

#### **13. Disposal of FINDER SA shares**

Disposal of all shares of FINDER SA held by Bankowe Towarzystwo Kapitałowe SA – subsidiary of PKO BP SA took place. Disposed shares package represented 46.42% of entity's share capital and entitled to 46.42% of votes at the Shareholders' Meeting.

Additionally, in 2008 shares of International Trade Center Sp. z o.o. in liquidation and Przedsiębiorstwo Informatyki Bankowej „Elbank” Sp. z o.o. in liquidation were derecognised due to the lack of prerequisites to concede above-mentioned shares as assets within IFRS apprehension.

#### **Investment plans**

Building a strong financial group is one of the directions of development of PKO BP SA. The Bank's activities are aimed at improving the effectiveness of capital employed. PKO BP SA is going to focus on development of the companies which expand the PKO BP SA Group's product offer. The Bank may invest in other financial sector entities operating on the Polish market and in Central and Eastern Europe. PKO BP SA has the capabilities to conduct capital expenditure projects. The structure of financing of potential investments will be each time tailored to the funds held by the Bank at the particular moment.

#### **Related party transactions**

In 2008 PKO BP provided the following services to its related parties (subordinated entities): keeping bank accounts, accepting deposits, granting loans and advances, issuing debt securities, providing guarantees and conducting spot foreign exchange transactions.

The list of significant transactions between PKO BP SA and its subordinates, including loans and advances to subordinates as at 31 December 2008, was presented in the financial statements of PKO BP SA for the year 2008.



## 5.4 Agreements, benefits and competences of the authorities of PKO BP SA

### Competences of the Members of the Management Board of PKO BP SA

| Management Board of PKO BP SA   | Competences  |
|---|--|
|    | <p><b>Jerzy Pruski - President of the Management Board of PKO BP SA</b></p> <p>Since 20 May 2008, Jerzy Pruski has filled in the position of the President of the Board of PKO Bank Polski, appointed by the decision of the Supervisory Board as a result of a contest for this position. In the years 1991 - 1997 he worked at LG PetroBank, where he - as a Vice-President of the Board - was among others responsible for credit risk and the network of branches. In the years 1998 - 2004, he was a member of the Monetary Policy Board, and in the period from March 2004 to February 2008 he was the First Deputy President of the National Bank of Poland. In the years 2006-2007 he represented NBP in the Financial Supervision Authority and Bank Supervision Authority. In 1983, he graduated from the faculty of economics at University of Łódź, where in 1989 he also was granted the title of doctor of economic sciences. In 1989, he completed a scholarship at the Oslo University and in 1990 he graduated from a one-year course at the Windsor University in Canada. He participated in many national and foreign research programmes in scope of monetary policy and banking system.</p> |
|    | <p><b>Bartosz Drabikowski - Vice-President of the Management Board in charge of Finance, Accounting and Settlement as well as Quality.</b></p> <p>He graduated from the Technical University of Łódź, the Polish National School of Public Administration, Warsaw School of Economics, the Polish Institute of International Affairs, and Executive MBA Programme. Professional career: the Ministry of Finance - the Advisor to the Minister, Deputy Director, and Financial Institutions Department Director. In the years 2006 - 2008 he served as member of the Management Board of the National Clearing House. For several years he served as member of the Banking Supervision Authority, member of the Securities and Exchange Commission and deputy member of the Payment System Board at the National Bank of Poland. He also served as member of many institutions of the European Union. Currently he acts as the Chairman of the Supervisory Boards of Inteligo Financial Services SA and Bankowy Faktoring SA.</p>   |
|   | <p><b>Krzysztof Dresler - Vice-President of the Management Board in charge of Risk and Debt Recovery.</b></p> <p>He graduated from the Department of Finance and Banking of the Warsaw School of Economics. Assistant professor in Collegium of International Finance. Employee of the National Depository for Securities from 1996 to 2001. In March 2001 he joined PKO BP first as the Director of the Financial Risk Department, and subsequently he worked as Director of the Planning and Controlling Department. Since March 2007 he has been working for Xelion, a unit of the UniCredit Group. In May 2008 he was appointed Managing Director in charge of the Assets and Liabilities Management Department at Pekao SA. He underwent an internship at the Depository Trust Company in New York. He completed courses for investment advisors Chartered Financial Analyst (CFA) and a course for Chief Financial Officers. He also completed a course for managers based on the MBA programme. He is a member of the Global Association of Risk Professionals and the Professional Risk Management International Association as well as the Polish Association of Business Economists.</p>               |
|  | <p><b>Tomasz Mironczuk - Vice-President of Management Board in charge of Investment Banking.</b></p> <p>He graduated from the Department of Economics at the Białystok Branch of Warsaw University. In 1994 he earned the degree of Master of Arts in Economics at the Central European University, Prague College, Economics Department. He participated in numerous trainings in the field of securitisation, risk management and financial instruments. He started his professional career in 1994 at the Treasury Department of Polski Bank Rozwoju. He also acted as Director of the Financial Instruments Trading Department. In the years 1998 - 2001 he worked at BRE Bank SA as the Vice-Director of the Derivatives Division at the Monetary Operations Department and as the Vice-Director of the Assets and Liabilities Management Division at the Monetary Operations Department. In the years 2001 - 2008 he worked at Bank BP SA as the Director of the Treasury Area - Treasurer. In the years 2002 - 2006 he acted as member of the Supervisory Board of MTS CeTO SA and in the years 2006 - 2008 as Chairman of the Supervisory Board of MTS CeTO SA.</p>                                      |
|  | <p><b>Jarosław Myjak - Vice-President of the Management Board in charge of Corporate Market.</b></p> <p>He earned the degree of Master of Arts at the Faculty of American Studies and the Faculty of Law at Adam Mickiewicz University. He completed a judge training programme. Professional career: from 1991 to 1994 he worked as lawyer for Altheimer &amp; Gray Sp. z o.o.; from 1994 to 2004 he worked for Commercial Union Polska Ubezpieczenia na Życie as President of the Management Board and President of AVIVA. He served as Vice-President of the Management Board of The Polish Chamber of Insurance. He served as member of the Polish Business Roundtable (1998-04); He served as member of the Supervisory Board of Citibank Handlowy (2004-06); He served as Vice-President of the Polish Confederation of Private Employers "Lewiatan" (2004-07). He served as Vice-President of the Management Board of PKO BP SA (2006). In the years 2007-08 he worked as lawyer at Dewey &amp; LeBoeuf law office. Member of Supervisory Boards of BGŻ SA, PZU Życie SA (2008).</p>  |
|  | <p><b>Wojciech Papierak - Vice-President of the Management Board in charge of Retail Market.</b></p> <p>He graduated from the Law and Administration Faculty at the University of Łódź. Positions held: from 1993 to 1995 Polski Bank Inwestycyjny SA; Powiatowy Bank Gospodarczy w Łódź; from 1998 to 2000 Director of the Retail Banking Department at PKO BP SA; from 2000 to 2003 he worked for BRE BANK SA as Director of the Commercial Retail Management Department and Director of the Operational Retail Support Department; from 2002 to 2006 he worked at the Settlement and Information Centre CERI sp. z o.o., as Member of the Management Board, Managing Director and subsequently President of the Management Board and CEO. Between November 2006 and June 2008 he served as Vice Chairman of the Management Board of Nordea Bank Polska SA in charge of Operations, Logistics and Security.</p>  |
|  | <p><b>Mariusz Zarzycki - Vice-President in charge of Information Technology and Services.</b></p> <p>He graduated from the Faculty of Economics at the University of Łódź and the University of Stockholm. Professional career: in 1992 Bank Przemysłowy SA in Łódź, where he worked in the Organisational and Legal Department, the Credit Department and the IT Department. Between 1993 and 1998 Powiatowy Bank Gospodarczy SA as deputy Director for Organisational Department; subsequently as Director of the Support Department, the Banking Technology Department and IT Department. He took an active part in the consolidation process of the Pekao SA Group. In the years 1998-2008 he worked for BRE Bank SA as Director of the Information Technology for Retail Banking, Director of Department for Development of Information Technology, Director for Information Technology. In years 2002 - 08 President of the Management Board of ServicePoint (IT company belonging to BRE Bank).</p>   |



| Supervisory Board of PKO BP SA  | Competences   |
|---|---|
|    | <p><b>Marzena Piszczek - Chairman of the Supervisory Board</b><br/>                     Doctor of Economics, graduated from Management Department of the Economics University in Cracow, faculty member of the Chair of Finance of the Economics University in Cracow, post-graduated from EDHEC France and IESE Spain. She has a wealth of experience in consulting in the field of finance management and in Supervisory Boards - e.g. budget expert at the Chancellery of the President of the Council of Ministers. Experience in banking sector: in years 1994 - 95 she was responsible for budgeting, bank accounting and co-operation on the implementation of a new IT system in Pierwszy Polsko-Amerykański Bank SA. Since February 2008 she has been acting as Director of the Branch of the Ministry of State Treasury in Cracow.</p>  |
|    | <p><b>Elgiusz Jerzy Krześniak - Deputy Chairman of the Supervisory Board</b><br/>                     Doctor of Laws, graduated from Wrocław University, studies also in Germany and the United States; barrister in Warsaw, partner in the international law office Squire Sanders &amp; Dempsey L.L.P. and a partner in its Warsaw-based Office. Author of books and publications in the field of Polish, German and American commercial law, including issues regarding corporate governance and management of companies. A guest speaker at numerous conferences and at barrister training programme. He is a member of several commissions at the District and Supreme Bar Council. He is entered on the list of arbitrators of the arbitration tribunal and on the list of mediators of the Centre for Economic Conciliation. He specialises in advising on corporate issues and aspects related to intellectual property, leading merger and acquisition efforts, as well as supporting IT and outsourcing projects.</p>   |
|    | <p><b>Jan Bossak - Member of the Supervisory Board</b><br/>                     graduated from Foreign Trade Department in SGRS (now Warsaw School of Economics). Intern of Japan Government, doctor of Osaka University (1972-74). In 1983 he underwent academic training at the Vienna Institute for Comparative Economic Studies. He completed the Executive Corporate Finance course at the University of Minnesota (1991) and the International Finance course at LSE in London (1995). He is a Professor of Economics in the Chair of International Comparative Studies in the College of Economic Analyses at the Warsaw School of Economics. Earlier he was an academic secretary of Institute of Business Cycle and Foreign Trade (1983-87) and the director of Institute of the World's Economy in Warsaw School of Economics (1990-93). In the years 1991-1992 he acted as President of the Polish-American Entrepreneurship Fund, in the years 1995-1997 he acted as President of the Second National Investment Fund (Drugi Narodowy Fundusz Inwestycyjny SA) and between 1999 and 2003 he acted as President of Erste Securities Polska SA. Founder (2000) and Vice-President of Polish-Japanese Economic Committee. He is released by the World Bank, the Japanese government agency APO and the Silk Route Institute based in Xi'an in China.</p> |
|   | <p><b>Jerzy Osiatyński - Member of the Supervisory Board</b><br/>                     A professor with a post-doctoral degree in economic science; graduated from the Main School of Planning and Statistics (currently the Warsaw School of Economics). He completed his post-graduate studies and gave classes at the University of Cambridge. He worked at Polish Academy of Sciences. In the years 1998-2001 he served as Member of Parliament. In 1989-91 he acted as Minister - Manager of the Central Planning Office, in 1992-93 Minister of Finance. As a representative of the World Bank, he acted as advisor for the governments of Ukraine, the Republic of Moldova, Romania, Tajikistan, Krygyzstan, Kazakhstan and Macedonia. He still serves as advisor to the UNDP on issues regarding economic policy in the transformation countries. He served as a member of the Supervisory Board of PKO BP SA (since 25 March 2002 until his resignation on 31 January 2007). A specialist and author of numerous academic works about the theory of economics and history of economic doctrine.</p>   |
|  | <p><b>Urszula Pałaszek - Member of the Supervisory Board</b><br/>                     graduated from the Faculty of Economics of Warsaw University (where in the years 1991-1999 she worked as assistant professor) and University of Sussex in Great Britain. Between 1991 and 1994 she served as an expert in NICOM Consulting Ltd., and since the end of 1992 until March 1993 as a specialist at the Department of Capital Investments at PKO BP SA. Between 1994 and 1995 she was employed at the post of banking advisor at the Investment Banking Department at Polski Bank Inwestycyjny SA. At the end of 1995 she joined the Ministry of State Treasury, where she worked as advisor at the Department of National Investment Funds and Mass Privatisation Programmes and as Director of the Financial Institutions Department. She also has a wealth of experience in Supervisory Boards of commercial partnerships. Currently she serves as Chairwoman of the Supervisory Board of the Polish Reinsurance Company in Warsaw.</p>   |
|  | <p><b>Roman Sobiecki - Member of the Supervisory Board</b><br/>                     He holds a post-doctoral degree in economics. At present he works at the Faculty of Market and Competition Analysis. Member of the Board of the Collegium of Business Administration of the Warsaw School of Economics and Deputy Dean of the said Collegium. He has a wealth of experience in economic practice: he worked at the Capital Investment Department at Bank Ochrony Środowiska S.A. (1998-1999), at the post of Director of the Internal Control Office at PTE Epoka SA (1999-2000), as advisor in corporate governance at the Political Office of the Ministry of State Treasury (1996-1997), as a member in Supervisory Boards of commercial companies. Member of the Chapter of Award 'Bank friendly to the entrepreneurs'. Author and co-author of over 70 books and publications in the fields of economics and entrepreneurship.</p>   |
|  | <p><b>Ryszard Wierzba - Member of the Supervisory Board</b><br/>                     Professor of the Economics, head of the Faculty of Finance at the Gdańsk University (Management Department) and Deputy Director of the Gdańsk Academy of Banking at the Gdańsk Institute for Market Economics. He gained professional experience in Bank Inwestycyjny, also by serving as Deputy Chairman of the Supervisory Board of Bank Gdański SA, member of the Supervisory Board of Bank Handlowy in Warsaw. Member of the Presidium of the Coordinating Committee for Qualification Standards in Polish Banking set up by the Polish Bank Association. Moreover, he acts as member of the Committee of Financial Sciences of the Polish Academy of Sciences and the Comité Jean Fourastié society in Paris. Author and co-author of numerous scientific publications and reports.</p>   |



### **Agreements concluded between the issuer and managing persons**

Within the meaning of § 2 clause 1 item 30a of the Decree of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and the conditions of considering as equivalent the information required by law of a non-member country (Journal of Laws No. 33, item 259), members of the Management Board are persons managing the Bank.

In 2008, two agreements were signed with each of the Management Board's members, providing for compensation in the case of their resignation or dismissal without a valid reason:

- an employment contract providing for severance pay of the last 3 received monthly basic salaries;
- a non-competition agreement, providing for damages for failure to comply with the non-competition requirement during 6 months after termination of the employment relation, amounting to 100% of the monthly basic salary received before termination of the employment relation, to be paid monthly in arrears during the non-competition period.

The monthly basic salary is defined as the equivalent of 6 times the average monthly salary specified in the Act on remuneration of persons managing certain legal entities of 3 March 2000 (Journal of Laws No. 26, item 306, with subsequent amendments), i.e. the so-called Remuneration Cap Act.

### **Benefits provided to members of management and supervisory boards**

Full information on remunerations and other benefits provided to members of the Bank's Management and Supervisory Boards during the reporting period has been presented in Note 42 in Notes to the Financial Statements of PKO BP SA for the year 2008.

### **Proxies, Management Board meetings and execution of the resolutions of the General Shareholders' Meeting and the guidelines of the Minister of the State Treasury**

PKO BP SA had 12 proxies on 1 January 2008; two proxies were appointed during the year and six were dismissed. As at 31 December 2008, the Bank had 8 proxies.

In 2008, the Bank's Management Board held 72 meetings and adopted 403 resolutions.

Major actions and decisions of the Management Board, which affected the Bank's financial position and operations, are presented in different parts of this Directors' Report.

On 20 May 2008, the Annual General Shareholders' Meeting of PKO BP SA was held. The resolutions adopted by the General Shareholders' Meeting have been executed.

### **Bank's shares held by Members of Management or Supervisory Board**

Table 34 presents Bank's shares held by members of Management and Supervisory Boards as at 31 December 2008. The nominal value is PLN 1 per share.

Members of the PKO BP SA Supervisory Board and the Management Board did not hold shares and participations in PKO BP SA's subsidiaries as at 31 December 2008.



Table 38. Shares held by Members of Management or Supervisory Board of PKO BP SA as at 31 December 2008

| No.                                     | Name   | Number of shares as at 31.12.2007 | Purchase | Disposal | Number of shares as at 31.12.2008 |
|---|--|-----------------------------------|----------|----------|-----------------------------------|
| <b>I. Management Bard of the Bank</b>   |  |                                   |          |          |                                   |
| 1.                                      | Jerzy Pruski, President of the Bank's Management Board               | x                                 | x        | x        | 0                                 |
| 2.                                      | Bartosz Drabikowski, Vice-President of the Bank's Management Board   | x                                 | x        | x        | 0                                 |
| 3.                                      | Krzysztof Dresler, Vice-President of the Bank's Management Board     | x                                 | x        | x        | 0                                 |
| 4.                                      | Tomasz Mironczuk, Vice-President of the Bank's Management Board      | x                                 | x        | x        | 0                                 |
| 5.                                      | Jarosław Myjak, Vice-President of the Bank's Management Board        | x                                 | x        | x        | 0                                 |
| 6.                                      | Wojciech Papierak, Vice-President of the Bank's Management Board     | x                                 | x        | x        | 2500                              |
| 7.                                      | Mariusz Zarzycki, Vice-President of the Bank's Management Board      | x                                 | x        | x        | 0                                 |
| <b>II. Supervisory Bard of the Bank</b> |  |                                   |          |          |                                   |
| 1.                                      | Marzena Piszczek, Chairman of the Bank's Supervisory Board           | x                                 | x        | x        | 0                                 |
| 2.                                      | Eligiusz Jan Krzeński, Vice-Chairman of the Bank's Supervisory Board | x                                 | x        | x        | 0                                 |
| 3.                                      | Jan Bossak, member of the Bank's Supervisory Board                   | x                                 | x        | x        | 0                                 |
| 4.                                      | Jerzy Osiatyński, member of the Bank's Supervisory Board             | x                                 | x        | x        | 0                                 |
| 5.                                      | Urszula Pałaszek, member of the Bank's Supervisory Board*            | 0                                 | 0        | 0        | 0                                 |
| 6.                                      | Roman Sobiecki, member of the Bank's Supervisory Board               | x                                 | x        | x        | 0                                 |
| 7.                                      | Ryszard Wierzbą, member of the Bank's Supervisory Board              | x                                 | x        | x        | 0                                 |

\* acting member of the Supervisory Board as at 31 December 2007.

## 5.5 Human resources in PKO BP SA

### 5.5.1 Remuneration and incentive system of PKO BP SA

Taking into account the structural conditions and market trends, the Management Board of PKO BP SA decided to implement, as of January 2008, an entirely new remuneration and incentive system. In the new system, the level of variable component of the salary is determined by the degree of achievement of the targets set. The procedure for target setting and performance measures used depend on the type of position and classification to one of the three employee groups: management, widely understood sales and processing-support. The new system is based mainly on the Management by Objectives (MbO) model. Incentives in the new system are directly linked to the process of setting targets and objectives. As the individual remuneration is linked with the level and quality of performance of the tasks specified, the variable component of the remuneration is strengthened and represents an additional salary incentive. The system focuses on setting objectives which are aligned with the direction of development of the entire organisation; these tasks are then cascaded to particular organizational units and individual employees.

The three pillars of the new remuneration and incentive system are as follows:

- I Pillar, the so-called Management by Objectives (MbO)** covers top managers for which specific objectives may be assigned. The MbO consists in granting bonuses which depend on the quality and degree of completion of the tasks assigned. The system focuses on: determining performance indicators, assessing performance against the targets assigned; granting bonuses depending on performance.
- II Pillar, the so called Individual Bonus System (IBS)**, is the system of commission and bonuses which depend on the degree of completion of specific tasks in the areas of sales and effectiveness. The system covers those employees who are completing business tasks, mainly in retail outlets and corporate centres, where individual, measurable targets can be defined or where there is a strong causal link between activities undertaken by individual employees and the level of achievement of the economic and financial results of PKO BP SA.
- III Pillar, the so-called Support Bonus System**, in to form of premiums. This is a typical "participatory" solution, whereby award is granted for the achievement of targets by a person managing a given group of employees (a directors' contribution to the completion of tasks) and an organizational unit. This pillar applies to those employee groups/position where it is more difficult, or even impossible, to set additional, measurable goals and tasks for an individual. Given the nature of their jobs, such employees have an indirect, but significant impact on the degree of



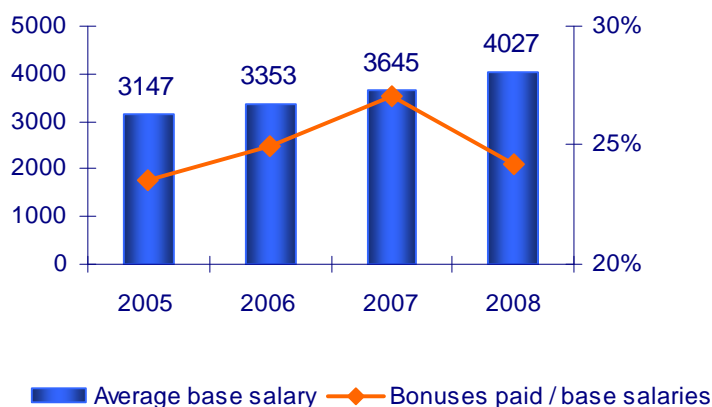
completion of the tasks assigned to their superiors and the organization as such, and thus participate in the results achieved by PKO BP SA as a whole.

### 5.5.2 Remuneration policy

The primary legal act that regulates the remuneration system at the Bank is the Company Collective Labour Agreement (Zakładowy Układ Zbiorowy Pracy) dated 28 March 1994 (with 6 subsequent amendments). In year 2008, there were no systemic changes regarding CCLA. CCLA covers all employees working for the Bank on the basis of employment contracts, except for members of the Management Board, whose salaries are subject to the limitations resulting from the so-called "Cap Act".

Average basic salary and the payroll cost structure: the relationship between the (performance-related) bonuses and basic salaries paid is presented in the following table:

Chart 4. Average base salary and bonuses paid / base salaries ratio (PLN)



As at 1 March 2008 the Bank's employees received pay rises. The amounts of the pay rises were determined individually within the allocated budget.

### 5.5.3 Benefits for employees

Benefits from the Company Social Benefits Fund granted in 2008 to the Bank's current and former employees and their families are presented in the table below:

Table 39. Benefits granted by Company Social Benefits Fund to the employees in 2008

| Type of benefit           | Number of beneficiaries | Total money granted (PLN) |
|---------------------------|-------------------------|---------------------------|
| Refundable benefits*      | 6 806                   | 75 518 020                |
| Non-refundable benefits** | 48 832                  | 17 859 319                |
| <b>Total</b>              | <b>55 638</b>           | <b>93 377 339</b>         |

\* housing loans

\*\* inclusive of aids, organized and non-organized holidays subsidies, promotion of education, cultural and sport activities, writing off loans, material and other non-refundable aid

PKO BP SA ensures free-of-charge, comprehensive medical care to its employees, whose scope, in addition to mandatory benefits to be provided under the applicable provisions of the Polish Labour Code, includes additional medical care according to various packages addressed to particular employee groups. Whereby:

- all packages enable employees to have unlimited access to doctors in all areas of specialization and to diagnostic tests ordered by these doctors. Ensuring access to a wide scope of medical services to all employees is an important component of the package of additional benefits provided by PKO BP SA to its employees,



- medical care services are provided by LUX MED Sp. z o.o. which cooperates with various subcontractors to ensure access to these services to PKO BP SA's employees in all branches country-wide.

#### 5.5.4 Number of employees

Due to employment optimisation and redundancies planned for 2008, after consultation with the trade unions as regards dismissal for reasons not related to employees, on 30 November 2008 an "Agreement on policies and procedures to be followed when terminating employment contracts with PKO BP SA employees for reasons unrelated with the employee performance" was signed. In 2008, 1 751 employees were dismissed as part of group redundancies.

Those employees who were made redundant for reasons unrelated to their performance received severance pay specified in the Act of 13 March 2003 and other monetary benefits exceeding the scope required in the Act, and further assistance to mitigate the unfavourable effects of dismissal, including reimbursement of the costs of training allowing them to align their qualifications to the needs of the labour market.

Table 40. Number of employees in PKO BP SA in years 2005-2008

| Unit                             | Employment as at the end of December (full-time equivalents) |               |               |               |
|----------------------------------|--|---------------|---------------|---------------|
|                                  | 2005   | 2006          | 2007          | 2008          |
| Regional Retail Branches         | 22 968   | 22 264        | 18 103        | 17 749        |
| Regional Corporate Branches      | 780  | 748           | 634           | 598           |
| Head Office                      | 1 972  | 1 873         | 2 084         | 2 261         |
| Specialised Organisational Units | 7 760  | 7 070         | 9 838         | 8 588         |
| <b>Bank total</b>                | <b>33 479</b>  | <b>31 955</b> | <b>30 659</b> | <b>29 196</b> |
| employment reduction             | -  | 1 524         | 1 296         | 1 463         |

#### Collective disputes

In the reported period, there were no collective disputes at PKO BP SA.

#### Terminating, suspending, concluding the company or collective labour agreement

The Company Collective Labour Agreement (CCLA) at the Bank was not terminated or suspended in the reported period.

#### 5.5.5 Training policy

In 2008, personnel development activities were focused on building loyal and competent staff, able to operate in a difficult economic environment, adapting easily and quickly to changes in the economic environment and achieving high performance objectives. Changes implemented in the Bank were based on the assumption that the management cadre consists of professionals with broad competencies and good management skills, goal-oriented and able to make good, objective decisions.

In 2008, the Bank's training activities were focused on the following:

- actively engaging employees in the process of knowledge-sharing at all levels of the organization, and preparing selected bank's employees to train other staff members during internal training;
- preparing the employees to implement new technologies – improving the professional qualifications of key employees in the Bank, consistent with the modernization of PKO BP SA and their assuming new roles within the organization;
- improving sales effectiveness – developing skills relating to: identification of clients' needs, client-orientation, improving selling techniques and building stable relations between sales staff and the clients, in order to ensure a high quality of client service;
- developing employees' knowledge, consistent with the current and future needs of PKO BP SA and its employees, given also the dramatic increase in the role of knowledge and competence in PKO BP SA's business environment;
- supporting the management in professional development in the area of effective management of PKO BP SA's staff.



These activities were supported by harmonization of the principles of nominating employees for training courses, standardizing the contents of the training and examining the increase in the resulting knowledge and competencies, as well as promoting solutions for improving internal communication, knowledge sharing and change management.

The adoption of the internal cascading model of training and continuing the gradual implementation of distance learning training contributed to a more effective use of the training budget while maintaining the expected level of training.

In 2008, PKO BP SA's employee participated, on average, in two training courses, where:

- 75% of the participants took part in internal training – conducted by lecturers, employees of the Bank,
- almost 8% of all participants are representatives of the Bank's management.

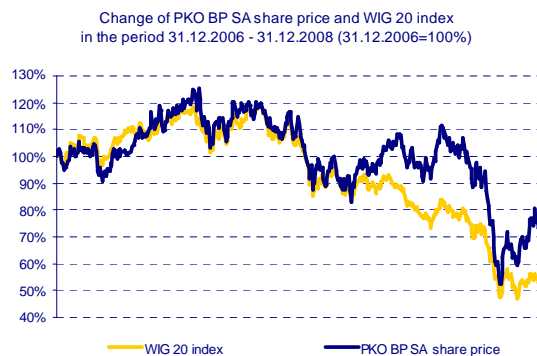
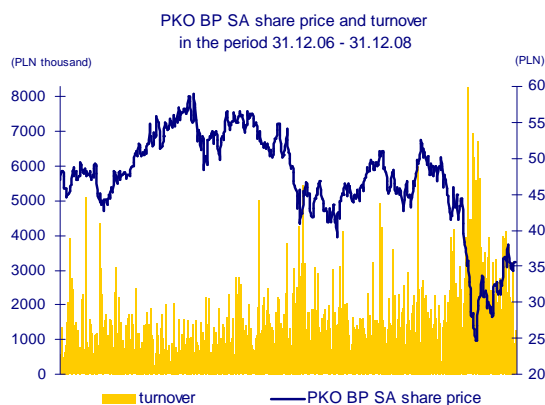


## 6. INVESTOR RELATIONS

### 6.1 Share price of PKO BP SA and its competitors

#### Share price of PKO BP SA

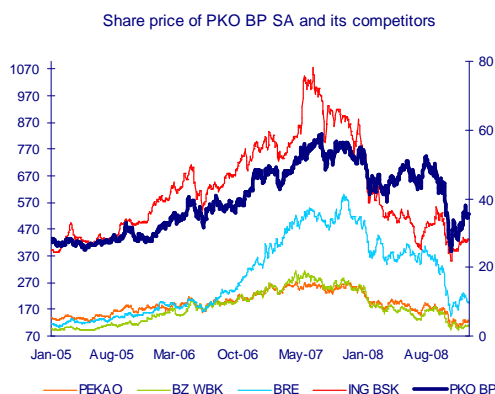
In 2008, the share price of PKO BP SA was mainly determined by situation on the Warsaw Stock Exchange (GPW).



The average share price of PKO BP SA in 2008 amounted to PLN 42.81 per share, and its highest level of PLN 52.50 per share was noted on 31 July 2008. Fluctuations of Bank's share prices were determined by aggravating global financial crisis which led to the outflow of the foreign capital and decrease in the prices of major stock exchange indices.

The average daily turnover of PKO BP SA's shares in 2008 accounted for 2 136 thousand units and the largest volume of 8 253 thousand units was noted on 10 October 2008.

#### Share prices and market capitalisation of competing banks



### 6.2 Co-operation with rating agencies

Currently, the financial reliability ratings of PKO BP SA are awarded by four rating agencies:

- Moody's Investors Service assigns a rating to the Bank at a charge, in accordance with its own bank assessment procedure;
- Standard & Poor's, Capital Intelligence and Fitch Ratings assign a free-of-charge rating (not ordered by the Bank), on the basis of publicly available information, including primarily interim and annual reports, and information on PKO BP SA made available during direct contacts of representatives of the agency with the Bank.



In 2008, Moody's Investors Service:

- issued 2 credit opinions (27 June and 18 December) in which it maintained paid ratings awarded on 31 October 2007 at unchanged levels;
- on 15 September 2008, it awarded a rating to the Eurobond issue programme in the amount of EUR 3.0 billion (EMTN) established by PKO Finance AB on behalf of PKO BP; the unsecured debt issued under the programme received the same rating as PKO BP SA's financial reliability rating.

The ratings awarded free-of-charge by the other agencies also did not change in 2008.

Table 41. Ratings and co-operation with rating agencies in 2008

| Rating with a charge                                    |                                   |
|---|-----------------------------------|
| <i>Moody's Investors Service</i>                        |                                   |
| Long-term rating for deposits in foreign currencies     | A2 with a stable perspective      |
| Sort-term rating for deposits in foreign currencies     | Prime-1 with a stable perspective |
| Long-term rating for deposits in a domestic currency    | Aa2 with a stable perspective     |
| Sort-term rating for deposits in a domestic currency    | Prime-1 with a stable perspective |
| Financial strength                                      | C with a stable perspective       |
| Rating not requested by the Bank                        |                                   |
| <i>Fitch Ratings</i>                                    |                                   |
| Support Rating  | 2                                 |
| <i>Standard and Poor's</i>                              |                                   |
| Long-term rating for liabilities in a domestic currency | BBBpi                             |
| <i>Capital Intelligence</i>                             |                                   |
| Long-term rating for liabilities in a domestic currency | A-                                |
| Sort-term rating for liabilities in a domestic currency | A2                                |
| Strength on a national scale                            | BBB+                              |
| Support Rating  | 2                                 |
| Perspective for upholding the rating                    | Stable                            |



## 7. COMPLIANCE WITH THE RULES FOR CORPORATE GOVERNANCE

### 7.1 The rules for corporate governance and the scope of use

#### ***The rules for corporate governance and the place where they are publicly available***

The Bank applies the rules for corporate governance introduced in the form of a document „Good Practices of Warsaw Stock Exchange Companies” approved by the Supervisory Board of the Warsaw Stock Exchange SA on 4 July 2007 (Resolution No.12/1170/2007).

Above-mentioned document is publicly available at the website: [www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl), which is the official site of Warsaw Stock Exchange in the topic of corporate governance of listed companies.

#### ***The scope in which the Bank violated against above-mentioned rules for corporate governance***

In 2008, the Bank took necessary actions in aim to closely stick to the rules included in the document „Good Practices of Warsaw Stock Exchange Companies”. In its opinion, the Bank did not violate against the above-mentioned rules.

### 7.2 Main characteristics of PKO BP SA internal control system

#### ***Main characteristics of PKO BP SA internal control and risk management systems used in the process of preparation of financial statements and consolidated financial statements***

The Bank operates the internal control system which is an element of the Bank management function, and which is composed of the following items: control mechanisms, compliance of Bank's operations with binding laws and internal regulations of the Bank, functional internal control and internal audit.

Internal control system covers organizational entities of PKO BP SA, organizational units of the Head Office and subsidiaries of PKO BP SA, included in the PKO BP SA Group. The objective of the internal control system is to support decision processes which contribute to ensuring the following: the Bank's effectiveness and efficiency, truth and fairness of its financial reporting and the compliance of Bank's operations with binding laws and internal regulations of PKO BP SA.

Control mechanisms cover policies, limits and procedures relating to operating activities of the Bank and to the activities aimed at verifying the correctness of the tasks performed, such as preparation of the financial statements. The mechanisms have a control nature and are embedded in both the internal regulations and the Bank's IT system.

The compliance of PKO BP SA operations with binding laws, internal regulations of the Bank and accepted procedure standards was verified within internal functional control and by Internal Audit Department.

In 2008, the functional internal control function was exercised in all organisational units and in the Head Office of the Bank in the following manner:

- at the stage of legislative works, by way of defining in the internal regulations the manner and mode of realization of tasks, and appropriate control mechanisms which guarantee the correct course of their realization,
- by employees in the course of their activities concerning the scope of business of organisational teams and units,
- at the stage of verification, by employees holding managerial functions or persons authorised by said employees, by way of verification of the correctness of the tasks carried out, and in particular of their compliance with binding laws and regulations, internal regulations of PKO BP SA and prudence norms.

The objective of the internal audit (which is performed by the Internal Audit Department) is to deliver to the Management and Supervisory Boards of PKO BP SA independent and objective information and assessments, especially about the following:

- adequacy and effectiveness of the internal control system, including the effectiveness of control mechanisms,



- PKO BP SA management system, including the effectiveness of business risk management,
- truth and fairness, completeness and the current status of the Bank's financial reporting and management information,
- compliance with binding laws and regulations and internal regulations of PKO BP SA.

Audits are conducted based on the plan developed based on, among others, the results of prior audits, information concerning functioning of PKO BP SA, risks identified in individual areas of the Bank's business and in the processes realized, including in the process of the preparation of the financial statements.

The control and risk management (in respect of the process of preparation of the financial statements) systems used are based on control mechanisms embedded in the functionality of the reporting systems, on the on-going verification of compliance with the books of accounts and other documents underlying the financial statements and with the binding laws concerning accounting principles and financial statements preparation.

The process of the preparation of the financial statements is subject to cyclical multi-level functional control, in particular concerning the correctness of accounting reconciliations, merit-based or substantial analysis or truth and fairness of financial information. In accordance with the internal regulations, the financial statements are accepted by the Management Board of PKO BP SA and the Audit Committee established by the Supervisory Board of PKO BP SA.

Information included in the financial statements is prepared in accordance with International Financial Reporting Standards, after taking into account all data available.

Information concerning objectives and risk management policies as well as quantitative information relating to individual risk types is included in annual and periodic financial statements. The information referred to above comprises:

- credit risk (including the risk of credit concentration),
- market risk (interest rate, currency, derivatives and financial institutions credit risks as well as liquidity risk),
- operating or business risk,
- capital adequacy.

On an annual basis, in a separate non-financial reporting document, disclosed is the full scope of information relating to capital adequacy, in accordance with Resolution No. 6/2007 of the Banking Supervision Commission. Currently at the website of the Bank (in the section „Investor Relations”) the last report „Capital Adequacy and Risk Management (Pillar III) in the PKO BP SA Group as at 31 December 2007” is available.

### 7.3 Number of shares and shareholders of PKO BP SA

#### **Shareholders holding, directly or indirectly, significant shareholding together with the number of owned shares, percentage share in the share capital, number and percentage of voting rights at the Shareholder' Meeting.**

To the best knowledge of PKO BP SA, the only shareholder which holds, directly or indirectly, significant shareholding (at least 5%) is the State Treasury; as at 31 December 2008, State Treasury held 514 435 409 of the Bank's shares.

This equates to 51.24% of PKO BP SA' share capital and matches the percentage share in the total number of votes at the General Shareholders' Meeting of the Bank.

Table 42. Shareholding structure of PKO BP SA

| Shareholder        | As at 31.12.2007     |  | As at 31.12.2008     |  | Change in the period<br>31.12.2007 - 31.12.2008 |  |
|--------------------|----------------------|--|----------------------|--|---|--|
|                    | Number of shares     | Percentage of votes at the General Shareholders' Meeting | Number of shares     | Percentage of votes at the General Shareholders' Meeting | Number of shares                                | Percentage of votes at the General Shareholders' Meeting |
| State Treasury     | 514 935 409          | 51.49%   | 512 435 409          | 51.24%   | - 2 500 000                                     | -0.25 pp.  |
| Other shareholders | 485 064 591          | 48.51%   | 487 564 591          | 48.76%   | 2 500 000                                       | +0.25 pp.  |
| <b>Total</b>       | <b>1 000 000 000</b> | <b>100%</b>  | <b>1 000 000 000</b> | <b>100%</b>  | <b>-</b>  | <b>0.0 pp.</b>   |



**Holders of any type of securities giving special control rights together with the description of these rights**

Special control rights are not resulting from PKO BP SA securities for their holders.

**Voting right restrictions such as the restriction on exercising voting rights by holders of a specific portion or number of shares, time restrictions relating to exercising voting rights or provisions according to which, in cooperation with the Company, equity rights related to securities are separated from the ownership of the securities**

In PKO BP SA there are no voting right restrictions such as the restriction on exercising voting rights by holders of a specific portion or number of shares, time restrictions relating to exercising voting rights or provisions according to which, in cooperation with PKO BP SA, equity rights related to securities are separated from the ownership of the securities.

**Restrictions for the transfer of ownership of the securities of PKO BP SA**

In accordance with par. 6 section 2 of the Bank's Articles of Association, the conversion of the registered "A" class shares with a nominal value of PLN 510 000 000 into bearer shares and the transfer of these shares require an approval of the Polish Council of Ministers in the form of a resolution. Acquiring such consent results in the expiry of the above restrictions to the extent to which this consent was given.

**7.4 The Memorandum of Association and manner of functioning of Annual General Meeting of PKO BP SA**

**Principles for amending the Memorandum of Association of PKO BP SA**

Principles for amending the Memorandum of Association of PKO BP SA comply with the provisions of the Commercial Companies Code and the Banking Law. The Memorandum of Association does not introduce different or detailed regulations in this respect.

**Annual General Meeting of the Bank, its manner of functioning and fundamental powers; the rights of shareholders and the manner of their execution, in particular the rules following from the Internal Regulations of the General Shareholders' Meeting, if such Internal Regulations have been passed, if the respective information does not follow directly from the legal regulations**

Annual General Meeting of PKO BP SA is convened as ordinary or extraordinary meeting in accordance with the provisions of the Code of Commercial Companies and the Bank's Articles of Association, and based on the policies defined in the by-laws of the Annual General Meeting (hereinafter "the AGM").

The fundamental powers of the AGM, apart from other matters defined in the binding laws, include adopting resolutions concerning the following matters:

- appointment and dismissal of Supervisory Board Members;
- approval of by-laws of the Supervisory Board,
- determining the manner of buyout of shares and the amount of consideration for the shares subject to buyout,
- creation and liquidation of special funds established from net profit appropriation,
- disposal by the Bank of property items or perpetual usufruct right to property, from which the Bank conducts its business,
- issuance of convertible bonds or other instruments giving the right to acquire or take up the Bank's shares.

Allowed to participate in the Annual General Meeting of the Bank are beneficiaries of rights attached to registered shares, as well as pledgees and usufructuaries having voting rights, who have been entered in the Register of Shares at least one week prior to holding the AGM, or holders of bearer shares, if they deposit with the Bank, at least one week prior to the date of the AGM at the latest, registered depository certificates issued by the entities maintaining the securities accounts and do not collect them prior to the closing of the Annual General Meeting.

The shareholder who is a natural person may participate in the AGM, exercise his voting right in person or by proxy. The shareholder who is not a natural person may participate in the AGM and exercise his voting right through a proxy authorized to file statements of will on his behalf, or by proxy.



To be valid, the authorisation shall be executed in writing and attached to the minutes of the AGM. The signature on the authorisation issued by the shareholder who is a natural person should be authenticated by a notary public. The right to represent the shareholder who is not a natural person should result from a copy of appropriate register presented at the time of the preparation of the AGM attendance list (filed as original or a copy authenticated by a notary public), or alternatively from a sequence of authorisations. The name of the person/ persons issuing authorisations on behalf of the shareholder who is not a natural person should be included in the current copy of appropriate register of the given shareholder.

Management Board Member or Bank employee may not serve as proxy at the AGM of the Bank.

Drafts of resolutions proposed by the AGM and other important materials are presented to the shareholders together with the justification and opinion of the Supervisory Board before the AGM, within the timeframe that allows reading them and preparing their assessment.

The Bank's shareholder has the right to file with the Chairman of the AGM proposals for changes or supplements to drafts of resolutions included in the AGM agenda, and these should be drafted in writing, separately for each resolution draft, and should include justification. Such proposals, after being presented to the AGM by the Chairman, are put to the vote. The AGM participant requesting to include his objections towards the given resolution in the AGM minutes may concisely justify his standpoint.

Removing from the AGM agenda or desisting, at the request of the shareholders, from further discussing the matter included in the AGM agenda requires that the AGM resolution is adopted by the majority of  $\frac{3}{4}$  votes, after prior consent of all those shareholders present at the AGM who applied for including the matter in the agenda.

Resolutions of the AGM are adopted by an absolute majority of votes, unless the binding laws or the Articles of Association of the Bank provide otherwise.

The AGM adopts resolutions by way of open vote, with the proviso that votes by secret ballot are ordered in the following circumstances:

- elections,
- applications for dismissal of members of the Bank's Management or Supervisory Board or liquidators,
- applications for bringing the Bank's liquidators or members of the Management or Supervisory Board to justice,
- in personal matters,
- on demand of at least one shareholder present or represented at the AGM,
- in other cases defined in binding law regulations.

A shareholder may not, either personally or by proxy, or while acting in the capacity of a proxy of another person, vote on resolutions concerning his liability towards the Bank on whatever account, including the acknowledgement of the fulfillment of his duties, release of any of his duties towards the Bank, or any dispute between him and the Bank.

Shareholders have the right to ask questions, through the Chairman of the AGM, to the Members of the Bank's Management or Supervisory Boards, the Bank's auditor or the persons whose presence at the AGM is considered indispensable by the Management or Supervisory Boards of the Bank.

For each of the agenda point, each shareholder has the right to one own speech and one reply. Shareholders may, during the course of discussion on each of the agenda points, apply for closing the list of speakers or closing the discussion on the given agenda point.



## 7.5 The Supervisory Board and the Management Board of PKO BP SA in the reporting period

### **Rules for appointing and dismissing Members of the Management Board and their rights (in particular the right to make a decision of issuance or redemption of shares)**

In accordance with par. 19 Section 1 and Section 2 of the Bank's Articles of Association, Management Board members are appointed by the Supervisory Board for a common three-year term. Board members may only be dismissed for important reasons, in accordance with par 19 section 4 of the Bank's Articles of Association.

In accordance with par. 20 Section 1 of the Bank's Articles of Association, the scope of Management Board responsibilities includes all matters related to the conducting of Bank's affairs that have not been reserved by law or Articles of Association for the General Shareholders' Meeting or Supervisory Board, including purchase and disposal of property, property interests or perpetual usufruct, that do not require consent of the General Meeting in accordance with par. 9 Section 1 point 5 of the Bank's Articles of Association.

According to par. 20 Section 2 of the Articles of Association, making decisions on incurring liabilities or disposing of assets the total value of which exceeds 5% of the Bank's equity in a transaction with a single entity shall fall within the scope of competence of the Management Board, with the proviso for the scope of competence of the General Shareholders' Meeting set out in par. 9 or the scope of competence of the Supervisory Board set out in par. 15 of the Articles of Association.

### **Composition, changes, which took place in the last financial year and the manner of functioning of the authorities of PKO BP SA and their committees**

#### **The Supervisory Board of PKO BP SA**

The Supervisory Board is composed of 6 to 11 members appointed for a joint term of office of three years. Members of the Supervisory Board are appointed and dismissed by the General Shareholders' Meeting.

On 26 February 2008, pursuant to § 11 Section 1 of the Bank's Articles of Association, the State Treasury, as the Eligible Shareholder, determined the number of the Supervisory Board members to include 7 persons.

In 2008, the composition of the Bank's Supervisory Board was as follows:

*Table 43. Supervisory Board of PKO BP SA In the reporting period*

| No. | Name                    | Function                               | Appointment/dismissal date  |
|-----|-------------------------|--|---|
| 1.  | Marzena Piszczek        | Chairman of the Supervisory Board      | Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Supervisory Board. |
| 2.  | Eligiusz Jerzy Krzeński | Vice-Chairman of the Supervisory Board | Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Supervisory Board. |
| 3.  | Jan Bossak              | Member of the Supervisory Board        | Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Supervisory Board. |
| 4.  | Jerzy Osiatyński        | Member of the Supervisory Board        | Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Supervisory Board. |
| 5.  | Urszula Pałaszek        | Member of the Supervisory Board        | Appointed on 26 February 2008 for the current term of the Supervisory Board.  |
| 6.  | Roman Sobiecki          | Member of the Supervisory Board        | Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Supervisory Board. |
| 7.  | Ryszard Wierzba         | Member of the Supervisory Board        | Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Supervisory Board. |



| No. | Name                     | Function                               | Appointment / dismissal date  |
|-----|--------------------------|--|---|
| 1.  | Marek Gluchowski         | Chairman of the Supervisory Board      | Appointed on 18 April 2006; in the period from 10 January 2007 to 23 January 2007 and 27 January 2007 to 10 April 2007 appointed to act for the President of the Management Board; he resigned on 26 February 2008. |
| 2.  | Urszula Pałaszek         | Vice-Chairman of the Supervisory Board | Appointed on 19 May 2005, since 20 May 2005 Vice-Chairman of the Supervisory Board; she resigned from the post of Vice-Chairman of the Supervisory Board on 25 February 2008.                                       |
|     |                          | Member of the Supervisory Board        | Appointed on 26 February 2008 for the current term of the Supervisory Board.  |
| 3.  | Tomasz Siemiątkowski     | Member of the Supervisory Board        | Appointed on 18 April 2006.   |
|     |                          | Secretary of the Supervisory Board     | Since 26 June 2006; he resigned on 26 February 2008.  |
| 4.  | Jerzy Michałowski        | Member of the Supervisory Board        | Appointed on 18 April 2006; he resigned on 26 February 2008.  |
| 5.  | Agnieszka Winnik-Kalemba | Member of the Supervisory Board        | Appointed on 18 April 2006; she resigned on 26 February 2008.   |
| 6.  | Maciej Czapiewski        | Member of the Supervisory Board        | Appointed on 19 March 2007; dismissed on 26 February 2008.  |

Supervisory Board acts based on the by-laws decided by the Supervisory Board and approved by the AGM. Meetings of the Supervisory Board are convened at least once a quarter.

Supervisory Board adopts resolutions by an absolute majority of votes with the presence of at least half of the Members, including the President or Vice-president of the Supervisory Board, except for resolutions concerning those matters that are required to be accepted by, apart from the quorum indicated, the qualified majority of 2/3 of total votes. Excluded from the vote are those members of the Supervisory Board to whom the given voted matter relates.

The competencies of the Supervisory Board, apart from the rights and obligations stipulated in generally binding legal regulations and the provisions of the Memorandum of Association of PKO BP SA, include passing resolutions relating specifically to:

- approving the strategy of PKO BP SA and the annual financial plan passed by the Management Board;
- appointing the entity to conduct the audit or review of the financial statements and giving consent to concluding contracts with such entity or its related entities;
- passing the Internal Regulations of the Supervisory Board and the Regulations for using the reserves;
- appointing and dismissing the President of the Management Board and, at the request of the President of the Board, also the Vice Presidents and other Management Board Members, and suspending Members of the Management Board from performing their duties, as well as delegating Members of the Supervisory Board to temporarily perform the duties of Members of the Management Board;
- approving the Internal Regulations passed by the Management Board: of the Management Board, Management of special funds set up from the net profit, the Organizational Fund of PKO BP SA;
- expressing prior consent to actions which meet specific criteria, including, among other things, purchasing and selling fixed assets and real estate, establishing a company, taking up or acquiring shares, concluding transactions between PKO BP SA and a related entity;
- applying to the Financial Supervision Authority for granting consent to appointing two Members of the Management Board, including the President of the Board.

In 2008, the following three Committees operated within the Supervisory Board of PKO BP SA: Audit Committee, Informatization and Strategy Implementation Committees (on 20 May 2008 transformed into Bank's Strategy Committee).

Each Committee is composed of at least three members chosen by Members of the Supervisory Board from within its own circle.

Committee Meetings are convened as ordinary meetings by the Committee Chairman on his initiative or at the request of the Committee or Supervisory Board Member.

In the extraordinary mode, Committee meetings are convened by the President of the Supervisory Board on his initiative or at the request of the Supervisory Board Member or the Bank Management Board. Minutes are prepared from the meetings and the Committee Chairman presents the Supervisory Board, at its next meetings, with resolutions, conclusions and recommendations.



Each Committee presents the Bank's Supervisory Board with an annual report on its activities, with the proviso that the Audit and Informatization Committees are required to file their reports within the timeframe that allows the Bank to account for the content of those reports in the process of annual assessment of the financial position of PKO BP SA.

Supervisory Board Audit Committee was established in order to exercise permanent supervision over the financial audit of the Bank and the PKO BP SA Group. Included in the tasks of the Audit Committee are in particular: review of periodic and annual financial statements of the Bank (separate and consolidated), monitoring the work of external auditors of the Bank, preparation of recommendations to the Supervisory Board, which relate to assessment of Management Board conclusions concerning profit appropriation (including in particular dividend policy) and issuance of securities.

Bank Informatization Committee was established with a view to supervising information and telecommunication systems at the Bank, including implementation of the Integrated Information System. Included in the tasks of the Committee are in particular: issuing opinions on the strategic directions of informatization at PKO BP SA and analysis of the progress of works on implementation of strategic IT solutions.

Strategy Implementation Committee was established in order to exercise permanent supervision over implementation of the Strategy of PKO BP SA. Included in the tasks of the Committee are in particular: analysis of the progress of work relating to implementation of strategic initiatives, the realization of which is prerequisite to meeting the objectives defined in the Bank's Strategy, analysis of the results of implementation of strategic initiatives, proposing supplementary or correcting measures, discussing all contentious issues and doubts resulting from the analysis of the process of implementation of the Bank's Strategy.

### The Management Board of PKO BP SA

The Management Board of the Bank is composed of 3 to 9 members appointed by the Supervisory Board of the Bank for a joint term of office of three years. Appointment of two members of the Management Board, including President of the Management Board, requires approval by the Polish Financial Supervision Authority.

Table 44. Management Board of PKO BP SA in the reporting period

| No. | Name                | Function                               | Appointment date   |
|-----|---------------------|--|--|
| 1.  | Jerzy Pruski        | President of the Management Board      | 1) On 11 April 2008, the Supervisory Board of PKO BP SA appointed Mr. Jerzy Pruski as the acting President of the Management Board of PKO BP SA, effective as of 20 May 2008, for the joint term of the Board beginning on that date. The Supervisory Board appointed Mr. Pruski as the acting President of the Management Board of PKO BP SA for the period from 20 May 2008 to the date on which the Financial Supervision Authority approves his appointment as the President of the Management Board of PKO BP SA.<br>2) On 17 June 2008 the Financial Supervision Authority approved the appointment of Mr. Jerzy Pruski as the President of the Management Board of PKO BP SA. |
| 2.  | Bartosz Drabikowski | Vice-President of the Management Board | Appointed on 20 May 2008 as Vice-President of the Management Board for the joint term of the Board beginning on that day.  |
| 3.  | Krzysztof Dresler   | Vice-President of the Management Board | 1) Appointed on 20 May 2008, effective as of 1 July 2008, as Vice-President of the Management Board for the joint term of the Board beginning on 20 May 2008.<br>2) On 27 October 2008 the Financial Supervision Authority approved the appointment of Mr. Krzysztof Dresler as the Member of the Management Board of PKO BP SA.   |
| 4.  | Mariusz Klimczak    | Vice-President of the Management Board | 1) Appointed on 20 May 2008 for the joint term of the Board beginning on that day.<br>2) On 21 August 2008, he resigned from the post of the Vice-President of the Management Board, effective as of 30 September 2008.  |
| 5.  | Tomasz Mironczuk    | Vice-President of the Management Board | Appointed on 20 May 2008 for the joint term of the Board beginning on that day.  |
| 6.  | Jarosław Myjak      | Vice-President of the Management Board | Appointed on 9 December 2008, effective as of 15 December 2008, as Vice-President of the Management Board for the joint term of the Board beginning on 20 May 2008.  |
| 7.  | Wojciech Papierak   | Vice-President of the Management Board | Appointed on 20 May 2008, effective as of 1 July 2008, as Vice-President of the Management Board for the joint term of the Board beginning on 20 May 2008.   |
| 8.  | Mariusz Zarzycki    | Vice-President of the Management Board | Appointed on 20 May 2008, effective as of 1 September 2008, as Vice-President of the Management Board for the joint term of the Board beginning on 20 May 2008.  |



| No. | Name                 | Function  | Appointment date   |
|-----|----------------------|---|--|
| 1.  | Rafał Juszczyk       | Member of the Management Board<br>Vice-President of the Management Board<br>Vice-President acting as the President of the Management Board<br>President of the Management Board | Appointed on 26 June 2006, effective as of 1 July 2006, as Member of the Management Board for the joint term of the Board beginning on 19 May 2005.<br>On 29 September 2006 the Supervisory Board of PKO BP SA appointed Mr. Rafał Juszczyk as Vice-President of the Management Board.<br>On 2 April 2007 the Supervisory Board of PKO BP SA appointed Mr. Rafał Juszczyk, Vice-President of the Management Board, as the acting President of the Management Board of PKO BP SA, effective as of 11 April 2007.<br>1) On 20 June 2007 the Supervisory Board of PKO SA appointed Mr. Rafał Juszczyk, Vice-President of the Management Board, as the President of the Management Board of PKO BP SA.<br>2) On 8 August 2007, the Banking Supervisory Commission agreed on appointment of Mr. Rafał Juszczyk as the President of the Management Board of PKO BP SA. |
| 2.  | Wojciech Kwiatkowski | Vice-President of the Management Board  | Appointed on 29 September 2006, effective as of 1 November 2006, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005.   |
| 3.  | Robert Działak       | Vice-President of the Management Board  | Appointed on 22 February 2007, effective as of 23 February 2007, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005  |
| 4.  | Stefan Świątkowski   | Vice-President of the Management Board  | 1) Appointed on 22 February 2007, effective as of 1 May 2007, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005.<br>2) On 8 August 2007, the Banking Supervisory Commission agreed on appointment of Mr. Stefan Świątkowski as the Member of the Management Board of PKO BP SA.   |
| 5.  | Adam Skowroński      | Vice-President of the Management Board  | Appointed on 20 June 2007, effective as of 23 July 2007, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005.   |
| 6.  | Aldona Michałak      | Vice-President of the Management Board  | Appointed on 20 June 2007, effective as of 1 July 2007, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005.  |
| 7.  | Mariusz Klimczak     | Vice-President of the Management Board  | Appointed on 20 June 2007, effective as of 15 July 2007, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005.   |
| 8.  | Barenika Duda-Uhryn  | Vice-President of the Management Board  | Appointed on 20 June 2007, effective as of 10 September 2007, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005.  |

Table 45. Other functions performed by the Bank's Management Board Members in the reporting period

| No. | Name                | Function   |
|-----|---------------------|--|
| 1.  | Jerzy Pruski        | 1) President of the Bank's Credit Committee (from 20 May 2008 to 30 June 2008).<br>2) President of the Bank's Assets and Liabilities Committee (from 20 May 2008 to 30 June 2008).<br>3) President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of International Accounting Standard 39 (from 20 May 2008 to 30 June 2008).<br>4) President of the Steering Committee for the Integrated IT System (from 20 May 2008 to 8 September 2008). |
| 2.  | Bartosz Drabikowski | 1) Vice-President of the Bank's Assets and Liabilities Committee (from 20 May 2008).<br>2) President of the Expenses Committee (from 20 May 2008).<br>3) Vice-President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of International Accounting Standard 39 (from 20 May 2008).<br>4) Vice-President of the Steering Committee for the Integrated IT System (from 20 May 2008).   |
| 3.  | Krzysztof Dresler   | 1) President of the Bank's Credit Committee (from 1 July 2008).<br>2) President of the Bank's Assets and Liabilities Committee (from 1 July 2008).<br>3) President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of International Accounting Standard 39 (from 1 June 2008).<br>4) Vice-President of the Steering Committee for the Integrated IT System (from 1 July 2008).  |
| 4.  | Mariusz Klimczak    | 1) Vice-President of the Bank's Credit Committee (to 30 September 2008).<br>2) Member of the Integrated IT System Project Committee (from 20 May 2008 to 30 June 2008).<br>3) Vice-President of the Steering Committee for the Integrated IT System (from 20 May 2008 to 30 June 2008).  |
| 5.  | Tomasz Mironczuk    | 1) Vice-President of the Bank's Credit Committee (from 1 October 2008 to 14 December 2008).<br>2) Vice-President of the Expenses Committee (from 20 May 2008 to 1 July 2008).  |
| 6.  | Jarosław Myjak      | 1) Vice-President of the Bank's Credit Committee (from 15 December 2008).  |
| 7.  | Wojciech Papierak   | 2) Vice-President of the Expenses Committee (from 1 July 2008).<br>2) Member of the Integrated IT System Project Committee (from 1 July 2008).<br>3) Vice-President of the Steering Committee for the Integrated IT System (from 1 July 2008).   |
| 8.  | Mariusz Zarzycki    | President of the Steering Committee for the Integrated IT System (from 9 September 2008).  |



| No. | Name               | Function   |
|-----|--------------------|--|
| 1.  | Rafał Juszczak     | President of the Steering Committee for the Integrated IT System (to 20 May 2008).   |
| 2.  | Robert Działak     | 1) Vice-President of the Expenses Committee (from 1 April 2008 to 20 May 2008).<br>2) Vice-President of the Steering Committee for the Integrated IT System (to 20 May 2008).<br>3) Member of the Integrated IT System Project Committee (to 20 May 2008).   |
| 3.  | Stefan Świątkowski | 1) President of the Bank's Credit Committee (to 20 May 2008)<br>2) President of the Bank's Assets and Liabilities Committee (to 20 May 2008).<br>3) President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of International Accounting Standard 39 (to 20 May 2008).<br>4) Vice-President of the Steering Committee for the Integrated IT System (to 20 May 2008).       |
| 4.  | Adam Skowroński    | 1) Vice-President of the Bank's Assets and Liabilities Committee (to 20 May 2008).<br>2) President of the Expenses Committee (to 20 May 2008).<br>3) Vice-President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of International Accounting Standard 39 (to 20 May 2008).<br>4) Vice-President of the Steering Committee for the Integrated IT System (to 20 May 2008). |
| 5.  | Mariusz Klimczak   | Vice-President of the Bank's Credit Committee (to 30 September 2008).  |

The manner of functioning of the Management Board is defined in the by-laws decided by the Management Board and approved by the Supervisory Board.

Management Board makes decisions in the form of resolutions, which are passed by an absolute majority of votes of those present at the Management Board Meeting. In the case of a voting tie, the President of the Management Board has the casting vote. For all matters outside the scope of ordinary Bank business to be effected, resolution of the Management Board is required.

The competencies of the Management Board include all issues related to running the business of PKO BP SA which are not reserved by generally binding legal regulations or the provisions of the Memorandum of Association of PKO BP SA for the General Shareholders' Meeting or for the Supervisory Board. The Management Board passes specifically the following in the form of resolutions:

- it determines the strategy of PKO BP SA;
- it determines the annual financial plan;
- it passes the organizational regulations and the principles for segregation of duties;
- it establishes and dissolves permanent committees of the Bank and determines their competences;
- it passes the Internal Regulations of the Management Board;
- it determines the internal regulations for managing the special funds set up from the net profit;
- it determines the dates of payment of dividend in periods specified by the General Shareholders' Meeting;
- it appoints proxies;
- it determines bank products and other banking and financial services;
- it determines the principles for participation of PKO BP SA in other companies and organizations;
- it determines the principles of operation of the internal controls and annual control plans;
- it establishes, transforms and liquidates organizational entities of PKO BP SA in Poland and abroad.

In 2008, there were the following committees appointed by the Management Board in which Members of the Management Board operated:

Assets and Liabilities Committee of PKO BP SA, whose purpose is managing assets and liabilities by influencing the structure of PKO BP SA balance sheet and its off-balance sheet items in a manner conducive to achieving the optimum financial result. The competences of the Committee include specifically:

- taking decisions on risk limits (market, liquidity, settlement and pre-settlement risk) and investment limits, as well as the values of the coefficients adjusting the transfer prices;
- issuing recommendations in respect of:
  - ⇒ forming the balance sheet structure, the financial model and the assumptions for the financial plan of PKO BP SA and its capital requirements in the light of prudence standards;
  - ⇒ the principles of risk management (market, liquidity, settlement and pre-settlement) and real and economic capital;
  - ⇒ the value of the cut-off points and minimum scores used in assessing credit risk;
  - ⇒ the principles of the pricing policy in particular business areas and the amount of interest rates and minimum credit margins.



The Bank's Credit Committee whose purpose is to limit credit risk in PKO BP SA's credit decisions or in decisions relating to managing non-performing loans. The competences of the Committee include specifically:

- taking decisions on issues related to the segregation of duties in taking credit decisions and managing non-performing dues, industry and counterparty limits, and securing the dues of PKO BP SA;
- issuing recommendations to the Management Board of PKO BP SA concerning credit decision which exceed Committee's competences;
- issuing recommendations to the Management Board of PKO BP SA on issues relating to capital exposure in the Group entities, list of industries which are covered by industry limits or report of the highest exposures of PKO BP SA.

Integrated IT System Project Committee (ZSI) which is responsible for the overall supervision over the execution of work, taking key decisions on operating management related to the delivery and implementation of ZSI. Specifically, the Committee is responsible for:

- approving solutions developed at the level of the Project Management Team and solving problems reported by the Team;
- approving changes leading to a change in the Time Schedule by value and by volume;
- informing the appropriate authorities of PKO BP SA and the ZSI Provider on the work progress.

Steering Committee for the Integrated IT System Project whose purpose is to supervise actions related to the development of the Integrated IT System in PKO BP SA and to take decisions necessary to ensure proper and efficient implementation of new ZSI versions. The Committee's tasks include specifically:

- accepting the assumptions and requirements of the ZSI Project;
- supervising the strategic development of the ZSI Project;
- approving priorities of the ZSI Project;
- accepting the budget of the ZSI Project and potential changes to the budget;
- resolving potential disputes arising during the implementation of the new versions of the system requiring its participation.

Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of International Accounting Standard 39 whose purpose is supervising the execution of adaptation measures of PKO BP SA to the requirements of the directive on capital requirements and to the regulations of International Accounting Standard 39. The Committee's tasks include specifically:

- taking key decisions, and supervising and monitoring the progress of work related to PKO BP SA's adaptation to the requirements of the directive on capital requirements and to the regulations of International Accounting Standard 39;
- recommending changes relating to the schedule of adaptation activities;
- ensuring cooperation of appropriate entities and organizational units in respect of executing the work;
- preparing regulations relating to investment projects consisting of modifying PKO BP SA's IT system to ensure implementation of the above-mentioned requirements in the IT systems.

Expenses Committee of PKO BP SA whose tasks include specifically:

- accepting expenses, including projects, in a specific amount brackets, including requests for increasing the budget;
- determining project priorities and taking decisions on discontinuing projects, changing their scope, purpose or time schedule;
- giving opinions on the grounds for expenses in amounts approvable by the Management Board of PKO BP SA;
- taking measures to curb expenses.



## 8. OTHER INFORMATION

### **Off-balance sheet commitments**

At the end of 2008, guarantees and other financial off-balance sheet commitments granted with respect to related parties amounted to PLN 619.8 million and decreased by PLN 112.2 million compared to the end of 2007.

The largest commitments related to the following entities:

- Bankowy Fundusz Leasingowy SA – PLN 365.6 million,
- Sopot Zdroj Sp. z o.o. – PLN 80.4 million,
- Wilanów Investments Sp. z o.o. – PLN 43.5 million.

All transactions with related parties were concluded at an arm's length.

The details of related party transactions are presented in Note 41 to the financial statements.

### **Reacquisition of own shares**

During the period covered by this Report, PKO BP SA did not re-acquire its shares on its own account.

### **Information concerning dividend paid (or to be paid)**

On 20 May 2008 Shareholders General Meeting took up resolution concerning dividend payout for the year 2007 in amount of PLN 1.09 per share. List of shareholders entitled to receive dividend for the year 2007 was set on 18 August 2008 and the dividend was paid out on 4 September 2008.

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

### **Significant contracts and important agreements with the Central Bank or supervisory authorities**

In 2008, the Bank disclosed in its current reports all the agreements with clients for which the total value of services arising from long-term agreements with the given client met the criteria defined in § 2 section 2 of the Decree of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and the conditions of considering as equivalent the information required by law of a non-member country (Journal of Laws No. 33, item 259).

PKO BP SA concluded an investment loan agreement of PLN 1.23 billion for financing a part of the costs of financial assets purchased by borrowers; agreement concluded at an arm's length.

In 2008, the Bank did not conclude any significant agreements with the Central Bank or with the regulators.

As at the date of the financial statements, the Bank is not aware of any agreements as a result of which changes may occur in the future in the proportions of shares held by the current shareholders.

### **Guarantees and financial commitments**

As at 31 December 2008, the total value of guarantees and financial commitments granted amounted to PLN 30 756.4 million, with financial commitments making up 85.2% of this amount. The total value of guarantees and financial commitments granted increased by 7.9% (y/y).



Table 46. Off-balance sheet items (PLN million)

| OFF-BALANCE SHEET ITEMS<br>OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA |                     |                     |
|---|---------------------|---------------------|
| Items   | As At<br>31.12.2008 | As at<br>31.12.2007 |
| <b>Financial liabilities granted</b>                                      | <b>26 196.9</b>     | <b>24 298.8</b>     |
| to financial entities   | 707.0               | 642.1               |
| to non-financial entities   | 25 068.2            | 23 426.3            |
| to public entities  | 421.7               | 230.4               |
| of which: irrevocable   | 7 714.6             | 8 856.0             |
| <b>Guarantees liabilities issued</b>                                      | <b>4 559.5</b>      | <b>4 216.8</b>      |
| to financial entities   | 302.6               | 375.8               |
| to non-financial entities   | 4 052.9             | 3 578.5             |
| to public entities  | 204.1               | 262.5               |
| <b>Total</b>  | <b>30 756.4</b>     | <b>28 515.5</b>     |

### **Loans and advances taken, guarantees and suretyships agreements**

During the year 2008, PKO BP SA did not take out any loans or advances or receive any guarantees or suretyships that were not related to its operating activity.

### **Underwriting agreements and guarantees issued to the subsidiaries**

In 2008, PKO BP SA signed an Annex to the Underwriting Agreement of a Bond Issuance Program by the Bank's subsidiary, Bankowy Fundusz Leasingowy SA as of 14 December 2006, which increased the maximum value of the bond issue programme by PLN 100 million, to the level of PLN 600 million.

As at 31 December 2008, Bankowy Fundusz Leasingowy SA issued bonds of PLN 600 million, of which PLN 186.28 million was placed in the market while PLN 413.72 million was held by PKO BP SA.

In 2008, PKO BP SA issued:

- to Centrum Elektronicznych Usług Płatniczych eService SA – a guarantee for up to maximum PLN 240 thousand to the benefit of *Garrick Investments Sp. z o.o.* as a pledge for liabilities arising from a rental agreement; the guarantee is issued for the period ending 30 September 2011,
- to Bankowy Fundusz Leasingowy SA – a guarantee for up to maximum PLN 342 thousand to the benefit of *Salzburg Center Development SA* as a pledge for liabilities arising from a rental agreement; the guarantee is issued for the period ending 18 June 2013,
- to Centrum Elektronicznych Usług Płatniczych eService SA – a guarantee for up to maximum PLN 375 thousand to the benefit of *Polska Telefonía Cyfrowa Sp. z o.o.* as a pledge for trading liabilities; the guarantee is issued for the period ending 30 September 2011,
- to Centrum Elektronicznych Usług Płatniczych eService SA – a guarantee for up to maximum PLN 400 thousand to the benefit of *Polkomtel SA* as a pledge for liabilities arising from an agreement of sales of phone cards and mobile phone recharge services; the guarantee is issued for the period ending 30 September 2011,
- to Bankowy Fundusz Leasingowy SA – a guarantee for up to maximum PLN 405 thousand to the benefit of *Salzburg Center Development SA* as a pledge for liabilities arising from a rental agreement; the guarantee is issued for the period ending 18 September 2008,
- to PKO Towarzystwo Funduszy Inwestycyjnych SA – a guarantee for up to maximum PLN 467 thousand to the benefit of *Salzburg Center Development SA* as a pledge for liabilities arising from rental agreement; the guarantee is issued for the period ending 31 July 2013,
- to Centrum Elektronicznych Usług Płatniczych eService SA – a guarantee for up to maximum PLN 600 thousand to the benefit of *PTK Centertel Sp. z o.o.* as a pledge for trading liabilities; the guarantee is issued for the period ending 30 September 2011.

### **Enforceable titles issued by the Bank**

From 1 January 2008 to 31 December 2008, PKO BP SA issued 12 970 banking enforceable titles for a total amount of PLN 311 722 245.



### Debt write-offs

Debt write-offs are regulated in PKO BP SA by regulations on management of non-performing loans and segregation of duties with reference to decision taking in respect of management of non-performing loans and writing off of loans and advances and liabilities of PKO BP SA.

In accordance with the above-mentioned regulations, reduction of a non-performing loan results in abandonment of debt collection procedures by the Bank on the basis of restructuring agreement, i.e. debt write-off in line with point 508 of the Civil Law.

Synthetic data on debt write-offs in 2008 were presented below:

Table 47. Debt write-offs in 2008 (PLN)

|                   | reduced<br>principal amount | reduced<br>capitalised interest | reduced<br>other interest |
|-------------------|-----------------------------|---------------------------------|---------------------------|
| corporate segment | 15 179 334                  | 90 488                          | 4 859 271                 |
| retail segment    | 232 146                     | 196 503                         | 37 427 605                |
| <b>Total</b>      | <b>15 411 480</b>           | <b>286 990</b>                  | <b>42 286 877</b>         |

### Factors which will determine future results of PKO BP SA

In the near future, results of PKO BP will be affected by economic processes which will occur in Polish and global economies and financial markets responses to them. A huge impact on future results will have the interest rate policy implemented by Monetary Policy Board (RPP) as well as other biggest central banks.

### Proceedings pending before the court, arbitration tribunal or public administrative authority

As at 31 December 2008, the total value of court proceedings against PKO BP SA was approximately PLN 324 142 thousand, while the total value of proceedings initiated by PKO BP SA was approximately PLN 93 815 thousand. No court proceedings with the participation of PKO BP SA are in progress, the value of which amounts to at least 10% of the equity of PKO BP SA.

### Post balance sheet events

- On 6 January 2009 Bankowy Faktoring SA was registered with the National Court Register (KRS). The company's share capital amounts to PLN 1 million. All the shares in the share capital, in the amount of PLN 1 330 thousand, were acquired by Bankowe Towarzystwo Kapitałowe SA – subsidiary of PKO BP SA.
- The Management Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna on the basis of Art. 398 of the Code of Commercial Companies has convened the Extraordinary Shareholders' Meeting as at 6 April 2008 (Puławska 15 Street, Warsaw). In accordance with the agenda, the Extraordinary Shareholders' Meeting will adopt resolutions on changes in the Bank's Supervisory Board.
- With reference to the Extraordinary Shareholders Meeting of Kredobank SA's resolution on the increase in share capital of Kredobank SA, on 16 February 2009 the Management Board of PKO BP SA approved acquisition of new issued shares of Kredobank SA up to the amount of USD 133 million along with a premature repayment of all subordinated loans in the amount of USD 38 million granted by PKO BP SA to Kredobank SA.

### Other information relevant for the evaluation of the human resources, financial standing, and financial result of the Issuer and respective changes

Having obtained the corporate approvals and having offered to purchase 99.92% of AIG Bank Polska SA shares and 100% of AIG Credit SA shares on 28 November 2008, PKO BP SA commenced non-exclusive negotiations aimed at acquiring the shares of the above-mentioned companies. Should the share purchase agreement be signed, the shares will be purchased when the requirements resulting from the Polish law are satisfied. The shares will be purchased with PKO BP SA's own funds. PKO BP SA will inform in its current report about signing the share purchase agreement or of the failure to conclude the transaction.



### **Information concerning entity authorised to audit financial statements**

On 8 August 2005, PKO BP SA concluded a contract with Ernst & Young Audit Sp. z o.o., an entity authorised to audit financial statements, for an audit of standalone and consolidated financial statements for the years ended 31 December 2005, 2006 and 2007 and for a review of standalone and consolidated financial statements for the 6-month periods ended 30 June 2005, 2006 and 2007.

Total fees payable to Ernst & Young Audit Sp. z o.o. under the contracts concluded by PKO BP SA amounted to PLN 1 830.9 thousand net for the financial year of 2008 and PLN 1 394.2 thousand net for the financial year of 2007, including:

- arising from a contract for an audit of standalone and consolidated financial statements PLN 575.0 thousand and PLN 613.0 thousand respectively,
- arising from assurance services, including reviews of financial statements PLN 0 thousand and PLN 280.0 thousand respectively,
- arising from tax advisory PLN 0 thousand and PLN 30.0 thousand respectively,
- arising from other services PLN 1 225.9 thousand and PLN 471.2 thousand respectively.

On 12 May 2008, PKO BP SA concluded a contract with PricewaterhouseCoopers Sp. z o.o., an entity authorised to audit financial statements, for an audit of standalone and consolidated financial statements for the years ended 31 December 2008, 2009 and 2010 and for a review of standalone and consolidated financial statements for the 6-month periods ended 30 June 2008, 2008 and 2010.

Total fees payable to PricewaterhouseCoopers Sp. z o.o. under the contracts concluded by PKO BP SA amounted to PLN 1 254.0 thousand for the financial year of 2008 and, including:

- arising from a contract for an audit of standalone and consolidated financial statements PLN 342.0 thousand,
- arising from assurance services, including reviews of financial statements PLN 781.4 thousand,
- arising from financial advisory PLN 35.0 thousand,
- arising from other services PLN 95.6 thousand.

### **Declaration of the Management Board of PKO BP SA**

The Management Board of PKO BP SA certifies that, to the best of its knowledge:

- 1) the yearly financial statement and comparative data have been prepared in accordance with binding accounting and reporting standards and present a true and fair view of financial condition and results of operations of PKO BP SA,
- 2) the yearly Directors' Report presents a true and fair view of the progress and achievements as well as condition of PKO BP SA, including a description of the basic risks and threats.

The Management Board of PKO BP SA certifies that the entity authorized to audit the financial statements and which is performing the interim review of the consolidated financial statements, has been elected as the PKO BP SA auditor in compliance with applicable laws. The entity as well as the certified auditor performing the review fulfilled all criteria for providing unbiased and independent review memo in compliance with applicable laws.

*The PKO BP SA Directors' Report for the year 2008 consists of 63 pages.*



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President of the Management Board  
Jerzy Pruski

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Vice-President of the Management Board  
Bartosz Drabikowski

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Vice-President of the Management Board  
Krzysztof Dresler

-----  
Vice-President of the Management Board  
Tomasz Mironczuk

-----  
Vice-President of the Management Board  
Jarosław Myjak

-----  
Vice-President of the Management Board  
Wojciech Papierak

-----  
Vice-President of the Management Board  
Mariusz Zarzycki