



**PKO BANK POLSKI  
SPÓŁKA AKCYJNA**

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

WARSAW, APRIL 2009



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## 1. INTRODUCTION

### 1.1 Key financial indicators of the PKO BP SA Group

|                                 |     |                   |         |       |  |
|---------------------------------|-----|-------------------|---------|-------|--|
| NET PROFIT                      | PLN | 3 120.7 million   | + 7.5%  | (y/y) | the result of increase in results on business activities by 21.9% (y/y), with 6.3% (y/y) increase in costs.  |
| RESULTS ON BUSINESS ACTIVITIES* | PLN | 9 388.4 million   | + 21.9% | (y/y) | due to the increase in net interest income by 31.9% (y/y) and in foreign exchange result by 39.6% (y/y).   |
| NET INTEREST INCOME             | PLN | 6 127.3 million   | + 31.9% | (y/y) | the result of higher deposit margins and 32.3% (y/y) increase in net loan portfolio volume.  |
| NET FEE AND COMMISSION INCOME   | PLN | 2 411.8 million   | + 3.4%  | (y/y) | the result of increase in fee and commission income due to granted loans by 18.1% (y/y) as well as 2.7% (y/y) increase in the number of banking cards and transactions made using those cards. |
| COSTS                           | PLN | (4 296.3) million | + 6.3%  | (y/y) | the result of 6.1% (y/y) increase in staff costs and non-staff related expenses by 4.9% (y/y).   |
| ROE net                         |     | 24.0%             | - 2.2   | pp.   | the result of 7.5% (y/y) increase in net profit and increase in equity by total of 16.9% (y/y).  |
| ROA net                         |     | 2.6%              | - 0.2   | pp.   | with 24.0% (y/y) increase in assets.   |

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

The parent company of the PKO BP SA Group is Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ("the Bank"), whose total assets amount to 97.5% of the total assets of the PKO BP SA Group and whose results determine the results of the whole Group.

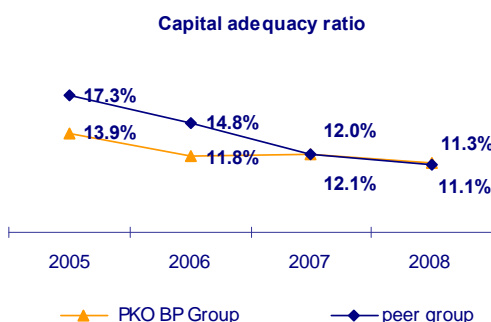
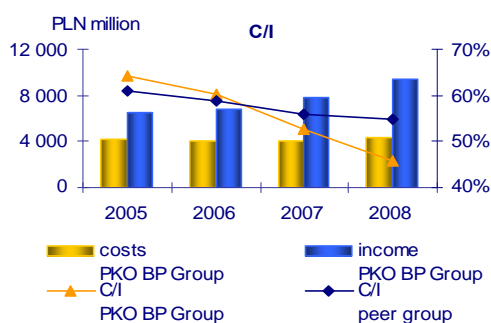
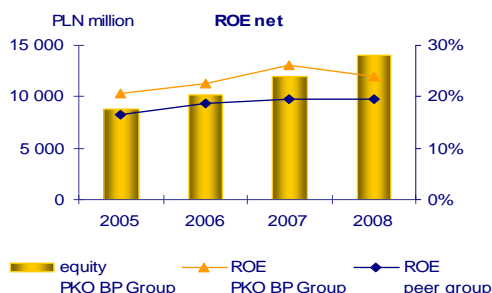
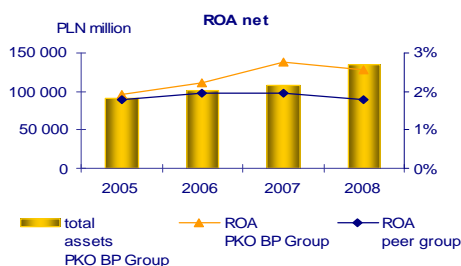
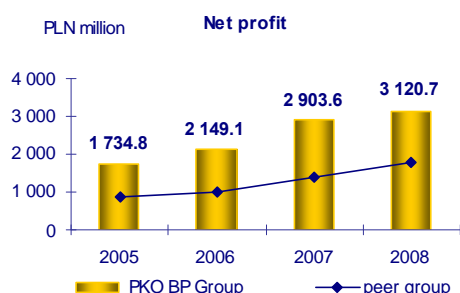
In 2008 net profit of the Group amounted to PLN 3 120.7 million, which equals to 7.5% growth rate, that is PLN 217.0 million compared with the previous year. Such result was determined by the following factors:

- ⇒ high growth of results on business activities of the PKO BP SA Group, which amounted to PLN 9 388.4 million (+21.9% y/y),
- ⇒ efficiency enhancement in cost management, which increased by 6.3% (y/y). Due to high growth rate of income of the PKO BP SA Group, the C/I ratio declined by 6.7 pp. to 45.8% (y/y),
- ⇒ increase in the Group's assets by PLN 26.1 billion (y/y) to PLN 134.6 billion resulting from intensive sales of loans financed by the increase in deposit base,
- ⇒ effective structure of the balance sheet – significant increase in deposits of the PKO BP SA Group by PLN 16.4 billion enabled a dynamic growth of the loan portfolio by 32.3(y/y). As at the end of 2008, the ratio of loans to deposits within the Group amounted to 98.2%, remaining at the lower level than the average for the banking sector.

High net profit in 2008 resulted in high return on equity of the PKO BP SA Group. ROE net amounted to 24.0% and remained stable compared with the previous year.



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



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

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

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

The PKO BP SA Group's active policy also contributed to a significant increase in its total, accompanied by high return on assets (net ROA amounted to 2.6% as at the end of 2008, compared with 2.8% as at the end of 2007).

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

In 2008, the PKO BP SA Group maintained its profitability at a stable level (net ROE amounted to 24.0% in 2008, compared with 26.2% in 2007).

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

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

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

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

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



## **2. EXTERNAL ENVIRONMENT**

### **2.1 Macroeconomic factors**

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

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

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

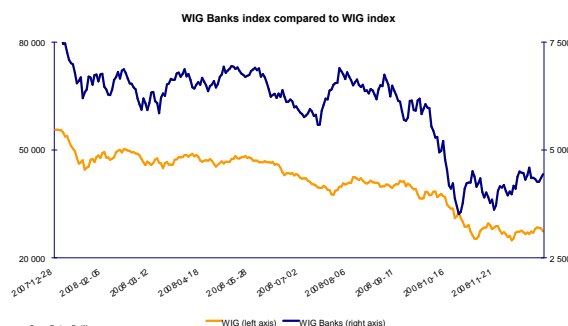
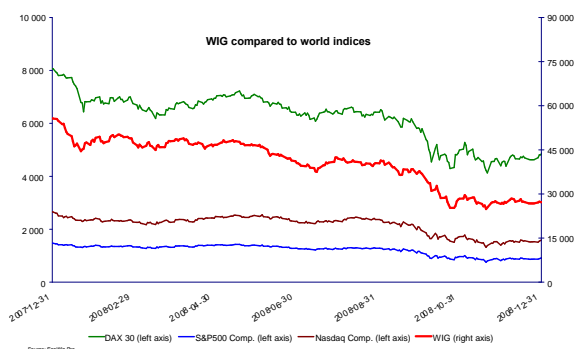
In accordance with the "Monetary Policy Guidelines for 2008", the monetary policy objective was to maintain inflation at 2.5%, with a symmetrical tolerance range for deviations of +/- 1 percentage point. An increase in inflation above the inflation target in the monetary policy horizon, in the context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

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

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

### **2.2 Situation on the Stock Exchange**

In 2008, situation on Warsaw Stock Exchange has been significantly influenced by the negative events on the foreign stock exchanges and uncertainty concerning future standing of Polish economy. As a result, an increase of risk-aversion has been recognized and there has been an outflow of both domestic and foreign capital from the stock exchange.



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

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

### 2.3 Situation of the Polish banking sector

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

#### Lending activity

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

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

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

#### Financing sources of activities

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

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



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

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

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

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

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

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

##### **Liquidity risk**

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

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

##### **Capital**

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

##### **Credit risk**

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

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

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

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



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

### **Anti-crisis measures**

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

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

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

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

## **2.5 Regulatory environment**

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

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



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

The situation of banks was also affected by:

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

## 2.6 Ukrainian market

Deepening and wide spreading of the global financial crisis resulted in fierce slowdown in the Ukrainian economy. In the 4th quarter of 2008, there has been a decrease of GDP by more than 2% y/y, as compared to the increase by 7% in the first half of the year. In 2008, the GDP growth rate amounted to 2.1% y/y, as compared to 7.9% in 2007. A dramatic deceleration in production towards the end of 2008 was a consequence of a decline in the demand for steel as well as prices of steel; given the low diversification of the Ukrainian economy, this translated into a marked deterioration of the economic results. The decline in exports combined with high prices of imports contributed to a further increase in the current account deficit of Ukraine.

The high dependence of the Ukrainian economy, including its banking sector, on inflows of foreign capital deepened the crisis in the Ukraine. The aggravating crisis in developed economies and the ongoing deleveraging process resulted in a sharp decline in inflows of capital to the Ukrainian market, thus contributing to a significant deterioration in the outlook for companies and banks in terms of their financial position.

In November 2008, the International Monetary Fund granted Ukraine stabilization aid of USD 16.4 billion, on condition of, among others, increasing flexibility of the quotations of Ukrainian hryvna exchange rate. Limitation of interventions by the central bank, combined with the continuing outflow of foreign capital and purchases of foreign currencies by domestic entities (a high degree of dollarization of the economy) resulted in the strong depreciation of the Ukrainian hryvna in the last months of 2008 (by 52%) to the value of UAH/USD 7.7 (as compared to UAH/USD 5.05 at the end of 2007 and UAH/USD 4.8 in the middle of 2008).

In an environment of strongly increasing inflation in the first half of 2008, the National Bank of Ukraine (NBU) increased the main discounting rate to 12% in April. At the same time, as the effects of the global financial crisis were spreading, NBU started providing liquidity to the banking sector (rather than absorbing liquidity, as it did before) and made interventions in the foreign exchange market to reduce the scale of depreciation of the Ukrainian hryvna (rather than reducing the scale of appreciation in previous years).

The banking crisis in the Ukraine and the resulting undermining of trust in banks resulted in withdrawals of bank deposits in the last months of 2008. It was followed by the shrinkage of the rate of increase in deposits to circa 27% y/y, compared to 53% in 2007. The rate of increase of loans as at the end of 2008 amounted to 72% y/y, compared to almost 75% as at the end of the previous year. The relatively high level resulted from strong depreciation of Ukrainian currency, despite significant limitation of credit action. Almost 60% of granted credits consisted of long-term loans denominated in foreign currencies.

The fact that the rate of loan growth exceeded the rate of deposit growth further exacerbated difficulties in providing liquidity. The gap in financing loans with deposits amounted to 204%, compared to 150% in 2007. In 2008, resident's deposits dominated in the structure of financing credit



action, though their share decreased to 49% as compared to 66.5% in 2007. More than 30 banks took the refinancing credit from National Bank of Ukraine (NBU). In case of foreign currency deposits financing foreign currency credits, the financial gap increased to 275% (compared to 230% in 2007).

Profitability of the banking sector decreased, in case of ROE to 7.9% and ROA to 0.9%, as compared to 10.5% and 1.2% in 2007.

The situation of the PKO BP SA Group was also affected by regulation changes, which took place in Ukraine, such as:

- Resolution No. 1 of the NBU dated 4 January 2008 amending the principles of determining liquidity of banks;
- Resolution No. 30 of the NBU amending risk weights for certain credit exposures, thus affecting the capital adequacy ratio;
- Resolution No. 88 of the NBU amending policies for recognizing obligatory provisions (excluding funds from resident banks, international financial institutions and subordinated loans);
- Resolution No. 171 of the NBU requiring provisions of 20% to be recognized in respect of foreign currency deposits from non-residents maturing in less than 183 days;
- Resolution 211 of the NBU „About the amendments to some acts of law issued by the National Bank of Ukraine, introducing changes in terms of decreasing banks' regulatory capital by the value of investment fund securities”.
- Resolution 319 of the National Bank of Ukraine (NBU) - additional actions in terms of banks activity (with subsequent amendments), which introduced a number of restrictions aimed at neutralizing the impact of the global financial crisis (i.e. concerning granting loans denominated in foreign currencies to clients without income in foreign currencies, terminating term deposits, the currency spread level),
- Resolution 351 of the NBU (effective as of 28 November 2008), which introduced a fixed exchange rate of the Ukrainian hryvna against the dollar
- Resolution No. 458 of the NBU dated 17 December 2007 amending the calculation of the capital adequacy ratio.

In subsequent periods, results of the Ukrainian banking sector will be affected by rules concerning recognizing of provisions for consumer loans denominated in foreign currencies which have been changed on 28 December 2008 (resolution no 406 of NBU regarding changes in Regulations concerning mechanism of creation and release of reserves for possible losses due to lending operations).



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

PKO BP SA or the other entities of the PKO BP SA Group did not published any forecasts regarding financial results for the year 2008.

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

First three quarters of 2008 were a period of prosperity for both the PKO BP SA Group and the whole Polish banking sector. In this period, the Group generated 88% of its net profit for the year 2008. In the 4th quarter, the deterioration of economic situation in the US and EU and financial crisis on the international markets, followed by a substantial downfall of domestic economy heavily influenced the financial results of the PKO BP SA Group. The crisis was accompanied by i.e. slowdown of economic growth, interbank market liquidity constraints, fall in new investments, deterioration of the situation in the labour market as well as downturn on the stock exchange.

Also in Ukraine, where the subsidiary company of PKO BP SA Kredobank SA operates, a fierce economic slowdown was recognized. High correlation between economic growth, including banking sector, and foreign capital inflow deepened the crisis in Ukraine. Aggravating crisis in high developed economies resulted in fierce limitation of capital inflow into the Ukrainian market, which in turn resulted in significant deterioration of perspectives of financial situation of enterprises and banks.

In 2008, the PKO BP SA Group recognized impairment loss on investment in subsidiary company Kredobank SA in the amount of PLN (-)263.9 million 2008, of which PLN (-)246.3 million in the 4th quarter of 2008. Moreover, in the 4th quarter of 2008, the Group recognized a 100% write-down on goodwill arising from Kredobank SA in the amount of PLN (-)76.4 million due to additional credit portfolio review of Kredobank SA and financial situation in Ukraine.

In 2008, the consolidated net profit of the PKO BP SA Group amounted to PLN 3 120.7 and was PLN 217.0 million higher than in 2007. Excluding the adjustments due to Kredobank SA (not considering the net loss attributable to minority shareholders) and other result of Kredobank amounting to PLN 67.6 million which is included in the consolidated financial result of the PKO BP SA Group, the net result of the PKO BP SA Group would have amounted to PLN 3 393.4 million in 2008 and it would have been PLN 489.8 million higher than in 2007.

#### 3.2 The consolidated income statement

In 2008, the consolidated net profit of the PKO BP SA Group amounted to PLN 3 120.7 million and was PLN 217.0 million higher than in 2007.

In the income statement of the PKO BP SA Group for the year 2008 the sum of income items amounted to PLN 9 388.4 million and was PLN 1 686.1 million higher than in 2007 (increase by 21.9% y/y).

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<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. The consolidated income statement of the PKO BP SA Group (PLN million)

| INCOME STATEMENT<br>OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP          |                |                |                    |               |
|---|----------------|----------------|--------------------|---------------|
|   | 2008           | 2007           | Change<br>(in PLN) | Change<br>(%) |
| Interest income   | 9 033.8        | 6 559.3        | 2 474.4            | 37.7%         |
| Interest expense  | (2 906.5)      | (1 912.8)      | (993.7)            | 52.0%         |
| <b>Net interest income</b>  | <b>6 127.3</b> | <b>4 646.6</b> | <b>1 480.7</b>     | <b>31.9%</b>  |
| Fee and commission income   | 3 144.8        | 3 083.4        | 61.3               | 2.0%          |
| Fee and commission expense  | (733.0)        | (751.6)        | 18.6               | -2.5%         |
| <b>Net fee and commission income</b>  | <b>2 411.8</b> | <b>2 331.8</b> | <b>80.0</b>        | <b>3.4%</b>   |
| Dividend income   | 22.0           | 3.3            | 18.7               | 6.7x          |
| Net income from financial instruments designated at fair value through profit or loss | (201.1)        | (73.3)         | (127.8)            | 2.7x          |
| Gains less losses from investment securities  | (3.0)          | 6.5            | (9.5)              | x             |
| Foreign exchange result   | 739.8          | 529.8          | 210.0              | 39.6%         |
| Other operating income  | 522.4          | 514.6          | 7.9                | 1.5%          |
| Other operating expenses  | (230.7)        | (256.9)        | 26.2               | -10.2%        |
| <b>Net other operating income and expense</b>   | <b>291.7</b>   | <b>257.6</b>   | <b>34.1</b>        | <b>13.2%</b>  |
| Net impairment allowance  | (1 130.4)      | (56.6)         | (1 073.8)          | 20x           |
| Administrative expenses   | (4 296.3)      | (4 040.8)      | (255.4)            | 6.3%          |
| <b>Operating profit</b>   | <b>3 961.7</b> | <b>3 604.9</b> | <b>356.9</b>       | <b>9.9%</b>   |
| Share of profit of associates and jointly controlled entities                         | 15.6           | 4.4            | 11.2               | 3.6x          |
| <b>Profit before income tax</b>   | <b>3 977.3</b> | <b>3 609.2</b> | <b>368.1</b>       | <b>10.2%</b>  |
| Income tax expense  | (838.2)        | (667.8)        | (170.3)            | 25.5%         |
| Net profit (including minority interest)  | 3 139.2        | 2 941.4        | 197.8              | 6.7%          |
| Profit attributable to minority shareholders  | 18.5           | 37.8           | (19.2)             | -51.0%        |
| <b>Net profit (attributable to the parent company)</b>                                | <b>3 120.7</b> | <b>2 903.6</b> | <b>217.0</b>       | <b>7.5%</b>   |

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

| Income statement item         | 2008      | 2007      | Change<br>(%) | Comment  |
|-------------------------------|-----------|-----------|---------------|--|
| Net interest income           | 6 127.3   | 4 646.6   | 31.9%         | ↑ (+) 31.9% (y/y) mainly as a result of higher deposit margins due to higher market interest rates and increase in the volume of loan portfolio.   |
| Net fee and commission income | 2 411.8   | 2 331.8   | 3.4%          | ↑ (+) 3.4% (y/y) mainly as a result of increase in fee and 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              | 849.3     | 723.9     | 17.3%         | ↑ (+) 17.3% (y/y) as a result of:<br>1) increase of foreign exchange result by PLN 210.0 million (39.6% y/y) - the effect of higher spreads between PLN interest rates and foreign interests rates and the effect of an increase in sales of loans denominated in foreign currencies offset by a decrease in net income from financial activities deriving from increased risk aversion in financial markets,<br>2) increase of dividends income by PLN 18.7 million.  |
| Administrative expenses       | (4 296.3) | (4 040.8) | 6.3%          | ↓ Increase of 6.3% (y/y) and C/I at the level of 45.8% (-6.7 pp. y/y) as a result of:<br>1) increase in staff costs by 6.1% (y/y) offset by employment reduction of 1 595 full time equivalents (y/y) at the Group,<br>2) increase in overhead expenses of 4.9% (y/y), offset by profitability increase of 21.9% y/y.  |
| Net impairment allowance      | (1 130.4) | (56.6)    | 20x           | ↓ A 20 fold increase (y/y) as a result of:<br>1) increase in impairment charges for receivables in the subsidiary company Kredobank SA, due to the additional credit portfolio review of Kredobank SA and financial crisis in Ukraine, where the subsidiary operates, in the amount of PLN (-)263.9 million,<br>2) write-down on goodwill arising from Kredobank SA in the amount of PLN (-)76.4 million,<br>2) deterioration in the quality of the consumer loan portfolio and an increase in impairment charges for corporate loans at the Bank. |



## Net interest income

In 2008, net interest income was PLN 1 480.7 million higher than in 2007. It was a result of the increase in interest income by PLN 2 474.4 million along with increase in costs by PLN 993.7 million. Dynamic growth of results was possible due to significant increase of the PKO BP SA Group's loan portfolio as well as widening of deposit margins under conditions of growing interest rates in 2008. Positive tendencies related to net interest income were continued also due to efficient balance sheet structure, i.e. dynamic growth of loans was accompanied by significant growth of amounts due to customers of PKO BP SA.

High growth rate of net interest income (+37.7% y/y) was mainly due to:

- increase in income from loans and advances to customers (+) 48.6% y/y – mainly as a consequence of increased interest rates and an increase of the loan portfolio (+32.3% y/y),
- increase in income from investment securities (+) 40.7% y/y,

offset by

- negative growth rate of income from financial assets designated at fair value through profit or loss (-20.8% y/y), mainly as a result of decrease in portfolio's volume,
- negative growth rate of income from placements with other banks (-20.8% y/y) as a result of the decrease of the average level of these placements<sup>3</sup> by 47.5% (y/y).

Interest expenses grew by 52.0% y/y mainly as a result of increase in expenses on amounts due to customers (+56.4% y/y) along with an increase in expense on debt securities in issue (which was conducted at the end of 2007; +4.6 fold increase y/y as a result of accumulation through 12 months), offset by a decrease of expense on placements with other banks (-53.6% y/y).

In 2008, the average interest on Bank's loans amounted to 8.6%; and average interest on deposits amounted to 2.7%.

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

| NET INTEREST INCOME OF<br>THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP |                  |                   |                  |                   |                     |
|---|------------------|-------------------|------------------|-------------------|---------------------|
| Items   | 2008             | Structure<br>2008 | 2007             | Structure<br>2007 | Change<br>2008/2007 |
| <b>Interest income, of which:</b>   | <b>9 033.8</b>   | <b>100.0%</b>     | <b>6 559.3</b>   | <b>100.0%</b>     | <b>37.7%</b>        |
| Loans and advances to customers   | 7 776.1          | 86.1%             | 5 231.6          | 79.8%             | 48.6%               |
| Financial assets designated at fair value through profit or loss                | 444.4            | 4.9%              | 561.3            | 8.6%              | -20.8%              |
| Placements with other banks   | 388.8            | 4.3%              | 491.1            | 7.5%              | -20.8%              |
| Investment securities   | 345.1            | 3.8%              | 245.4            | 3.7%              | 40.7%               |
| Trading securities  | 64.0             | 0.7%              | 24.5             | 0.4%              | 2.6x                |
| Other   | 15.3             | 0.2%              | 5.4              | 0.1%              | 2.8x                |
| <b>Interest expenses, of which:</b>   | <b>(2 906.5)</b> | <b>100.0%</b>     | <b>(1 912.8)</b> | <b>100.0%</b>     | <b>52.0%</b>        |
| Amounts due to customers  | (2 655.0)        | 91.3%             | (1 697.1)        | 88.7%             | 56.4%               |
| Debt securities in issue  | (131.7)          | 4.5%              | (28.7)           | 1.5%              | 4.6x                |
| Placements with other banks   | (49.5)           | 1.7%              | (106.7)          | 5.6%              | -53.6%              |
| Other   | (70.2)           | 2.4%              | (80.3)           | 4.2%              | -12.5%              |
| <b>Net interest income</b>  | <b>6 127.3</b>   | <b>x</b>          | <b>4 646.6</b>   | <b>x</b>          | <b>31.9%</b>        |

<sup>3</sup> The average level of placements with other banks was calculated on the basis of management data of the Bank; the consolidated balance sheet item "Placements with other banks" accounts mainly for the Bank.



### Net fee and commission income

Net fee and commission income in 2008 was PLN 80.0 million higher than in 2007, whereas income increased by PLN 61.3 million and expense decreased by PLN 18.6 million.

An increase in net fee and commission income of (+) 3.4% y/y resulted from, i.e.:

- an increase in income on payment cards (+21.1% y/y), mainly as a result of increase in the number of payments cards (+2.7% y/y) and related card transactions,
- an increase of credit related fees and commission (+18.1% y/y) and income on loan insurance (+11.3% y/y), mainly as a result of increasing sales of loans,

offset by

- a decrease of income from portfolio and other management fees by 28.9% y/y as a result of deteriorating situation on the capital market, which resulted in client's limited interest in this form of saving.

Fee and commission expenses growth rate was determined by expenses on payment cards whose growth was a result of a dynamic increase in transactions and to a lesser extent, growth in the number of payment cards.

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

| NET FEE AND COMMISSION INCOME OF<br>THE POWSZECHNA KASA OSZCZEDNOSCI BANK POLSKI SA GROUP |                |                   |                |                   |                     |
|---|----------------|-------------------|----------------|-------------------|---------------------|
| Items   | 2008           | Structure<br>2008 | 2007           | Structure<br>2007 | Change<br>2008/2007 |
| <b>Fee and commission income, of which:</b>   | <b>3 144.8</b> | <b>100.0%</b>     | <b>3 083.4</b> | <b>100.0%</b>     | <b>2.0%</b>         |
| Payment cards   | 851.4          | 27.1%             | 703.0          | 22.8%             | 21.1%               |
| Maintenance of bank accounts  | 805.4          | 25.6%             | 770.6          | 25.0%             | 4.5%                |
| Portfolio and other management fees   | 448.1          | 14.2%             | 630.2          | 20.4%             | -28.9%              |
| Credit related fees and commissions   | 315.6          | 10.0%             | 267.2          | 8.7%              | 18.1%               |
| Loan insurance intermediary   | 225.1          | 7.2%              | 202.3          | 6.6%              | 11.3%               |
| Cash transactions   | 188.3          | 6.0%              | 204.1          | 6.6%              | -7.7%               |
| Securities transactions   | 43.8           | 1.4%              | 87.7           | 2.8%              | -50.0%              |
| Foreign mass transactions servicing   | 41.2           | 1.3%              | 36.9           | 1.2%              | 11.7%               |
| Sale and distribution of marks of value   | 21.7           | 0.7%              | 28.5           | 0.9%              | -23.8%              |
| Trust servicing   | 1.1            | 0.0%              | 1.2            | 0.0%              | -12.5%              |
| Other*  | 203.0          | 6.5%              | 151.7          | 4.9%              | 33.8%               |
| <b>Fee and commission expenses, of which:</b>   | <b>(733.0)</b> | <b>100.0%</b>     | <b>(751.6)</b> | <b>100.0%</b>     | <b>-2.5%</b>        |
| Payment cards   | (309.8)        | 42.3%             | (254.1)        | 33.8%             | 21.9%               |
| Acquisition services  | (134.8)        | 18.4%             | (129.0)        | 17.2%             | 4.5%                |
| Loan insurance intermediary   | (94.1)         | 12.8%             | (152.2)        | 20.3%             | -38.1%              |
| Portfolio and other management fees   | (73.7)         | 10.1%             | (126.6)        | 16.8%             | -41.8%              |
| Fee and commissions for operating services granted by other banks                         | (8.1)          | 1.1%              | (9.3)          | 1.2%              | -12.4%              |
| Fee and commissions paid to PPUP  | (5.2)          | 0.7%              | (5.7)          | 0.8%              | -8.6%               |
| Other**   | (107.2)        | 14.6%             | (74.7)         | 9.9%              | 43.5%               |
| <b>Net fee and commission income</b>  | <b>2 411.8</b> | <b>x</b>          | <b>2 331.8</b> | <b>x</b>          | <b>3.4%</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 and other similar operations.

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

### Administrative expenses

Increase in administrative expenses in 2008 by PLN 255.4 million, which is 6.3% y/y was determined mainly by increase of:

- staff costs by PLN 140.7 million (+6.1% y/y), which was mainly caused by increase of salaries by PLN 182.3 million (+9.9% y/y),
- non-staff-related costs by PLN 67.0 million (+4.9% y/y), mainly due to increase in advertising and promotional costs and costs of maintenance and rental of non-current assets,
- depreciation and amortization by 12.5% (y/y), as a result of implementation of modules of Integrated Information System.



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

| ADMINISTRATIVE EXPENSES<br>OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP |                  |                   |                  |                   |                     |
|---|------------------|-------------------|------------------|-------------------|---------------------|
| Items   | 2008             | Structure<br>2008 | 2007             | Structure<br>2007 | Change<br>2008/2007 |
| Staff costs   | (2 429.4)        | 56,5%             | (2 288.7)        | 56.6%             | 6.1%                |
| Overhead and other expenses   | (1 437.0)        | 33,4%             | (1 370.0)        | 33.9%             | 4.9%                |
| Depreciation and amortization   | (429.9)          | 10,0%             | (382.2)          | 9.5%              | 12.5%               |
| <b>TOTAL</b>  | <b>(4 296.3)</b> | <b>100,0%</b>     | <b>(4 040.8)</b> | <b>100.0%</b>     | <b>6.3%</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 (20x y/y) was a consequence of:

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

### Main financial indicators

The main financial indicators are presented in the table below:

Table 6. Main financial indicators of the PKO BP SA Group

| RATIOS   |                  |                  |                     |
|--|------------------|------------------|---------------------|
| Items  | As at 31.12.2008 | As at 31.12.2007 | Change<br>2008/2007 |
| <b>ROA gross</b> (gross profit / average total assets) | 3.3%             | 3.4%             | -0.16 pp.           |
| <b>ROA net</b> (net profit / average total assets)     | 2.6%             | 2.8%             | -0.19 pp.           |
| <b>ROE gross</b> (gross profit / average total equity) | 30.6%            | 32.6%            | -1.95 pp.           |
| <b>ROE net</b> (net profit / average total equity)     | 24.0%            | 26.2%            | -2.18 pp.           |
| <b>C/I</b> (costs to income ratio)                     | 45.8%            | 52.5%            | -6.7 pp.            |

## 3.3 The consolidated balance sheet

### Main items of the balance sheet

The balance sheet of the parent company has the biggest influence on the balance sheet of the PKO BP SA Group. It determines both total assets and the balance sheet structure.

As at 31 December 2008, total assets of the PKO BP SA Group amounted to PLN 134.6 billion, which represents an increase of 24.0% y/y, resulting in the PKO BP SA Group being the biggest financial institution of the Polish banking sector.

The biggest impact on growth of the PKO BP SA Group's total assets had the increase in loans and advances to customers by 32.3% y/y along with their increased share in PKO BP SA Group's total assets by 4.7 pp. y/y. Amounts due from banks dropped by 36.1 y/y and securities decreased by 3.7% y/y.

Amounts due to customers constitute the largest part of total equity and liabilities of the Group – the position increased by 18.9% y/y. Within equity and liabilities, apart from increase in amounts due to customers, a significant increase was recorded in other liabilities – 2.6 fold increase (y/y) mainly due to changes in the valuation of derivative financial instruments.



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

| BALANCE SHEET OF<br>THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP |                     |                   |                     |                   |                     |
|---|---------------------|-------------------|---------------------|-------------------|---------------------|
| 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                                   | 5 836.9             | 4.3%              | 4 682.6             | 4.3%              | 24.6%               |
| Amounts due from banks  | 3 363.6             | 2.5%              | 5 261.2             | 4.8%              | -36.1%              |
| Loans and advances to customers   | 101 107.9           | 75.1%             | 76 417.1            | 70.4%             | 32.3%               |
| Securities  | 14 666.6            | 10.9%             | 15 233.6            | 14.0%             | -3.7%               |
| Other assets  | 9 661.0             | 7.2%              | 6 943.0             | 6.4%              | 39.1%               |
| <b>TOTAL ASSETS</b>   | <b>134 636.0</b>    | <b>100.0%</b>     | <b>108 537.6</b>    | <b>100.0%</b>     | <b>24.0%</b>        |
| Amounts due to other banks  | 6 991.4             | 5.2%              | 4 704.4             | 4.3%              | 48.6%               |
| Amounts due to customers  | 102 939.3           | 76.5%             | 86 579.5            | 79.8%             | 18.9%               |
| Debt securities in issue and subordinated liabilities                     | 1 830.3             | 1.4%              | 1 793.7             | 1.7%              | 2.0%                |
| Other liabilities   | 8 876.9             | 6.6%              | 3 480.9             | 3.2%              | 2.6x                |
| <b>Total liabilities</b>  | <b>120 638.0</b>    | <b>89.6%</b>      | <b>96 558.6</b>     | <b>89.0%</b>      | <b>24.9%</b>        |
| <b>Total equity</b>   | <b>13 998.0</b>     | <b>10.4%</b>      | <b>11 979.0</b>     | <b>11.0%</b>      | <b>16.9%</b>        |
| <b>TOTAL LIABILITIES AND EQUITY</b>                                       | <b>134 636.0</b>    | <b>100.0%</b>     | <b>108 537.6</b>    | <b>100.0%</b>     | <b>24.0%</b>        |

### Loans to customers

Loan maturity structure is dominated by long term loans (above 1 year). They constitute 79.1% of the total portfolio, with a 45.7% increase (y/y). The high growth rate of the gross loan portfolio of the PKO BP SA Group (+32.0% y/y) was mainly the result of high sales of mortgage loans offset by a drop of loans and advances with maturities up to 1 year.

Table 8. Loans and advances to customers of the PKO BP SA Group – structure by contractual terms (PLN million)

| LOANS AND ADVANCES TO CUSTOMERS<br>OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP |                     |                   |                     |                   |                     |
|---|---------------------|-------------------|---------------------|-------------------|---------------------|
| 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>104 025.8</b>    | <b>100.0%</b>     | <b>78 832.8</b>     | <b>100.0%</b>     | <b>32.0%</b>        |
| short-term  | 21 784.2            | 20.9%             | 22 371.1            | 28.4%             | -2.6%               |
| long-term   | 82 241.6            | 79.1%             | 56 461.7            | 71.6%             | 45.7%               |
| <b>Impairment allowances</b>  | <b>(2 917.9)</b>    | <b>x</b>          | <b>(2 415.6)</b>    | <b>x</b>          | <b>20.8%</b>        |
| <b>Carrying amount of loans and advances</b>  | <b>101 107.9</b>    | <b>x</b>          | <b>76 417.1</b>     | <b>x</b>          | <b>32.3%</b>        |

In the portfolio structure the main position constitute loans and advances to non-financial sector (+33.4 % y/y), whose share increased by 1.0 pp. (y/y), of which mainly mortgage loans (+2.1 fold increase y/y), whose share in gross value of loans and advances amounted to 44.2% (as at the end of 2008). Share of loans and advances to public sector decreased by 1.6% pp. (y/y).

Table 9. Loans and advances to customers of the PKO BP SA Group – structure by type (PLN million)

| LOANS AND ADVANCES TO CUSTOMERS OF<br>THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP |                     |                   |                     |                   |                     |
|---|---------------------|-------------------|---------------------|-------------------|---------------------|
| 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>104 025.8</b>    | <b>100.0%</b>     | <b>78 832.8</b>     | <b>100.0%</b>     | <b>32.0%</b>        |
| financial sector (other than banks)   | 2 116.2             | 2.0%              | 1 183.2             | 1.5%              | 78.9%               |
| non-financial sector  | 98 694.1            | 94.9%             | 73 970.1            | 93.8%             | 33.4%               |
| consumer loans  | 20 918.7            | 20.1%             | 18 496.9            | 23.5%             | 13.1%               |
| mortgage loans  | 45 937.4            | 44.2%             | 22 093.1            | 28.0%             | 2,1x                |
| corporate loans   | 31 838.1            | 30.6%             | 33 380.1            | 42.3%             | -4.6%               |
| public sector   | 3 215.4             | 3.1%              | 3 679.5             | 4.7%              | -12.6%              |
| <b>Impairment allowances</b>  | <b>(2 917.9)</b>    | <b>x</b>          | <b>(2 415.6)</b>    | <b>x</b>          | <b>20.8%</b>        |
| <b>Net loans and advances</b>   | <b>101 107.9</b>    | <b>x</b>          | <b>76 417.1</b>     | <b>x</b>          | <b>32.3%</b>        |



### Amounts due to customers

In 2008, the maturity structure of amounts due to customers changed. The share of amounts due maturing over a period longer than 1 year increased by 10.4 pp. (y/y), while amounts due maturing up to 1 month dropped (by -11.8 pp. y/y). This was caused mainly by introducing by the Bank attractive deposit offer.

Table 10. Amounts due to customers of the PKO BP SA Group – structure by contractual terms (PLN million)

| AMOUNTS DUE TO CUSTOMERS<br>OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP |                     |                   |                     |                   |                     |
|--|---------------------|-------------------|---------------------|-------------------|---------------------|
| 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 value of amounts due to customers, of which:</b>                      | <b>104 361.5</b>    | <b>100.0%</b>     | <b>86 955.8</b>     | <b>100.0%</b>     | <b>20.0%</b>        |
| up to 1 month  | 61 955.1            | 59.4%             | 61 885.0            | 71.2%             | 0.1%                |
| from 1 to 3 months   | 17 673.0            | 16.9%             | 9 882.1             | 11.4%             | 78.8%               |
| from 3 months to 1 year  | 11 820.8            | 11.3%             | 13 414.0            | 15.4%             | -11.9%              |
| from 1 year to 5 years   | 12 536.1            | 12.0%             | 1 440.7             | 1.7%              | 8.7x                |
| above 5 years  | 376.5               | 0.4%              | 334.0               | 0.4%              | 12.7%               |
| <b>Accrued interests</b>   | <b>(1 422.2)</b>    | <b>x</b>          | <b>(376.3)</b>      | <b>x</b>          | <b>3.8x</b>         |
| <b>Carrying amount of amounts due to customers</b>                                   | <b>102 939.3</b>    | <b>x</b>          | <b>86 579.5</b>     | <b>x</b>          | <b>18.9%</b>        |

The structure of amounts due to customers by type mainly consisted of amounts due to retail clients (+15.2% y/y), whose share dropped by 2.4 pp. (y/y), offset by an increase in amounts due to state budgetary entities by 1.7 pp. (y/y).

Table 11. Amounts due to customers of the PKO BP SA Group – structure by type (PLN million)

| AMOUNTS DUE TO CUSTOMERS<br>OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP |                     |                   |                     |                   |                     |
|--|---------------------|-------------------|---------------------|-------------------|---------------------|
| 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  | 19 332.9            | 18.8%             | 15 639.5            | 18.1%             | 23.6%               |
| Amounts due to state budget entities   | 7 283.6             | 7.1%              | 4 691.2             | 5.4%              | 55.3%               |
| Amounts due to retail clients  | 76 322.8            | 74.1%             | 66 248.8            | 76.5%             | 15.2%               |
| <b>Total amounts due to customers</b>  | <b>102 939.3</b>    | <b>100.0%</b>     | <b>86 579.5</b>     | <b>100.0%</b>     | <b>18.9%</b>        |

### Own funds and capital adequacy ratio

The rate of growth of own funds (+29.1% y/y) was driven mainly by a high level of profit accumulation; as much as 59.93% of the net profit for 2007 was earmarked for increasing the reserve capital and other reserves of the Bank. Capital adequacy ratio decreased by 0.73 pp. (y/y) mainly as a result of introduction of capital requirement for operational risk.

Table 12. Own funds and capital adequacy ratio of the PKO BP SA Group (PLN million)

| EQUITY OF<br>THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP |                     |                   |                     |                   |                     |
|--|---------------------|-------------------|---------------------|-------------------|---------------------|
| 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>13 998.0</b>     | <b>100.0%</b>     | <b>11 979.0</b>     | <b>100.0%</b>     | <b>16.9%</b>        |
| Share capital  | 1 000.0             | 7.1%              | 1 000.0             | 8.3%              | 0.0%                |
| Reserve capital  | 7 274.7             | 52.0%             | 5 592.3             | 46.7%             | 30.1%               |
| General banking risk fund  | 1 070.0             | 7.6%              | 1 070.0             | 8.9%              | 0.0%                |
| Other reserves   | 1 523.8             | 10.9%             | 1 518.0             | 12.7%             | 0.4%                |
| Revaluation reserve  | (33.2)              | -0.2%             | (43.1)              | -0.4%             | -22.8%              |
| Currency translation differences from foreign operations           | (57.4)              | -0.4%             | (47.8)              | -0.4%             | 20.2%               |
| Retained earnings  | 53.2                | 0.4%              | (72.2)              | -0.6%             | x                   |
| Net profit for the period  | 3 120.7             | 22.3%             | 2 903.6             | 24.2%             | 7.5%                |
| Minority interest  | 46.2                | 0.3%              | 58.1                | 0.5%              | -20.4%              |
| <b>Own funds</b>   | <b>12 885.3</b>     | <b>x</b>          | <b>9 983.4</b>      | <b>x</b>          | <b>29.1%</b>        |
| <b>Capital adequacy ratio (%)</b>                                  | <b>11.29</b>        | <b>x</b>          | <b>12.02*</b>       | <b>x</b>          | <b>-0.73 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 requirement have been calculated in accordance with the New Basel Accord, where the basic difference between this and the calculation as at 31 December 2007 are new methodologies for calculation of credit and operational risk requirements)



#### 4. STRUCTURE OF THE PKO BP SA GROUP AND ITS DEVELOPMENT STRATEGY

As at 31 December the PKO BP SA Group consists of PKO BP SA (the parent company) and 20 direct and indirect subsidiaries.

In 2008, PKO BP SA focused on pursuing its key strategic objectives. The Bank is strengthening its leading position in the most efficient area of retail banking by, *inter alia*: improving the effectiveness and quality of client service; focusing its activities on the fastest growing segments of this market; offering new forms of cooperation to clients, expanding the range of products and services offered; an rational pricing policy. In the area of corporate banking, the strategic objective is to focus on returns on capital employed and changing the service model, by expanding the range of products and services offered combined with changing the sales and client services models, so that the Bank becomes a partner for Polish enterprises. Building a strong financial group is one of the main development objectives of PKO BP SA. The Bank's activities are focused on improving effectiveness of the capital employed. PKO BP SA intends to concentrate on developing those companies which expand the range of products offered by the PKO BP SA Group, in order to be able to fully satisfy the financial needs of its clients and to systematically strengthen its market position. The Bank is able to engage in capital investments. The structure of financing of any investments contemplated will be adjusted to the level funds held by PKO BP SA. In 2008, the Bank continued the implementation of the Integrated IT System (ZSI) software. As a result the ZSI has been introduced into all Bank's branches and agencies. This constituted a final step in the creation of one of the largest and the most complex IT projects in Poland. Currently products used by all branches and agencies for more than 11 million accounts are processed in this system. Introduction of ZSI has been an important step towards further restructuring of Bank's operations.

##### 4.1 Entities included in the consolidated financial statements

Included in the consolidated financial statements are the Bank – the parent company of the PKO BP SA Group and its subsidiaries as defined in IAS 27 „Consolidated and separate financial statements”.

Table 13. Entities comprising the PKO BP SA Group

| No.   | Entity Name   | Cost<br>(PLN thousand) | Voting rights on<br>General<br>Shareholders<br>Meeting (%) | Consolidation<br>method |
|---|---|------------------------|--|-------------------------|
| <b>Parent company</b>                                 |   |                        |  |                         |
| 1   | Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna |                        |  |                         |
| <b>Direct subsidiaries</b>                            |   |                        |  |                         |
| 2   | KREDOBANK SA <sup>1</sup>                               | 356 102                | 98.5619  | full method             |
| 3   | Powszechnie Towarzystwo Emerytalne BANKOWY SA           | 205 786                | 100  | full method             |
| 4   | Centrum Finansowe Puławska Sp. z o.o.                   | 128 288                | 100  | full method             |
| 5   | PKO Inwestycje Sp. z o.o.*                              | 117 813                | 100  | full method             |
| 6   | Bankowy Fundusz Leasingowy SA                           | 70 000                 | 100  | full method             |
| 7   | PKO Towarzystwo Funduszy Inwestycyjnych SA              | 69 055                 | 75   | full method             |
| 8   | Inteligo Financial Services SA                          | 59 602                 | 100  | full method             |
| 9   | Centrum Elektronicznych Usług Płatniczych eService SA   | 55 500                 | 100  | full method             |
| 10  | Bankowe Towarzystwo Kapitałowe SA                       | 18 566                 | 100  | full method             |
| 11  | PKO Finance AB  | 172                    | 100  | full method             |
| <b>Subsidiaries of PKO Inwestycje Sp. z o.o.</b>      |   |                        |  |                         |
| 12  | Wilanów Investments Sp. z o.o.*                         | 82 981                 | 100  | full method             |
| 13  | POMERANKA Sp. z o.o.*                                   | 19 000                 | 100  | full method             |
| 14  | PKO Inwestycje - Międzyzdroje Sp. z o.o.*               | 7 575                  | 100  | full method             |
| 15  | Baltic Dom 2 Sp. z o.o.                                 | 6 619                  | 56   | full method             |
| 16  | WISŁOK Inwestycje Sp. z o.o.*                           | 2 800                  | 80   | full method             |
| 17  | Fort Mokotów Sp. z o.o.*                                | 2 040                  | 51   | full method             |
| 18  | UKRPOLINWESTYCJE Sp. z o.o.                             | 519                    | 55   | full method             |
| <b>Subsidiaries of Inteligo Financial Services SA</b> |   |                        |  |                         |
| 19  | Finanse Agent Transferowy Sp. z o.o. <sup>2</sup>       | 7 600                  | 80   | full method             |
| <b>Subsidiaries of Bankowy Fundusz Leasingowy SA</b>  |   |                        |  |                         |
| 20  | Bankowy Leasing Sp. z o.o.                              | 1 309                  | 100  | full method             |
| 21  | BFL Nieruchomości Sp. z o.o.                            | 1 109                  | 100  | full method             |

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

1 - both value of investment and share capital of KREDOBANK SA include the XVIII share issue, acquired by PKO BP SA on 31 December 2008, and presented in the balance sheet of PKO BP SA as receivables.

2 - other shares of Finanse Agent Transferowy Sp. z o.o. in hold of Powszechnie Towarzystwo Emerytalne BANKOWY SA – subsidiary of PKO BP SA.

Table 14. Other subordinated entities included in the consolidated financial statements



| No.  | Entity Name                                       | Cost<br>(PLN thousand) | Voting rights on<br>General<br>Shareholders<br>Meeting (%) | Consolidation<br>method |
|--|---|------------------------|--|-------------------------|
| <b>Jointly controlled entities</b>                 |   |                        |  |                         |
| 1  | CENTRUM HAFFNERA Sp. z o.o.                       | 44 371                 | 49.43  | equity method           |
| 2  | Centrum Obsługi Biznesu Sp. z o.o.                | 17 498                 | 41.44  | equity method           |
| <b>Subsidiaries of CENTRUM HAFFNERA Sp. z o.o.</b> |   |                        |  |                         |
| 3  | Sopot Zdrój Sp. z o.o.*                           | 58 923                 | 100  | equity method           |
| 4  | Promenada Sopocka Sp. z o.o.                      | 10 058                 | 100  | equity method           |
| 5  | Centrum Majkowskiego Sp. z o.o.                   | 6 609                  | 100  | equity method           |
| 6  | Kamienica Morska Sp. z o.o.                       | 976                    | 100  | equity method           |
| <b>Associates</b>                                  |   |                        |  |                         |
| 7  | Bank Pocztowy SA                                  | 146 500                | 25.0001  | equity method           |
| 8  | Kolej Gondolowa Jaworzyna Krynicka SA             | 15 531                 | 37.53  | equity method           |
| 9  | Ekogips SA – in liquidation                       | 5 400                  | 60.26  | equity method           |
| 10   | Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | 1 500                  | 33.33  | equity method           |
| 11   | Agencja Inwestycyjna CORP SA                      | 29                     | 22.31  | equity method           |

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

#### 4.2 Changes in organization of subordinated entities

In 2008, the following events had an impact on the structure of the PKO BP SA Group:

##### 1. Acquisition of shares of PKO Finance AB

According to the contract signed by PKO BP SA and Svenska Standardbolag AB (Sweden) on 27 June 2008, PKO BP SA acquired 5 000 shares of Aktiebolaget Grundstenen 108756 (Sweden) with a nominal value of SEK 500 000 (PLN 170 thousand). The acquired shares constituted 100% of the share capital and 100% of voting rights. The acquisition price with all additional costs amounted to SEK 504 969 (PLN 171 689).

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

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

##### 2. Disposal of shares of FINDER SA

On 15 September 2008, Bankowe Towarzystwo Kapitałowe SA (a PKO BP SA's subsidiary) sold 285 125 shares of FINDER SA with a total value of PLN 1 140 500. According to the sale agreement, the price of one share varied in each month from August 2008 to March 2009, depending on the date of cash inflow onto the entity's account. As at 31 December 2008 the value of the shares sold was PLN 9 425 092.

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

##### 3. Increase of share capital and acquisition of shares of Bankowy Fundusz Leasingowy SA

On 30 September 2008, an increase of share capital of Bankowy Fundusz Leasingowy SA of PLN 30 million was registered with the National Court Register.

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

##### 4. Increase of share capital and acquisition of shares of Finanse Agent Transferowy Sp. z o.o.

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



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

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

- Inteligo Financial Services SA, which holds 80.33% of share capital and 80.33% of voting rights on General Shareholders Meeting,
- Powszechne Towarzystwo Emerytalne BANKOWY SA (heretofore the sole shareholder), which holds 19.67% of share capital and 19.67% of voting rights on General Shareholders' Meeting.

#### **5. Increase of share capital and acquisition of shares of Kredobank SA**

On 31 December 2008, PKO BP SA acquired 13 044 501 852 shares within the capital increase of Kredobank SA with total nominal value of UAH 130 445 018.52. The price of acquired shares, including additional costs amounted to PLN 48 737 276.17.

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

and within PKO Inwestycje Sp. z o.o. Group:

#### **6. Establishment of WISŁOK Inwestycje Sp. z o.o.**

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

The entity's shareholders are PKO Inwestycje Sp. z o.o., which took up 4 000 shares with a total value of PLN 400 thousand and Jedyńka SA, which took up 1 000 shares with a total value of PLN 100 thousand.

The shares acquired by PKO Inwestycje Sp. z o.o. represent 80% of the Company's share capital and carry 80% of voting rights at the Shareholders' Meeting. The company was formed in order to execute a housing project in Rzeszów called "Osiedle Wisłok".

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

PKO Inwestycje Sp. z o.o. concluded 3 transactions (on 28 January 2008 and 27 August 2008) in which it purchased a total of 56 shares in Baltic Dom 2 Sp. z o.o. with a total nominal value of PLN 28 thousand, representing 56% of the entity's share capital and entitling to 56% of votes at the Shareholders' Meeting. The price for the acquired shares including additional fees was PLN 6 618 770.86.

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

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

On 30 June 2008, PKO Inwestycje Sp. z o.o. (the PKO BP SA subsidiary) returned to PKO BP SA a capital contribution received for an execution of investment projects of PLN 5.5 million.

#### **9. Change of the name of ARKADIA Inwestycje Sp. z o.o.**

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

#### **10. Increase of share capital and acquisition of shares of PKO Inwestycje – Międzyzdroje Sp. z o.o.**

On 22 August 2008, an increase of the share capital of PKO Inwestycje – Międzyzdroje Sp. z o.o. of PLN 1 500 thousand was registered with the National Court Register (KRS).

All additional shares were acquired by PKO Inwestycje Sp. z o.o. As a result of above-mentioned registration PKO Inwestycje Sp. z o.o. holds 100% of share capital and 100% of voting rights on General Shareholders Meeting.



At the same time, in 2008 PKO BP SA subsidiaries made a capital contribution to its subsidiaries:

- on 18 January 2008, PKO Inwestycje Sp. z o.o. made a capital contribution to PKO Inwestycje – Międzyzdroje (former ARKADIA Inwestycje Sp. z o.o.) in the amount of PLN 4 074 800,
- on 14 February 2008 Powszechne Towarzystwo Emerytalne BANKOWY SA made a capital contribution to Finanse Agent Transferowy Sp.z o.o. in the amount of PLN 1 500 000,
- PKO Inwestycje Sp. z o.o. made a capital contribution to WISŁOK Inwestycje Sp. z o.o. in the total amount of PLN 2 400 000 (4 July 2008, 13 August 2008 and 18 December 2008).

#### **4.3 Main capital investments**

The list of main capital investments of PKO BP SA and its subsidiaries concerning the transactions of acquiring and selling shares in subordinated entities was presented in Note 4.2 of the report.

#### **4.4 Related party transactions**

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

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



## 5. ACTIVITIES OF THE PKO BP SA GROUP<sup>4</sup>

The PKO BP SA Group consists of PKO BP SA and its subsidiaries which – supplementing its product offer – at the same time pursue their own business goals. Particular companies provide specialist financial services in respect of leases, investment funds and venture capital, pension funds or electronic payment services in respect of banking cards.

The potential of every entity conduce to building the synergy effects of the whole PKO BP SA Group.

The key events which had an impact on the operations and results of the PKO BP SA Group in 2008 were related to the business activities conducted by the Group companies and the results achieved by particular Group entities, and are described in other Notes to this report.

### 5.1 Market share of PKO BP SA

In terms of assets and equity PKO BP SA is a leader of banking sector.

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

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

Table 15. Market share of PKO BP SA (%)

| MARKET SHARE OF<br>POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA* |                     |                     |                     |
|---|---------------------|---------------------|---------------------|
|   | As at<br>31.12.2008 | As at<br>31.12.2007 | Change<br>2008/2007 |
| <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.

### 5.2 Activities of PKO BP SA – parent company of the PKO BP SA Group<sup>5</sup>

As at 31 December 2008 relation of total assets of PKO BP SA to Group's total assets amounted to 97.5% and share of PKO BP SA's net profit in Group's consolidated net profit amounted to 92.3%. Bank, as a parent company constitutes the most important component of the consolidated balance sheet and influences heavily income statement of the PKO BP SA Group. Financial results presented in Chapter 3 reflect financial results of PKO BP SA.

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

<sup>4</sup> The financial data of the PKO BP SA Group's entities has been presented according to their IAS/IFRS financial statements.

<sup>5</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.



## Retail segment

PKO BP SA's efforts addressed to the retail client segment focused on improving the attractiveness and modernizing the range of products offered, and on improving the quality of service while, at the same time, increasing the effectiveness of sales.

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

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

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

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

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

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

Table 16. Loans in the retail segment (PLN million)

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

\* data for the year of 2007 restated for comparative purposes

Table 17. Deposits in the retail segment (PLN million)

| Items                        | As at<br>31.12.2008 | As at<br>31.12.2007 | Change<br>in % |
|------------------------------|---------------------|---------------------|----------------|
| Client deposits, of which:   |                     |                     |                |
| - retail and private banking | 65 749              | 53 767              | 22.3%          |
| - small and medium entities  | 8 239               | 6 958               | 18.4%          |
| - housing market             | 9 966               | 10 290              | -3.1%          |
| <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 18. New 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 giving 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>   |

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

- network optimization – 183 branches were modernized;
- introduction of a new model of network management by changing the typology of branches. Independent and subordinated branches were replaced with three types of branches (branches



A, B and C), the type of branch being dependent on, inter alia, the number of employees and the micro-market growth potential.

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

The network of agencies remains an important supplement to Bank branches and ATMs (more than 2 000 locations).

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

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

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

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

### Corporate segment

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

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

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

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

Table 19. Loans and deposits in the corporate segment (PLN million)

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

Due to the stability of PKO BP SA, its impeccable reputation on the market and the fact that the Bank does not rely on external financing, the clients started to see PKO BP SA as one of the safest institutions in the Polish banking sector (*safe heaven*). Corporate clients reduced the scale of their investments and shifted their attention to revolving loans and overdrafts. PKO BP SA adjusted its credit and transaction offer to the current situation in a flexible manner. The Bank took steps to increase monitoring and establish closer relationships with its clients. The Bank evaluated the prospects of higher risk sectors. However, unlike a number of other banks, PKO BP SA did not limit



financing for new clients. The Bank launched client and product review programmes in order to link credit margins to the marginal cost of financing credit activity and the risk profile (risk based pricing), without the need to limit structural financing and financing of development activities.

Table 20. Significant activities in the corporate segment

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

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

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

Table 21. Significant activities in the budget segment

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

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

### Investment segment

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

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

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



### **Treasury operations**

In 2008, the Bank experienced another increase in activity in this market segment. Currency turnover transactions brought very good results, the value of realized SPOT transactions increased by 30%, which was reflected by an increase in results.

PKO BP SA actively executed its strategy of developing the sales of treasury products with high added value. The share of both exchange rate and interest rate derivative transactions in total sales of treasury products increased by 20% compared with the previous year.

PKO BP SA intensively monitors credit risk exposure in respect of customers. Transactions are concluded with clients on the basis of framework agreements. These agreements, as well as the products' rules and regulations, contain provisions confirming that the client has performed an independent assessment of the risks and benefits associated with different types of transactions. The applied policy states that derivative transactions are only concluded in connection with the real risk of the client declared as at the transaction date, resulting from cash flows in foreign currencies and/or interest rates, and therefore they are of the nature of hedging transactions.

Despite of lack of liquidity on the interbank money market, the Bank maintained a high level of trading in the interbank interest rate and foreign exchange markets, contributing to stabilization on the banking market. According to the data as at end of December 2008, PKO BP SA's share in the segment of IRS and spot transactions was 11% and 7%, respectively. As a result of high activity in treasury transactions, Bank was classified fourth among Dealers of Treasury Bonds. Moreover, PKO BP SA held a position of Money Market Dealer. In order to secure proper volume of transactions, PKO BP SA has signed general and hedging agreements both with domestic and foreign counterparties.

Due to its strong market position and knowledge of financial markets, the Bank is able to support sales actively by applying solutions with high added value. During the high volatility of the financial markets, the Bank paid particular attention to stabilizing its deposit base. The Bank actively managed liquidity risk and market risks (including the interest rate and currency risk), focusing on minimizing exposure. The funds obtained were invested in short-term Treasury securities and NBP bills. The rate of obtaining long term funds in CHF, which was maintained on a high level until the end of September, in line with increasing credit activity, slowed down visibly in the 4th quarter of 2008.

The Bank maintained a portfolio of investment securities, which was financed with a surplus of deposits denominated in PLN, EUR and USD. State Treasury bonds constituted the largest component of this portfolio, and bonds issued by financial institutions constituted a small percentage (3%). The Bank's policy with respect to the investment portfolio was focused on mitigating risk by purchasing hedging instruments (IRS, CDS) or selling instruments with limited liquidity.

### **Brokerage activities**

Turnover on the stock market amounted to almost PLN 19 billion, which gave PKO BP SA a 6% share in the market and 7<sup>th</sup> position (up one level in relation to the previous year). The amount of turnover generated as a result of fulfilling the function of a stock market animator was PLN 5 billion, and the number of agreements signed by the Bank with the issuers and the Warsaw Stock Exchange within its role as a market animator and issuer was 39 and 29 respectively, which put the Bank in 4<sup>th</sup> position. Turnover on the NewConnect stock market amounted to almost PLN 65 million and put PKO BP SA in 4<sup>th</sup> position (the number of animated companies being the highest, i.e. 30).

In line with its assumptions regarding the development of primary market services, PKO BP SA carried out subscriptions for four issues of structured bonds issued by Barclays Bank PLC in London, and commenced the distribution of 32 investment funds. Overall, as at the end of 2008 the Bank provided services to 144 Funds managed by 10 Investment Fund Companies.

Due to the situation on the capital market and a significant increase in the aversion to risk, Treasury bonds became an important element of the PKO BP SA product offer. As the only distributor of retail Treasury bonds, PKO BP SA offered its clients in 2008 four types of bonds with both fixed and variable interest rates. Turnover on the bond market increased by nearly 45% compared with the previous year, which allowed the Bank to maintain its leading position on the market.



### **Custody operations**

PKO BP SA is a direct member of the National Depository for Securities and the Securities Register (NBP) and provides securities custody services to its clients. PKO BP SA is a member of the Custodian Bank Council and the Non-Treasury Debt Securities Council at the Polish Bank Association and it actively participates in work on creating regulations and best market practices for the capital market. In 2008, the Bank started acting as depository for pension and investment funds. Since November 2008, the Bank provides depository services to OFE (open pension fund) WARTA SA.

As at the end of 2008, the market value of trustee assets amounted to PLN 20 billion, which represents a six-fold increase compared with 2007.

#### **As at 31 December 2008:**

- the biggest share within territorial structure of the deposit base (excluding inter-bank deposits and online banking accounts' deposits) had the following regions: Mazowiecki (27.3%), Śląsko–Opolski (12.1%) and Wielkopolski (10.7%). Their total share in Bank's deposits amounted to 50.1% and compared to the end of 2007 decreased by 1.8 pp.,
- number of current accounts amounted to 6 366 thousand and increased by 159 thousand (y/y), of which Inteligo current accounts by 34 thousand (y/y),
- total number of banking cards issued by PKO BP SA at the end of the year amounted to 7 493 thousand of units. Compared to the end of 2007 an increase of the total number of banking cards amounted to 197 thousand of units, including 37 thousand of credit cards.

A detailed description of the activities of PKO BP SA - *the parent company of the PKO BP SA Group, including its business activity and financial performance for the year 2008, has been presented in the PKO BP SA Directors' Report for the year 2008, which is an integral part of the annual report of PKO BP SA.*



### 5.3 Activities of other entities of the PKO BP SA Group

| SUBSIDIARY  | SCOPE OF ACTIVITIES  | ACTIVITIES OF OTHER GROUP COMPANIES  |
|---|--|--|
| PKO Towarzystwo Funduszy Inwestycyjnych SA            | Setting up and management of investment funds  | <ol style="list-style-type: none"> <li>As at 31 December 2008, the equity of the Management Company amounted to PLN 128 415 thousand.</li> <li>In 2008, the Management Company earned a net profit of PLN 104 815 thousand (in 2007: PLN 125 498 thousand).</li> <li>The asset value of the funds managed by the Management Company amounted to PLN 8.2 billion as at 31 December 2008, resulting in the Company having an 11.06% share in the investment fund market and holding the 3rd place among the funds (for comparison purposes: at the end of 2007 the asset value of managed funds amounted to PLN 16.7 billion, resulting in having 12.36% share in the investment fund market and holding the 3rd place). The decrease in value of the funds' assets is a result of the decrease in value of the funds' shares on the stock exchange and increased redemption of funds' shares.</li> <li>In 2008, the Company added to its offer a new close-ended investment fund "PKO Rynku Nieruchomości. As at 31 December 2008, PKO TFI SA managed 14 investment funds.</li> <li>In 2008, the Company paid dividend to the shareholders for 2007 in the amount of PLN 123 million (gross), including PLN 92.25 million to PKO BP SA.</li> </ol>  |
| KREDOBANK SA  | KREDOBANK SA in Lviv conducts banking activities in Ukraine  | <ol style="list-style-type: none"> <li>As at 31 December 2008, the equity of the Management Company amounted to PLN 43 398 thousand (UAH 116 349 thousand).</li> <li>In 2008, KREDOBANK SA reported a net profit of PLN (-) 196 293 thousand (UAH 433 796 thousand). In 2008, KREDOBANK SA reported a net profit of PLN 2 848 thousand (UAH 5 209 thousand). The decrease in the net profit was caused mainly by an increase in impairment allowances of loans granted by KREDOBANK SA resulting from economic situation in Ukraine and results of the loan portfolio review.</li> <li>The loan portfolio (gross) of KREDOBANK SA had increased by PLN 262 million (UAH 1 732 million) i.e. 15.32% since the beginning of the year 2008 and amounted to PLN 1 969 million (UAH 5 279 million) at the end of 2008.</li> <li>The value of term deposits expressed as PLN equivalent had decreased by PLN 88.5 million i.e. 8.12% (the value of term deposits in UAH increased in 2008 by UAH 421 million i.e. 18.59% - difference resulting from the devaluation of UAH in 2008) since the beginning of 2008 and amounted to PLN 1 002 million (UAH 2 687 million) at the end of 2008.</li> <li>At 31 December 2008, KREDOBANK SA had 27 branches and 149 local offices in 22 (out of 24) Ukrainian districts and the Independent Republic of the Crimea. During the year 2008, 3 branches and 6 local offices were opened, 8 local offices were closed.</li> <li>In 2008, KREDOBANK SA received two subordinated loans from PKO BP SA for an amount of USD 16 million and signed with PKO BP SA four loan agreements in total amount of 175 mln USD.</li> <li>In June 2008, KREDOBANK issued bonds with a total nominal value of UAH 50.75 million and a maturity date in 2013. All bonds were sold to the clients on the Ukrainian market.<br/><i>Balance sheet items relating to KREDOBANK SA at the end of 2008 were translated using the average NBP rate as at 31 December 2008 (1 UAH = 0.3730 PLN), while those at the end of 2007 were translated using the average NBP rate as at 31 December 2007 (1 UAH = 0.4814 PLN).</i><br/><i>Income statement items relating to KREDOBANK SA were translated using the average of NBP exchange rates prevailing as at the last day of each month of 2008 and 2007 (0.4525 PLN/UAH and 0.5456 PLN/UAH respectively)</i></li> </ol> |
| Powszechne Towarzystwo Emerytalne BANKOWY SA          | Management of an open-end pension fund. Since 2003, the Bank has been in the possession of 100% of PTE's shares.   | <ol style="list-style-type: none"> <li>As at 31 December 2008, the equity of PTE Bankowy SA amounted to PLN 200 906 thousand.</li> <li>In 2008, PTE Bankowy SA earned a net profit of PLN 25 036 thousand (in 2007: PLN 26 076 thousand).</li> <li>As at the end of 2008, the net asset value of OFE Bankowy amounted to PLN 4 030 million, i.e. it decreased by 5.7% compared with the end of 2007. The decrease in the net asset value of OFE Bankowy is associated with a significant drop in the prices of shares listed on the Warsaw Stock Exchange.</li> <li>As at 31 December 2008, the number of accounts maintained for participants of OFE Bankowy was 467 596.</li> <li>As at the end of December 2008, OFE Bankowy was the 9th pension fund on the market in terms of asset value, and the 10th in terms of the number of accounts maintained."</li> </ol>  |
| Inteligo Financial Services SA                        | Provision of e-banking services. The Company provides a platform for the development of electronic services of PKO BP SA in the field of keeping accounts and selling other banking products using interactive distribution channels.  | <ol style="list-style-type: none"> <li>As at 31 December 2008, the company's equity amounted to PLN 120 136 thousand.</li> <li>In 2008, the company earned a net profit of PLN 24 985 thousand (in 2007: PLN 20 041 thousand).</li> <li>At the end of December of 2008, Inteligo customers' deposits amounted to PLN 2 277 million and increased by PLN 213 million as compared to the beginning of 2008. An increase of client's deposits in 2008 was lower than an increase of client's deposits in 2007 by PLN 18 million.</li> <li>At the end of the year 2008, the Company provided access to electronic banking systems to approximately 2.6 million PKO BP SA clients using iPKO services, and served more than 610 thousand holders of Inteligo accounts.</li> <li>In March 2008, the online banking services offered until then under PKO Inteligo' name switched to the name of iPKO. This was one of the components of introducing a new online banking development strategy in PKO BP SA.</li> <li>In April 2008, the Company signed an agreement with Polska Telefonia Cyfrowa Sp. z o.o., in which the parties set out the terms and conditions for cooperation in the provision of telecommunication services.</li> </ol>   |
| Centrum Elektronicznych Usług Płatniczych eService SA | Acquisition (to the Bank's order) of points of sale (the so-called acceptors) to execute transactions with the use of payment cards, management of POS terminals' network, processing of data relating to card transactions performed at POS terminals and servicing of cash withdrawals at POS terminals installed, among other places, in PKO BP SA agencies and branches. | <ol style="list-style-type: none"> <li>As at 31 December 2008, the company's equity amounted to PLN 68 180 thousand.</li> <li>In 2008, the company earned a net profit of PLN 27 767 thousand (in 2007: PLN 19 626 thousand). The increase in profit results from constant improvement of profitability of the points of sale, as well as from development of additional functions, i.e. increased sales of electronic pre-paid phone units and a larger volume of cash withdrawals at PKO BP SA Agencies and the Post Offices.</li> <li>The number of eService terminals was 52,461 as at the end of 2008, which represents a 13.82% growth compared with the end of 2007. The Company's estimated share in the market of bank card acceptance in terms of the number of terminals installed amounted to 28% at the end of 2008 (data based on the reports of the National Bank of Poland).</li> <li>In 2008, transactions amounting to PLN 19 billion were generated with the use of eService terminals, representing an increase of 24.40% in relation to the year 2007. The Company's share in the value of card transactions generated as at the end of 2008 amounted to 28% (data based on the NBP reports).</li> <li>In 2008, the Company implemented the Cash back service for MasterCard cards, acceptance of VISA PayWave contactless cards and installed two of its first own ATMs.</li> </ol>  |
| Bankowe Towarzystwo Kapitałowe SA                     | Venture capital activities.  | <ol style="list-style-type: none"> <li>As at 31 December 2008, the company's equity amounted to PLN 14 256 thousand.</li> <li>In 2008, the company earned a net profit of PLN 1 704 thousand (in 2007: net loss of PLN 1 007 thousand).</li> <li>In the second half of 2008 Bankowe Towarzystwo Kapitałowe SA activity comprised establishing a subsidiary company Bankowy Faktoring SA.</li> </ol>  |
| PKO Finance AB  | The Company's operations comprise raising funds for PKO BP SA through the issue of Eurobonds.  | <ol style="list-style-type: none"> <li>As at 31 December 2008, the company's equity amounted to PLN 284 thousand (SEK 742 thousand)</li> <li>At the end of December 2008, the company generated a net loss of PLN 85 thousand (SEK 237 thousand)</li> <li>The Company in 2008 has not started the statutory activities.</li> </ol> <p><i>Equity value was translated using the average NBP rate as at 31 December 2008 (1 SEK = 0.3821 PLN), net result was translated using the average of NBP exchange rates prevailing as at the last day of each month of 2008 (1 SEK = 0.3592 PLN)</i></p>  |
| Bankowy Fundusz Leasingowy SA                         | Member of the Supervisory Board  | <ol style="list-style-type: none"> <li>As at 31 December 2008, the BFL SA Group (BFL SA and its subsidiaries) equity amounted to PLN 86 842 thousand.</li> <li>In 2008, the Group earned a net profit of PLN 10 081 thousand (in 2007: PLN 6 773 thousand).</li> <li>In 2008, the BFL SA Group Companies leased out assets with a total value of PLN 1 360.5 million, which represents an increase of 11.3% compared with 2007. In terms of the value of leased assets, the Company ranked 8th as at the end of 2008 (according to the data of the Leasing Companies' Association).</li> <li>The total carrying value of the BFL SA Group lease investments as at 31 December 2008 was PLN 2 317 million (as at the end of 2007: PLN 1 592 million).</li> </ol>  |



| SUBSIDIARY                            | SCOPE OF ACTIVITIES  | ACTIVITIES OF OTHER GROUP COMPANIES   |
|---------------------------------------|--|---|
| PKO Inwestycje Sp. z o.o.             | Construction and development activities. PKO Inwestycje Sp. z o.o. specializes in management of big development projects. Development projects are carried out either by PKO Inwestycje Sp. z o.o. alone or by its subsidiaries. | <ol style="list-style-type: none"> <li>The value of equity of the PKO Inwestycje Sp. z o.o. Group (PKO Inwestycje Sp. z o.o. and its subsidiaries) at the end of 2008 amounted to PLN 174 805 thousand.</li> <li>The PKO Inwestycje Sp. z o.o. Group closed the year 2008 with a net loss of PLN 4 531 thousand (2007: net profit of PLN 23 761 thousand). Fluctuations in the results are due to the accounting treatment applied to the investment projects carried out by the Group.</li> <li>In 2008, the Company's activities were focused on the following development projects: <ul style="list-style-type: none"> <li>- "Nowy Wilanów" in Warsaw carried out by Wilanów Investments Sp. z o.o.,</li> <li>- "Neptun Park" in Gdańsk carried out by POMERANKA Sp. z o.o.,</li> <li>- "Kuznińska" in Kiev, Ukraine, carried out by UKRPOLINWESTYCJE Sp. z o.o.</li> <li>- "Osiedle Rezydencja Flotylla" in Międzyzdroje carried out by PKO Inwestycje - Międzyzdroje Sp. z o.o.</li> <li>- "Osiedle Wisłok" in Rzeszów carried out by WISŁOK Inwestycje Sp. z o.o.</li> <li>- "Osiedle Samia Dolina" in Jankowo (n/ Gdańsk) carried out by Baltic Dom 2 Sp. z o.o.</li> </ul> </li> <li>Fort Mokotów Sp. z o.o. - subsidiary of PKO Inwestycje Sp. z o.o. - in 2008 continued warranty services for the completed project "Marina Mokotów".</li> </ol> |
| Centrum Finansowe Puławska Sp. z o.o. | The Company manages the building "Centrum Finansowe Puławska" located at 15 Puławska Street in Warsaw.   | <ol style="list-style-type: none"> <li>The value of company's equity at the end of 2008 amounted to PLN 205 756 thousand.</li> <li>The company closed the year 2008 with a net profit of PLN 7 376 thousand (in 2007: PLN 7 942 thousand).</li> <li>The occupancy rate of office and commercial space in the CFP building was relatively stable and amounted to 100% as at the end of 2008 (96.4% as at the end of 2007).</li> <li>As at 31 December 2008, 89.5% of the office and commercial space in the CFP building was rented to PKO BP SA Group entities.</li> <li>In 2008, the Company paid a dividend in the total amount of PLN 16.6 million to PKO BP SA (from the net profit for 2007 and 2006).</li> </ol>  |

#### 5.4 Activities taken by PKO BP SA towards Kredobank SA

The situation of Kredobank SA and Ukrainian economy has been subject to many analyses and discussions of the PKO BP SA Management Board since the second half of 2008. Because of risk related to conducting business activity in Ukraine, the Management Board has taken many actions in order to strengthen corporate supervision of PKO BP SA over Kredobank SA.

##### **Effectiveness strengthening of statutory organs of Kredobank SA**

In 2008 Management Board of PKO BP SA by its representative in Supervisory Board of Kredobank SA undertook decisions to strengthen staff of statutory organs in Kredobank SA.

Some representatives of PKO BP SA in Supervisory Board of Kredobank SA were changed as well changes to Management Board of Kredobank SA were implemented.

Supervisory Board of Kredobank SA was strengthened by representatives of top level management from PKO BP SA.

In 2008 the composition of Supervisory Board was as follows:

1. Tomasz Mironczuk – President of the Supervisory Board
2. Wojciech Papierak - Vice-president of the Supervisory Board
3. Jerzy Kepel – Secretary of the Supervisory Board
4. Stanisław Kolasiński – Member of the Supervisory Board
5. Łukasz Dziekoński – Member of the Supervisory Board
6. Jan Karwański – Member of the Supervisory Board

The composition of Management Board was strengthened by Vice-President who is responsible for the area of controlling (cost restructuring of Kredobank SA). On 18 September 2008 Supervisory Board of Kredobank changed the composition of Management Board in Kredobank SA:

Dismissed : Stephana Kubiva – President of the Management Board

Aleksandra Sidorowa – Vicepresident of the Management Board (Corporates)

Appointed: Ivan Feskiv – for the President of the Management Board

Zbigniew Urbaniak – for the Vice-President of the Management Board.

The composition of the Management Board after changes was as follows:

1. Ivan Feskiv – President of the Management Board of Kredobank SA
2. Danuta Sikora – Vice-President of the Management Board (CEO)
3. Krzysztof Mazur – Vice-President of the Management Board
4. Zbigniew Urbaniak – Vice-President of the Management Board (waiting for the approval of state bodies of Ukraine)
5. Taras Choma – Vice-President of the Management Board

##### Implemented changes were focused on strengthening control in:

- The areas of retail and corporate operations of Kredobank SA
- The area of credit risk,
- The area of activities measured to implement controlling in particular in restructuring costs of Kredobank SA (especially in staff costs)



The composition of Kredobank SA Revisory Committee was completed by representative of Internal Audit Committee of PKO BP SA. The representative has experience in consolidated supervision of financial institutions.

### ***Strengthening of further functioning of Kredobank SA***

#### ***Increase of share capital of Kredobank SA.***

PKO BP SA took part in increase of share capital of Kredobank SA and subscribed shares of XVIII issue. The total value of purchase of Kredobank SA shares of XVIII issue amounted to PLN 48 737 276.17. After including above mentioned shares PKO BP holds 98.56% of share capital of Kredobank SA of total purchase value of PLN 356 101 724.85.

#### ***Subordinated Loan***

On 5 of September 2008 after gaining all required agreements PKO BP SA granted Kredobank SA fifth subordinated loan in the amount of USD 6 million for the period of 8 years. The subordinated loan was registered on the 5 of November 2008.

#### ***Credit lines***

In order to stabilize the current operations of Kredobank SA and maintaining the N2 capital adequacy ratio at the level required by the National Bank of Ukraine, Kredobank SA has been granted a revolving line of credit in the amount of USD 90 million, on 28 November 2008. The line will finance the current operations of Kredobank SA with an aim of maintaining its structural liquidity and reducing the long-term liquidity gap.

### ***Ongoing cooperation between PKO BP SA and representatives of the National Bank of Ukraine.***

The Management Board of PKO BP SA has intensified cooperation with the National Bank of Ukraine and the Ukrainian government during unofficial visits in Kiev. In the period from June to December 2008, four of such visits took place (with involvement of President or Vice-President of the Management Board of PKO BP SA).

The above-mentioned visits evolved around discussions on economic and financial situation of Kredobank SA but also served the purpose of improving the image of Kredobank SA as the subsidiary of a stable and creditworthy shareholder – PKO BP SA.

The Board of PKO BP SA has also took means to inform the relevant government agencies of Poland about problems and impediments that PKO BP SA faces while investing in Ukraine.

### ***Assessing the intrinsic value of the loan portfolio of KREDOBANK SA***

On two occasions (July and November 2008), the Board of PKO BP SA had the auditor of Kredobank SA – PricewaterhouseCoopers Sp. z o.o. carry out an assessment of the quality of the loan portfolio of Kredobank SA. The result of this assessment and the deteriorating economic situation of Ukraine (depreciation of hrywna) have been taken led to a decision on capital injection made in order to stabilize the Kredobank SA's operations for the year 2009.

### ***Intensifying supervision***

In addition, the Board of PKO BP SA monitored activities undertaken to employing the know-how of PKO BP SA with the use of introducing to Kredobank SA of procedures characteristic of PKO BP SA. The update of the existing procedures has been introduced.

It should be noted that the Board of PKO BP SA continues the policy of intensification of supervisory of Kredobank SA with the purpose of ensuring the stable functioning of the Bank in the environment of the financial crisis.

In addition, numerous training sessions for employees of Kredobank SA have been carried out – both in the Head office of PKO BP SA and in the location of Kredobank SA – by employees of PKO BP SA.

PKO BP SA and other entities within the PKO BP Group provided an IT support for Kredobank SA. Inteligo Financial Services SA helped in improving e-banking services offered by Kredobank SA.



### **Significant events of Kredobank SA after the balance date**

On 21 January 2009, The Supervisory Board of Kredobank SA approved:

- the financial plan of Kredobank SA for 2009;
- the Articles of the Board and the Code of Practice of Kredobank SA

On 29 January 2009, the Extraordinary Meeting of Shareholders of Kredobank SA, revived on 23 February 2009, decided upon an increase of share capital within the XIX series share issue up to the amount of USD 133 million. The share subscription will begin on 9 April 2009 and finalize on 23 April 2009.

The meeting of General Shareholders on the matter of the above-mentioned share issue and approval of financial statements of Kredobank SA for 2008 is planned to take place on 24 April 2009.

On 16 February 2009, the Agreement with the National Bank of Ukraine has been signed. The Agreement presents a plan of improving Kredobank SA's ratios, taking into account the planned capital injection of Kredobank SA BP SA within the XIX series share issue and assessment of the quality of credit portfolio as at the end of 2008 by PricewaterhouseCoopers Sp. z o.o.

On 27 February 2009 the Supervisory Board of Kredobank SA approved the new organization structure of the Kredobank SA's head office.

On 11 March 2009 Kredobank SA issued to the National Bank of Ukraine an application for permission of early repayment of subordinated loans at the total value of USD 38 mln (according to the PKO BP SA Management Board resolution dated 16 February 2008 concerning the permission to obtain the Kredobank SA shares and repayment of the subordinated loans by Kredobank SA) The NBU has not taken the decision yet.

PricewaterhouseCoopers Sp. z o.o. has carried out the diagnostic audit of Kredobank SA (following the PKO BP SA Management Board Resolution dated on 21 November 2008).

In the first quarter of 2009 many meetings of members of PKO BP SA Management Board with the representative of the Ukrainian NBU and Ukrainian Government took place:

- 15-16 January 2009 – participation of the member of PKO BP SA Management Board together with the Ukrainian NBU and Ministry of Finance representatives at the Polish – Ukrainian economic summit,
- 4-6 February 2009 – meeting of the member of PKO BP SA Management Board with the representatives of NBU covering the early repayment of subordinated loans and the liquidity of Kredobank SA issues,
- 26-27 February 2009 – participation of the PKO BP SA and Management Board of Kredobank SA representatives together with the representatives of Ukrainian Government at the III Ukraine – Europe Forum and Bank press conference (participation of M. Chyczewski, Junior Secretary of Ministry of Treasury),
- 26–27 March 2009 – meeting of the member of PKO BP SA Management Board and NBU representatives concerning the results of the diagnostic audit.



## 5.5 Other subordinated entities<sup>6</sup>

| SUBSIDIARY  | SCOPE OF ACTIVITIES  | ACTIVITIES OF OTHER GROUP COMPANIES   |
|---|--|---|
| CENTRUM HAFFNERA Sp. z o.o.                       | CENTRUM HAFFNERA Sp. z o.o., together with its subsidiaries, carries out an investment project relating to re-vitalization of Sopot's tourist centre.                | 1. The value of equity of THE CENTRUM HAFFNERA Sp. z o.o. Group (CENTRUM HAFFNERA Sp. z o.o. and its subsidiaries) at the end of 2008 amounted to PLN 92 816 thousand.<br>2. The Group closed the year 2008 with a net loss of PLN 92 thousand. |
| Centrum Obsługi Biznesu Sp. z o.o.                | The Company's activity is construction of offices and hotel complex in Poznań. In January 2007 the Company delivered for use the Sheraton Poznań Hotel.              | 1. The value of company's equity at the end of 2008 amounted to PLN 31 150 thousand.<br>2. The company closed the year 2008 with a net profit of PLN 2 758 thousand.  |
| Bank Pocztowy SA                                  | Banking activities   | 1. The value of company's equity at the end of 2008 amounted to PLN 260 581 thousand.<br>2. The company closed the year 2008 with a net profit of PLN 27 014 thousand.  |
| Kolej Gondolowa Jaworzyna Krynicka SA             | Set up mainly for the purpose of construction and operation of cable railway from Krynica to Jaworzyna Krynicka and for carrying people on ski lifts.                | 1. The value of company's equity at the end of 2008 amounted to PLN 36 781 thousand.<br>2. The company closed the year 2008 with a net profit of PLN 3 714 thousand.  |
| Poznański Fundusz Poręczeń Kredytowych Sp. z o.o. | Granting of suretyships and guarantees to secure the repayment of loans and advances granted by financial institutions to small and medium-sized enterprises (SMEs). | 1. The value of company's equity at the end of 2008 amounted to PLN 14 837 thousand.<br>2. The company closed the year 2008 with a net profit of PLN 10 017 thousand.   |
| Agencja Inwestycyjna CORP SA                      | Management of business premises in Warsaw.   | 1. The value of company's equity at the end of 2008 amounted to PLN 1 257 thousand.<br>2. The company closed the year 2008 with a net profit of PLN 451 thousand.   |

## 5.6 International co-operation

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

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

### Co-operation with other foreign institutions

In 2008 PKO BP SA:

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

In 2008, Bankowy Fundusz Leasingowy SA within the granted funds in amount of PLN 56.9 million within a loan received from the European Investment Bank, was financing development of small and medium enterprises.

Kredobank SA offers a vast spectrum of services related to international undertakings. It cooperates within international settlements with financial institutions in 16 countries. It has 46 *nostro* accounts and 62 *loro* accounts.

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

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

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

<sup>6</sup> The financial data of PKO BP SA other subordinated entities are presented in accordance with Polish Accounting Standards.



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

### Sponsorship activities

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

Table 22. Structure of the main sponsorship areas of PKO BP SA (percentage)

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

Table 23. Sponsorship activities by amount (PLN)

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

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

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

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

The sponsorship and charity activities are regulated in integral regulations:

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

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

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

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



## Charity activities

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

Table 24. Main areas of charity activities

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

Table 25. Sponsorship activities by amount (PLN)

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

A spectacular event in the area of protection of culture and national heritage was the purchase of letters from the field post office, which operated during the Warsaw Uprising, by the Museum of the Warsaw Uprising. Another event also related to the war period was the erection of the monument commemorating the Uprising in the Warsaw Ghetto.

The renovation of works of art of the Raczyński Library in Poznań was also provided with additional finance.

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

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

In 2008, the promotional activities of the remaining Group entities concentrated mainly on:

- providing advertising support in product sales, especially for new products and services as well as building positive image of the company (Kredobank SA),
- promotion of real estate developments of particular Group entities and sponsorships of Grand Prix Formuła Windsurfing in Sopot and International Woman Beach Volleyball Tour „FIVB Satellite Pomeranka Cup 2008” (PKO Inwestycje Sp. z o.o. and its subsidiaries),
- strengthening the position of PKO Towarzystwo Funduszy Inwestycyjnych SA on the investment fund market, among other things, through organizing: investment seminars with the analyst of Credit Suisse Asset Management, an edition of the “School of Exchange”, a conference “Asset Management Forum” and advertising and information campaigns relating to funds managed by PKO TFI SA,
- actions supporting the image and promoting the services of Bankowy Fundusz Leasingowy SA, including engaging in advertising campaigns in nationwide economic dailies and in specialist magazines, and participation in fairs MASZBUD and TRANSEXPO in Kielce,
- promotional actions of Centrum Elektronicznych Usług Płatniczych eService SA organized jointly with VISA and MasterCard ,
- information, promotion and support of sales of products and services offered by PTE BANKOWY SA and Inteligo Financial Services SA, including assuming patronage over the 10-year Congress of e-Banking in Poland organized by the Bankier.pl portal.

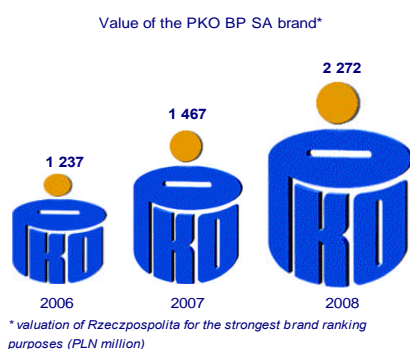
Moreover, **Kredobank SA** together with operations on the financial market, supports cultural and artistic projects and participates in solving current social problems. Priorities are: helping children and supporting art, culture and sports in the Ukraine.



### Prizes and awards granted to entities of the Group

In 2008 PKO BP SA and other entities of the Group and have been granted numerous prizes and awards, including:

1. "Business - Friendly Bank" – 10 branches of PKO BP SA were the finalists in the 9th contest organized by the Polish Commercial Chamber, Polish-American Foundation for Counseling Small and Medium Business, and the Warsaw Institute of Banking,
2. FINANCIAL ORDER for 2008 granted by the Institute of Business Analyses and the editors of the "Home & Market" monthly for PKO BP SA, for the SUPERKONTO account,
3. Dom Maklerski PKO BP SA was granted two awards by the Warsaw Stock Exchange: for the most active market maker on the Main Market of the Warsaw Stock Exchange in 2007, for the most active market maker on the NewConnect Market in 2007,
4. Leopards – awards granted by bankers for the most admired creation of the bank brand image – PKO BP SA ranked 3rd in the retail banking category,
5. "European Medal" for the iPKO Biznes product offer. This was already the 16th edition of the undertaking organized by the Office of the Committee for European Integration and Business Centre Club,
6. The Bank received the "Golden Statuette of the Most Trusted Brand" in the category of "Bank" in the biggest European consumer survey 'The Most Trusted Brands 2008' conducted by the "Reader's Digest",
7. 1st place, in the ranking of the 50 biggest Polish banks, organized by the "Bank" magazine, for the best financial results,
8. "Brand of the best reputation 2008" received in the "Finance" category, granted by the Independent Polish Brands Reputation Ranking,
9. Award of the "Dlaczego" magazine and the student portal www.korba.pl for the products and brands most liked by students - PKO BP SA won in two categories – "student bank" and "student employers",
10. 1st place in the "PremiumBrand" ranking, in the "finance" category. This is a promotional project aimed at determining a list of the most valued brands operating on the Polish market. The ranking is developed on the basis of investigations carried out by TNS OBOP,
11. For the fourth time the PKO Visa Infinite card has won the prestigious credit cards ranking organized by the Forbes magazine,
12. PKO BP SA received a laureate title of the Polish Certification Programme 'Client's Friendly Company' (4th edition), indicating joining the Top 20 companies and institutions deserving such a title and special promotional logo,
13. Once again PKO BP SA won the ranking for the strongest brand in the financial sector, organized by Rzeczpospolita. This position has been held already for three years. In category of the most valuable brands in Poland PKO BP SA is ranked second. The valuation of PKO BP SA brand was accounted for PLN 2.3 billion. It means that the value of the brand has increased by 55% (y/y),



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



14. "Golden Portfolio 2007" for PKO Towarzystwo Funduszy Inwestycyjnych SA – award granted by the editors of the newspaper Parkiet to the fund manager of PKO/CREDIT SUISSE Akcji Małych i Średnich Spółek for the best investment results in the SME category,
15. EU STANDARD logo for Centrum Elektronicznych Usług Płatniczych eService SA - award granted by the Media Partner Group (editors of Przegląd Gospodarczy) for offering products and services at the highest European level,
16. The title of "Business Gazelle" awarded to Centrum Elektronicznych Usług Płatniczych eService SA in the ranking organized by Puls Biznesu daily,
17. 1st place in the electronic banking category for Inteligo Financial Services SA in the ranking of the Home&Market magazine, in the category Best Business Partner in 2008,
18. Donor of the Year for Inteligo Financial Services SA and PKO BP SA in the category "cooperation of the company with a non-governmental organization" – award granted by Akademia Rozwoju Filantropii in Poland for supporting the programme for the Polish Artificial Heart,
19. 4th place for Kredobank SA in the ranking "informational transparency of 30 key Ukrainian banks in 2008" organized by Standard & Poor's,
20. "Golden symbol" and award of the "Producer of best domestic products 2008" for Kredobank SA in the category "banking services" due to winning the competition-exhibition "Best domestic product of 2008",
21. Distinction for Kredobank SA in the category "most active bank financing small and medium enterprises" under the EBRD programme, relating to financial support for trade,
22. Distinction for Kredobank SA for supporting small and medium business through Centrum Wsparcia Inwestycji i Rozwoju Małego i Średniego Biznesu,



## 6. INTERNAL ENVIRONMENT

### 6.1 Principles of risk management

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

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

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

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

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

Due to the 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.

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

#### 6.1.1 Credit risk

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

PKO BP SA and the PKO BP SA Group entities apply the following principles of credit risk management:

- each loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk relating to potential and concluded loan transactions is measured on a cyclical basis, taking into consideration changes in external conditions and in the financial standing of the borrowers,
- credit risk assessment of exposures which are significant due to their risk levels is subject to additional verification by credit risk assessment teams, which are independent of the business teams,
- terms of loan contracts that are offered to a client depend on the credit risk generated by the contract,



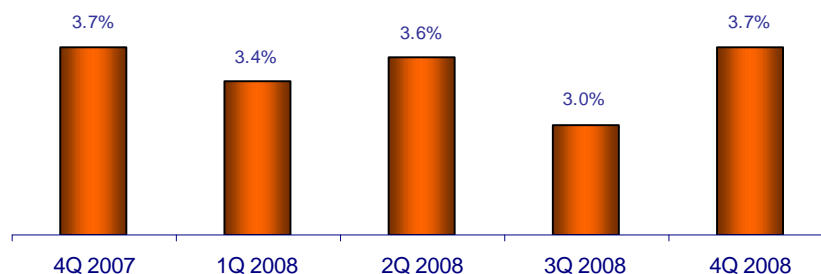
- loan granting decisions are made only by authorized persons, within their authority,
- credit risk is diversified by geographical location, by industry, by product and by clients,
- expected credit risk is mitigated by setting appropriate credit margins and appropriate allowances for credit losses.

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

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

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

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



In the 4th quarter of 2008, non-performing loans of the Group increased by PLN 910 million (+23.3%) compared with the 3rd quarter of 2008, including growth in PKO BP SA (+PLN 933 million, i.e. 28.5%), as well as decline in non-performing loans in BFL SA (-PLN 22 million, i.e. -6,2%). In Kredobank SA they remained at the same level as in the previous quarter.

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

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

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

BFL SA and Kredobank SA measure credit risk regularly, and the results of such measurements are submitted to PKO BP SA.



## 6.1.2 Market risk

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

### Interest rate risk

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

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

At the end of 2008 and at the end of 2007, the exposure of the PKO BP SA Group to the interest rate risk mainly comprised of the exposure of PKO BP SA. Exposure of the PKO BP SA Group to interest rate risk was within accepted limits.

Table 26. VaR of the Bank and stress testing analysis of the Group's exposure to the interest rate risk (PLN thousand)

| Name of sensitivity measure                               | 31.12.2008 | 31.12.2007 |
|---|------------|------------|
| VaR for a 10-day time horizon*                            | 72 337     | 36 300**   |
| Parallel move of interest rate curves by +200 base points | 589 954    | 155 877    |

\* Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk (BFL and Kredobank SA) as well as a the specific nature of the market in which they operate, the Bank does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. Kredobank SA uses the 10-day interest rate VaR for the main currencies, which amounted to PLN 17 788 thousands as of 31 December 2008 and PLN 3 459 thousands as of 31 December 2007, respectively.

\*\* VaR calculated as at 31.12.2007 reflects the changes in the VaR methodology introduced in 2008. VaR calculated according to the methodology used on 31.12.2007 amounted to PLN 10 521 thousand.

As at 31 December 2008, the interest rate VaR for the a 10-day time horizon (10-day VaR) accounted for approximately 0.60% of the value of the Bank's own funds<sup>7</sup>. As at 31 December 2007, VaR for the Bank accounted for approximately 0.33% of the Bank's own funds. The interest rate risk was generated mainly by the risk of a mismatch between the repricing dates of assets and liabilities and basis risk.

### Currency risk

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

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

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

Table 27. VaR of the Bank and stress-testing of the Group financial assets exposed to currency risk (cumulatively, PLN thousand)

| Name of sensitivity measure    | 31.12.2008 | 31.12.2007 |
|--------------------------------|------------|------------|
| VaR for a 10-day time horizon* | 11 297**   | 1 646      |
| Change of PLN +15%***          | 13 222     | 10 679     |

\* Due to the nature of the activities carried out by the other Group entities generating significant currency risk (BFL and Kredobank SA) as well as a the specific nature of the market in which they operate, the Bank does not calculate consolidated VaR. These co mpanies apply their own risk measures in the currency risk management. Kredobank SA uses the 10-day interest rate VaR which amounted to PLN 809 thousand as of 31.12.2008 and PLN 183 thousand as of 31.12.2007.

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

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

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

<sup>7</sup> Own funds calculated in accordance with regulations governing calculation of the capital adequacy ratio.



Table 28. The Group's currency positions (PLN thousand)

| Currency           | Currency position as at 31.12.2008 | Currency position as at 31.12.2007 |
|--------------------|------------------------------------|------------------------------------|
| USD                | (128 288)                          | (46 614)                           |
| EUR                | 17 728                             | (29 759)                           |
| CHF                | (14 865)                           | 38 944                             |
| GBP                | (1 459)                            | (3 166)                            |
| Other (global net) | 38 661                             | 18 494                             |

### Liquidity risk

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

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

To ensure an adequate liquidity level, the PKO BP SA and the other PKO BP SA entities accepted limits and thresholds for liquidity risk. The limits and thresholds were set for both current liquidity measures and medium and long-term liquidity measures.

Table 29. Liquidity reserve of PKO BP SA (PLN million)

|                                  | 31.12.2008 | 31.12.2007 |
|----------------------------------|------------|------------|
| Liquidity reserve up to 1 month* | 6 666      | 9 248      |

\*Liquidity reserve equals the gap between the most liquid assets and expected and potential liabilities which mature in a given period of time. Due to differences in methodologies in measuring liquidity risk in particular Group companies, the Bank did not consolidate the particular liquidity provisions.

On 15 December 2008 the Bank introduced new deposit products. As at 10 January 2009 liquidity reserve to 1 month amounted to PLN 8 390 million.

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

#### 6.1.3 Operational risk

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

Operational risk management is performed through systemic solutions as well as regular ongoing management of the risk. Systemic operational risk management is centralized at the PKO BP SA's head office level. The ongoing operational risk management is conducted by every organizational unit of the Bank.

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

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

The parent company – PKO BP SA has a decisive impact on operational risk profile. However in other PKO BP SA Group entities, operational risk identification, assessment, monitoring and reporting



solutions has been implemented. These solutions are coherent with PKO BP SA principles of operational risk management, considering the specific nature and scale of particular entity.

In the second half of 2008 the PKO BP SA Group entities commenced work in the area of implementation of key operational risk indicators.

#### **6.1.4 Compliance risk**

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

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

Compliance risk management involves in particular:

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

In the second half of 2008 in all of the Group entities principles of compliance risk management were implemented, consistent with principles being in force at the Bank.

#### **6.1.5 Capital adequacy**

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

In 2008, the PKO BP SA Group implemented Basel II requirements in 3 areas:

- information systems, internal processes and internal regulations were modified to meet the needs of calculating the capital requirements to cover particular categories of risks (the so-called Pillar I);
- the process for estimating and maintaining internal capital was implemented (the so-called Pillar II);
- the scope of disclosures on capital adequacy was adjusted to meet regulatory requirements (the so-called Pillar III).

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

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

The main measures of capital adequacy are:

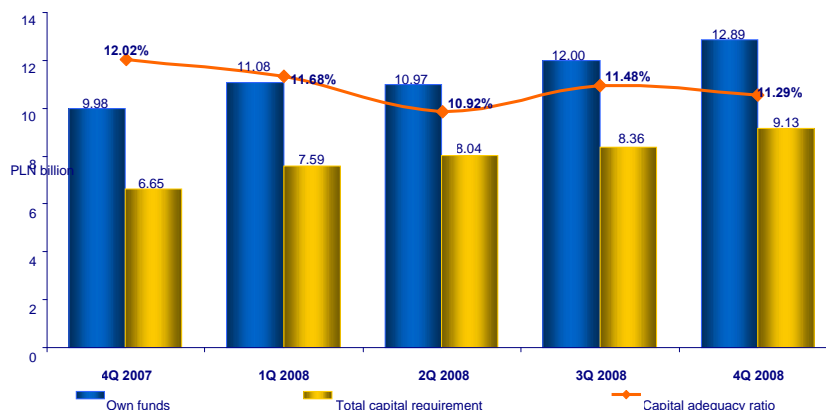
- the capital adequacy ratio whose minimum level in accordance with the Banking Act is 8%;



- the ratio of own funds to internal capital whose acceptable minimum level in accordance with the Banking Act is 1.0.

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

Chart 2. Capital adequacy of PKO BP SA



Compared with 31 December 2007, the PKO BP SA Group's capital adequacy level dropped by 0.73 pp., which was mainly due to high dynamics in the growth of the loan portfolio and the negative effect of implementing Basel II on the capital requirement level.

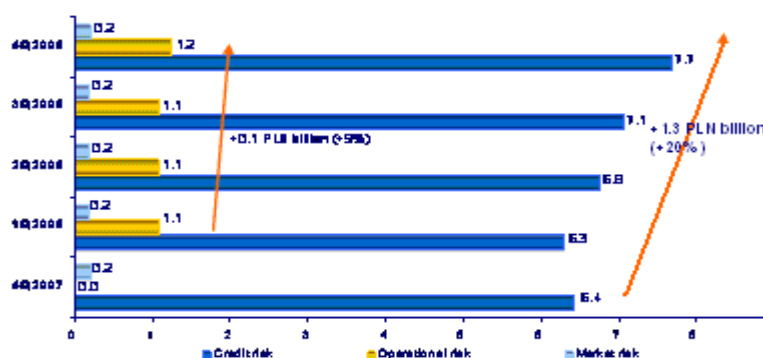
In the first half of 2008, the value of own funds of the PKO BP SA Group increased by PLN 2.9 billion, which was mainly due to contribution of approximately 60% of the net profit for 2007 and 100% of the net profit for the first half of 2008.

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

An increase in the capital requirement in respect of credit risk resulted from a significant increase in the volume of loan portfolio (32.3%) in 2008. Except for increase in sales of loans, growth of loan portfolio volume was determined by foreign exchange rates increase in the second half of 2008. An increase in the capital requirement for the PKO BP SA Group for operational risk (using the basic indicator approach) was due to an increase of result on banking activities in 2008.

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

Chart 3. Capital requirements of PKO BP SA Group





## 6.2 Bank's Authorities during the reporting period

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

Table 30. The Management Board of the Bank in the reporting period

| 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 Petro Bank, where he - as a Vice-President of the Board - was among others responsible for credit risk and the network of branches. In the years 1998 - 2004, he was a member of the Monetary Policy Board, and in the period from March 2004 to February 2008 he was the First Deputy President of the National Bank of Poland. In the years 2006-2007 he represented NBP in the Financial Supervision Authority and Bank Supervision Authority. In 1983, he graduated from the faculty of economics at University of Łódź, where in 1989 he also was granted the title of doctor of economic sciences. In 1989, he completed a scholarship at the Oslo University and in 1990 he graduated from a one-year course at the Windsor University in Canada. He participated in many national and foreign research programmes in scope of monetary policy and banking system.</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 BPH SA as the Director of the Treasury Area - Treasurer. In the years 2002 - 2006 he acted as member of the Supervisory Board of MTS CeTO SA and in the years 2006 - 2008 as Chairman of the Supervisory Board of MTS CeTO SA.</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 BPSA (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 in Łódź; from 1998 to 2000 Director of the Retail Banking Department at PKO BP SA; from 2000 to 2003 he worked for BRE BANK SA as Director of the Commercial Retail Management Department and Director of the Operational Retail Support Department; from 2002 to 2006 he worked at the Settlement and Information Centre CERi sp. z o.o., as Member of the Management Board, Managing Director and subsequently President of the Management Board and CEO. Between November 2006 and June 2008 he served as Vice Chairman of the Management Board of Nordea Bank Polska SA in charge of Operations, Logistics and Security.</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>  |



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

Table 31. The Supervisory Board of the Bank in the reporting period

| Supervisory Board of PKO BP SA  | Competences   |
|---|---|
|    | <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 SGPS (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 BPSA. Between 1994 and 1995 she was employed at the post of banking advisor at the Investment Banking Department at Polski Bank Inwestycyjny SA. At the end of 1995 she joined the Ministry of State Treasury, where she worked as advisor at the Department of National Investment Funds and Mass Privatisation Programmes and as Director of the Financial Institutions Department. She also has a wealth of experience in Supervisory Boards of commercial partnerships. Currently she serves as Chairwoman of the Supervisory Board of the Polish Reinsurance Company in Warsaw.</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 Wierzbza - 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 46 of Notes to the Consolidated Financial Statements.

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

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

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

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

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

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

Table 32 presents Bank's shares held by members of Management and Supervisory Board as at 31 December 2008. The nominal value is PLN 1 per share.

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



Table 32. Shares held by Members of Management or Supervisory Board of PKO BP SA as at 31 December 2008

| No.                                      | Name  | Number of shares as at 31.12.2007 | Purchase | Disposal | Number of shares as at 31.12.2008 |
|--|---|-----------------------------------|----------|----------|-----------------------------------|
| <b>I. Management Board 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 Board of the Bank</b> |   |                                   |          |          |                                   |
| 1.                                       | Marzena Piszczek, Chairman of the Bank's Supervisory Board            | x                                 | x        | x        | 0                                 |
| 2.                                       | Eligiusz Jan Krześniak, Vice-Chairman of the Bank's Supervisory Board | x                                 | x        | x        | 0                                 |
| 3.                                       | Jan Bossak, member of the Bank's Supervisory Board                    | x                                 | x        | x        | 0                                 |
| 4.                                       | Jerzy Osiatyński, member of the Bank's Supervisory Board              | x                                 | x        | x        | 0                                 |
| 5.                                       | Urszula Pałaszek*, member of the Bank's Supervisory Board             | 0                                 | 0        | 0        | 0                                 |
| 6.                                       | Roman Sobiecki, member of the Bank's Supervisory Board                | x                                 | x        | x        | 0                                 |
| 7.                                       | Ryszard Wierzbą, member of the Bank's Supervisory Board               | x                                 | x        | x        | 0                                 |

\* Acting member of the Supervisory Boards as at 31 December 2007.

### 6.3 Human resources

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

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

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

- 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 centers, where individual or team, measurable targets can be defined or where there is a strong causal link between activities undertaken by individual employees and the level of achievement of the economic and financial results of PKO BP SA.
- III Pillar**, the so-called Support Bonus system, in the form of bonus. This is a typical "participatory" solution, whereby award is granted for the achievement of targets by a person managing a given group of employees (a directors' contribution to the completion of tasks) and an organizational unit. This pillar applies to those employee groups/position where it is more difficult, or even impossible, to set additional, measurable goals and tasks for an individual. Given the nature of their jobs, such employees have an indirect, but significant impact on the degree of completion of the tasks assigned to their superiors and the organization as such, and thus participate in the results achieved by PKO BP SA as a whole.



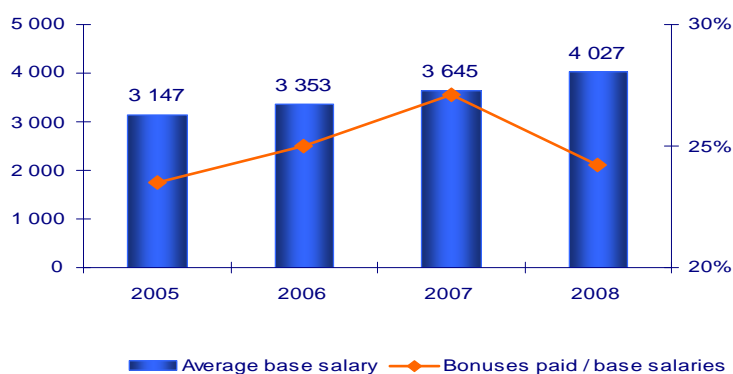
### 6.3.2 Remuneration policy

Remuneration policies for the Bank's employees are specified in the Collective Labour Agreement (CLA) of 28 March 1994, as amended by 6 additional protocols signed to date. In 2008, no systemic changes were implemented to the CLA.

In March 2008, salary increases for the Bank's employees were implemented. The overall pool of funds available for increases was 7.7%. The distribution of these funds was partly predetermined. In respect of employees earning up to PLN 1999, the percentage increase in wages and salaries up to 20%, and for employees earning up to PLN 2500 – 15%. For the remaining employees the rise was 5% on an average.

The break-down of the costs of wages and salaries, i.e. the relationship between the bonus (awards for professional achievements and bonuses) and the base remuneration paid, as well as the average remuneration for the years 2005-2008 is presented in the graph below.

Chart 4. Average base salary and bonus paid / base salaries ratio (in PLN)s



### 6.3.3 Benefits for employees

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

- all packages enable employees to have unlimited access to doctors in all areas of specialization and to diagnostic tests ordered by these doctors. Ensuring access to a wide scope of medical services to all employees is an important component of the package of additional benefits provided by PKO BP SA to its employees.
- medical care services are provided by LUX MED Sp. z o.o. which cooperates with various subcontractors to ensure access to these services to the PKO BP SA's employees in all branches country-wide.

Table 33. Benefits granted by Company Social Benefits Fund in 2008

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

\* a home loan

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

### 6.3.4 Number of employees

Due to employment optimization and redundancies planned for 2008, after consultation with the trade unions as regards dismissal for reasons not related to employees, on 30 November 2007 an "Agreement on policies and procedures to be followed when terminating employment contracts with PKO BP SA employees for reasons unrelated with the employee performance" was signed. In 2008, 1 751 employees were dismissed as part of group redundancies.



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

Table 34. Number of employees in PKO BP SA and Group's subsidiaries (in number of full-time equivalents)

| Items                       | As at<br>31.12.2008 | As at<br>31.12.2007 | Change in number<br>of employees |
|-----------------------------|---------------------|---------------------|----------------------------------|
| PKO BP SA                   | 29 196              | 30 659              | -1 463                           |
| Other entities of the Group | 3 615               | 3 747               | -132                             |
| <b>Total</b>                | <b>32 811</b>       | <b>34 406</b>       | <b>-1 595</b>                    |

### 6.3.5 Training policy

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

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

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

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

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

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

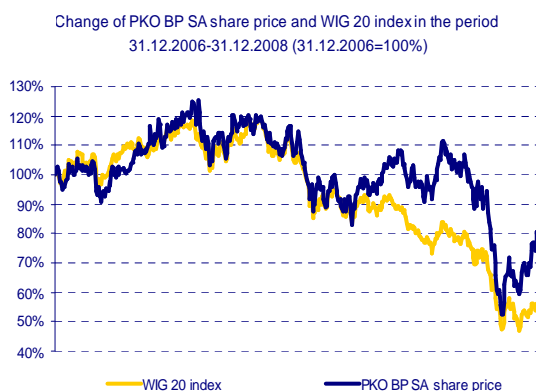
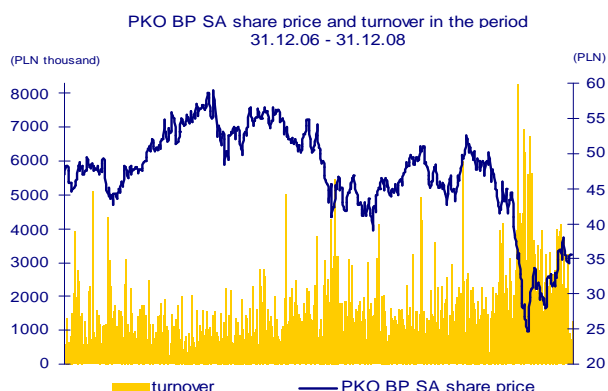
- 75% of the participants took part in internal training – conducted by lecturers, employees of the Bank,
- almost 8% of all participants are representatives of the Bank's management.



## 7. INVESTOR RELATIONS

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

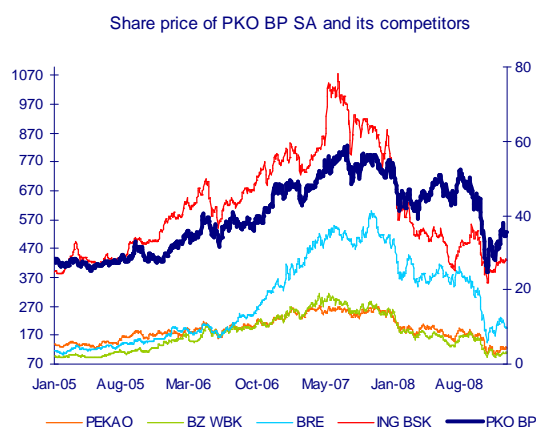
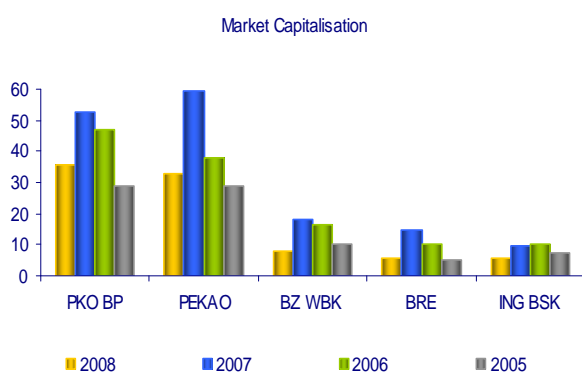
#### Share price of PKO BP SA traded on the Warsaw Stock Exchange



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

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

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



### 7.2 Co-operation with rating agencies

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

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



In 2008, Moody's Investors Service:

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

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

Table 35. Ratings and co-operation with rating agencies in 2008

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

In January 2009 international rating agency Standard & Poor's confirmed rating for Kredobank SA, assigned in the 2nd half of 2008:

- long-term credit rating on the international scale – „B”,
- forecast – „Negative”,
- short-term credit rating on the international scale – „B”,
- rating on the Ukrainian scale – "uaBBB".



## 8. COMPLIANCE WITH THE RULES FOR CORPORATE GOVERNANCE

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

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

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

Above-mentioned document is publicly available at the website: [www.corp-gov.gpw.pl](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***

The Bank in 2008 took necessary actions in aim to closely stick to the rules included in a document „Good Practices of Warsaw Stock Exchange Companies”. In it's opinion, the Bank has not violated above-mentioned rules.

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

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

Functional internal control function is exercised on a permanent basis in organizational units and in the Head Office of the Bank in the following manner:

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

Table 36. Shareholding structure of PKO BP SA

| Shareholder        | As at 31.12.2007     |  | As at 31.12.2008     |  | Change in the period<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 the PKO BP SA securities for their holders.

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

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

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

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

 **8.4 The Memorandum of Association and manner of functioning of Annual General Meeting of PKO BP SA** **Principles for amending the Memorandum of Association of PKO BP SA**

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

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

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

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

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

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

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

To be valid, the authorization shall be executed in writing and attached to the minutes of the AGM. The signature on the authorization issued by the shareholder who is a natural person should be authenticated by a notary public. The right to represent the shareholder who is not a natural person should result from a copy



of appropriate register presented at the time of the preparation of the AGM attendance list (filed as original or a copy authenticated by a notary public), or alternatively from a sequence of authorizations. The name of the person/ persons issuing authorizations on behalf of the shareholder who is not a natural person should be included in the current copy of appropriate register of the given shareholder.

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

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

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

Removing from the AGM agenda or desisting, at the request of the shareholders, from further discussing the matter included in the AGM agenda requires that the AGM resolution is adopted by the majority of  $\frac{3}{4}$  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.

#### **8.5 The Supervisory Board and the Management Board of PKO BP SA during the reporting period**

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

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



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

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

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

**The Supervisory Board of PKO BP SA**

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

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

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

Table 37. The Supervisory Board of the Bank during the reporting period

| No. | Name                    | Function                               | Appointment/dismissal date  |
|-----|-------------------------|--|---|
| 1.  | Marzena Piszczek        | Chairman of the Supervisory Board      | Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Supervisory Board. |
| 2.  | Eliqiusz 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<br>Member 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.<br>Appointed on 26 February 2008 for the current term of the Supervisory Board. |
| 3.  | Tomasz Siemiątkowski     | Member of the Supervisory Board<br>Secretary of the Supervisory Board     | Appointed on 18 April 2006.<br>Since 26 June 2006; he resigned on 26 February 2008.   |
| 4.  | Jerzy Michałowski        | Member of the Supervisory Board   | Appointed on 18 April 2006; he resigned on 26 February 2008.  |
| 5.  | Agnieszka Winnik-Kalemba | Member of the Supervisory Board   | Appointed on 18 April 2006; she resigned on 26 February 2008.   |
| 6.  | Maciej Czapiewski        | Member of the Supervisory Board   | Appointed on 19 March 2007; dismissed on 26 February 2008.  |

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



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

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

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

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

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

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

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

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

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

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 the particular: analysis of the progress of work relating to implementation of strategic initiatives, the realization of which is prerequisite to meeting the objectives defined in the Bank's Strategy, analysis of the results of



implementation of strategic initiatives, proposing supplementary or correcting measures, discussing all contentious issues and doubts resulting from the analysis of the process of implementation of the Bank's Strategy.

### The Management Board of PKO BP SA

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

In 2008, the composition of the Management Board of the Bank was as follows:

Table 38. Management Board during the reporting period

| No. | Name                 | Function   | Appointment date   |
|-----|----------------------|--|--|
| 1.  | Jerzy Pruski         | President of the Management Board                              | 1) On 11 April 2008, the Supervisory Board of PKO BP SA appointed Mr. Jerzy Pruski as the acting President of the Management Board of PKO BP SA, effective as of 20 May 2008, for the joint term of the Board beginning on that date. The Supervisory Board appointed Mr. Pruski as the acting President of the Management Board of PKO BP SA for the period from 20 May 2008 to the date on which the Financial Supervision Authority approves his appointment as the President of the Management Board of PKO BP SA.<br>2) On 17 June 2008 the Financial Supervision Authority approved the appointment of Mr. Jerzy Pruski as the President of the Management Board of PKO BP SA. |
| 2.  | Bartosz Drabikowski  | Vice-President of the Management Board                         | Appointed on 20 May 2008 as Vice-President of the Management Board for the joint term of the Board beginning on that day.  |
| 3.  | Krzysztof Dresler    | Vice-President of the Management Board                         | 1) Appointed on 20 May 2008, effective as of 1 July 2008, as Vice-President of the Management Board for the joint term of the Board beginning on 20 May 2008.<br>2) On 27 October 2008 the Financial Supervision Authority approved the appointment of Mr. Krzysztof Dresler as the Member of the Management Board of PKO BP SA.   |
| 4.  | Mariusz Klimczak     | Vice-President of the Management Board                         | 1) Appointed on 20 May 2008 for the joint term of the Board beginning on that day.<br>2) On 21 August 2008, he resigned from the post of the Vice-President of the Management Board, effective as of 30 September 2008.  |
| 5.  | Tomasz Mironczuk     | Vice-President of the Management Board                         | Appointed on 20 May 2008 for the joint term of the Board beginning on that day.  |
| 6.  | Jarosław Myjak       | Vice-President of the Management Board                         | Appointed on 9 December 2008, effective as of 15 December 2008, as Vice-President of the Management Board for the joint term of the Board beginning on 20 May 2008.  |
| 7.  | Wojciech Papierak    | Vice-President of the Management Board                         | Appointed on 20 May 2008, effective as of 1 July 2008, as Vice-President of the Management Board for the joint term of the Board beginning on 20 May 2008.   |
| 8.  | Mariusz Zarzycki     | Vice-President of the Management Board                         | Appointed on 20 May 2008, effective as of 1 September 2008, as Vice-President of the Management Board for the joint term of the Board beginning on 20 May 2008.  |
| No. | Name                 | Function   | Appointment date   |
| 1.  | Rafał Juszcak        | Member of the Management Board                                 | Appointed on 26 June 2006, effective as of 1 July 2006, as Member of the Management Board for the joint term of the Board beginning on 19 May 2005.  |
|     |                      | Vice-President of the Management Board                         | On 29 September 2006 the Supervisory Board of PKO BP SA appointed Mr. Rafał Juszcak as Vice-President of the Management Board.   |
|     |                      | Vice-President acting as the President of the Management Board | On 2 April 2007 the Supervisory Board of PKO BP SA appointed Mr. Rafał Juszcak, Vice-President of the Management Board, as the acting President of the Management Board of PKO BP SA, effective as of 11 April 2007.   |
|     |                      | President of the Management Board                              | 1) On 20 June 2007 the Supervisory Board of PKO SA appointed Mr. Rafał Juszcak, 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 Juszcak 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 Michalak      | Vice-President of the Management Board                         | Appointed on 20 June 2007, effective as of 1 July 2007, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005.  |
| 7.  | Mariusz Klimczak     | Vice-President of the Management Board                         | Appointed on 20 June 2007, effective as of 15 July 2007, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005.   |
| 8.  | Barenika Duda-Uhryn  | Vice-President of the Management Board                         | Appointed on 20 June 2007, effective as of 10 September 2007, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005.  |



Table 39. Other functions performed by the Bank's Management Board Members during the reporting period

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

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

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

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

- it determines the strategy of PKO BP SA;
- it determines the annual financial plan;
- it passes the organizational regulations and the principles for segregation of duties;
- it establishes and dissolves permanent committees of the Bank and determines their competences;
- it passes the Internal Regulations of the Management Board;



- it determines the internal regulations for managing the special funds set up from the net profit;
- it determines the dates of payment of dividend in periods specified by the General Shareholders' Meeting;
- it appoints proxies;
- it determines bank products and other banking and financial services;
- it determines the principles for participation of PKO BP SA in other companies and organizations;
- it determines the principles of operation of the internal controls and annual control plans;
- it establishes, transforms and liquidates organizational entities of PKO BP SA in Poland and abroad.

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

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

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

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

- taking loan decisions in area of own transactions, changes of the transaction conditions, decisions and changes of internal client's limits and management of non-performing loans if such loan decision are in the competence of the Committee;
- issuing recommendations to the Management Board of PKO BP SA on issues relating to taking decisions on credit transactions that are above the Credit Committee competences;
- issuing recommendations to the Management Board of PKO BP SA on issues relating to capital exposure in the Group entities, list of industries which are covered by industry limits or report of the highest exposures of PKO BP SA.

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

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

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

- accepting the assumptions and requirements of the ZSI Project;
- supervising the strategic development of the ZSI Project;
- approving priorities of the ZSI Project;
- accepting the budget of the ZSI Project and potential changes to the budget;



- resolving potential disputes arising during the implementation of the new versions of the system requiring its participation.

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

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

Expenses Committee of PKO BP SA whose tasks include specifically:

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



## 9. OTHER INFORMATION

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

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

The largest commitments related to the following entities:

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

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

The details of related party transactions are presented in Note 45 to the financial statements.

### **Reacquisition of own shares**

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

### **Information on dividend paid or declared**

On 20 May 2008 the Annual General Meeting decided to a distribution of dividends for the year 2007 in the amount of PLN 1.09 per share. The list of the shareholders entitled to receive the dividend was drawn up as at 18 August 2008, and the dividends was paid out on 4 September 2008.

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

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

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

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

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

In 2008, the remaining PKO BP SA Group companies did not conclude significant agreements. Neither did the companies conclude any significant agreements with the Central Bank or with the regulators.

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

### **Guarantees and financial commitments**

As at 31 December 2008, the total value of granted guarantees and financial commitments amounted to PLN 30 444.1 million, with financial commitments making up 85.9% of this amount. The total value of granted guarantees and financial commitments increased by 7.8% (y/y), while the value of guarantees alone increased by 10.7% (y/y).



Table 40. Off-balance sheet items (PLN million)

| OFF-BALANCE SHEET ITEMS OF<br>THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP |                     |                     |                  |                |
|---|---------------------|---------------------|------------------|----------------|
| Items   | As at<br>31.12.2008 | As at<br>31.12.2007 | Change<br>in PLN | Change<br>in % |
| <b>Financial liabilities granted</b>  | <b>26 141.4</b>     | <b>24 346.7</b>     | <b>1 794.8</b>   | <b>7.4%</b>    |
| to financial entities   | 635.3               | 564.6               | 70.8             | 12.5%          |
| to non-financial entities   | 25 084.4            | 23 551.7            | 1 532.7          | 6.5%           |
| to public entities  | 421.7               | 230.4               | 191.3            | 83.0%          |
| of which: irrevocable   | 7 712.8             | 8 860.4             | (1 147.5)        | -13.0%         |
| <b>Guarantees liabilities issued</b>  | <b>4 302.7</b>      | <b>3 885.3</b>      | <b>417.4</b>     | <b>10.7%</b>   |
| to financial entities   | 4.9                 | 8.5                 | (3.6)            | -42.8%         |
| to non-financial entities   | 4 093.8             | 3 614.3             | 479.5            | 13.3%          |
| to public entities  | 204.1               | 262.5               | (58.4)           | -22.3%         |
| <b>Total</b>  | <b>30 444.1</b>     | <b>28 231.9</b>     | <b>2 212.2</b>   | <b>7.8%</b>    |

### Loans taken and loan, guarantee and suretyship agreements

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

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

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

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

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

In 2008, PKO BP SA issued:

- to Centrum Elektronicznych Usług Płatniczych eService SA – a guarantee for up to maximum PLN 240 thousand to the benefit of *Garrick Investments Sp. z o.o.* as a pledge for liabilities arising from a rental agreement; the guarantee is issued for the period ending 30 September 2011,
- to Bankowy Fundusz Leasingowy SA – a guarantee for up to maximum PLN 342 thousand to the benefit of *Salzburg Center Development SA* as a pledge for liabilities arising from a rental agreement; the guarantee is issued for the period ending 18 June 2013,
- to Centrum Elektronicznych Usług Płatniczych eService SA – a guarantee for up to maximum PLN 375 thousand to the benefit of *Polska 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 Group

During the year 2008, PKO BP SA issued 12 970 banking enforceable titles for a total amount of PLN 311 722 245.



In the case of Kredobank SA, the Ukrainian law does not allow to issue enforceable titles as defined in the Polish Banking Law.

### **Debt write-offs**

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

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

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

*Table 41. Debt write-offs in 2008 (PLN)*

|                   | reduced<br>principal amount | reduced<br>capitalized 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>         |

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

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

### **Factors, which will influence financial results of the PKO BP SA Group in the future**

Economic processes, which will take place in Poland and global economy and the reactions of financial markets, will influence results of PKO BP SA. The interest rate policy of the Monetary Policy Council and the biggest central banks, will be important for future results of the Group.

### **Post balance sheet events**

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

### **Other disclosures significant for evaluation of the issuer's human resources, financial situation, financial performance, and any changes therein**

As a result of statutory approvals and the offer for purchase of 99.92% AIG Bank Polska SA shares and 100% AIG Credit SA shares, placed on 28 November 2008 by the Bank – PKO BP SA participates in the negotiation process to buy shares listed above, without exclusive rights. At the moment of shares purchase agreement, purchase will occur after complying with Polish law regulation. Purchase will be financed by



PKO BP SA's own funds. PKO BP SA will publish the information about the purchase of the above mentioned shares in current report, irrespective of the fact whether the transaction will be executed or not.

**Information regarding the contract with the entity authorized to audit financial statements**

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

Total fees payable to Ernst & Young Audit Sp. z o.o. under the contracts concluded by PKO BP SA amounted to PLN 1830.9 thousand for the financial year of 2008 and net PLN 1394.2 for the financial year of 2007, including:

- arising from a contract for an audit of standalone and consolidated financial statements PLN 575.0 thousand and PLN 613.0 thousand respectively,
- arising from assurance services, including reviews of financial statements PLN 0 and PLN 280 thousand respectively,
- arising from tax advisory PLN 0 and PLN 30 thousand respectively,
- arising from other services PLN 1 225.9 thousand and PLN 471.2 thousand.

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

Total fees payable to PricewaterhouseCoopers Sp. z o.o. under the contracts concluded by PKO BP SA amounted to PLN 1254.0 thousand for the financial year of 2008, including:

- arising from a contract for an audit of standalone and consolidated financial statements PLN 342.0 thousand,
- arising from assurance services, including reviews of financial statements PLN 781.4 thousand,
- arising from tax advisory PLN 35.0 thousand,
- arising 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 Group,
2. the yearly Directors' Report presents a true and fair value of the progress and achievements as well as condition of the PKO BP Group, including a description of the basic risks and threats.

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

*The PKO BP Group Directors' Report for the year 2008 consists of 67 pages.*



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President of the Management Board  
Jerzy Pruski

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Vice-President of the Management Board  
Bartosz Drabikowski

-----  
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