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

PKO BANK POLSKI
SPÓŁKA AKCYJNA

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

TABLE OF CONTENTS PAGE

SELECTED FINANCIAL DATA DERIVED FROM THE CONSOLIDATED FINANCIAL STATEMENTS

Selected financial data presented below constitute a part of notes to the consolidated financial statements of PKO Bank Polski SA Group for the year ended 2009.

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	2009	2008	2009	2008
Net interest income	5 051 182	6 127 315	1 163 706	1 734 751
Net fee and commission income	2 583 003	2 411 809	595 080	682 826
Operating profit	2 942 928	3 961 749	678 000	1 121 641
Net profit (including minority interest)	2 311 784	3 139 187	532 595	888 759
Net profit	2 305 538	3 120 674	531 157	883 518
Equity attributable to the parent company	20 428 541	13 951 800	4 972 626	3 343 831
Total equity	20 435 870	13 998 016	4 974 410	3 354 907
Net cash flow from / used in operating activities	(4 860 163)	3 250 104	(1 119 698)	920 162
Net cash flow from / used in investing activities	1 022 670	(3 105 138)	235 606	(879 120)
Net cash flow from / used in financing activities	4 559 643	(1 107 039)	1 050 464	(313 422)
Total net cash flows	722 150	(962 073)	166 371	(272 380)
Earnings per share for the period - basic	2.06	3.12	0.47	0.88
Earnings per share for the period - diluted	2.06	3.12	0.47	0.88
Tier 1 capital	16 254 416	11 265 718	3 956 579	2 700 057
Tier 2 capital	1 481 052	1 528 517	360 511	366 340
Tier 3 capital	129 876	91 048	31 614	21 821

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

- income statement and cash flow statement items – the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month of 2009 and 2008: 1 EUR = 4.3406 PLN and 1 EUR = 3.5321 PLN respectively;
- statement of financial position items – average NBP rate as at balance date 31.12.2009: 1 EUR = 4.1082 PLN; 31.12.2008: 1 EUR = 4.1724 PLN.

(in PLN thousand)

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

	Notes	2009	2008
Continued operations:			
Interest and similar income	4	9 031 330	9 033 781
Interest expense and similar charges	4	(3 980 148)	(2 906 466)
Net interest income		**5 051 182**	**6 127 315**
Fee and commission income	5	3 335 347	3 144 760
Fee and commission expense	5	(752 344)	(732 951)
Net fee and commission income		**2 583 003**	**2 411 809**
Dividend income	6	5 381	21 956
Net income from financial instruments designated at fair value through profit and loss	7	60 872	(162 697)
Losses less gains from investment securities	8	(2 622)	(2 986)
Net foreign exchange gains	9	909 139	701 325
Other operating income	10	584 949	522 425
Other operating expenses	10	(324 066)	(230 727)
Net other operating income and expense		**260 883**	**291 698**
Net impairment allowance	11	(1 681 075)	(1 130 396)
Administrative expenses	12	(4 243 835)	(4 296 275)
Operating profit		**2 942 928**	**3 961 749**
Share of profit (loss) of associates and jointly controlled entities	13	342	15 594
Profit before income tax		**2 943 270**	**3 977 343**
Income tax expense	14	(631 486)	(838 156)
Net profit (including minority interest)		**2 311 784**	**3 139 187**
Net profit attributable to minority shareholders		6 246	18 513
Net profit attributable to the parent company		**2 305 538**	**3 120 674**
Earnings per share:	15		
- basic earnings per share (PLN)		2.06	3.12
- diluted earnings per share (PLN)		2.06	3.12
Weighted average of ordinary shares during the period		1 121 561 644	1 090 000 000
Weighted average (diluted) of ordinary shares during the period		1 121 561 644	1 090 000 000

Discontinued operations:

In years 2008 and 2009 the PKO Bank Polski SA Group did not carry out discontinued operations

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

	2009	2008
Profit for the period	2 311 784	3 139 187
Other comprehensive income	**89 430**	**(288)**
Currency translation differences from foreign operations	(51 321)	(10 117)
Financial assets available for sale (gross)	26 582	11 981
Deferred tax on reassessment of financial instruments available for sale	(5 107)	(2 152)
Cash flow hedge (gross)	147 254	-
Deferred tax on valuation of financial instruments designated as cash flow hedge	(27 978)	-
Total net comprehensive income	**2 401 214**	**3 138 899**
Total net comprehensive income, of which:	**2 401 214**	**3 138 899**
attributable to equity holders of PKO Bank Polski SA	2 394 911	3 120 851
attributable to minority shareholders	6 303	18 048

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

	Notes	31.12.2009	31.12.2008
ASSETS			
Cash and balances with the central bank	17	7 094 350	5 836 892
Amounts due from banks	18	2 023 055	3 363 599
Trading assets	19	2 212 955	1 496 147
Derivative financial instruments	20	2 029 122	3 597 670
Financial assets designated at fair value through profit and loss	22	12 360 690	4 555 544
Loans and advances to customers	23	116 572 585	101 107 891
Investment securities available for sale	24	7 944 317	8 614 913
Securities held to maturity	25	9 894	-
Investments in associates and jointly controlled entities	26	228 692	247 145
Non-current assets held for sale		13 851	-
Inventories	27	653 075	622 410
Intangible assets	28	1 572 577	1 352 778
Tangible fixed assets	29	2 777 694	2 964 659
- including investment properties		322	24 170
Current income tax receivables	14	7 184	6 649
Deferred income tax asset	14	403 218	239 237
Other assets	30	575 426	630 452
TOTAL ASSETS		**156 478 685**	**134 635 986**
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to the central bank	31	6 581	2 816
Amounts due to other banks	32	5 146 048	6 988 603
Derivative financial instruments	20	1 544 370	6 150 337
Amounts due to customers	34	125 072 934	102 939 281
Debt securities in issue	35	289 360	211 573
Subordinated liabilities	36	1 612 178	1 618 755
Other liabilities	37	1 566 623	1 667 776
Current income tax liabilities	14	181 893	472 228
Deferred income tax liability	14	20 534	20 585
Provisions	38	604 294	566 016
TOTAL LIABILITIES		**136 042 815**	**120 637 970**
Equity			
Share capital	39	1 250 000	1 000 000
Other capital	40	16 732 988	9 835 307
Currency translation differences from foreign operations		(108 791)	(57 413)
Retained earnings	40	248 806	53 232
Net profit for the period		2 305 538	3 120 674
Capital and reserves attributable to equity holders of the parent company		**20 428 541**	**13 951 800**
Minority interest		7 329	46 216
TOTAL EQUITY		**20 435 870**	**13 998 016**
TOTAL EQUITY AND LIABILITIES		**156 478 685**	**134 635 986**
Capital adequacy ratio	54	14.66%	11.29%
Book value (thousand PLN)		20 435 870	13 998 016
Number of shares	1	1 250 000 000	1 000 000 000
Book value per share (PLN)		16.35	14.00
Diluted number of shares		1 250 000 000	1 000 000 000
Diluted book value per share (PLN)		16.35	14.00

(in PLN thousand)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the years ended 31 December 2009 and 31 December 2008

For the year ended 31 December 2009	Share capital	Other capital							Currency translation differences from foreign operations	Retained earnings	Net profit for the period	Total equity attributable to equity holders of the parent company	Minority interest	Total equity
		Reserve capital	Other reserves	General banking risk fund	Share in other comprehensive income of a subsidiary	Financial assets available for sale	Cash flow hedge	Total other equity						
As at 1 January 2009	1 000 000	7 274 717	1 523 827	1 070 000	-	(33 237)	-	9 835 307	(57 413)	53 232	3 120 674	13 951 800	46 216	13 998 016
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-	3 120 674	(3 120 674)	-	-	-
Total comprehensive income	-	-	-	-	-	21 475	119 276	140 751	(51 378)	-	2 305 538	2 394 911	6 303	2 401 214
Own shares issue	250 000	4 831 125	-	-	-	-	-	4 831 125	-	-	-	5 081 125	-	5 081 125
Transfer from retained earnings	-	43 840	1 881 260	-	-	-	-	1 925 100	-	(1 925 100)		-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	(1 000 000)	-	(1 000 000)	(32 620)	(1 032 620)
Increase in investment in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(13 840)	(13 840)
Other	-	-	-	-	705	-	-	705	-	-	-	705	1 270	1 975
As at 31 December 2009	1 250 000	12 149 682	3 405 087	1 070 000	705	(11 762)	119 276	16 732 988	(108 791)	248 806	2 305 538	20 428 541	7 329	20 435 870

For the year ended 31 December 2008	Share capital	Other capital							Currency translation differences from foreign operations	Retained earnings	Net profit for the period	Total equity attributable to equity holders of the parent company	Minority interest	Total equity
		Reserve capital	Other reserves	General banking risk fund	Share in other comprehensive income of a subsidiary	Financial assets available for sale	Cash flow hedge	Total other equity						
As at 1 January 2008	1 000 000	5 592 311	1 518 025	1 070 000	-	(43 066)	-	8 137 270	(47 761)	(72 192)	2 903 632	11 920 949	58 066	11 979 015
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-	2 903 632	(2 903 632)	-	-	-
Total comprehensive income	-	-	-	-	-	9 829	-	9 829	(9 652)	-	3 120 674	3 120 851	18 048	3 138 899
Transfer from retained earnings	-	1 682 406	5 802	-	-	-	-	1 688 208	-	(1 688 208)	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	(1 090 000)	-	(1 090 000)	(30 750)	(1 120 750)
Other	-	-	-	-	-	-	-	-	-	-	-	-	852	852
As at 31 December 2008	1 000 000	7 274 717	1 523 827	1 070 000	-	(33 237)	-	9 835 307	(57 413)	53 232	3 120 674	13 951 800	46 216	13 998 016

(in PLN thousand)

CONSOLIDATED CASH FLOW STATEMENT
for the years ended 31 December 2009 and 31 December 2008

	Notes	2009	2008
Net cash flow from operating activities			
Net profit		2 305 538	3 120 674
Adjustments:		(7 165 701)	129 430
Profit/loss of minority shareholders		6 246	18 513
Amortisation and depreciation		469 152	429 904
(Gains) losses on disposals of fixed assets	45	(9 513)	45
Interest and dividends	45	(425 087)	(241 794)
Increase in amounts due from banks	45	804 234	(246 536)
Increase in trading assets and other financial assets designated at fair value through profit and loss		(8 521 954)	3 465 672
Decrease in derivative financial instruments (asset)		1 568 548	(2 040 934)
Increase in loans and advances to customers	45	(14 445 446)	(25 193 015)
Increase in deferred income tax asset and income tax receivables		(164 516)	14 207
Decrease in other assets		10 510	(260 145)
Decrease in amounts due to other banks	45	(1 499 134)	1 976 155
Decrease in derivative financial instruments (liability)		(4 605 967)	4 870 412
Increase in amounts due to customers	45	21 092 519	16 392 289
Increase in debt securities in issue		77 787	32 713
Increase in impairment allowances and provisions	45	(1 014 123)	655 951
Decrease in other liabilities	45	48 021	136 644
Income tax paid		(1 107 813)	(539 539)
Current tax expense		817 478	1 001 835
Other adjustments	45	(266 643)	(342 947)
Net cash from / used in operating activities		**(4 860 163)**	**3 250 104**
Net cash flow from investing activities			
Inflows from investing activities		**11 326 509**	**5 790 418**
Proceeds from sale of shares in associates		-	9 425
Proceeds from sale of investment securities		11 298 566	5 738 733
Proceeds from sale of intangible assets and tangible fixed assets		22 751	20 355
Other investing inflows		5 192	21 905
Outflows from investing activities		**(10 303 839)**	**(8 895 556)**
Purchase of a subsidiary, net of cash acquired		(117 934)	(93 128)
Purchase of investment securities available for sale		(9 720 036)	(7 905 280)
Purchase of securities held to maturity		(9 642)	-
Purchase of intangible assets and tangible fixed assets		(456 227)	(897 148)
Net cash from / used in investing activities		**1 022 670**	**(3 105 138)**
Net cash flow from financing activities			
Proceeds from debt securities in issue		5 081 125	-
Redemption of debt securities in issue		(106 152)	(111 152)
Dividends paid to the shareholders of the parent company		(1 000 000)	(1 090 000)
Dividends paid to minority shareholders		(32 620)	(30 750)
Long-term borrowings		1 329 527	1 141 846
Repayment of long term loans		(712 237)	(1 016 983)
Net cash generated from financing activities		**4 559 643**	**(1 107 039)**
Net cash inflow/ (outflow)		**722 150**	**(962 073)**
Cash and cash equivalents at the beginning of the period		8 270 243	9 232 316
Cash and cash equivalents at the end of the period	45	**8 992 393**	**8 270 243**
of which restricted	42	8 421	7 966

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as at 31 December 2009

1. General information

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

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

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

On 12 April 2000 Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna was entered in the Register of Companies by the District Court for the capital city of Warsaw, Commercial Court XVI Registration Department. At present, the appropriate Court of Registration is the District Court for the capital city of Warsaw, XIII Economic Department of the National Court Register. The Bank was registered under entry No. KRS 0000026438 and was granted a statistical REGON No. 016298263. The Bank's paid share capital amounts to PLN 1 250 000 thousand.

The Bank's shareholding structure is as follows:

Shareholder	Number of shares	Number of votes %	Nominal value of the share	% Shareholding
As at 31 December 2009				
The State Treasury	512 406 927	40.99	PLN 1	40.99
Bank Gospodarstwa Krajowego	128 102 731	10.25	PLN 1	10.25
Other shareholders	609 490 342	48.76	PLN 1	48.76
Total	**1 250 000 000**	**100.00**	**---**	**100.00**
As at 31 December 2008				
The State Treasury	512 435 409	51.24	PLN 1	51.24
Other shareholders	487 564 591	48.76	PLN 1	48.76
Total	**1 000 000 000**	**100.00**	**---**	**100.00**

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

Business activities of the Group

PKO Bank Polski SA is a universal commercial bank offering services to both domestic and foreign retail, corporate and other clients. PKO Bank Polski SA is licensed to hold foreign exchange and currencies and sell/buy them, as well as perform a full range of foreign exchange services; open and hold bank accounts abroad and to deposit foreign exchange in these accounts.

(in PLN thousand)

In addition, the Group conducts activities relating to leasing, factoring, electronic settlements via payment cards, as well as renders other financial services, including services offered by an investment fund company. The scope of activities of each of the Group entities is set out in this note, in the table "Structure of the PKO Bank Polski SA Group'.

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

Structure of the PKO Bank Polski SA Group

The PKO Bank Polski SA Group consists of the following entities:

No.	Entity name	Registered office	Activity	Share capital held by the Group (%) 31.12.2009	Share capital held by the Group (%) 31.12.2008
The PKO Bank Polski SA Group					
		Parent company			
1	**Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna**				
		Direct subsidiaries			
2	Bankowe Towarzystwo Kapitałowe SA	Warsaw	Services, including financial services	100.00	100.00
3	Bankowy Fundusz Leasingowy SA	Łódź	Leasing services	100.00	100.00
4	Centrum Elektronicznych Usług Płatniczych 'eService' SA	Warsaw	Servicing and settlement of card transactions	100.00	100.00
5	Centrum Finansowe Puławska Sp. z o.o.	Warsaw	Management and use of Centrum Finansowe Puławska	100.00	100.00
6	Inteligo Financial Services SA	Warsaw	Technical servicing of Internet banking	100.00	100.00
7	KREDOBANK SA	Lviv, Ukraine	Financial services	99.4948	98.5619
8	PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	Warsaw	Pension fund management	100.00	100.00
9	PKO BP Inwestycje Sp. z o.o.	Warsaw	Real estate development	100.00	100.00
10	PKO Finance AB	Stockholm, Sweden	Financial services	100.00	100.00
11	PKO Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	Investment fund management	100.00	75.00
12	Fort Mokotów Inwestycje Sp. z o.o.	Warsaw	Real estate development	99.9885	-
		Indirect subsidiaries			
	Subsidiaries of PKO Inwestycje Sp. z o.o.				
13	Wilanów Investments Sp. z o.o. [1]	Warsaw	Real estate development	99.975	100.00
14	POMERANKA Sp. z o.o. [1]	Warsaw	Real estate development	99.9975	100.00
15	PKO Inwestycje – Międzyzdroje Sp. z o.o.	Międzyzdroje	Real estate development	100.00	100.00
16	UKRPOLINWESTYCJE Sp. z o.o.	Kiev, Ukraine	Real estate development	55.00	55.00
17	Fort Mokotów Sp. z o.o.	Warsaw	Real estate development	51.00	51.00
18	WISŁOK Inwestycje Sp. z o.o.[3]	Rzeszów	Real estate development	80.00	80.00
19	Baltic Dom 2 Sp. z o.o.	Warsaw	Real estate development	56.00	56.00
	Subsidiaries of Bankowy Fundusz Leasingowy SA				
20	Bankowy Leasing Sp. z o.o. [1]	Łódź	Leasing services	99.9969	100.00
21	BFL Nieruchomości Sp. z o.o. [1]	Łódź	Leasing services	99.9930	100.00
	Subsidiary of Inteligo Financial Services SA				
22	PKO BP Finat Sp. z o.o. [2]	Warsaw	Intermediary financial services	80.3287	80.3298
	Subsidiary of Bankowe Towarzystwo Kapitałowe SA				
23	PKO BP Faktoring SA [1]	Warsaw	Factoring	99.9846	-

1) PKO Bank Polski SA holds 1 share in the entity
2) Other shares of the entity PKO BP Finat Sp. z o.o. are in hold of PKO BP BANKOWY PTE SA (19.6702%) and PKO Bank Polski SA (0.0011%)
3) Information on the disposal is presented in Note 57 "Events after the reporting period'

(in PLN thousand)

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

Jointly controlled entities

No.	Name of Entity	Registered office	Activity	% Share capital 31.12.2009	% Share capital 31.12.2008
Direct jointly controlled entities					
1	CENTRUM HAFFNERA Sp. z o.o.	Sopot	Real estate development	49.43	49.43
2	Centrum Obsługi Biznesu Sp. z o.o.	Poznań	Construction and maintenance of a hotel	41.44	41.44
Indirect jointly controlled entities					
Subsidiaries of CENTRUM HAFFNERA Sp. z o.o. (indirect jointly controlled by PKO Bank Polski SA)					
3	Centrum Majkowskiego Sp. z o.o.	Sopot	Real estate development	100.00	100.00
4	Kamienica Morska Sp. z o.o.	Sopot	Real estate development	100.00	100.00
5	Sopot Zdrój Sp. z o.o.	Sopot	Real estate development	100.00	100.00
6	Promenada Sopocka Sp. z o.o.	Sopot	Real estate development	100.00	100.00

Associated entities:

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

1) Investment in entity in 2009 recognised in fixed assets held for sale
2) Investment in entity in 2009 derecognized from books of the parent company

Information on changes in the parent's participation in the share capital of the subsidiaries is set out in Note 49 "Change in the Group's structure'.

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

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

- Zbigniew Jagiełło — Acting President of the Management Board
- Bartosz Drabikowski — Vice-President of the Management Board
- Krzysztor Dresler — Vice-President of the Management Board
- Jarosław Myjak — Vice-President of the Management Board
- Wojciech Papierak — Vice-President of the Management Board
- Mariusz Zarzycki — Vice-President of the Management Board

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

– on 7 July 2009, the Supervisory Board of PKO Bank Polski SA passed resolutions removing:
  - Jerzy Pruski from the function of President of the Bank's Management Board
  - Tomasz Mironczuk from the function of Vice-President of the Bank's Management Board

– on 7 July 2009, the Supervisory Board of PKO Bank Polski SA entrusted Wojciech Papierak, Vice-President of the Bank's Management Board, with the duties of the President of the Management Board of PKO Bank Polski SA as of 7 July 2009 until the President of the Bank's Management Board is appointed.

(in PLN thousand)

– on 14 September 2009, the Bank's Supervisory Board appointed Zbigniew Jagiełło as the acting President of the Management Board of PKO Bank Polski SA, effective from 1 October 2009, for the joint term of the Board beginning on 20 May 2008. The Supervisory Board appointed Zbigniew Jagiełło as the acting President of the Management Board of PKO Bank Polski SA for the period from 1 October 2009 to the date on which the Financial Supervision Authority approves his appointment as the President of the Management Board of PKO Bank Polski SA.

  Simultaneously, in accordance with the above resolution of the Bank's Supervisory Board, Wojciech Papierak, Vice-President of the Management Board of PKO Bank Polski SA, has ceased to be entrusted with the duties of the President of the Management Board of PKO Bank Polski SA effective from 1 October 2009.

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

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

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

– on 20 April 2009 Eligiusz Jerzy Krześniak (Vice-Chairman of the Supervisory Board of PKO Bank Polski SA) resigned from the post of the member of PKO Bank Polski SA Supervisory Board effective from 19 April 2009;

– on 20 April 2009 the Extraordinary General Meeting of PKO Bank Polski SA removed the following persons from the post of Members of the Supervisory Board of the Bank:

  - Jerzy Osiatyński
  - Urszula Pałaszek
  - Roman Sobiecki.

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

– on 20 April 2009 the Extraordinary General Meeting of PKO Bank Polski SA appointed the following persons to the Supervisory Board of the Bank:

  - Cezary Banasiński
  - Jacek Gdański
  - Błażej Lepczyński
  - Jerzy Stachowicz.

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

– on 21 August 2009 Jacek Gdański (Member of the Bank's Supervisory Board) resigned from the post of member of the Bank's Supervisory Board effective from 21 August 2009;

– on 31 August 2009 Marzena Piszczek (Chairman of the Bank's Supervisory Board) resigned from the post of member of the Bank's Supervisory Board effective from 31 August 2009;

– on 31 August 2009 the Extraordinary General Meeting of PKO Bank Polski SA recalled the following persons from the Bank's Supervisory Board effective from 31 August 2009:

  - Jerzy Stachowicz
  - Ryszard Wierzba

- on 31 August 2009 the Extraordinary General Meeting of PKO Bank Polski SA appointed the following persons to the Supervisory Board of the Bank:
  - Mirosław Czekaj
  - Ireneusz Fąfara
  - Alojzy Zbigniew Nowak
  - Tomasz Zganiacz.

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

Approval of financial statements

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

2. Summary of significant accounting policies

2.1. Compliance with accounting standards

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards endorsed by the EU (IFRS) as at 31 December 2009, and in the areas not regulated by these standards, in accordance with the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2002, no. 76, item 694 with subsequent amendments) and the respective secondary legislation issued on its basis, as well as the requirements relating to issuers of securities registered or applying for registration on an official quotations market.

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

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

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

2.2. Going concern

The consolidated financial statements of the PKO Bank Polski SA Group have been prepared on the basis that the Bank and the entities from the PKO Bank Polski SA Group will be a going concern during a period of at least 12 months from the issue date, i.e. since 15 March 2010.

As at the date of signing these financial statements, the Management Board is not aware of any facts or circumstances that would indicate a threat to the continued activity of the Bank or the entities of the PKO Bank Polski SA Group for at least 12 months following the issue date as a result of any intended or compulsory withdrawal or significant limitation in the activities of the Bank or other entities from the PKO Bank Polski SA Group.

2.3. Basis of preparation of the financial statements

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

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

2.4. Basis of consolidation

2.4.1. Subsidiaries

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

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

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

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

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

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

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

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

2.4.2. Purchase method

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

2.4.3. Associates and jointly controlled entities

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

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

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

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

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

(in PLN thousand)

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

2.5. Foreign currencies

2.5.1. Functional and presentation currency

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

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

2.5.2. Transactions and items denominated in foreign currency

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

a. monetary assets denominated in foreign currency are translated into Polish zloty using a closing rate - the average NBP rate for a given currency prevailing at the balance date;
b. non-monetary assets valued at historical cost in foreign currency are translated into Polish zloty using exchange rates prevailing on a day of a particular transaction;
c. non-monetary assets designated at fair value through profit and loss in foreign currency are translated into Polish zloty using exchange rates as at the date of the determination fair value.

Gains and losses on settlements of these transactions and the carrying amount of monetary and non-monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

UAH	2009	2008
Rate prevailing on the last day of the period	0.3558	0.3730
Rate representing the arithmetical mean of the rates prevailing on the last day of each month of the period	0.3897	0.4525
The highest rate in the period	0.4801	0.6102
The lowest rate in the period	0.3222	0.3009

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

Swedish krona is the functional currency of Bank's subsidiary PKO Finance AB.

2.6. Financial assets and liabilities

2.6.1. Classification

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

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

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

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

2.6.1.2. Financial assets available for sale

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

2.6.1.3. Loans and receivables

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

1) those that the Group intends to sell immediately or in the near term, which are classified as held for trading, and those that the Group upon initial recognition classifies as designated at fair value through financial result;

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

2.6.1.4. Financial assets held to maturity

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

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

2.6.1.5. Other financial liabilities

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

2.6.2. Accounting for transactions

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

2.6.3. Derecognition of financial instruments

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

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

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

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

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

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

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

2.6.4. Valuation

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

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

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

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

2.6.4.2. Financial assets available for sale

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

2.6.4.3. Loans and advances and investments held to maturity

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

2.6.4.4. Other financial liabilities

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

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

2.6.4.5. Method of establishing fair value and amortized cost

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

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

1) equity instruments designated at fair value through profit and loss and available for sale:
   a. price of the last transaction concluded on the market, unless in the period between the date of the transaction and the balance date there were significant changes in market conditions which might affect the price,
   b. at valuation performed by a specialized external entity providing services of this kind;
2) debt instruments designated at fair value through profit and loss:
   a. the method based on market prices of securities (the market value method),
   b. the method based on market interest rate quotation (the profitability curve method),
   c. the method based on market prices of securities with similar financial characteristics (the reference asset value method),
3) debt instruments available for sale:
   a. the method based on market prices of securities (the market value method),
   b. the method based on market interest rate quotation (the profitability curve method), adjusted for a risk margin equal to the margin specified in the issue terms. Material changes in the market interest rates are reflected in the changes in the fair value of such instruments,
   c. the method based on market prices of securities with similar financial characteristics (the reference asset value method),
   d. in the case of securities whose fair value cannot be established with the use of the methods mentioned above, the fair value is determined based on the internal valuation model.

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

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

2.6.5. Derivative instruments

2.6.5.1. Recognition and measurement

Derivative financial instruments are recognized at fair value from the trade date. A derivative instrument becomes an asset if its fair value is positive and it becomes a liability if its fair value is negative. The fair value of instruments that are actively traded on the market is their market price.

In other cases, fair value is derived with the use of valuation models which use market observable data. Valuation techniques are based on discounted cash flow models, option models and yield curves.

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

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

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

2.6.5.2. Embedded derivative instrument

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

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

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

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

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

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

2.6.5.3. Hedge accounting

2.6.5.3.1. Hedge accounting criteria

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

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

2.6.5.3.2. Discontinuing hedge accounting

The Group discontinues hedge accounting when:

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

2.6.5.3.3. Fair value hedge

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

2.6.5.3.4. Cash flows hedges

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

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

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

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

2.6.6. Offsetting of financial instruments

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

2.7. Transactions with a commitment to sell or buy back

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

Repo transactions are recognized at the date of the transaction under amounts due to other banks or amounts due to customers in respect of deposits, depending on the contractor.

Reverse-repo securities are recognized under amounts due from banks or loans and advances to customers, depending on the counterparty.

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

2.8. Impairment of financial assets

2.8.1. Assets measured at amortized cost

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

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

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

The Group firstly assesses impairment on an individual basis for significant receivables. If, for a given financial asset assessed individually, there are no objective indications of impairment, the asset is included in a group of financial assets with similar characteristics, which are subsequently assessed for impairment on a collective basis.

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

In the individual portfolio, each individual loan or lease exposure is tested for impairment. If the asset is found to be impaired, an allowance is recognized against the amount of the receivable. If there is no objective evidence of impairment for a given exposure, this exposure is included in the portfolio of loans or lease receivables that are assessed on a collective basis.

Within the group portfolio, groups with similar credit risk characteristics are identified, which are then assessed for impairment on a collective basis.

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

The calculation of the present value of estimated cash flows relating to financial assets for which there is held collateral takes into account cash flows arising from the realisation of the collateral, less costs to possess and sell.

Future cash flows from a group of financial assets assessed for impairment on a collective basis are estimated on the basis of cash flows generated from contracts and historical data generated from assets with similar risk characteristics.

Historical recovery parameters are adjusted on the basis of data from current observations, so as to take into account the impact of current conditions and exclude currently non-relevant factors.

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

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

2.8.2. Assets available for sale

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

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

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

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

If there is objective evidence of impairment on financial assets classified as debt securities available for sale not issued by the State Treasury, an impairment allowance is calculated as the difference between the asset’s carrying amount and the present fair value estimated as value of future cash flows discounted by the market interest rates set on the based on yield curves for Treasury bonds moved by risk margins.

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

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

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

2.9. Leasing

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

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

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

2.9.1. The Group as a lessor

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

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

2.9.2. The Group as a lessee

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

2.10. Tangible fixed assets and intangible assets

2.10.1. Intangible assets

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

2.10.1.1. Goodwill arising

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

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

The test for goodwill impairment is carried out at least on an annual basis. Impairment is calculated by estimating the recoverable amount of the cash-generating unit to which the given goodwill relates. Where the recoverable amount of the cash-generating unit is lower than its carrying amount, an impairment charge is recognized.

2.10.1.2. Software

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

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

2.10.1.3. Other intangible assets

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

2.10.1.4. Development costs

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

2.10.2. Tangible fixed assets

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

2.10.3. Depreciation/amortisation

Depreciation is charged on all assets, whose value decreases due to usage or passage of time, using the straight-line method over the estimated useful life of the given asset. The adopted depreciation/amortisation method is reviewed on an annual basis.

Depreciation of tangible fixed assets and amortization of intangible assets begins on the first day of the month following the month in which the asset has been brought into use, and ends no later than at the time when:

1) the amount of depreciation or amortization charges becomes equal to the initial cost of the asset, or
2) the asset is designated for liquidation, or
3) the asset is sold, or
4) the asset is found to be missing, or
5) it is found - as a result of verification - that the expected residual value of the asset exceeds its (net) carrying amount.

For fixed assets it is assumed that the residual value is nil, unless there is an obligation of a third party to buy back the asset, or if there is an active market which will continue to exist at the end of the asset's period of use and when it is possible to determine the value of the asset on this market.

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

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

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

2.10.4. Impairment losses of non-financial assets

At each balance date, the Group makes an assessment of whether there are any indicators of impairment of any of its non-financial non-current assets (or cash-generating units). If any such indicators exist, the Group makes an assessment of whether there are any indicators of impairment of any of its no estimates the recoverable amount being the higher of the fair value less costs to sell and the value in use of a non-current asset (or a cash generating unit); if the carrying amount of an asset exceeds its recoverable amount, the Group recognizes an impairment loss in the income statement. The projection for the value in use requires making assumptions, e.g. about future expected cash flows that the Group makes an assessment of whether there are any indicators of impairment of any of its no may receive from the continued use or disposal of the non-current asset (or a cash-generating unit). The adoption of different assumptions with reference to the projected cash flows could affect the carrying amount of certain non-current assets.

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

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

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

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

2.11. Other items of statement of financial position

2.11.1. Fixed assets held for sale and discontinued operations

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

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

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

2.11.2. Inventories

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

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

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

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

2.11.3. Accruals and deferred income

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

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

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

2.12. Provisions

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

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

2.13. Restructuring provision

A restructuring provision is set up when general criteria for recognizing provisions are met as well as there are met detailed criteria related to the legal or constructive obligation to set up provisions for restructuring costs specified in IAS 37. Precisely, the constructive obligation of restructurisation and recognising provisions arises only when the Group has a detailed, official restructuring plan and has raised justified expectations of the parties to which the plan relates that it will carry out restructuring by starting to implement the plan or by announcing the key elements of the plan to the said parties. A detailed restructuring plan specifies at least activities or part of the activities to which the plan relates, the basic locations covered by the plan, the place of employment, functions and estimated number of employees who are to be compensated due to their contract termination, the amount of expenditure which is to be incurred and the date when the plan will be implemented. Legal obligation to recognize a restructuring provision results from the Act dated 13 March 2003 on detailed principles of employment termination from reasons independent from employees (Journal of Laws 2003, No 90, item 844 with subsequent amendments). According to the Act, an employer is obliged to discuss an intention of mass redundancies with the company's trade unions, in particular with regard to the possibilities of avoidance or reduction of the scale of mass redundancies. An employer is also obliged to discuss employees' issues related to redundancies including, in particular, possibilities of retraining or professional trainings, as well as new job opportunities for dismissed employees.

The restructuring provision covers only such direct expenditures arising as a result of the restructuring which at the same time

a. necessarily follow from the restructuring;
b. are not related to the Group's on-going business operations.

The restructuring provision does not cover future operating expenses.

2.14. Employee benefits

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

The provision for retirement and pension benefits and anniversary bonuses is created individually for each employee on the basis of an actuarial valuation performed at the balance date by an independent actuary. The basis for calculation of these provisions are internal regulations, and especially the Collective Labour Agreement ('Zakładowy Układ Zbiorowy Pracy') being in force at the

Bank. Valuation of the employee benefit provisions is performed using actuarial techniques and assumptions. The calculation of the provision includes all bonuses and retirement benefits expected to be paid in the future. The provision was created on the basis of a list including all the necessary details of employees, in particular the length of their service, age and gender. The provisions calculated amount to discounted future payments, taking into account staff turnover, and relate to the service period ending on the balance date. Gains or losses resulting from actuarial calculations are recognized in the income statement.

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

2.15. Borrowing costs

Borrowing costs that may be directly attributable to the acquisition, construction or production of a qualifying asset are capitalized by the Group as part of acquisition or production cost of that asset when it is probable that they will result in future economic benefits and the acquisition or production cost can be measured reliably.

Other borrowing costs are recognized by the Group as an expense in the period in which they are incurred.

2.16. Contingent liabilities and commitments

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

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

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

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

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

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

2.17. Shareholders' equity

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

2.17.1. Share capital

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

2.17.2. Reserve capital

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

2.17.3. Other comprehensive income

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

2.17.4. General banking risk fund

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

2.17.5. Other reserves

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

2.17.6. Currency transaction differences from foreign operations

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

Shareholders' equity also includes:

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

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

2.18. Financial result

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

2.18.1. Interest income and expense

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

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

Interest income/expense in respect of derivative financial instruments classified as held for trading are recognized in "Net income from financial instruments at fair value through profit and loss' or "Net foreign exchange gains' (applied to CIRS), with the exception of derivative instruments classified as hedging instruments into hedge accounting, which have been presented in interest income since the second quarter of 2009.

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

2.18.2. Fee and commission income and expense

Fee and commission income is generally recognized on an accrual basis at the time when the related service is performed. Fee and commission income includes one-off amounts charged by the Group for services not related to the internal rate of return on loans and other receivables, as well as amounts charged by the Group for services performed over a period exceeding 3 months, which are recognized on a straight-line basis. Fee and commission income also includes fee and commission recognized on a straight-line basis, received on loans granted with unspecified repayment schedule.

2.18.3. Dividend income

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

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

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

2.18.5. Gains less losses from investment securities

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

2.18.6. Foreign exchange gains

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

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

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

2.18.7. Other operating income and expense

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

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

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

2.19. Income tax

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

2.19.1. Current income tax

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

In calculating taxable income, the Bank took into account the Decree of the Minister of Finance dated 28 March 2003. The Decree extends deadlines for advances and payments of corporate income tax.

Such extensions are granted to banks that participate in a programme of construction and development loans with the use of funds from the Mortgage Fund (Journal of Laws No. 58, item 511).

2.19.2. Deferred income tax

The amount of deferred tax is calculated as the difference between the tax base and book value of assets and liabilities for financial reporting purposes. The Group recognises deferred income assets and liabilities. An amount of deferred tax is determined using the statement of financial position method – as a change in the statement of financial position amounts of deferred income tax and liabilities. Deferred tax assets and deferred tax liabilities are presented in the statement of financial position respectively as assets or liabilities. The change in the balance of a deferred tax liability or a deferred tax asset is included in income tax expense, except for the effects of valuation of financial assets recognized in other comprehensive income, where changes in the balance of a deferred tax liability or deferred tax asset are accounted for in correspondence with other comprehensive income. The calculation of deferred tax takes into account the balance of the deferred tax asset and deferred tax liability at the beginning and at the end of the reporting period.

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

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

The Group uses the 19% tax rate for entities operating on the territory of Poland, a 25% tax rate for entities operating in Ukraine and 26.3% tax rate for entities operating in Sweden.

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

2.20. Critical estimates

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

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

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

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

2.20.1. Impairment of loans and advances

An impairment loss is incurred when there is objective evidence of impairment due to events that occurred after the initial recognition of the asset ("a loss event'), when the loss has a reliably measurable impact on the expected future cash flows from the financial asset or group of financial assets. Future cash flows are assessed by the Group on the basis of estimates based on historical parameters.

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

The adopted methodology used for estimating impairment allowances will be developed in line with the further accumulations of historic impairment data from the existing information systems and applications. As a consequence, acquiring new data obtained by the Group could affect the level of impairment allowances in the future. The methodology and assumptions used in the estimates are reviewed on a regular basis to minimize the differences between the estimated and actual loss amounts. In the case of a -/+ 10% change in the present value of estimated cash flows for the loan portfolio individually determined to be impaired, the impairment allowance would increase by PLN 372 million or decrease by PLN 148 million respectively. This estimate was made for the loan portfolio assessed for impairment on an individual basis, i.e. on the basis of individual analysis of future cash flows arising both from own payments and realisation of the collateral, i.e. the positions for which an individual method is applied.

2.20.2. Valuation of derivatives and non-quoted debt securities available for sale

The fair value of non-option derivatives and debt securities available for sale not listed on an active market is determined using valuation models based on discounted cash flows expected to be received from the given financial instrument. Options are valued using option pricing models. The variables and assumptions used in a valuation include any available data derived from observable markets. In the valuation of non-quoted debentures available for sale, assumptions are also made about the contractor's credit risk, which may have an impact on the pricing of the instruments. Any change in these assumptions could affect the valuation of the above-mentioned instruments.

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

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

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

2.20.3. Calculation of provision for retirement and pension benefits and anniversary bonuses

The calculation of the provision includes all jubilee bonuses and retirement benefits expected to be paid in the future. The Group performed a reassessment of its estimates as at 31 December 2009, on the basis of calculation conducted by an independent actuary. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period ending on the balance date. An important factor affecting the amount of the provision is the adopted discount rate. Change in the discount rate of ± 0,5 pp. will contribute to an increase/decrease of the amount of the provision for retirement and pension benefits and jubilee bonuses of approx. PLN 15 million.

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

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

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

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

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

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

2.21. Changes in accounting policies

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

(in PLN thousand)

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

Standard/ interpretation	Introduction date	Application date	Approved by the European Union	Description of potential changes
IFRS 8 – Operating Segments	November 2006	Financial year starting on or after 1 January 2009	Yes	IFRS 8 replaces IAS 14 Segment Reporting. IFRS 8 introduces new requirements concerning disclosures on segment reporting as well as products and services, geographical areas in which the entity operates and major customers. IFRS 8 requires 'management approach' to reporting on financial results about operating segments.
Amendments to IAS 23 - Borrowing Costs	March 2007	Financial year starting on or after 1 January 2009	Yes	The amendment relates to accounting treatment for borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that take a substantial period of time to get ready for use or sale. Within the amendment the option of immediate recognising borrowing costs as an expense in the period in which they were incurred was removed. According to the amendment these costs should be capitalized.
IFRIC 13 - Customer Loyalty Programmes	June 2007	Financial year starting on or after 1 January 2009	Yes	This interpretation includes guidance, within an accounting treatment, on transactions resulting from customer loyalty programmes implemented by the entity such as.: loyalty coupons, award credits (often described as 'points'). In particular, IFRIC 13 indicates how to qualify liabilities which result from the necessity of providing customers with free or discounted goods or services when they redeem award credits.
IFRIC 14 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	July 2007	Financial year starting on or after 1 January 2009	Yes	This interpretation includes basic guidance on how to determine the limit of surplus of the asset fair value over the current value of defined benefit liability according to IAS 19, which can be recognized as an asset. Moreover, IFRIC 14 describes how statutory or contractual minimum funding requirements can affect the measurement of the defined benefit asset or liability.
Amendment to IAS 1 - Presentation of Financial Statements	September 2007	Financial year starting on or after 1 January 2009	Yes	The main amendments relate to the statement of changes in equity comprising solely transactions with shareholders, whereas transactions with other parties are presented in total comprehensive income. In addition, the standards introduce changes to the names of the elements of the statements.

(in PLN thousand)

Standard/ interpretation	Introduction date	Application date	Approved by the European Union	Description of potential changes
Amendment to IFRS 2 - Share-based Payment	January 2008	Financial year starting on or after 1 January 2009	Yes	The amendment explains that vesting conditions are service condition and performance condition only. Other features of a share-based payment are not vesting conditions. According to the standard, it is required that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.
Amendment to IAS 32 - Financial Instruments: Presentation and to IAS 1 - Presentation of Financial Statements	February 2008	Financial year starting on or after 1 January 2009	Yes	The amendments relate to accounting treatment of selected financial instruments, which are similar to equity instruments, but classified as financial liabilities. According to new requirement, financial instruments, such as puttable instruments and instruments that impose on the entity an obligaton to deliver to another party a pro rata share of the net assets of the entity only on liquidation, after meeting given conditions are classified as equity.
Amendment to IFRS 1 – First-time Adoption of International Financial Reporting Standards and to IAS 27 - Consolidated and Separate Financial Statements	May 2008	Financial year starting on or after 1 January 2009	Yes	The amendments allow to use as a 'deemed cost' either a fair value or a carrying amount stated according to the previously followed accounting principles for subsidiaries, jointly controlled entities or associates in the separated financial statements. Moreover, the definition of the cost method was removed and replaced with cost method in accounting for post acquisition dividends in the separate financial statements.
Amendments to IFRS 2008 (amendments to 20 standards)	May 2008	Majority of amendments will be applicable for annual periods starting on 1 January 2009	Yes	The amendments include changes in presentation, recognition and valuation as well as terminology and edition changes.
Amendments to IFRS 7 - Financial Instruments: Disclosures	March 2009	Financial year starting on 1 January 2009	Yes	The amendments establish a three-level hierarchy for disclosing fair value measurements and a requirement of additional disclosures of relative credibility of fair value valuation. Moreover, the amendments clarify and widen the existing requirements on disclosures about liquidity risk.

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

(in PLN thousand)

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

Standard/ interpretation	Introduction date	Application date	Approved by the European Union	Description of potential changes
Amendments to IFRS 3 - Business Combinations	January 2008	Effective for business combinations for which the acquisition date is on or after 1 July 2009	Yes	Implemented amendments enable to choose the method of presenting minority shares either at fair value or their share in fair value of the identified net assets, while the difference should be presented through profit and loss. The amendments provide guidelines on how to use the acquisition method including the presentation of transaction costs as the cost of the period when they were incurred.
Amendments to IAS 27 - Consolidated and Separate Financial Statements	January 2008	Financial year starting on or after 1 July 2009	Yes	According to the standard, the entities are obliged to present the net transactions with minority shareholders directly in equity as long as the up-to-now parent entity remains dominant towards a given entity. The standard provides detail on the disclosure if the parent entity lost control over a subsidiary entity. Precisely, it requires to valuate the remaining shares at fair value and to present the difference through profit and loss.
Amendments to IAS 39 - Financial Instruments: Recognition and Measurement - Criteria for Hedge Accounting	July 2008	Financial year starting on or after 1 July 2009	Yes	The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item for a financial instrument should be applied in particular situations. The amendment clarifies that an entity may not designate an inflation component of issued or acquired fixed-rate debt in a fair value hedge. Amendments do not permit also to include the time value of a one-sided risk when options are designated as a hedging instrument.
IFRIC 16 - Hedges of a Net Investment in a Foreign Operation	July 2008	Financial year starting on or after 1 July 2009	Yes	The interpretation provides guidance on whether risk arises from the foreign currency exposure to the functional currencies of the foreign operation and the parent entity, and the presentation currency of the parent entity's consolidated financial statements. Moreover IFRIC 16 explains which entity in the Group is allowed to disclose a hedging instrument within hedges of a net investment in a foreign operation. In particular, it explains if the parent company holding a net investment in a foreign operation is obliged to hold also a hedging instrument. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit and loss is calculated on disposal of the hedged foreign operation.

(in PLN thousand)

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

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

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

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

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

(in PLN thousand)

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

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

The Management Board does not expect the introduction of the above-mentioned standards and interpretations to have a significant effect on the accounting policies applied by the Group with the exception of the IFRS 9 (an influence of the IFRS 9 on accounting principles applied by the Group have not been assessed yet). The Group intends to apply them in the periods indicated in the relevant standards and interpretations (without early adoption).

3. Segment reporting

PKO Bank Polski SA Group's reporting scheme is primarily based on the criteria of the groups of clients – recipients of the products and services offered by the parent company and other Group companies. Every operating business segment comprises activities of providing products and services that are characterized by the similar risk and rewards – different from other business segments. In addition, an operating segment is a part of the entity which:

- performs an economic activity resulting in realising income and incurring expense (including income and expense related to transactions with parts of the same entity)
- has its results reviewed regularly by the main body responsible for taking operational decisions in the entity and using these results while allocating resources to a given segment and assessing the performance of the segment, and
- provides separate financial data.

The segment report below presents an internal structure of PKO Bank Polski SA Group and it is in accordance with an internal reporting system, i.e. the way of presenting data to the Management Board of PKO Bank Polski SA. It is used to assess achieved results and to allocate resources.

1. The retail segment comprises transactions of the parent entity with retail clients, small and medium-sized enterprises and mortgage market clients, as well as activities of the following subsidiaries: KREDOBANK SA, PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA, PKO Towarzystwa Funduszy Inwestycyjnych SA, Grupy Inteligo Financial Services SA, Centrum Elektronicznych Usług Płatniczych eService SA, Fort Mokotów Inwestycje Sp. z o.o. oraz Grupy PKO BP Inwestycje Sp. z o.o.
   This segment comprises, among others, the following products and services: current and saving accounts, deposits, private banking services, investment products, credit and debit cards, consumer and mortgage loans, corporate loans for small and medium-sized enterprises and housing market customers.
2. The corporate segment includes transactions of the parent entity with large corporate clients, as well as activities of the Bankowy Fundusz Leasingowy SA Group. This segment comprises, among others, the following products and services: current and saving accounts, deposits, depositary services, currency and derivative products, sell buy back and buy sell back transactions, investment loans and leases. Within the segment, the Bank also enters, individually or in consortium with other banks, into loan agreements financing large investment projects.
3. The investment segment comprises investing and brokerage activities and the State Treasury products within the Bank's portfolio and on its own account, as well as the activity of BTK SA GROUP and PKO Finance AB.

The PKO Bank Polski SA Group typically settles inter-segment transactions as if they were concluded between unrelated parties, using internal settlement rates. The transactions between business segments are conducted on arm's length.

Accounting policies applied in the segmentation report are consistent with accounting policies described in Note 2 of these statements.

Disclosed values of assets and liabilities are operating assets and liabilities applied by operating activities segment. Values of assets, liabilities, income and expenses of a particular segment are based on internal management information.

The tables below present data relating to results of individual business segments of the PKO Bank Polski SA Group for the period of 12 months ending on 31 December 2009 and on 31 December 2008 and of selected assets and liabilities as at 31 December 2009 and 31 December 2008.

(in PLN thousand)

As an additional reporting scheme, the Group uses geographical areas. PKO Bank Polski SA Group conducts its activities in Ukraine – through KREDOBANK SA and in UKRPOLINWESTYCJE Sp. z o.o.

For the period 1 January to 31 December 2009	**Continued activity**			
	Retail segment	**Corporate segment**	**Investment segment**	**Total activity of the Group**
Net interest income	**5 317 888**	**640 004**	**(906 710)**	**5 051 182**
Net fee and commission income	**2 264 921**	**222 898**	**95 184**	**2 583 003**
Other net income	**582 003**	**159 345**	**492 305**	**1 233 653**
Result from financial operations	(3 537)	4 412	57 375	**58 250**
Net foreign exchange gains	375 289	134 165	399 685	909 139
Dividend income	-	-	5 381	5 381
Net other operating income	184 251	46 768	29 864	260 883
Income/expenses relating to internal customers	26 000	(26 000)		**-**
Net impairment allowance	**(1 277 937)**	**(393 518)**	**(9 620)**	**(1 681 075)**
Administrative expenses, of which:	**(3 907 326)**	**(248 760)**	**(87 749)**	**(4 243 835)**
Amortization and depreciation	(429 785)	(32 857)	(6 510)	(469 152)
Share in gains or losses of associates and jointly controlled entities	-	-	-	**342**
Segment gross profit	**2 979 549**	**379 969**	**(416 590)**	**2 943 270**
Income tax expense	**-**	**-**	**-**	**(631 486)**
Profit attributable to minority shareholders	**-**	**-**	**-**	**6 246**
Net profit (loss) attributable to the parent entity	**2 979 549**	**379 969**	**(416 590)**	**2 305 538**

As at 31 December 2009	**Continued activity**			
	Retail segment	**Corporate segment**	**Investment segment**	**Total activity of the Group**
Assets	96 456 291	36 404 476	23 617 918	**156 478 685**
Liabilities	100 521 932	28 401 054	7 119 829	**136 042 815**

(in PLN thousand)

For the period 1 January to 31 December 2008	Continued activity			
	Retail segment	Corporate segment	Investment segment	Total activity of the Group
Net interest income	**5 563 243**	**419 247**	**144 825**	**6 127 315**
Net fee and commission income	**2 119 328**	**198 448**	**94 033**	**2 411 809**
Other net income	**781 871**	**171 797**	**(104 372)**	**849 296**
Result from financial operations	(6 400)	(13 794)	(145 489)	(165 683)
Net foreign exchange gains	508 816	176 112	16 397	701 325
Dividend income	-	-	21 956	21 956
Net other operating income	253 455	35 479	2 764	291 698
Income/expenses relating to internal customers	26 000	(26 000)	-	-
Net impairment allowance	**(806 103)**	**(309 389)**	**(14 904)**	**(1 130 396)**
Administrative expenses, of which:	**(3 906 530)**	**(283 317)**	**(106 428)**	**(4 296 275)**
Amortization and depreciation	(387 302)	(34 417)	(8 185)	(429 904)
Share in profit of associates and jointly controlled entities	-	-	-	**15 594**
Segment gross profit	**3 751 809**	**196 786**	**13 154**	**3 977 343**
Income tax expense	**-**	**-**	**-**	**(838 156)**
Profit attributable to minority shareholders	**-**	**-**	**-**	**18 513**
Net profit (loss) attributable to the parent entity	**3 751 809**	**196 786**	**13 154**	**3 120 674**

As at 31 December 2008	Continued activity			
	Retail segment	Corporate segment	Investment segment	Total activity of the Group
Assets	87 212 981	32 366 023	15 056 982	134 635 986
Liabilities	89 980 263	21 918 299	8 739 408	120 637 970

Geographical areas

The PKO Bank Polski SA Group activity is also conducted in Ukraine – through KREDOBANK SA and UKRPOLINWESTYCJE Sp. z o.o.

For the period 1 January to 31 December 2009	Continued activity		
	Poland	Ukraine	Total
Net interest income	4 895 843	155 339	**5 051 182**
Net fee and commission income	2 541 340	41 663	**2 583 003**
Other net income	1 230 958	2 695	**1 233 653**
Administrative expenses	(4 115 772)	(128 063)	**(4 243 835)**
Net impairment allowance	(1 403 911)	(277 164)	**(1 681 075)**
Share in profit of associates and jointly controlled entities	-	-	**342**
Segment gross profit	**3 148 458**	**(205 530)**	**2 943 270**
Income tax expense	-	-	**(631 486)**
Profit attributable to minority shareholders	-	-	**6 246**
Net profit	**3 148 458**	**(205 530)**	**2 305 538**
Assets of the segment	154 555 349	1 923 336	**156 478 685**
Liabilities of the segment	134 726 841	1 315 974	**136 042 815**

(in PLN thousand)

For the year ended 31 December 2008	Poland	Ukraine	Total
Net interest income	**5 983 870**	**143 445**	**6 127 315**
Net fee and commission income	**2 368 449**	**43 360**	**2 411 809**
Other net income	**852 750**	**(3 454)**	**849 296**
Administrative expenses	(4 153 602)	(142 673)	**(4 296 275)**
Net impairment allowance	(866 457)	(263 939)	**(1 130 396)**
Share in profit of associates and jointly controlled entities	-	**-**	**15 594**
Segment gross profit	**4 185 010**	**(223 261)**	**3 977 343**
Income tax expense	-	-	**(838 156)**
Profit attributable to minority shareholders	-	-	**18 513**
Net profit attributable to the parent entity	**4 185 010**	**(223 261)**	**3 120 674**
Assets of the segment	132 777 717	1 858 269	**134 635 986**
Liabilities of the segment	119 220 032	1 417 938	**120 637 970**

4. Interest income and expense

Interest and similar income

	2009	2008
Income from loans and advances to customers [1)]	7 562 344	7 776 107
Income from financial hedging securities	403 899	-
Income from securities designated at fair value through profit and loss	403 112	444 426
Income from investment securities[1)]	393 530	345 130
Income from placements with other banks[1)]	159 262	388 768
Income from trading securities	97 207	64 046
Other[1)]	11 976	15 304
Total	**9 031 330**	**9 033 781**

In the ‘Income from financial hedging instruments’ the Group presents interest income from designated derivative instruments that are effective hedging instruments in the respect of cash flow hedge. Details of hedging relations applied by the Bank are included in Note 21 ‘Derivative hedging instruments’.

Interest expense and similar charges

	2009	2008
Interest expense on customers[2)]	(3 730 154)	(2 655 044)
Interest expense on debt securities in issue[2)]	(119 319)	(131 721)
Interest expense on deposits from other banks[2)]	(47 470)	(49 465)
Other	(83 205)	(70 236)
Total	**(3 980 148)**	**(2 906 466)**

In the year ended 31 December 2009 the total amount of interest and similar income, calculated using the effective interest rate method and arising from financial assets not valued at fair value through profit and loss, amounted[*)] to PLN 8 127 112 thousand (in the year ended 31 December 2008: PLN 8 525 309 thousand). In the year ended 31 December 2009, interest expense, calculated using the effective interest rate method and arising from financial liabilities which are not valued at fair value through profit and loss, amounted[**)] to PLN (3 906 462) thousand. In the year ended 31 December 2008 interest expense amounted to PLN (2 836 425) thousand.

[*)] the total amount of the items marked with [1)]
[**)] the total amount of the items marked with [2)], increased by the premium of debt securities available for sale, presented in “Other’ line, amounted to PLN (9 519) thousand as at 31 December 2009 and PLN (195) thousand as at 31 December 2008.

(in PLN thousand)

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

	2009	2008
Net gains and losses from financial assets and liabilities measured at amortized cost	**6 506 185**	**7 457 576**
Interest income from loans and advances to customers	7 562 344	7 776 107
Interest income from placements with other banks	159 262	388 768
Fee and commission income from loans and advances to customers	367 955	315 641
Net impairment allowance on loans and advances to customers and amounts due from other banks measured at amortized cost	(1 554 276)	(1 018 075)
Net impairment allowance on finance lease receivables	(29 100)	(4 865)
Losses from financial liabilities measured at amortized cost	**(3 896 943)**	**(2 836 230)**
Interest expense on amounts due to customers	(3 730 154)	(2 655 044)
Interest expense on amounts due to banks	(47 470)	(49 465)
Interest expense on debt securities in issue	(119 319)	(131 721)
Net result	**2 609 242**	**4 621 346**

5. Fee and commission income and expense

Fee and commission income

	2009	2008
Income from financial assets, which are not valued through profit and loss, of which:	**367 955**	**315 641**
Income from loans and advances	367 955	315 641
Other fee and commissions	**2 965 738**	**2 828 063**
Income from payment cards	932 319	851 370
Income from maintenance of bank accounts	872 534	805 449
Income from maintenance of investment funds and OFE (including management income)	310 366	448 071
Income from loan insurance	327 312	225 063
Income from cash transactions	189 221	188 345
Income from securities transactions	53 300	43 845
Income from foreign mass transactions servicing	41 524	41 181
Income from sale and distribution of marks of value	21 664	21 738
Other*	217 498	203 001
Income from trust servicing	**1 654**	**1 056**
Total	**3 335 347**	**3 144 760**

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

Fee and commission expense

	2009	2008
Expenses on payment cards	(334 400)	(309 766)
Expenses on acquisition services	(152 428)	(144 847)
Expenses on loan insurance	(92 937)	(94 140)
Expenses on portfolio and other management fees	(48 651)	(63 645)
Expenses on fee and commissions for operating services granted by other banks	(6 734)	(8 118)
Expenses on fee and commissions paid to PPUP	(4 399)	(5 240)
Other*	(112 795)	(107 195)
Total	**(752 344)**	**(732 951)**

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

(in PLN thousand)

6. Dividend income

	2009	2008
Dividend income from the issuers of:		
Securities classified as available for sale	5 351	21 905
Securities classified as held for trading	30	51
Total	**5 381**	**21 956**

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

	2009	2008
Derivative instruments[1)]	33 380	(120 800)
Debt securities	24 193	(36 254)
Equity instruments	1 946	(5 716)
Other[1)]	1 353	73
Total	**60 872**	**(162 697)**

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

2009	Gains	Losses	Net result
Trading assets	11 951 118	(11 902 515)	48 603
Financial assets designated upon initial recognition at fair value through profit and loss	78 394	(66 125)	12 269
Total	**12 029 512**	**(11 968 640)**	**60 872**

2008	Gains	Losses	Net result
Trading assets	11 168 674	(11 294 599)	(125 925)
Financial assets designated upon initial recognition at fair value through profit and loss	162 863	(199 635)	(36 772)
Total	**11 331 537**	**(11 494 234)**	**(162 697)**

The total change in fair values of financial instruments designated at fair value through profit and loss determined with use of valuation models (where no quotations from active market were available) in the year ended 31 December 2009 amounted to PLN 34 733* thousand (in the year ended 31 December 2008: PLN (120 727) thousand).

8. Gains less losses from investment securities

	2009	2008
Gains recognized directly in other comprehensive income	25 302	12 049
Total result recognized directly in other comprehensive income	**25 302**	**12 049**
Gains derecognized from other comprehensive income	10 836	2 836
Losses derecognized from other comprehensive income	(13 458)	(5 822)
Total result derecognised from other comprehensive income	**(2 622)**	**(2 986)**
Total	**22 680**	**9 063**

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

(in PLN thousand)

9. Net foreign exchange gains

	2009	2008
Foreign exchange differences resulting from financial instruments designated at fair value through profit and loss	2 712 617	(2 245 016)
Foreign exchange differences	(1 803 478)	2 946 341
Total	**909 139**	**701 325**

10. Other operating income and expense

	2009	2008
Other operating income		
Net income from sale of goods, commodities and materials	326 105	213 073
Recovery of expired and written-off receivables	20 084	31 150
Sundry income	21 614	25 162
Sales and disposal of tangible fixed assets, intangible assets, and assets held for sale	67 224	15 065
Damages, penalties and fines received	32 390	14 228
Sale of shares in subordinates	512	13 171
Other*	117 020	210 576
Total	**584 949**	**522 425**

*Included in "Other' are: reversal of accruals (e.g. for costs of servicing computer hardware and software, the costs of office services, revenues from settlement of the sale of OSW Pegaz).

	2009	2008
Other operating expenses		
Costs of sale of goods, commodities and materials	(179 385)	(81 114)
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(60 268)	(28 321)
Sundry expenses	(5 004)	(5 570)
Donations	(3 648)	(5 245)
Costs of tangible fixed assets construction and intangible assets development - not capitalized	(62)	(426)
Other*	(75 699)	(110 051)
Total	**(324 066)**	**(230 727)**

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

(in PLN thousand)

11. Net impairment allowance

For the year ended 31 December 2009	Impairment allowances at the beginning of the period	Increases		Decreases				Impairment allowances at the end of period	Net impairment allowances – impact on the income statement
		Impairment allowances during the period	Other	Decrease in impairment allowances due to derecognition of assets	Impairment allowances reversed during the period	Foreign exchange differences	Other		
Financial assets available for sale, including:	**25 691**	**14 240**	**28**	**7 025**	**10 948**	**414**	**-**	**21 572**	**(3 292)**
measured at fair value through equity (not listed on stock exchange)	19 932	14 240	3	3 658	10 948	414	-	19 155	(3 292)
measured at purchase cost (unquoted equity instruments and related derivative instruments)	5 759	-	25	3 367	-	-	-	2 417	-
Loans and advances to customers and amounts due from other banks measured at amortised cost	**2 945 987**	**3 896 001**	**-**	**534 587**	**2 312 625**	**27 459**	**3 084**	**3 964 233**	**(1 583 376)**
Non-financial sector	2 792 220	3 809 446	-	502 810	2 246 973	27 233	92	3 824 558	(1 562 473)
consumer loans	715 653	1 399 530	-	169 786	580 486	2 290	-	1 362 621	(819 044)
mortgage loans	535 713	590 322	-	45 604	339 769	5 902	-	734 760	(250 553)
corporate loans	1 540 854	1 819 594	-	287 420	1 326 718	19 041	92	1 727 177	(492 876)
Financial sector	85 636	24 101	-	31 776	30 324	226	1 054	46 357	6 223
amounts due from banks	28 111	52	-	-	-	-	1 054	27 109	(52)
corporate loans	57 525	24 049	-	31 776	30 324	226	-	19 248	6 275
Budget sector	23 471	2 103	-	1	4 077	-	-	21 496	1 974
corporate loans	23 471	2 103	-	1	4 077	-	-	21 496	1 974
Finance lease receivables	44 660	60 351	-	-	31 251	-	1 938	71 822	(29 100)
Tangible fixed assets	**2 035**	**654**	**50**	**-**	**815**	**-**	**68**	**1 856**	**161**
Intangible assets	**91 733**	**3 402**	**-**	**-**	**-**	**-**	**-**	**95 135**	**(3 402)**
Investments in entities measured using equity method	**4 360**	**3 876**	**-**	**-**	**-**	**-**	**3 208**	**5 028**	**(3 876)**
Non-current assets held for sale	**-**	1 680	**-**	**-**	**-**	**-**	**-**	**1 680**	**(1 680)**
Other, of which:	**219 549**	**227 691**	**79 147**	**13 939**	**142 081**	**412**	**10 912**	**359 043**	**(85 610)**
Provisions for off-balance sheet liabilities	87 602	172 594	-	3 330	135 949	504	564	119 849	(36 645)
Total	**3 289 355**	**4 147 544**	**79 225**	**555 551**	**2 466 469**	**28 285**	**17 272**	**4 448 547**	**(1 681 075)**

(in PLN thousand)

For the year ended 31 December 2008	Impairment allowances at the beginning of the period	Increases		Decreases				Impairment allowances at the end of period	Net impairment allowances – impact on the income statement
		Impairment allowances during the period	Other	Decrease in impairment allowances due to derecognition of assets	Impairment allowances reversed during the period	Foreign exchange differences	Other		
Financial assets available for sale, including:	**26 849**	**11 486**	**51**	**2 470**	**9 272**	**880**	**73**	**25 691**	**(2 214)**
measured at fair value through equity (not listed on stock exchange)	18 620	11 486	51	-	9 272	880	73	19 932	(2 214)
measured at purchase cost (unquoted equity instruments and related derivative instruments)	8 229	-	-	2 470	-	-		5 759	-
Loans and advances to customers and amounts due from other banks measured at amortised cost	**2 415 879**	**1 890 219**	**33 095**	**473 856**	**867 279**	**52 071**	**-**	**2 945 987**	**(1 022 940)**
Non-financial sector	2 296 320	1 872 417	5 028	473 856	857 863	49 826	-	2 792 220	(1 014 554)
consumer loans	654 328	872 143	-	358 173	448 722	3 923		715 653	(423 421)
mortgage loans	493 525	267 288	-	49 088	167 433	8 579		535 713	(99 855)
corporate loans	1 148 467	732 986	5 028	66 595	241 708	37 324		1 540 854	(491 278)
Financial sector	50 580	11 610	28 067	-	2 376	2 245	-	85 636	(9 234)
amounts due from banks	276	-	28 067	-	232	-	-	28 111	232
corporate loans	50 304	11 610	-	-	2 144	2 245		57 525	(9 466)
Budget sector	29 184	1 327	-	-	7 040	-	-	23 471	5 713
corporate loans	29 184	1 327	-	-	7 040	-	-	23 471	5 713
Finance lease receivables	39 795	4 865	-	-	-	-	-	44 660	(4 865)
Tangible fixed assets	**3 053**	**532**	**-**	**477**	**1 073**	**-**	**-**	**2 035**	**541**
Intangible assets	**15 373**	**76 360**	**-**	**-**	**-**	**-**	**-**	**91 733**	**(76 360)**
Investments in entities valued using equity method	**64 814**	**1 152**	**-**	**38**	**61 568**	**-**	**-**	**4 360**	**60 416**
Other	**138 861**	**178 434**	**2 623**	**604**	**88 595**	**2 641**	**8 529**	**219 549**	**(89 839)**
Provisions for off-balance sheet liabilities	35 621	137 753	2 148	317	87 432	126	45	87 602	(50 321)
Total	**2 664 829**	**2 158 183**	**35 769**	**477 445**	**1 027 787**	**55 592**	**8 602**	**3 289 355**	**(1 130 396)**

* the value of PLN 28 087 thousand refers to impairment allowances on a foreign bank receivables. The impairment allowance was recognised in other positions of the income statement: "Net income from financial instruments designated at fair value through profit and loss' and "Net foreign exchange gains'.

(in PLN thousand)

12. Administrative expenses

	2009	2008
Staff costs	(2 307 514)	(2 429 394)
Overheads	(1 351 208)	(1 356 437)
Depreciation and amortisation expense	(469 152)	(429 904)
Taxes and other charges	(66 338)	(63 803)
Contribution and payments to Banking Guarantee Fund	(49 623)	(16 737)
Total	**(4 243 835)**	**(4 296 275)**

Wages and salaries / Employee benefits

	2009	2008
Wages and salaries	(1 943 269)	(2 023 863)
Insurance, of which:	(301 263)	(304 878)
contributions for retirement pay and pensions*	(241 784)	(241 251)
Other employee benefits	(62 982)	(100 653)
Total	**(2 307 514)**	**(2 429 394)**

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

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

Entity	2009	2008
Jointly controlled entities		
Centrum Obsługi Biznesu Sp. z o.o.	248	414
Grupa Kapitałowa Centrum Haffnera Sp. z o.o.	(7 690)	(4)
Associates		
Bank Pocztowy SA	2 597	11 327
Kolej Gondolowa Jaworzyna Krynicka SA	1 680	3 827
Agencja Inwestycyjna 'CORP' SA	94	41
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	3 413	(11)
Total	**342**	**15 594**

Additional information on jointly controlled entities and associates is presented in Note 1 "General Information' and Note 49 "Changes to the entities of the Group'.

14. Income tax expense

	2009	2008
Consolidated income statement		
Current income tax expense	(817 478)	(1 001 835)
Deferred income tax related to temporary differences	185 992	163 679
Tax expense disclosed in the consolidated income statement	**(631 486)**	**(838 156)**
Tax expense disclosed in the consolidated other comprehensive income	(21 690)	(12 735)
Total	**(653 176)**	**(850 891)**

(in PLN thousand)

	2009	2008
Profit before income tax	**2 943 270**	**3 977 343**
Corporate income tax calculated using the enacted tax rate 19% (2008: 19%)	(559 221)	(755 695)
Effect of other tax rates of foreign entities	13 183	(2 338)
Permanent differences between accounting gross profit and taxable profit, of which:	**(71 965)**	**(84 280)**
Recognition of an impairment loss not constituting taxable income (KREDOBANK)	(12 848)	(67 659)
Reversed provisions and positive revaluation not constituting taxable income	(30 453)	(56 084)
Other non-tax-deductible expenses	(43 185)	33 164
Dividend income	20 525	21 140
Other non-taxable income	17 098	2 330
Other	(23 102)	(17 171)
Other differences between gross financial result and taxable income, including donations	**(19 878)**	**(1 196)**
Tax loss settlement	**6 395**	**5 353**
Income tax disclosed in the consolidated income statement	**(631 486)**	**(838 156)**
Effective tax rate	**21.46%**	**21.07%**
Temporary difference due to the deferred tax presented in the consolidated income statement	185 992	163 679
Current income tax expense disclosed in the consolidated income statement, of which:	**(817 478)**	**(1 001 835)**
Corporate income tax calculated using the enacted tax rate 19% (2008: 19%)	(817 471)	(1 001 824)
Effect of other tax rates of foreign entities*	(7)	(11)

* as at 31 December 2009 and 31 December 2008 there is no tax charge of KREDOBANK SA

Current income tax liabilities/ receivables

	31.12.2009	31.12.2008
Current income tax receivables	7 184	6 649
Current income tax liability	181 893	472 228

The Group entities are subject to corporate income tax. The amount of current tax liability is transferred to the appropriate tax authorities. The final settlement of the corporate income tax liabilities of the Group entities for the year 2009 was made within the statutory deadline of 31 March 2010.

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

(in PLN thousand)

Deferred tax asset/liability

	Consolidated statement of financial position		Consolidated income statement	
	31.12.2009	**31.12.2008**	**2009**	**2008**
Deferred tax liability				
Interest accrued on receivables (loans)	88 454	100 892	12 438	(948)
Capitalised interest on mortgage loans	238 446	258 759	20 313	19 068
Interest on securities	37 713	44 113	6 400	(15 987)
Valuation of derivative financial instruments, of which:	40 935	-	-	-
transferred to income statement	12 957	-	(12 957)	-
transferred to other comprehensive income	27 978	-	-	-
Valuation of securities, of which:	-	11 486	-	-
transferred to income statement	-	6 365	6 365	(5 660)
transferred to other comprehensive income	-	5 121	-	-
Difference between book value and tax value of tangible assets	233 516	196 000	(37 516)	(62 074)
Other taxable temporary positive differences, of which:	23 190	34 612	-	-
transferred to income statement	22 940	23 662	722	(16 280)
transferred to other comprehensive income	250	10 950	-	-
Gross deferred tax liability, of which:	**662 254**	**645 862**	**-**	**-**
transferred to income statement	634 026	629 791	(4 235)	(81 881)
transferred to other comprehensive income	28 228	16 071	-	-
Deferred tax assets				
Interest accrued on liabilities	326 419	223 004	103 415	84 752
Valuation of derivative financial instruments, of which:	17 410	77 734	-	
transferred to income statement	17 410	77 734	(60 324)	15 403
transferred to other comprehensive income	-	-		-
Valuation of securities, of which:	15 090	27 825	-	-
transferred to income statement	11 272	14 759	(3 487)	(7 306)
transferred to other comprehensive income	3 818	13 066	-	-
Provision for anniversary bonuses and retirement benefits	110 171	110 037	134	21 163
Impairment allowances on credit exposure	236 494	159 789	76 705	80 596
Adjustment to effective interest rate valuation	191 507	166 449	25 058	16 950
Other temporary negative differences, of which:	147 847	99 676	-	-
transferred to income statement	148 044	99 318	48 726	34 002
transferred to other comprehensive income	(197)	358	-	-
Gross deferred income tax asset, of which:	**1 044 938**	**864 514**	**-**	**-**
transferred to income statement	1 041 317	851 090	190 227	245 560
transferred to other comprehensive income	3 621	13 424	-	-
Deferred tax impact on the income statement	**382 684**	**218 652**	**-**	**-**
transferred to income statement	407 291	221 299	-	-
transferred to other comprehensive income	(24 607)	(2 647)	-	-
Deferred income tax asset (presented in statement of financial position)	**403 218**	**239 237**	**-**	**-**
Deferred tax liability (presented in statement of financial position)	**20 534**	**20 585**	**-**	**-**
Net deferred tax impact on the income statement	**-**	**-**	**185 992**	**163 679**

As at 31 December 2009, the unsettled tax loss of the Group entities amounted to PLN 306 943 thousand.

As at 31 December 2009, tax loss of PLN 290 493 thousand was recognized as a deferred tax asset.

15. Earnings per share

Basic earnings per share

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

Earnings per share

	2009	2008
Profit per ordinary shareholder (PLN thousand)	2 305 538	3 120 674
Weighted average number of shares during the period (thousand)*	1 121 562	1 090 000
Profit per share (PLN per share)	2.06	2.86

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

Earnings per share from discontinued operations

In the years ended 31 December 2009 and 31 December 2008, the Group did not report any material income or expenses from discontinued operations.

Diluted earnings per share

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

There were no dilutive instruments in the Bank in the year ended 31 December 2009 nor in the year ended 31 December 2008.

Diluted earnings per share from discontinued operations

In the years ended 31 December 2009 and 31 December 2008 the Bank did not report any material income or expenses from discontinued operations.

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

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

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

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

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

On 30 March 2009, the Ordinary General Shareholders’ Meeting of Fort Mokotów Sp. z o.o. passed Resolution No. 17 on earmarking the dividend payment from reserve capital (created exclusively from profit from previous years) to PKO BP Inwestycje Sp. z o.o. – subsidiary of PKO Bank Polski SA in the amount of PLN 5 100 thousand and for the second shareholder in the amount of PLN 4 900 thousand.

(in PLN thousand)

On 18 June 2009 the Extraordinary General Shareholders' Meeting of Fort Mokotów Sp. z o.o. passed Resolution No. 5 on earmarking the dividend payment from reserve capital (created exclusively from profit from previous years) to PKO BP Inwestycje Sp. z o.o., the subsidiary of PKO Bank Polski SA, in the amount of PLN 1 530 thousand and for the second shareholder in the amount of PLN 1 470 thousand.

17. Cash and balances with the central bank

	31.12.2009	31.12.2008
Current account with the central bank	4 625 073	3 419 832
Cash	2 463 763	2 415 016
Other funds	5 514	2 044
Total	**7 094 350**	**5 836 892**

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

Funds on the obligatory reserve account bear interest of 0.9 of the rediscount rate for bills of exchange. As at 31 December 2009, this interest rate was 3.375%.

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

18. Amounts due from banks

	31.12.2009	31.12.2008
Deposits with other banks	1 160 377	2 106 309
Receivables due from repurchase agreements	105 427	603 200
Current accounts	617 388	383 847
Loans and advances	161 378	290 475
Cash in transit	5 594	7 879
Total	**2 050 164**	**3 391 710**
Impairment allowances on receivables, of which:	(27 109)	(28 111)
- impairment allowances on exposure to foreign bank	(27 013)	(28 067)
Net total	**2 023 055**	**3 363 599**

Details on risk related to amounts due from banks was presented in Note 54 "Objectives and principles of risk management related to financial instruments'.

19. Trading assets

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

(in PLN thousand)

Trading assets (carrying amount) by maturity as at 31 December 2009 and as at 31 December 2008
(nominal values at the contract maturity date, interest, premium, discount up to 1 month):

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

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

The portfolio of debt securities held for trading as at 31 December 2009 comprised the following securities carried at their nominal values:

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

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

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

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

(in PLN thousand)

20. Derivative financial instruments

Derivative instruments used by the Group

The Bank and other entities within the Group use various types of derivatives in order to manage risk involved in its business activities. As at 31 December 2009 and 31 December 2008, the Group held the following derivative instruments:

	31.12.2009		31.12.2008	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Hedging instruments	352 261	25 312	-	-
Other derivative instruments	1 676 861	1 519 058	3 597 670	6 150 337
Total	**2 029 122**	**1 544 370**	**3 597 670**	**6 150 337**

Type of contract	31.12.2009		31.12.2008	
	Assets	**Liabilities**	**Assets**	**Liabilities**
IRS	1 306 906	1 296 136	2 599 375	2 554 343
FRA	7 613	8 298	128 673	124 489
FX Swap	90 056	27 181	22 350	359 114
CIRS	402 221	33 699	56 289	2 391 272
Forward	24 167	49 349	204 356	135 645
Options	198 159	127 847	574 434	585 414
Other	-	1 860	12 193	60
Total	**2 029 122**	**1 544 370**	**3 597 670**	**6 150 337**

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

(in PLN thousand)

Derivative financial instruments as at 31 December 2009

Nominal amounts of underlying instruments and fair value of derivative financial instruments:

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
FX swap	12 955 378	2 381 565	41 597	-	-	**15 378 540**	27 181	90 056
Purchase	6 514 969	1 188 651	21 056	-	-	**7 724 676**	-	-
Sale	6 440 409	1 192 914	20 541	-	-	**7 653 864**	-	-
FX forward	1 711 582	1 707 652	2 532 286	36 321	-	**5 987 841**	49 349	24 167
Purchase	852 500	852 621	1 245 800	17 769	-	**2 968 690**	-	-
Sale	859 082	855 031	1 286 486	18 552	-	**3 019 151**	-	-
Options	1 598 363	4 075 651	3 958 544	222 614	-	**9 855 172**	127 847	198 159
Purchase	806 041	2 052 047	2 009 861	119 346	-	**4 987 295**	-	-
Sale	792 322	2 023 604	1 948 683	103 268	-	**4 867 877**	-	-
Cross Currency IRS	-	-	3 691 407	25 419 357	6 671 259	**35 782 023**	33 699	402 221
Purchase	-	-	1 852 643	12 742 333	3 335 244	**17 930 220**	-	-
Sale	-	-	1 838 764	12 677 024	3 336 015	**17 851 803**	-	-
Interest rate transactions								
Interest Rate Swap (IRS)	23 447 426	24 392 100	65 679 342	97 732 042	17 146 818	**228 397 728**	1 296 136	1 306 906
Purchase	11 723 713	12 196 050	32 839 671	48 866 021	8 573 409	**114 198 864**	-	-
Sale	11 723 713	12 196 050	32 839 671	48 866 021	8 573 409	**114 198 864**		
Forward Rate Agreement (FRA)	4 334 000	20 484 000	12 300 000	-	-	**37 118 000**	8 298	7 613
Purchase	1 750 000	14 834 000	6 250 000	-	-	**22 834 000**	-	-
Sale	2 584 000	5 650 000	6 050 000	-	-	**14 284 000**	-	-
Other transactions								
Other (including stock market index derivatives)	2 493 314	5 908	6 929	400 000	-	**2 906 151**	1 860	-
Purchase	1 246 657	1 840	858	200 000	-	**1 449 355**	-	-
Sale	1 246 657	4 068	6 071	200 000	-	**1 456 796**	-	-
Total derivative instruments	**46 540 063**	**53 046 876**	**88 210 105**	**123 810 334**	**23 818 077**	**335 425 455**	**1 544 370**	**2 029 122**

(in PLN thousand)

Derivative financial instruments as at 31 December 2008

Nominal amounts of underlying instruments and fair value of derivative financial instruments:

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

21. Derivative hedging instruments

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

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

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

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

Hedging strategy:	Hedges against fluctuations in cash flows from mortgage loans in CHF and negotiated term deposits in PLN, resulting from the risk of fluctuations in interest rates and in foreign exchange rates, using CIRS transactions.	Hedges against fluctuations from loans in PLN at float rate, resulting from the risk of fluctuations in interest rates, using IRS transactions.
Type of hedge relationship	Cash flow hedge accounting (macro cash flow hedge).	Cash flow hedge accounting (macro cash flow hedge).
Description of hedge relationship	Elimination of the risk of cash flow fluctuations generated by mortgage loans denominated in CHF and negotiated term deposits in PLN resulting from fluctuations in reference interest rates in CHF and PLN, and changes in foreign exchange rates CHF/PLN during the hedged period.	Elimination of the risk of cash flow fluctuations generated by floating rate PLN loans resulting from the interest rate risk in the period covered by the hedge.
Hedged risk	Currency risk and interest rate risk.	Interest rate risk.
Hedging instrument	CIRS transactions where the Bank pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal amount defined in CHF and PLN respectively.	IRS transactions where the Group pays coupons based on variable 3M WIBOR, and receives coupons based on a fixed rate on the nominal amount for which they were concluded.
Hedged position	1) The portfolio of floating rate mortgage loans denominated in CHF. 2) The portfolio of short-term negotiable term deposits, including renewals in the future (high probability of occurrence).	The portfolio of loans in PLN indexed to the variable 3M WIBOR rate.
Hedge effectiveness	The effectiveness of the hedge is verified by applying prospective and retrospective effectiveness tests. Tests are performed on a monthly basis.	The effectiveness of the hedge is verified by applying prospective and retrospective effectiveness tests. The tests are performed on a monthly basis.

The date of establishing a hedging relationship	Beginning from 1 April 2009, gradually on the dates of resetting the CIRS designated for hedge accounting.	May - December 2009
Periods in which cash flows are expected and in which they should have an impact on the financial result	January 2010 to January 2017	January 2010 to December 2012

Cash flow hedges

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

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

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

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

Other comprehensive income as regards cash flows hedge	**As at 31 December 2009**
Other comprehensive income at the beginning of the period	-
Gains or losses transferred to other comprehensive income in the period	636 166
Amount transferred in the period from other comprehensive income to profit and loss	(488 912)
Other comprehensive income at the end of the period (gross)	**147 254**
Tax effect	**(27 978)**
Net other comprehensive income at the end of the period	**119 276**

Ineffective part of hedging cash flows recognized through profit and loss	**(435)**

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

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

	31.12.2009	31.12.2008
Debt securities	**12 360 690**	**4 555 544**
issued by the State Treasury	5 362 314	4 373 621
issued by central banks	6 994 218	-
issued by other banks	-	172 876
Issued by non-financials entities	4 158	9 047
Total	**12 360 690**	**4 555 544**

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

According to nominal amount	31.12.2009		31.12.2008	Currency
in the parent company:				
NPB treasury bills	7 000 000	PLN thousand	-	PLN thousand
Treasury bills	4 634 410	PLN thousand	2 100 000	PLN thousand
Treasury bonds	766 000	PLN thousand	2 255 500	PLN thousand
USD bonds	-	PLN thousand	118 472	PLN thousand
including issued by banks	-	PLN thousand	118 472	PLN thousand
EUR bonds	-	PLN thousand	95 965	PLN thousand
In subsidiaries:				
bonds of other entities	22 595	UAH thousand	33 589	UAH thousand

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

(in PLN thousand)

Financial assets designated at fair value through profit and loss (carrying amount), by maturity
(nominal values at the contract maturity date, interest, premium, discount up to 1 month)

As at 31 December 2009	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Debt securities	**7 463 292**	**2 193 104**	**2 704 114**	**-**	**180**	**12 360 690**
- issued by other central banks	6 994 218	-	-	-	-	**6 994 218**
- issued by non-financial entities	-	-	3 978	-	180	**4 158**
- issued by the State Treasury	469 074	2 193 104	2 700 136	-	-	**5 362 314**
Total	**7 463 292**	**2 193 104**	**2 704 114**	**-**	**180**	**12 360 690**

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

(in PLN thousand)

23. Loans and advances to customers

	31.12.2009	31.12.2008
Loans and advances to customers		
Receivables valued using the group method (IBNR)	108 645 118	97 203 517
Receivables valued using the individual method	5 828 438	2 220 283
Receivables valued using the portfolio method	3 677 449	2 205 414
Finance lease receivables	2 358 704	2 396 553
Loans and advances - gross	**120 509 709**	**104 025 767**
Allowance for impairment on exposures with portfolio impairment	(1 951 888)	(1 398 065)
Allowance for impairment on exposures with individual impairment	(1 319 935)	(758 070)
Allowance for impairment on exposures with group impairment (IBNR)	(593 479)	(717 081)
Allowance for impairment on finance lease receivables	(71 822)	(44 660)
Total impairment allowances	**(3 937 124)**	**(2 917 876)**
Loans and advances to customers- net	**116 572 585**	**101 107 891**

Details on risk related to loans and advances to customers were presented in Note 54 ‘Objectives and principles of risk management related to financial instruments’.

Finance and operating lease agreements

Finance lease - lessor

The Group conducts lease activities through the entities from the Bankowy Fundusz Leasingowy SA Group.

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

as at 31 December 2009

Finance lease receivables	Gross lease investment	Present value of the minimal lease payments	Unearned interest
Gross lease investment value and minimal lease payments			
Gross lease receivables:			
up to 1 year	988 988	841 443	147 545
from 1 to 5 years	1 645 608	1 451 404	194 204
over 5 years	118 595	65 857	52 738
Gross total	**2 753 191**	**2 358 704**	**394 487**
Impairment allowances	(71 822)	(71 822)	-
Net total	**2 681 369**	**2 286 882**	**394 487**

Net lease investment	
Present value of the minimal lease payments, of which:	2 358 704
non guaranteed final amounts due to the lessor	926

(in PLN thousand)

As at 31 December 2008

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

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

Operating lease - lessee

Lease agreements, under which the lessor retains substantially the risk and rewards incidental to the ownership of an asset, are classified as operating lease agreements. Lease payments under operating leases are recognized as expenses in the income statement, on a straight-line basis over the lease term. Rental and tenancy agreements concluded by the Bank in the course of its normal operating activities meet the criteria of operating leases.

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

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

Total value of future lease payments under non-cancellable operating lease	31.12.2009	31.12.2008
For period:		
up to 1 year	93 898	91 899
from 1 year to 5 years	158 879	149 484
above 5 years	50 829	49 496
Total	**303 606**	**290 879**

Lease and sub-lease payments recognized as an expense in the period from 1 January 2009 to 31 December 2009 amounted to PLN 104 367 thousand (in the period from 1 January 2008 to 31 December 2008: PLN 88 496 thousand).

(in PLN thousand)

Operating lease - lessor

As at the balance date the total value of future lease receivables within minimal lease payment under operating lease are as follows:

Total value of future lease payments under non-cancellable operating lease	31.12.2009	31.12.2008
For the period:		
up to 1 year	5 069	1 967
from 1 year to 5 years	8 334	4 239
above 5 years	7 759	20 838
Total	**21 162**	**27 044**

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

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

Means of transport	2009	2008
Gross value as at the beginning of the period	20 274	21 088
Changes in the period	(5 291)	(814)
Gross value at the end of the period	14 983	20 274
Accumulated depreciation as at the beginning of the period	(6 104)	(6 497)
Depreciation for the period	(3 284)	(3 508)
Other changes in depreciation	4 142	3 901
Accumulated depreciation at the end of the period	(5 246)	(6 104)
Impairment allowances as at the beginning of the period	-	(33)
Reversal of impairment allowances	-	33
Net book value	**9 737**	**14 170**

24. Investment securities available for sale

	31.12.2009	31.12.2008
Debt securities available for sale	**7 867 725**	**8 544 543**
issued by central banks	-	2 673 729
issued by other banks	90 086	46 756
issued by other financial institutions	-	74 427
issued by non-financial institutions	794 812	815 210
issued by the State Treasury	4 982 606	3 516 322
issued by local government bodies	2 000 221	1 418 099
Allowance for impairment on debt securities available for sale	(19 155)	(19 932)
Total debt securities available for sale	**7 848 570**	**8 524 611**
Equity securities - available for sale	98 164	96 061
Allowance for impairment on equity securities available for sale	(2 417)	(5 759)
Total net equity securities - available for sale	95 747	90 302
Total net investment securities- available for sale	**7 944 317**	**8 614 913**

(in PLN thousand)

Change in investment securities available for sale:

	2009	2008
Investment securities available for sale		
Balance at the beginning of the period	**8 614 913**	**5 716 238**
Foreign exchange differences	43 336	42 269
Increases	10 138 272	8 661 642
of which: change in impairment allowance	*4 119*	*1 158*
Decreases (redemption)	(10 874 884)	(5 814 299)
Change in the fair value	22 680	9 063
Balance at the end of the period	**7 944 317**	**8 614 913**

Details on risk related to investment securities available for sale was presented in Note 54 ‘Objectives and principles of risk management related to financial instruments’.

Investment securities available for sale by maturity by carrying amount

(nominal values presented at contractual dates; interests, premium, discount presented in one month bracket; impairment allowance presented in one to three month bracket)

As at 31 December 2009	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Investment securities available for sale						
issued by other banks	-	-	39 185	-	50 901	**90 086**
issued by other financial institutions	-	-	-	-	-	**-**
issued by non-financial institutions	79 947	33 547	1 256	628 407	32 500	**775 657**
issued by the State Treasury	346 327	851 240	1 779 253	2 003 295	2 491	**4 982 606**
issued by local government bodies	3 935	1 218	161 508	791 181	1 042 379	**2 000 221**
Total	**430 209**	**886 005**	**1 981 202**	**3 422 883**	**1 128 271**	**7 848 570**

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

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

in the parent company:

- corporate bonds in PLN 816 830
- Treasury bills 492 270
- municipal bonds 2 013 589
- Treasury bonds 4 358 000
- Treasury bonds in EUR 41 082

in a subsidiary:

- Treasury bonds 181 493
- Treasury bills 9 200
- investment funds participation units 20 409
- corporate bonds 20 735*
- Treasury bonds 50 000*
- shares and investments 98*

*UAH thousand

As at 31 December 2008	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Investment securities available for sale						
issued by central banks	-	-	-	2 673 729	-	**2 673 729**
issued by other banks	-	-	-	46 756	-	**46 756**
issued by other financial institutions	-	-	74 427	-	-	**74 427**
issued by non-financial institutions	339 359	108 290	43 097	295 109	9 423	**795 278**
issued by the State Treasury	-	7 351	20 215	2 957 352	531 404	**3 516 322**
issued by local government bodies	-	8 361	95 239	652 493	662 006	**1 418 099**
Total	**339 359**	**124 002**	**232 978**	**6 625 439**	**1 202 833**	**8 524 611**

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

In the parent company:

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

In subsidiaries:

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

*in UAH thousand

(in PLN thousand)

25. Securities held to maturity

	31.12.2009	31.12.2008
Debt securities held to maturity	**9 894**	**-**
issued by the State Treasury	9 894	-
Total investment securities (net)	**9 894**	**-**

Change in investment securities held to maturity

	2009	2008
Debt securities held to maturity		
Balance at the beginning of the period	-	-
Increases	9 642	-
Change in the fair value	252	-
Balance at the end of the period	**9 894**	**-**

Securities held to maturity by carrying amount and by maturity

As at 31 December 2009	from 1 to 3 months	from 3 months to 1 year	Total
issued by the State Treasury	1 881	8 013	**9 894**
Total	**1 881**	**8 013**	**9 894**

As at 31 December 2008 PKO Bank Polski SA Group did not possess any investment securities in portfolio kept until maturity date.

26. Investments in associates and jointly controlled entities

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

Entity name	31.12.2009	31.12.2008
Centrum Obsługi Biznesu Sp. z o.o	11 182	10 934
Grupa Kapitałowa Centrum Haffnera Sp. z o.o.	38 058	45 748
Total	**49 240**	**56 682**

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

Entity name	31.12.2009	31.12.2008
Bank Pocztowy SA	179 173	175 871
Kolej Gondolowa Jaworzyna Krynicka SA	-	13 851
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	463
Agencja Inwestycyjna CORP SA	279	278
Total	**179 452**	**190 463**

(in PLN thousand)

Selected data on associated entities accounted for using the equity method

Entity name	Total assets	Total liabilities	Total revenues	Net profit (loss)	% share
As at 31.12.2009					
Bank Pocztowy SA	3 914 287	3 630 260	311 220	11 271	25.0001%
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	16 301	49	568	249	33.33%
Agencja Inwestycyjna CORP SA	3 710	2 073	14 823	479	22.31%
Total	**3 934 298**	**3 632 382**	**326 611**	**11 999**	**X**
As at 31.12.2008					
Bank Pocztowy SA	2 705 720	2 433 862	297 820	26 132	25.0001%
Kolej Gondolowa Jaworzyna Krynicka SA	44 648	7 794	13 408	3 714	37.53%
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	15 614	18	379	10 017	33.33%
Agencja Inwestycyjna CORP SA	3 899	2 290	13 165	451	22.31%
Total	**2 769 881**	**2 443 964**	**324 772**	**40 314**	**X**

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

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

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

Entity name	Total assets	Total liabilities	Total revenues	Net profit (loss)	% share
31.12.2009					
Centrum Obsługi Biznesu Sp. z o.o	131 685	103 941	18 442	(4 165)	41.44%
Grupa Centrum Haffnera Sp. z o.o.	374 108	295 944	31 898	(2 368)	49.43%
Total	**505 793**	**399 885**	**50 340**	**(6 533)**	**X**
31.12.2008					
Centrum Obsługi Biznesu Sp. z o.o	138 954	107 083	23 151	2 758	41.44%
Grupa Centrum Haffnera Sp. z o.o.	278 743	198 633	11 815	(13 788)	49.43%
Total	**417 697**	**305 716**	**34 966**	**(11 030)**	**X**

The information presented in the above table for Centrum Obsługi Biznesu Sp. z o.o. is derived from financial statements prepared in accordance with the Polish Accounting Standards, and the information for Centrum Haffnera Sp. z o.o. is derived from consolidated financial statements prepared in accordance with Polish Accounting Standards. According to the Group's estimates, differences between the above-mentioned financial statements and the statements prepared in accordance with IFRS are not significant from the perspective of the consolidated financial statements of the Group. The information for the both companies for the year 2008 is derived from audited financial statements.

In the consolidated financial statements for the year ended 31 December 2009, all associates and jointly controlled entities are accounted for using the equity method.

(in PLN thousand)

	2009	2008
Investments in associates at the beginning of the period	**190 463**	**122 313**
Share of profit	7 785	15 184
Share in changes in equity	705	-
Dividends paid	(94)	(64)
Share in changes in equity	(15 531)	(7 386)
Sale of FINDER SA shares	-	(7 386)
Reclassification of Kolej Gondolowa jaworzyna Krynicka SA shares to non-current assets held for sale	(15 531)	-
Change in impairment allowances of investment	(3 876)	60 416
Investment in associates at the end of the period	**179 452**	**190 463**

In January 2009, PKO Bank Polski SA, taking into consideration the status of the work related to the sale of shares in Kolej Gondolowa Jaworzyna Krynicka SA, reclassified all the shares held in the above-mentioned company to held-for-sale assets (in accordance with IFRS 5). Until January 2009, the company was classified as investment in associates and recognized in the consolidated financial statements under the equity method.

	2009	2008
Investments in jointly controlled entities at the beginning of the period	**56 682**	**56 271**
Share of profit (loss)	(7 442)	411
Investments in jointly controlled entities at the end of the period	**49 240**	**56 682**

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

In the year ended 31 December 2009, PKO Bank Polski SA did not make any direct investments in jointly controlled entities or associates.

27. Inventories

Carrying amount of inventories by kind*	31.12.2009	31.12.2008
Work-in-progress*	424 824	403 175
Finished goods	144 347	100 270
Supplies	105 252	113 533
Materials	12 666	5 432
Impairment allowances on inventories	(34 014)	-
TOTAL	**653 075**	**622 410**

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

(in PLN thousand)

28. Intangible assets

For the year ended 31 December 2009	Development costs	Software	Goodwill acquired as a result of business combinations (including subsidiaries' goodwill)	Other, including development costs	Total
Net carrying amount as at 1 January 2009	**6 923**	**971 226**	**164 720**	**209 909**	**1 352 778**
Purchase of shares of subsidiaries	-	-	103 615	-	**103 615**
Purchases	375	8 689	-	283 366	**292 430**
Sales and disposals	-	(209)	-		**(209)**
Increases due to business entities mergers	-				**-**
Impairment allowances	-	-	(3 402)	-	**(3 402)**
Foreign exchange differences on revaluation of foreign entities' operations results into the presentation currency	-	(534)	-	44	**(490)**
Transfers	-	414 497	-	(414 497)	**-**
Impairment allowance				-	**-**
Amortisation	-	(166 423)	-	(2 932)	**(169 355)**
Other value changes	(3 884)	3 206	-	(2 112)	**(2 790)**
Net carrying amount as at 31 December 2009	**3 414**	**1 230 452**	**264 933**	**73 778**	**1 572 577**
As at 1 January 2009					
Purchase price (gross carrying amount)	6 923	1 828 366	241 080	314 458	**2 390 827**
Accumulated amortisation and impairment allowances	-	(857 140)	(76 360)	(104 549)	**(1 038 049)**
Net carrying amount	**6 923**	**971 226**	**164 720**	**209 909**	**1 352 778**
As at 31 December 2009					
Purchase price (gross carrying amount)	3 414	2 254 339	344 695	180 126	**2 782 574**
Accumulated amortisation and impairment allowances	-	(1 023 887)	(79 762)	(106 348)	**(1 209 997)**
Net carrying amount	**3 414**	**1 230 452**	**264 933**	**73 778**	**1 572 577**

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

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

The Group does not produce any software internally. In the period from 1 January 2009 to 31 December 2009, the PKO Bank Polski SA incurred capital expenditures for the purchase of tangible fixed assets and intangible assets in the amount of PLN 448 694 thousand (in the period from 1 January 2008 to 31 December 2008: PLN 889 362 thousand).

(in PLN thousand)

The table below presents data concerning goodwill included in the Group's financial statements as at 31 December 2009 and 31 December 2008.

Net goodwill	31.12.2009	31.12.2008
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	51 158	51 158
Centrum Finansowe Puławska Sp. z o.o	7 785	7 785
Wilanów Investment Sp. z o.o.	49 412	49 412
PKO Towarzystwo Funduszy Inwestycyjnych SA	149 564	49 351
Baltic Dom 2 Sp. z o.o.	7 014	7 014
Total net goodwill	**264 933**	**164 720**

Additional information on goodwill arising on the acquisition of subsidiaries in the year of 2009 is presented in Note 49 "Changes to the entities of the Group'.

As at 31 December 2009, the Group conducted mandatory goodwill impairment tests in accordance with the model developed on the basis of the guidelines included in IAS 36 taking into consideration the specific nature of operations of particular entities.

Test models (with the exception of PKO BP BANKOWY PTE SA) are based on discounted cash flows and on the assumptions that the shares will be held in the future. The forecasts related to cash flows are developed on the basis of financial plans of entities covering a period of 3 to 5 years, using differentiated discount rates tailored to the specific nature of operations of the particular entities.

The goodwill impairment testing model of PKO BP BANKOWY PTE SA was developed using the *embedded value* method, according to which the value in use of the Bank's share in the value of the company was determined.

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

Test results presented as at 31 December 2009 justify an increase in impairment allowances for KREDOBANK SA in 2009 by PLN 3 402 thousand (change from PLN 76 360 thousand as at 31 December 2008 to 79 762 thousand as at 31 December 2009) and unchanged value of impairment allowances for goodwill for other entities.

(in PLN thousand)

29. Tangible fixed assets

For the year ended 31 December 2009	Land and buildings	Machinery and equipment	Means of transport	Assets under construction	Investment properties	Other	Total
Gross value of tangible assets as at the beginning of the period	**2 346 187**	**2 382 497**	**81 853**	**560 319**	**32 009**	**430 035**	**5 832 900**
Increases, of which:	**9 078**	**26 912**	**1 009**	**148 160**	**607**	**6 902**	**192 668**
Purchases and other changes	9 078	26 912	1 009	148 160	607	6 902	192 668
Decreases, of which:	**(43 601)**	**(284 638)**	**(17 254)**	**(18 051)**	**(31 885)**	**(21 372)**	**(416 801)**
Disposals and sales	(29 347)	(280 307)	(15 417)	-	(31 885)	(19 232)	(376 188)
Foreign exchange differences	(3 028)	(2 736)	(185)	(2 108)	-	(1 520)	(9 577)
Other	(11 226)	(1 595)	(1 652)	(15 943)	-	(620)	(31 036)
Transfers from assets under construction to tangible fixed assets	**132 346**	**305 626**	**6 465**	**(483 177)**	**-**	**38 740**	**-**
Gross value of fixed assets at the end of the period	**2 444 010**	**2 430 397**	**72 073**	**207 251**	**731**	**454 305**	**5 608 767**
Accumulated depreciation as at the beginning of the period	**(628 830)**	**(1 884 212)**	**(26 671)**	**-**	**(7 839)**	**(318 654)**	**(2 866 206)**
Increases, of which:	**(83 087)**	**(174 441)**	**(12 620)**	**-**	**(803)**	**(32 236)**	**(303 187)**
Depreciation for the period	(82 628)	(173 960)	(12 498)	-	(803)	(29 908)	(299 797)
Other	(459)	(481)	(122)	-	-	(2 328)	(3 390)
Decreases, of which:	**18 883**	**280 518**	**12 058**	**-**	**8 233**	**20 484**	**340 176**
Disposal and sales	15 400	277 662	11 109	-	8 233	18 435	330 839
Other	2 808	1 473	817	-	-	1 318	6 416
Foreign exchange differences	675	1 383	132	-	-	731	2 921
Accumulated depreciation at the end of the period	**(693 034)**	**(1 778 135)**	**(27 233)**	**-**	**(409)**	**(330 406)**	**(2 829 217)**
Impairment allowances							
Opening balance	(1 216)	(119)	-	(700)	-	-	(2 035)
Increases	-	(603)	(8)	-	-	-	**(611)**
Decreases	53	37	-	700	-	-	790
Closing balance	(1 163)	(685)	(8)	-	-	-	(1 856)
Net book value	**1 749 813**	**651 577**	**44 832**	**207 251**	**322**	**123 899**	**2 777 694**
Opening balance	**1 716 141**	**498 166**	**55 182**	**559 619**	**24 170**	**111 381**	**2 964 659**
Closing balance	**1 749 813**	**651 577**	**44 832**	**207 251**	**322**	**123 899**	**2 777 694**

As at 31 December 2009, the off-balance sheet value of machinery and equipment used under operating lease agreements and operating leases with purchase options contracts amounted to PLN 43 604 thousand (as at 31 December 2008: PLN 3 623 thousand). In the years ended 31 December 2009 and 31 December 2008, respectively, there were no restrictions on the Group's right to use its tangible fixed assets as a result of pledges.

(in PLN thousand)

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

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

(in PLN thousand)

30. Other assets

	31.12.2009	31.12.2008
Trade receivables	177 885	218 234
Settlements of payment cards transactions	114 060	123 732
Accruals and prepayments	112 543	115 454
Receivables relating to foreign exchange activities	6 679	8 628
Receivables from the state budget due to distribution of marks of value	13 800	8 883
Settlements of investment securities turnover	9 551	7 255
Settlements of financial instruments	33 865	50 972
Receivables from unsettled transactions related to derivatives	20 598	7 446
Other*	86 445	89 848
Total	**575 426**	**630 452**
Of which financial assets **	376 438	425 150

* Included in “Other’ are mainly interbank and inter-branch settlements, receivables arising from internal operations, receivables arising from other transactions with financial, non-financial and public entities.
** Financial assets include all items of “Other assets’, with the exception of “Accruals and prepayments’ and “Other’.

31. Amounts due to the central bank

	31.12.2009	31.12.2008
Up to 1 month	6 581	2 816
Total	**6 581**	**2 816**

32. Amounts due to other banks

	31.12.2009	31.12.2008
Other bank deposits	1 399 985	2 835 727
Loans and advances	3 597 839	3 943 895
Current accounts	26 545	93 810
Other money market deposits	121 679	115 171
Total amounts due to other banks	**5 146 048**	**6 988 603**

33. Other financial liabilities designated at fair value through profit and loss

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

(in PLN thousand)

34. Amounts due to customers

	31.12.2009	31.12.2008
Amounts due to corporate entities	**27 834 542**	**19 332 897**
Current accounts and overnight deposits	8 895 727	7 215 707
Term deposits	17 286 459	11 582 684
Loans and advances	1 420 517	378 009
Other	231 839	156 497
Amounts due to state budget entities	**9 680 991**	**7 283 578**
Current accounts and overnight deposits	3 355 764	3 873 868
Term deposits	6 279 377	3 360 986
Other	45 850	48 724
Amounts due to retail clients	**87 557 401**	**76 322 806**
Current accounts and overnight deposits	37 730 475	29 247 846
Term deposits	49 559 096	46 778 479
Other	267 830	296 481
Total	**125 072 934**	**102 939 281**

35. Debt securities in issue

As at 31 December 2009 and 31 December 2008, the Group had the following liabilities from debt securities in issue:

	31.12.2009	31.12.2008
Debt securities in issue		
Bonds issued by:		
BFL SA	289 251	183 594
KREDOBANK SA	109	27 979
Total	**289 360**	**211 573**

	31.12.2009	31.12.2008
Debt securities in issue by maturity:		
Up to 1 month	139 520	79 404
From 1 month to 3 months	120 120	74 721
From 3 months to 1 year	29 611	29 469
From 1 year to 5 years	109	27 979
Total	**289 360**	**211 573**

As at 31 December 2009, the average interest rate of securities issued by KREDOBANK SA was 22% and of securities issued by BFL – 5.77%. As at 31 December 2008, the interest rate of securities issued by KREDOBANK SA and BFL amounted to 13.07% and 7.23%, respectively.

36. Subordinated liabilities

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

as at 31 December 2009

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

as at 31 December 2008

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

change in subordinated liabilities

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

37. Other liabilities

	31.12.2009	31.12.2008
Accounts payables	227 492	237 520
Deferred income	291 704	262 867
Other liabilities relating to:	**1 047 427**	**1 167 389**
inter-bank	182 275	241 922
liabilities relating to settlements of security transactions	276 221	205 896
liabilities due to suppliers	148 896	146 745
liabilities due to legal settlements	137 194	123 448
liabilities arising from foreign currency activities	47 934	76 854
liabilities relating to investment activities and internal operations	12 689	52 059
liabilities arising from repayment obligation of advances from borrowers related with debt forgiveness from the State Treasury	-	39 226
settlement of acquisition of machines, materials, works and services regarding construction of tangible assets	3 570	35 862
liabilities due to UOKiK (the Competition and Consumer Protection Office)	22 310	22 310
liabilities arising from transactions with non-financial institutions	7 951	14 534
liabilities arising from other settlements	8 058	8 271
liabilities relating to payment cards	1 468	1 663
liabilities relating to financial instruments	36 325	57 764
other*	162 536	140 835
Total	**1 566 623**	**1 667 776**
Of which financial assets **	1 112 383	1 264 074

* Item “other’ includes: liabilities from sale of Treasury stamps, liabilities arising from bank transfers and other payment orders, payables to insurance companies.

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

As at 31 December 2009 and 31 December 2008, none of the Group entities had overdue contractual liabilities.

(in PLN thousand)

38. Provisions

For the year ended 31 December 2009	Provision for legal claims	Provisions for anniversary bonuses and retirement benefits	Provisions for liabilities and guarantees granted	Other provisions*	Total
As at 1 January 2009, including:	**9 352**	**365 186**	**78 250**	**113 228**	**566 016**
short term portion	**9 352**	**46 648**	**78 250**	**113 228**	**247 478**
long term portion	**-**	**318 538**	**-**	**-**	**318 538**
Increase/reassessment	389	3 529	172 205	17 413	**193 536**
Use	(1 034)	-	(2 296)	(14 288)	**(17 618)**
Release	(15)	(396)	(135 934)	(2 829)	**(139 174)**
Foreign exchange differences	-	-	(504)	-	**(504)**
Other changes and reclassifications	(564)	(24)	-	626	**38**
As at 31 December 2009, including:	**8 128**	**368 295**	**111 721**	**114 150**	**602 294**
short term portion	**8 128**	**27 418**	**111 721**	**114 150**	**261 417**
long term portion	**-**	**340 877**	**-**	**-**	**340 877**

*Included in "Other provisions' is: restructuring provision amounting to PLN 72 604 thousand and provision for potential claims on receivables sold amounting PLN 31 589 thousand.

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

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

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

39. Share capital

In the years ended 31 December 2009 and 31 December 2008 there were no changes in the amount of the share capital of PKO Bank Polski SA.

As at 31 December 2009, the share capital of PKO Bank Polski SA amounted to PLN 1 250 000 thousand and consisted of 1 250 000 thousand ordinary shares with nominal value of PLN 1 each (as at 31 December 2008: PLN 1 000 000 thousand, 1 000 000 thousand ordinary shares with nominal value of PLN 1 each). All issued shares of PKO Bank Polski SA are common shares.

The structure of PKO Bank Polski SA share capital:

Series	Type	Number	Nominal value of 1 share	Issue value (PLN)
Series A	ordinary, registered shares	510 000 000	PLN 1	510 000 000
Series B	ordinary, bearer shares	105 000 000	PLN 1	105 000 000
Series C	ordinary, bearer shares	385 000 000	PLN 1	385 000 000
Series D	ordinary, bearer shares	250 000 000	PLN 1	250 000 000
Total	**---**	**1 250 000 000**	**---**	**1 250 000 000**

(in PLN thousand)

On 10 November 2004, based on a Resolution dated 30 August 1996 on commercialization and privatization (Journal of Laws 2002, No. 171, item 1397 with subsequent amendments) and Par. 14, Resolution 1 of the Ministry of the State Treasury dated 29 January 2003 on specific rules for categorization of employees into groups, setting a number of shares to be allocated on each of such groups, and procedures for acquiring shares by authorized employees (Journal of Laws No. 35, item 303), the parent company of the Group has issued its shares to its employees. As a result, the parent company's employees received 105 000 000 shares, which constituted 10.5% of the share capital of the parent company.

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

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

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

40. Other capital and retained earnings

	31.12.2009	31.12.2008
Reserve capital	12 149 682	7 274 717
Other reserves	3 405 087	1 523 827
General banking risk fund	1 070 000	1 070 000
Valuation of the associate	705	-
Financial assets available for sale	(11 762)	(33 237)
Cash flow hedge	119 276	-
Total other capital	**16 732 988**	**9 835 307**
Retained earnings	248 806	53 232
Total	**16 981 794**	**9 888 539**

41. Transferred financial assets which do not qualify for derecognition

As at 31 December 2009 and 31 December 2008, the Group did not hold any significant transferred financial assets in such a way that part or all of the financial assets would not qualify for derecognition.

42. Pledged assets

The PKO Bank Polski SA Group had the following pledged assets:

Liabilities from sell-buy-back transactions (SBB)

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

Bank deposit guarantee fund

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

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

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

Guarantee Fund for the Settlement of Stock Exchange Transactions

Cash pledged as collateral for securities' transactions conducted by Dom Maklerski PKO BP SA are deposited in the National Depository for Securities (KDPW), as part of the Guarantee Fund for the Settlement of Stock Exchange Transactions.

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

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

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

	31.12.2009	31.12.2008
Cash pledged as collateral for loans from other Ukrainian banks		
UAH thousand	-	160 160
PLN thousand	-	59 740
Bonds issued by the Ukraine Ministry of Finance, pledged as collateral for loans received from National Bank of Ukraine		
UAH thousand	50 000	-
PLN thousand	17 790	-

(in PLN thousand)

43. Contingent liabilities

Underwriting programs

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

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

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

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

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

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

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

Contractual commitments

As at 31 December 2009 contractual commitments concerning intangible assets amounted to PLN 1 748 thousand.

Loan commitments

	31.12.2009	31.12.2008
Total loan commitments to:	**27 385 159**	**26 141 444**
financial sector	783 978	635 344
non-financial sector	24 786 905	25 084 434
public sector	1 814 276	421 666
of which: irrevocable loan commitments	6 985 527	7 712 824

(in PLN thousand)

Guarantees issued

Guarantees	31.12.2009	31.12.2008
Financial sector	22 587	4 871
Non-financial sector	5 101 594	4 093 755
Public sector	373 300	204 073
Total	**5 497 481**	**4 302 699**

In the years ended 31 December 2009 and 31 December 2008, the Bank and its subsidiaries did not issue any guarantees in respect of loans or advances and did not issue any guarantees to a single entity or a subsidiary thereof with a total value accounting for 10% of the Bank's equity.

Information on provisions for contingent guarantees and financial liabilities is included in Note 38 'Provisions'.

Contingent liabilities by maturity as at 31 December 2009

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
Financial liabilities	15 085 902	313 335	5 111 897	2 191 153	4 682 872	**27 385 159**
Guarantee liabilities issued	1 366 141	1 505 984	1 541 703	1 083 653	0	**5 497 481**
Total	**16 452 043**	**1 819 319**	**6 653 600**	**3 274 806**	**4 682 872**	**32 882 640**

Contingent liabilities by maturity as at 31 December 2008

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

Contingent assets

	31.12.2009	31.12.2008
Received	**4 580 021**	**4 928 425**
financial	843 627	753 118
guarantees	3 736 394	4 175 307

Assets pledged as collateral for contingent liabilities

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

Right to sell or pledge collateral established for the Group

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

44. Legal claims

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

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

a) Unfair competition proceedings

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

With reference to the Decision of UOKiK President as of 12 December 2008 imposing a fine on PKO Bank Polski SA for the unfair advertisment of the “Max Lokata’ term deposit, as at the balance date the Bank recognised a provision in the amount of PLN 5 712 thousand. The decision of the UOKiK is not final and the Bank appealed against the verdict on 2 January 2009. As at 31 December 2009, the provision remained unchanged.

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

As at the date of these financial statements, three administrative proceedings are pending to invalidate decisions issued by public administration authorities with respect to properties held by the Bank. These proceedings, in the event of an unfavourable outcome for the Bank, may result in re-privatization claims being raised against the Bank. Given the current status of these proceedings, it is not possible to assess their potential negative financial effects for the Bank. Moreover, with respect to two properties claims were submitted by their former owners (court proceedings are pending), and with respect to the third property, the Bank is in the process of negotiations in order to settle the legal status. Until 31 December 2009 there had been no further developments with respect to this issue. The financial statements for the year ended 31 December 2009 do not contain any adjustments in respect of the potential liabilities resulting from re-privatization claims.

(in PLN thousand)

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

45. Supplementary information to the consolidated cash flow statement

Cash and cash equivalents

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

	31.12.2009	31.12.2008
Cash and balances with the central bank	7 094 350	5 836 892
Current receivables from other financial institutions	1 898 043	2 433 351
Total	**8 992 393**	**8 270 243**

Cash flow from interests and dividends, both received and paid

Interest income - received	2009	2008
Income from loans and advances	6 573 215	6 979 839
Income from securities designated at fair value through profit and loss	362 718	441 731
Income from placements with other banks	178 479	325 136
Income from investment securities	474 861	272 155
Income from trading securities	94 558	62 151
Other received interests	1 707 633	1 081 671
Total interest income -received	**9 391 464**	**9 162 683**

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

Interest expense – paid	2009	2008
Interest expense on deposits	(2 525 411)	(1 625 085)
Interest expense on loans and advances	(108 734)	(184 920)
Interest expense on debt securities in issue	(108 654)	(114 326)
Other (mainly interests on debt securities premium, interests on cash pledge liabilities, interests on accounts of special allocation funds)	(1 338 489)	(892 533)
Total interest expense - paid	**(4 081 288)**	**(2 816 864)**

(in PLN thousand)

Dividend expense - paid	2009	2008
Dividend paid to shareholders of the parent company	(1 000 000)	(1 090 000)
Dividend paid to minority shareholders	(32 620)	(30 750)
Total dividend expense - paid	**(1 032 620)**	**(1 120 750)**

Cash flow from operating activities - other adjustments

	2009	2008
Interest accrued, discount, premium – on available for sale debt securities decreased by deferred tax	(393 651)	(433 088)
Disposal and impairment allowances for tangible fixed assets and intangible assets	(58 997)	133 001
Valuation, impairment allowances for investments in jointly controlled entities and associates	237 383	(33 208)
Currency translation differences from foreign operations	(51 378)	(9 652)
Other adjustments - total	**(266 643)**	**(342 947)**

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

Gains (losses) on disposal of fixed assets and intangible assets	2009	2008
Income from sale and disposal of tangible fixed assets and intangible assets	(17 236)	(6 226)
Costs of sale and disposal of tangible fixed assets and intangible assets	7 723	6 271
Gains (losses) on investing activities related to sale, disposal of fixed assets and intangible assets - total	**(9 513)**	**45**

Interests and dividends	2009	2008
Interest from investment securities of the available for sale portfolio, presented in the investing activities	(461 061)	(283 330)
Dividends received, presented in the investing activities	(5 192)	(21 905)
Interest paid from loans granted, presented in financing activities	41 166	63 441
Total interests and dividends	**(425 087)**	**(241 794)**

Increase in amounts due from banks	2009	2008
Change in the statement of financial position's amount	1 340 544	1 897 637
Change in impairment allowances on amounts due from banks	(1 002)	(27 835)
Exclusion of the change in the balance of cash and cash equivalents	(535 308)	(2 116 338)
Total change	**804 234**	**(246 536)**

Increase in loans and advances to customers	2009	2008
Change in the statement of financial position’s amount	(15 464 694)	(24 690 742)
Change in the impairment allowances on amounts due from customers	1 019 248	(502 273)
Total change	**(14 445 446)**	**(25 193 015)**

Decrease in other assets	2009	2008
Change in the statement of financial position's amount	10 510	(308 882)
Transfer of prepayment to related to acquisition of shares of a subsidiary to investing activities	-	48 737
Total change	**10 510**	**(260 145)**

(in PLN thousand)

Decrease in amounts due to other banks	2009	2008
Change in the statement of financial position's amount	(1 838 790)	2 287 026
Transfer of loans and advances received from other banks/repayment of these loans and advances - to financing activities	339 656	(310 871)
Total change	**(1 499 134)**	**1 976 155**

Increase in amounts due to customers	2009	2008
Change in the statement of financial position's amount	22 133 653	16 359 771
Transfer of loans and advances received from non-financial entities/repayment of these loans and advances - to financing activities	(1 041 134)	32 518
Total change	**21 092 519**	**16 392 289**

Increase in allowances and provisions	2009	2008
Change in the statement of financial position's amount	36 227	127 854
Change in impairment allowances on amounts due from banks	1 002	27 835
Change in impairment allowances on loans and advances to customers	(1 019 248)	502 273
Change in the balance of deferred tax provisions related to valuation of the available-for-sale portfolio included in deferred income tax	(32 104)	(2 011)
Total change	**(1 014 123)**	**655 951**

Decrease in other liabilities	2009	2008
Change in the statement of financial position's amount	(101 153)	(64 557)
Transfer of repayment of interest on loans and advances to non-financial entities, presented in financing activities	43 022	90 049
Transfer of the self - issue interests payment	106 152	111 152
Total change	**48 021**	**136 644**

46. Transactions with the State Treasury and related entities

Receivables, securities and liabilities arising from transactions conducted with the State Treasury and other state budgetary agencies are disclosed in the Group's statement of financial position. All of the above are arm's length transactions.
In accordance with the 30 November 1995 Act in relation to State support in the repayment of certain housing loans (Journal of Laws, 2003; No. 119, item 1115 with subsequent amendments) PKO Bank Polski SA receives payments from the State budget in respect of interest receivable on those loans.

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

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

	2009	2008
Fee and commission income	6 771	4 527

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

(in PLN thousand)

As of 1 January 1996 the Bank became the general distributor of duty stamps and receives commission from the State Treasury.

	2009	2008
Fee and commission income	21 664	21 738

In the year ended 31 December 2009, the Bank also recognized fee and commission income of PLN 13 thousand (in the year ended 31 December 2008: PLN 36 thousand) in respect of its fees for servicing compensation payments made to pensioners who lost, in 1991, certain supplements to their pensions working conditions hardship and to public sector employees whose salaries were not revised in the second half of 1991 and in the first half of 1992.

	2009	2008
Fee and commission income	13	36

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

	2009	2008
Fee and commission income	40 127	63 168

(in PLN thousand)

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

The transactions were concluded at arm's length.

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

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

(in PLN thousand)

47. Related party transactions

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

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

31 December 2009

Entity	Net receivables	including gross loans	Liabilities	Total revenues	including interest and fee and commission income	Total costs	including interest and fee and commission costs	Contingent liabilities and commitments
CENTRUM HAFFNERA Sp. z o.o.	-	-	151	12	12	321	321	4 108
Centrum Obsługi Biznesu Sp z o.o.	32 627	32 627	23 313	1 146	1 146	686	686	-
Centrum Majkowskiego Sp. z o.o.	-	-	4 904	5	5	151	151	-
Kamienica Morska Sp. z o.o.	-	-	328	5	5	-	-	-
Sopot Zdrój Sp. z o.o.	229 852	229 852	6 999	10 196	10 196	27	27	-
Promenada Sopocka Sp. z o.o.	45 555	45 555	689	1 926	1 926	1	1	-
Bank Pocztowy SA	-	-	294	28	28	3 229	3 229	1 156
Poznański Fundusz Poręczeń Kredytowych Sp.	-	-	437	1	1	47	47	-
Agencja Inwestycyjna 'CORP' SA	-	-	58	-	-	1 784	-	-
Total	**308 034**	**308 034**	**37 173**	**13 319**	**13 319**	**6 246**	**4 462**	**5 264**

31 December 2008

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

48. Remuneration – parent company key management

a) short-term employee benefits

Remuneration received from PKO Bank Polski SA

	2009	2008
The Management Board of the Bank		
Short-term employee benefits	1 854	2 491
The Supervisory Board of the Bank		
Short-term employee benefits	279	256
Total	**2 133**	**2 747**

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

	2009	2008
The Management Board of the Bank		
Short-term employee benefits	1 139	1 096
The Supervisory Board of the Bank		
Short-term employee benefits	21	91
Total	**1 160**	**1 187**

(in PLN thousand)

b) post-employment benefits

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

c) other long-term benefits

In the years ended 31 December 2009 and 31 December 2008 no “other long-term benefits’ were granted.

d) benefits due to termination of employment

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

e) share-based payments

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

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

	31 December 2009	31 December 2008
Employees	1 384 420	1 217 814
The Management Board members	135	150
The Supervisory Board members	2 466	71
Total	**1 387 021**	**1 218 035**

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

Remuneration received by members of the Management Boards and the Supervisory Boards of the PKO Bank Polski SA Group subsidiaries

	2009	2008
The Management Board		
Short-term employee benefits	5 660	11 643
The Supervisory Board		
Short-term employee benefits	1 375	3 616
Total	**7 035**	**15 259**

49. Changes to the entities of the Group

The information below concerns share purchase transactions with subsidiaries, which were concluded within the year of 2009.

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

The company Fort Mokotów Inwestycje Sp. z o.o. was registered in the National Court Register on 7 April 2009. The Company’s share capital amounts to PLN 43 551 thousand, consisting of 43 551 shares of PLN 1 000 nominal value each.

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

On 1 December 2009, PKO Bank Polski SA made an additional contribution to the equity of Fort Mokotów Inwestycje Sp. z o.o. in the amount of PLN 8 053.08 thousand.

(in PLN thousand)

As at 31 December 2009 in the consolidated financial statements of the PKO Bank Polski SA Group, Fort Mokotów Inwestycje Sp. z o.o. was consolidated under the full method.

b) concerning KREDOBANK SA

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

On 10 June 2009, PKO Bank Polski SA took up 102 384 202 391 shares in the increased share capital of KREDOBANK SA in the total nominal value of UAH 1 023 842.02 thousand. The price for the purchased shares, including the additional costs, amounted to PLN 430 644.77 thousand.

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

As at 31 December 2009 and 31 December 2008, in the consolidated financial statements of the PKO Bank Polski SA Group, KREDOBANK SA was consolidated under the full method.

c) concerning PKO Towarzystwo Funduszy Inwestycyjnych SA

On 15 September 2009 PKO Bank Polski SA signed an agreement with Credit Suisse Asset Management (Luxembourg) SA for the purchase of 25% of shares of PKO Towarzystwo Funduszy Inwestycyjnych SA. Conducting the transaction including taking over the shares took place on 1 October 2009. The purchase price including additional costs was PLN 117 934.25 thousand.

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

The table below presents data concerning goodwill arising as a result of acquiring shares in PKO TFI SA.

PKO TFI SA	
Date of purchase	**01.10.2009**
Share in Company's capital	25.00%
Purchase value	117 934
Book value of Company's assets as at purchase date (net)	70 881
Book value of Company's net assets related to acquired shares	17 720
Goodwill arising from acquiring shares in 2009 as at purchase date	**100 214**
Goodwill arising from acquiring shares in 2009 as at 31 December 2009	**100 214**

The above-mentioned goodwill corresponds to the payment made by PKO Bank Polski SA in exchange for future expected economic benefits related to the purchase of 25% of shares of PKO TFI SA. As a result, the Bank took full control of the Company, including acquiring the whole dividend of the Company.

As At 31 December 2009 and as At 31 December 2008 in the consolidated financial statements of the PKO Bank Polski SA Group, PKO Towarzystwo Funduszy Inwestycyjnych SA was consolidated under the full method.

d) concerning the Bankowe Towarzystwo Kapitałowe SA Group

Bankowy Faktoring SA which changed its name on 23 July 2009 into PKO BP Faktoring SA. was registered in The National Court Register on 6 January 2009. The share capital of the company came to PLN 1 000 thousand and was divided into 1 000 of registered shares each at the nominal value of PLN 1 000.

All the shares in the capital of the company were overtaken by Bankowe Towarzystwo Kapitałowe SA – a subsidiary company of PKO Bank Polski SA at the price of PLN 1 330 thousand.

In 2009 the increase in the share capital of PKO BP Faktoring SA by the total amount of PLN 5 500 thousand was registered in The National Court Register; on 2 June 2009 by the total amount of PLN 2 million, on 23 July 2009 by the total amount of PLN 2 500 thousand and on 17 December 2009 by the total amount of PLN 1 million.

All the shares in the increased capital share were taken up by Bankowe Towarzystwo Kapitałowe SA – a subsidiary company of PKO Bank Polski SA at the total amount of PLN 7 million.

As at 31 December 2009 the share capital of the company amounts to PLN 6 500 thousand and is divided into 6 500 shares each at the nominal value of PLN 1 thousand.

After the said issue is registered, Bankowe Towarzystwo Kapitałowe SA held a total of 99.9846 of the Company's share capital which authorized it to 99.9846% voting rights at the Company's General Shareholders' Meeting.

As at 31 December 2009 in the consolidated financial statements of the PKO Bank Polski SA Group, PKO BP Faktoring SA was consolidated under the full method.

e) concerning Bankowy Fundusz Leasingowy SA Group

On 10 June 2009, the increase in the share capital of Bankowy Leasing Sp. z o.o. in the total amount of PLN 15 million was registered with the National Court Register. As at 30 December 2009, the Company's share capital amounts to PLN 16 300 thousand and consists of 32 600 shares of PLN 500 nominal value each.

All the shares in the increased share capital were taken up by Bankowy Fundusz Leasingowy SA, a subsidiary company of PKO Bank Polski SA, for a price equal to the nominal value of the shares taken up.

After the said issue was registered, Bankowy Fundusz Leasingowy SA held a total of 99.9969% of the Company's share capital which authorized it to 99.9969% voting rights at the Company's General Shareholders' Meeting.

As at 31 December 2009 in the consolidated financial statements of the PKO Bank Polski SA Group, Bankowy Leasing Sp. z o.o. was consolidated under the full method.

On 10 July 2009 the increase in the share capital of BFL Nieruchomości Sp. z o.o. by the total amount of PLN 6 million was registered in the National Court Register. All the shares in the increased share capital were taken up by Bankowy Fundusz Leasingowy SA – a subsidiary company of PKO Bank Polski SA – at the price which was equal to the nominal value of the taken shares.

After the said issue was registered the interest of Bankowy Fundusz Leasingowy SA in the share capital and in the voting rights at the Company's General Shareholders' Meeting increased from 99.9545% to 99.9930%.

As at 31 December 2009 in the consolidated financial statements of the PKO Bank Polski SA Group, BFL Nieruchomości Sp. z o.o. was consolidated under the full method.

f) concerning PKO BP Inwestycje Sp. z o.o. Group

In 2009 PKO BP Inwestycje Sp. z o.o. – a subsidiary company of PKO Bank Polski SA – made the additional payments to its subsidiary companies:

- on 14 January 2009 made the additional payment to WISŁOK Inwestycje SP. z o.o. at the amount of PLN 800 thousand,

- on 24 April 2009, 30 October 2009, 30 November 2009 and 28 December 2009 made the additional payments to Baltic Dom 2 Sp. z o.o. at the total amount of PLN 1 120 thousand,

- on 25 September 2009 made the additional payment to Wisłok Inwestycje Sp. z o.o. at the amount of PLN 320 thousand.

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

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

- Bankowy Faktoring SA changed its Name to PKO BP Faktoring SA; the change was registered in the National Court Register on 23 July 2009,
- PKO Inwestycje Sp. z o.o. changed its name to PKO BP Inwestycje Sp. z o.o.; the change was registered in the National Court Register on 28 July 2009,
- Finanse – Agent Transferowy Sp. z o.o. changed its name to PKO BP Finat Sp. z o.o.; the change was registered in the National Court Register on 8 September 2009,
- Powszechne Towarzystwo Emerytalne BANKOWY SA changed its name to PKOP BP BANKOWY Powszechne Towarzystwo Emerytalne SA; the change was registered in the National Court Register on 17 December 2009

and the events influencing the structure of the other associated entities:

h) concerning Kolej Gondolowa Jaworzyna Krynicka SA

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

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

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

Until January 2009 the company was the PKO Bank Polski SA's associated entity.

i) concerning Ekogips SA

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

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

j) concerning CENTRUM HAFFNERA Sp. z o.o. Group

In 2009 (29 September, 23 December and 30 December) CENTRUM HAFFNERA Sp. z o.o. – jointly-controlled company of PKO Bank Polski SA – made the additional payment to the share capital of Sopot Zdrój Sp. z o.o. at the total amount of PLN 8 203 thousand).

50. Fair value of financial assets and financial liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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

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

1) **Level 1:** Financial assets and liabilities whose fair value is stated directly at prices quoted (not adjusted) from active markets for identical assets and liabilities. The Group classified to that category the following items:

- debt securities valued at fixing from Bondspot platform,
- debt and equity securities in Dom Maklerski portfolio,

- shares classified as trading shares and shares available for sale quoted on the Warsaw Stock Exchange (GPW).

2) **Level 2:** Financial assets and liabilities whose fair value is determined with use of valuation models, where all significant entry data are observable on the market directly (as prices) or indirectly (based on prices). The Group classified to that category the following items:

- debt securities valuated to the curve or those whose price comes from Bloomberg platform but for which market is illiquid,
- non-treasury debt securities issued by other financial entities, local government bodies, non-financial entities quoted on the stock exchange or traded on a regulated OTC market,
- derivative instruments.

3) **Level 3:** Financial assets and liabilities whose fair value is determined with use of valuation models, for which available date are not derived from observable markets. The Group classified to this category shares not quoted on Warsaw stock exchange (GPW), equity securities portfolio and debt securities of KREDOBANK SA.

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

The table below presents the classification of financial assets and liabilities measured in the period at fair value divided into a three-level hierarchy:

Assets and liabilities valued at fair value as at 31 December 2009 (in PLN thousand)	Carrying amount	Level 1	Level 2	Level 3
Trading assets	**2 212 955**	**890 480**	**1 322 475**	**-**
Debt securities	2 202 847	880 372	1 322 475	-
Shares in other entities	10 108	10 108	-	-
Derivative financial instruments	**2 029 122**	**72**	**2 029 050**	**-**
Hedging instruments	352 261	-	352 261	-
Trade instruments	1 676 861	72	1 676 789	-
Financial assets desiganted at fair value through profit and loss	**12 360 690**	**92 882**	**12 263 650**	**4 158**
Debt securities	12 360 690	92 882	12 263 650	4 158
Shares in other entities	-	-	-	-
Investment securities available for sale	**7 944 317**	**3 858 601**	**4 077 869**	**7 847**
Debt securities	7 848 570	3 768 733	4 077 869	1 968
Equity securities	95 747	89 868	-	5 879
Financial assets at fair value - total	**24 547 084**	**4 842 035**	**19 693 044**	**12 005**
Derivative financial instruments	**1 544 370**	**-**	**1 544 370**	**-**
Hedging instruments	25 312	-	25 312	-
Trade instruments	1 519 058	-	1 519 058	-
Financial liabilities at fair value through profit and loss - total	**1 544 370**	**-**	**1 544 370**	**-**

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

The table below presents financial assets and liabilities presented in the financial statements at fair value in the three-level hierarchy as at 31 December 2009:

(in PLN thousand)

	Financial assets designated at fair value through profit and loss	Investment securities available for sale	Total
As at 1 January 2009	**8 630**	**20 007**	**28 637**
Gains or losses	603	3 263	3 866
in financial result	603	3 263	3 866
Purchase	-	15 419	15 419
Sales	(5 074)	(28 613)	(33 687)
Settlement	-	(2 230)	(2 230)
Closing balance as at 31 December 2009	**4 159**	**7 846**	**12 005**
Total gains or losses for the period in the financial result for assets held at the end of the period	**603**	**3 263**	**3 866**

Financial assets and liabilities which are not designated at fair value in the statement of financial position.

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

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

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

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

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

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

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

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

Receivables on financial lease have been estimated based on expected cash flows discounted using internal rate of return for lease transactions of the same kind, concluded by the Group in the period directly preceding the balance date.

(in PLN thousand)

The table below shows a summary of the carrying amounts and fair values for the individual groups of financial instruments which have not been presented at fair value in the Group's statement of financial positions as at 31 December 2009 and 31 December 2008:

	31.12.2009		31.12.2008	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash and balances with the central bank	7 094 350	7 094 350	5 836 892	5 836 892
Amounts due from banks	2 023 055	2 023 055	3 363 599	3 363 674
Loans and advances to customers	116 572 585	112 051 297	101 107 891	100 820 797
Corporate loans	42 338 393	41 168 107	35 503 195	35 279 746
Consumer loans	22 295 745	21 754 627	20 203 045	20 251 908
Mortgage loans	51 938 447	49 128 563	45 401 651	45 289 143
Other financial assets	376 438	376 438	425 150	425 152
Amounts due to the central bank	6 581	6 581	2 816	2 816
Amounts due to other banks	5 146 048	5 143 801	6 988 603	6 989 408
Amounts due to clients	125 072 934	125 046 649	102 939 281	102 920 807
due to corporate entities	27 834 542	27 832 985	19 332 897	19 333 054
due to state budget entities	9 680 991	9 861 139	7 283 578	7 283 590
due to retail clients	87 557 401	87 532 525	76 322 806	76 304 163
Liabilities related to own issue	289 360	289 360	211 573	211 573
Subordinated liabilities	1 612 178	1 618 093	1 618 755	1 629 537
Other financial liabilities	1 112 383	1 112 383	1 264 074	1 264 074

51. Trustee activities

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

52. Sale of impaired loan portfolio

The parent company did not enter any securitisation transactions, although:

- in 2008, there were conducted activities aiming at the sale of approximately 150 thousand of receivables classified as default of total net value of approximately PLN 2 billion. Receivables were divided into four packages. In 2008, transactions related to the sale of three packages were completed. One package was sold to a securitisation fund, and two were sold to SPV. The total nominal value of the receivables sold amounted to ca. PLN 1.22 billion,

- in the second and third quarter of 2009, the Bank terminated the operations related to packaging sell of 3 packages: package I and II are 59 thousand of retail receivables at the total amount of PLN 627.8 million, package III – 2.9 thousand of economic receivables at the total amount of PLN 885.3 million,

- at present, the Bank is taking steps to sell approx. 60 000 retail receivables with a total nominal value of ca. PLN 630 million (the contracts will enter into force after the balance date). The completion of this work and settlement of the sale are expected in the second quarter of 2010,

(in PLN thousand)

- the total carrying amount of securitisation provisions as at 31 December 2009 was PLN 31 589 thousand (as at 31 December 2008: PLN 25 350 thousand). The dominated entity did not receive any securities as a result of these transactions.

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

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

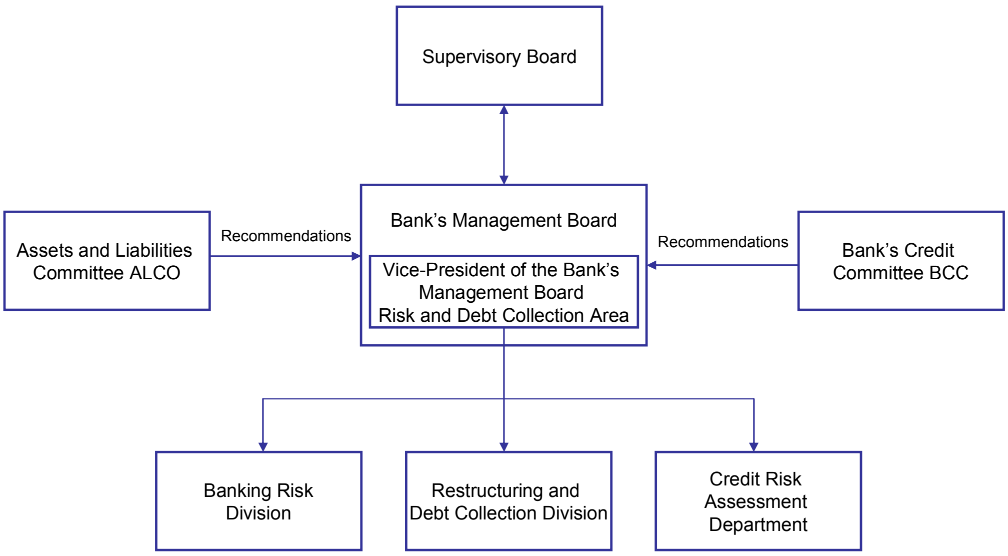
INCOME STATEMENT
OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP

Title (in relation to changed positions)	**2008** presented previously	**2008** comparative data	**Difference**
Net income from financial instruments designated at fair value through profit and loss	(201 129)	(162 697)	38 432 1)
Net foreign exchange gains	739 757	701 325	(38 432) 1)

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

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

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



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

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

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

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

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

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

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

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

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

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

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

As a result, in 2009 the Bank:

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

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

Credit risk

Definition, aims and principles

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

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

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

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

The above-mentioned policies are executed by the Bank through the use of advanced credit risk management methods, both on the level of individual exposures and on the level of the whole credit portfolio of the Bank. These methods are verified and developed to ensure compliance with the internal ratings based requirements (IRB), i.e. advanced credit risk management method, which can be used while calculating capital requirements for credit risk after being approved by the Financial Supervision Authority.

Rating and scoring methods

The Bank assesses the risk of individual credit transactions with the use of scoring and rating methods, which are created, developed and supervised by the Banking Risk Division. The assessment methods are supported by specialist central application software. The scoring method is defined by Bank's internal regulations whose main aim is to ensure uniform and objective assessment of credit risk during the credit process.

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

In 2009 the Bank continued developing such credit risk assessment methods relating to retail clients, specifically by carrying out validation of dedicated consumer loans scoring models.

Credit risk relating to the financing of corporate clients is assessed on two levels: the client and the transaction (excluding selected types of transactions for small and medium enterprises which are assessed based on a scoring method). These assessments are based on the ratings of the client and the transaction. The so-called cumulative rating is a synthetic measure of credit risk for the Bank.

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

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

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

Portfolio risk measurement

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

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

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

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

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

Collateral policy

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

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

With regard to real estate financing products, collateral is required to be established on the property. Until an effective mortgage is established, the following types of collateral are used (depending on type and amount of loan): an increased credit margin, a temporary collateral in the form of a cession of receivables related to the construction agreement, bill of exchange, guarantee or an insurance of receivables.

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

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

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

- in the case of substantial loans (in terms of value), several types of collateral are established. If possible, personal guarantees are combined with collateral established on assets;
- liquid types of collateral (i.e. collateral established on liquid assets, which the Bank is likely to dispose of quickly for a price approximating the value of the assets put up as collateral) are preferred;
- types of collateral which are exposed to a risk of significant adverse fluctuations of value are treated as auxiliary collateral;
- when an asset is accepted as collateral, an assignment of rights from the insurance policy relating to this asset or the insurance policy issued to the Bank are accepted as additional collateral;

- effective establishment of collateral in compliance with the loan agreement is necessary to make the funds available.

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

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

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

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

Credit risk management tools

Basic credit risk management tools used by the Bank include:

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

Credit risk reporting

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

Credit risk management at the Group subsidiaries

The Group companies, which have significant credit risk levels (KREDOBANK SA, BFL SA Group) 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 Bank Polski SA, taking into account the specific nature of the activities of these companies.

(in PLN thousand)

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

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

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

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

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

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

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

In 2009, KREDOBANK SA has centralised the process of the assessment of credit risk and of the management of the corporate loans operations as well as it has centralised the process of the assessment of credit risk related to mortgage loans for retail clients. In order to enhance the effectiveness of recovering doubtful and defaulted receivables, KREDOBANK SA:

- reorganized the Restructuring and Debt Collection Division (among others by creating regional branches)
- implemented outsourcing services and the sale of doubtful and defaulted receivables from retail clients
- developed new ways of restructurisation for retail clients
- changed the decision-making procedure related to doubtful and defaulted receivables in order to optimize the lending process.

In 2009, the BFL SA Group continued limiting the credit risk by widening the scope of verification the applications in records of unreliable clients. It also introduced limits in financing companies from high risk market sectors, restricted credit policy, rules of granting loans and revised competence thresholds and cut-offs.

Group's exposure to risk

Amounts due from banks	Exposure	
	31.12.2009	31.12.2008
Amounts due from banks impaired	27 496	28 486
of which assessed on an individual basis	27 013	28 486
Amounts due from banks not impaired	**2 022 668**	**3 363 224**
neither past due nor impaired	2 021 675	3 361 761
past due but not impaired	993	1 463
Gross total	**2 050 164**	**3 391 710**
Impairment allowances	**(27 109)**	**(28 111)**
Total receivables by carrying amount (net)	**2 023 055**	**3 363 599**

(in PLN thousand)

Loans and advances to customers	Exposure 31.12.2009	Exposure 31.12.2008
Loans and advances impaired	9 108 150	3 784 093
of which assessed on an individual basis	5 386 944	1 848 411
Loans and advances not impaired	111 401 559	100 241 674
neither past due nor impaired	110 143 014	98 267 703
past due but not impaired	1 258 545	1 973 971
Gross total	**120 509 709**	**104 025 767**
Impairment allowances	**(3 937 124)**	**(2 917 876)**
Total receivables by carrying amount (net)	**116 572 585**	**101 107 891**

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

Investment securities available for sale – debt securities	Exposure 31.12.2009	Exposure 31.12.2008
Debt securities impaired	**20 592**	**22 245**
of which assessed on an individual basis	20 592	22 245
Debt securities not impaired	**7 857 027**	**8 522 298**
not past due	7 857 027	8 522 298
with an external rating	5 083 116	6 252 835
with an internal rating	2 773 911	2 195 036
without rating	-	74 427
Gross total	**7 877 619**	**8 544 543**
Impairment allowances	**(19 055)**	**(19 932)**
Net total (carrying amount)	**7 858 464**	**8 524 611**

Other assets – other financial assets	Exposure 31.12.2009	Exposure 31.12.2008
Other assets impaired	159 906	58 549
Other assets not impaired	355 294	424 633
neither past due nor impaired	353 963	410 843
past due but not impaired	1 331	13 790
Gross total	**515 200**	**483 182**
Impairment allowances	**(138 762)**	**(58 032)**
Net total by carrying amount	**376 438**	**425 150**

(in PLN thousand)

Maximum exposure to credit risk

The table below presents maximum exposure to credit risk of the Group as at 31 December 2009 and as at 31 December 2008.

Statement of financial position items	31.12.2009	31.12.2008
Current account with the central bank	**4 625 073**	**3 419 832**
Amounts due from banks	**2 023 055**	**3 363 599**
Trading assets – debt securities	**2 202 847**	**1 491 524**
issued by the State Treasury	2 198 840	1 491 398
issued by local government bodies	2 208	126
issued by non-financial institutions	1 799	-
Derivative financial instruments	**2 029 122**	**3 597 670**
Other financial instruments designated at fair value through profit and loss - debt securities	**12 360 690**	**4 555 544**
issued by the State Treasury	5 362 314	4 373 621
issued by central banks	6 994 218	-
issued by other banks	-	172 876
issued by other non-financial institutions	4 158	9 047
Loans and advances to customers	**116 572 585**	**101 107 891**
Financial entities (other than banks)	2 441 962	2 058 724
corporate loans	2 441 962	2 058 724
Non-financial entities	109 184 382	95 857 248
consumer loans	22 295 745	20 203 045
mortgage loans	51 938 447	45 401 651
corporate loans	34 950 190	30 252 552
State budget entities	4 946 241	3 191 919
corporate loans	4 946 241	3 191 919
Investment securities available for sale - debt securities	**7 858 464**	**8 524 611**
issued by central banks	-	2 673 729
issued by other banks	90 086	46 756
issued by other financial institutions	-	74 427
issued by other non-financial institutions	775 657	795 278
issued by the State Treasury	4 992 500	3 516 322
issued by local government bodies	2 000 221	1 418 099
Other assets - other financial assets	**376 438**	**425 150**
Total	**148 048 274**	**126 485 821**

Off-balance sheet items	31.12.2009	31.12.2008
Irrevocable liabilities granted	6 985 527	7 712 824
Guarantees granted	4 018 748	3 239 802
Letters of credit granted	230 078	241 892
Guarantees of issue (underwriting)	1 248 655	821 005
Total	**12 483 008**	**12 015 523**

Quality of financial assets, neither past due nor impaired

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

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

The following loan portfolios are covered by the rating system:

– corporate clients,

(in PLN thousand)

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

Financial assets neither past due nor impaired	31.12.2009	31.12.2008
Amounts due from banks	**2 021 675**	**3 361 761**
of which:		
with rating	1 852 071	2 628 655
without rating	169 604	733 106
Loans and advances to customers	**110 143 014**	**98 267 703**
with rating	100 703 384	90 557 346
without rating	9 439 630	7 710 357
PKO Bank Polski SA	108 120 382	95 289 972
with rating – financial, nonfinancial and budget sector (corporate loans)	34 077 422	29 794 715
A (first rate)	955 973	1 184 628
B (very good)	3 042 110	2 474 397
C (good)	4 960 747	3 604 643
D (satisfactory)	10 191 790	9 373 219
E (average)	7 024 072	6 811 983
F (acceptable)	7 902 730	6 345 845
with rating – nonfinancial sector (consumer and mortgage loans)	65 674 943	58 560 511
A (first rate)	13 744 126	12 909 565
B (very good)	23 597 457	14 809 811
C (good)	18 830 587	23 649 272
D(average)	3 985 809	4 382 491
E (acceptable)	5 516 964	2 809 372
without rating – non-financial sector clients (other consumer and mortgage loans)	8 368 017	6 934 746
BFL SA Group	1 667 560	2 202 120
with rating	951 019	2 202 120
A2 (first rate)	10 697	29 611
A3 (very good)	89 883	92 934
A4 (good)	154 388	370 121
A5 (satisfactory)	206 962	461 886
A6 (average)	304 653	765 075
B1 (acceptable)	140 180	344 707
B2 (weak)	40 631	102 772
B (mean)	-	34 872
C (bad)	3 625	142
without rating	716 541	-
without rating – non-financial and financial sector clients of other entities of the PKO Bank Polski SA Group	355 072	775 611
Other assets – other financial assets	**353 963**	**410 843**
Total	**112 518 652**	**102 040 307**

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

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

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

(in PLN thousand)

31 December 2009

Rating/ portfolio	held for trading			designated at fair value through profit and loss			available for sale			Held to maturity	Amounts due from banks
	issued by the State Treasury	issued by local government bodies	Issued by non-financial entities	issued by the State Treasury	issued by non- financial entities	issued by other central banks	issued by the State Treasury	Issued by non-financial entities	issued by other banks	issued by the State Treasury	
AA- to AA+	-	-	-	-	-	-	-	-	-	-	667 171
A- to A+	2 198 840	-	-	5 362 314	-	6 994 218	4 966 301	-	-	9 894	974 675
BBB- to BBB+	-	-	-	-	-	-	-	-	50 901	-	131 868
BB- to BB+	-	-	-	-	-	-	-	-	39 185	-	-
B- to B+											67 976
CCC- to CCC+	-	-	-	-	-	-	-	-	-	-	1 059
without rating	-	2 208	1 799		-	-	-	-	-	-	169 604
financial assets with different ratings in the Group's entities	-	-	-	-	4 158	-	16 305	530	-	-	9 322
Total	**2 198 840**	**2 208**	**1 799**	**5 362 314**	**4 158**	**6 994 218**	**4 982 606**	**530**	**90 086**	**9 894**	**2 021 675**

31 December 2008

Rating/ portfolio	held for trading		designated at fair value through profit and loss			available for sale					Amounts due from banks
	issued by the State Treasury	issued by local government bodies	issued by the State Treasury	issued by other banks	issued by other non-financial entities	issued by the State Treasury	issued by central banks	issued by other banks	issued by other financial entities	issued by other non-financial entities	
AAA	-	-	-	-	-	-	-	-	-	-	-
AA- to AA+	-	-	-	23 943	-	-	-	-	-	-	1 102 679
A- to A+	1 491 398	-	4 373 621	148 933	-	3 516 322	2 673 729	12 567	-	-	1 105 427
BBB- to BBB+	-	-	-	-	-	-	-	34 189	-	-	257 410
B- to B+	-	-	-	-	-	-	-	-	-	-	28 716
without rating	-	126	-	-	-	-	-	-	74 427	-	733 106
financial assets with different ratings in the Group's entities	-	-	-	-	9 047	-	-	-	-	16 028	134 423
Total	**1 491 398**	**126**	**4 373 621**	**172 876**	**9 047**	**3 516 322**	**2 673 729**	**46 756**	**74 427**	**16 028**	**3 361 761**

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

Entities with rating	31.12.2009	31.12.2008
	carrying amount	carrying amount
A (first rate)	98 658	21 313
B (very good)	771 797	448 931
C (good)	842 518	998 091
D (satisfactory)	226 150	391 905
E (average)	167 318	153 571
F (acceptable)	667 470	181 225

Concentration of credit risk within the Group

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

– the largest borrowers,
– the largest capital groups,
– industries,
– geographical areas,
– currencies.

(in PLN thousand)

Concentration by the biggest business entities

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

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

As at 31 December 2009 and 31 December 2008, those concentration limits had not been exceeded.

As at 31 December 2009, the level of concentration risk of the Group with respect to individual exposures was low – the biggest exposure to a single entity was equal to 15,1%[1] and 4,7% of the consolidated own funds.

The 20 largest borrowers of the Group include only clients of PKO Bank Polski SA:

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

31.12.2009			31.12.2008		
No.	**Exposure***	**Share in the loan portfolio****	**No.**	**Exposure***	**Share in the loan portfolio****
1.	1 542 437***	1.28%	1.	656 139	0.62%
2	744 334	0.62%	2.	592 759	0.56%
3.	544 230	0.45%	3.	457 525	0.44%
4.	415 957	0.35%	4.	412 857	0.39%
5.	358 614	0.30%	5.	334 019	0.32%
6.	340 278	0.28%	6.	305 746	0.29%
7.	328 965	0.27%	7.	292 682	0.28%
8.	316 892	0.26%	8.	243 106	0.23%
9.	301 523	0.25%	9.	242 046	0.23%
10.	296 439	0.25%	10.	235 382	0.22%
11.	295 076	0.24%	11.	235 221	0.22%
12.	275 120	0.23%	12.	233 201	0.22%
13.	256 380	0.21%	13.	231 369	0.22%
14.	250 000	0.21%	14.	230 981	0.22%
15.	249 806	0.21%	15.	218 941	0.21%
16.	245 140	0.20%	16.	218 030	0.21%
17.	241 129	0.20%	17.	217 275	0.21%
18.	232 169	0.19%	18.	215 637	0.21%
19.	231 779	0.19%	19.	201 442	0.19%
20.	229 852	0.19%	20.	197 176	0.19%
Total	**7 696 120**	**6.38%**	**Total**	**5 971 534**	**5.68%**

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

***Total exposure to entities excluded from concentration limit exposure pursuant to §71, clause 3 of the Banking Law.

[1] Exposures to entities excluded from concentration limits exposure.

(in PLN thousand)

Concentration of credit risk by the largest groups

The greatest exposure of the PKO Bank Polski SA Group towards a group of borrowers amounted to 1.56% of portfolio value and was due to a consolidation process of companies from the power supply industry. The 5 biggest groups include only clients of PKO Bank Polski SA.

As at 31 December 2009, the level of concentration risk with respect to individual exposures was low – the biggest exposure of the Group to a single entity was equal to 9,1%[2] and 8.1% of the Group's consolidated own funds.

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

31.12.2009			31.12.2008		
No.	**Exposure***	**Share in the loan portfolio****	**No.**	**Exposure***	**Share in the loan portfolio****
***1	1 625 430	1.35%	1	1 654 951	1.58%
2	1 439 703	1.19%	2	1 402 841	1.34%
3	1 356 212	1.13%	3	1 315 589	1.25%
4	1 078 403	1.89%	4	1 283 533	1.22%
5	736 516	0.61%	5	792 757	0.75%
Total	**6 236 264**	**5.17%**	**Total**	**6 449 671**	**6.14%**

*Total exposure includes loans, advances, purchased debts, discounts on bills of exchange, realized guarantees, interest receivable, debt securities, off-statement of financial position and capital exposures.
**The value of the loan portfolio does not include off-statement of financial position and capital exposures.
*** Concentration in respect of the entities exempted from concentration limits under the Article 71.3 of the Banking Law.

Concentration of credit risk by industry

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

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

Section	Description	31.12.2009		31.12.2008	
		Exposure	**Number of entities**	**Exposure**	**Number of entities**
D	Industrial processing	24.71%	10.78%	26.73%	13.86%
G	Wholesale and retail trade. Repair of motor vehicles and personal and household goods	16.88%	23.70%	18.61%	30.70%
K	Property management. Lease and services related to the running of business activities	13.36%	8.65%	12.81%	10.70%
L	Public administration and national defense. Obligatory social security and public health insurance	10.58%	0.41%	8.01%	0.55%
F	Construction	6.71%	10.82%	6.29%	12.41%
E	Electricity, gas and water production and supply	2.86%	0.17%	3.16%	0.23%
Other exposure		24.90%	45.47%	24.39%	31.55%
Total		**100.00%**	**100.00%**	**100,00%**	**100.00%**

The Group's exposure increased compared with 31 December 2008 with respect to all sectors by PLN 7 billion. Total exposure to four largest sectors: "Industrial processing', "Wholesale and retail trade, repair of cars, motorcycles…', "Maintenance and rental of real estate…' and "Public administration and national defense…' constitutes 65% of the total portfolio of loans granted to business entities.

[2] Exposures to entities excluded from concentration limits exposure.

(in PLN thousand)

Concentration of credit risk by geographical regions

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

As at 31 December 2009, the largest concentration of the Bank's loan portfolio was in the Mazowiecki region. Half of the Bank's loan portfolio is concentrated in four regions: Mazowiecki, Śląsko-Opolski, Wielkopolski and Małopolsko-Świętokrzyski, which is consistent with the regions' domination both in terms of population and economy in Poland.

Region	31.12.2009	31.12.2008
Poland		
mazowiecki	18.49%	18.17%
śląsko-opolski	12.52%	12.40%
wielkopolski	9.79%	10.06%
małopolsko-świętokrzyski	8.99%	9.12%
dolnośląski	7.54%	7.56%
lubelsko-podkarpacki	6.50%	6.50%
pomorski	6.45%	6.97%
zachodnio-pomorski	6.32%	7.05%
łódzki	5.68%	6.12%
kujawsko-pomorski	4.66%	5.13%
warmińsko-mazurski	3.45%	3.47%
podlaski	2.92%	3.08%
other	5.24%	2.48%
Ukraine	**1.45%**	**1.89%**
Total	**100.00%**	**100.00%**

Concentration of credit risk by currency

As at 31 December 2009, the share of currency exposures, other than PLN, in the total credit portfolio of the Group amounted to 24.4%. The greatest parts of currency exposures are those in CHF and they relate to the credit portfolio of the Bank. In case of particular Group entities, the case is different, i.e. for BFL SA, the greatest currency exposures are those in EUR (68.5% of currency credit portfolio), and for KREDOBANK SA – in USD (USD denominated loans account for nearly 78.0% of the currency credit portfolio and 46.2% of the total credit portfolio of the bank).

Share decrease in loans denominated in foreign currencies in 2009 results from increased new sales of mortgage loans denominated in Polish currency.

Concentration of credit risk (%)

Currency	31.12.2009	31.12.2008
PLN	75.60%	70.96%
Foreign currencies, of which:	24.40%	29.04%
CHF	17.69%	21.42%
EUR	4.35%	4.47%
USD	1.77%	2.51%
UAH	0.58%	0.63%
GBP	0.01%	0.01%
Total	**100.00%**	**100.00%**

Other types of concentration

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

Renegotiated receivables

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

(in PLN thousand)

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

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

As a result of signing a restructuring agreement the loan being restructured is reset from overdue to current. Evaluation of the ability of a debtor to fulfil the restructuring agreement conditions (debt repayment according to the agreed schedule) constitutes an element of the restructuring process. Active restructuring agreements are monitored by the Bank on an on-going basis.

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

Financial assets	Carrying amount	
	31.12.2009	31.12.2008
Loans and advances to customers (gross)	**120 509 709**	**104 025 767**
of which renegotiated	**509 040**	**112 883**
Non-financial entities	507 314	110 868
consumer loans	319 361	19 579
mortgage loans	118 348	20 169
corporate loans	69 605	71 120
State budget entities	1 726	2 015
corporate loans	1 726	2 015

Past due financial assets

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

Financial assets	31.12.2009			31.12.2008*		
	up to 3 months	over 3 months	Total	up to 3 months	over 3 months	Total
Loans and advances to customers:	**1 239 420**	**19 125**	**1 258 545**	**1 952 309**	**21 662**	**1 973 971**
financial sector	174	-	174	1 616	-	**1 616**
public sector	-	-	-	19 605	-	**19 605**
non-financial sector	1 239 246	19 125	1 258 371	1 931 088	21 662	**1 952 750**
Other assets - other financial assets	156	1 175	1 331	13 790	-	**13 790**
Total	**1 239 576**	**20 300**	**1 259 876**	**1 966 099**	**21 662**	**1 987 761**

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

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

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

(in PLN thousand)

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

	31.12.2009	31.12.2008
Amount due from banks	27 013	28 486
Credit and loans to customers	**5 386 944**	**1 848 411**
Financial sector	40 712	42 735
corporate loans	40 712	42 735
Non-financial sektor	5 330 156	1 796 137
consumer loans	40 500	18 525
mortgages	761 205	311 097
corporate loans	4 528 451	1 466 515
Budget sector	16 076	9 539
corparte loans	16 076	9 539
Financial assets available for sale	20 616	23 862
issued by financial entities	8	2 599
Issued by non-financial entities	20 608	21 263
Total	**5 434 573**	**1 900 759**

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

- for loans and advances to customers: ceiling mortgages and ordinary mortgages, registered pledges, promissory notes, transfers of receivables and rights to cash - with a total fair value of PLN 3 808 288 thousand (as at 31 December 2008: PLN 1 250 019 thousand).
- for financial assets available for sale: blank promissory notes, registered pledges on the bank account and on debtor's shares with a total nil value.

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

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

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

Allowances for credit losses

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

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

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

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

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

PKO Bank Polski SA Group applies three methods of estimating impairment:

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

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

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

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

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

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

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

(in PLN thousand)

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

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

The table below presents the structure of loan portfolio and loan impairment allowances of the PKO Bank Polski SA Group:

	31.12.2009	31.12.2008
Loans and advances to customers		
Valued using the individual method	6 049 833	2 309 892
Loans and advances impaired, of which:	5 386 944	1 848 411
Financial lease receivables	*191 082*	*68 520*
Loans and advances not impaired	662 889	461 481
Financial lease receivables	*30 313*	*21 089*
Valued using the portfolio method, of which:	3 752 263	2 253 777
Financial lease receivables	*74 814*	*48 363*
Valued using the group method (IBNR), of which:	110 707 613	99 462 098
Financial lease receivables	*2 062 495*	*2 258 581*
Loans and advances to customers - gross	**120 509 709**	**104 025 767**
Allowances for receivables with indicators of individual impairment	(1 344 098)	(766 442)
Loans and advances impaired, of which:	(1 344 098)	(766 442)
Allowances and lease receivables allowances	*(24 163)*	*(8 373)*
Loans and advances not impaired	-	-
Allowances for receivables valued using the portfolio impairment	(1 989 868)	(1 425 280)
Allowances and lease receivables allowances	*(37 980)*	*(27 215)*
Allowances for receivables valued using the group method (IBNR), of which:	(603 158)	(726 154)
Allowances and lease receivables allowances	*(9 679)*	*(9 073)*
Total impairment allowances	**(3 937 124)**	**(2 917 876)**
Loans and advances to customers – net	**116 572 585**	**101 107 891**

As at 31 December 2009, the share of loans with indications of impairment (i.e. receivables assessed under the individualized method or the portfolio method) amounted to 8.1% (as at 31 December 2008: 4,4%); whereas the coverage ratio for the loans assessed under the individualized method or the portfolio method (calculated as total impairment allowances on receivables divided by gross carrying amount of receivables assessed under the individualized method or the portfolio method) amounted to 40.2% (as at 31 December 2008: 63.9%).

As at 31 December 2009, the share of impaired loans amounted to 7.6% (as at 31 December 2008: 3.6%); whereas the coverage ratio for loans with recognized impairment (calculated as total impairment allowances on loans with recognized impairment divided by gross carrying amount of these loans) amounted to 43.2% (as at 31 December 2008: 77.1%). A significant influence on ratios changes resulted from adopted changes to the methodology of determining impairment charges regarding loans exposures and widening the range of indications of impairment by the following factors: deterioration of the financial and economic situation to G rating, a conclusion of a restructurisation agreement and delays in consumer loans repayments of 3 to 6 months.

In addition, the loan portfolio assessed under the portfolio method increased in 2009 to PLN 1 498 486 thousand.

The increase in the volume of loans assessed under the portfolio method in 2009 by PLN 1.498.486 thousand resulted mainly from the increase in delays in repayment in the portfolio of consumer loans and housing loans granted to individuals.

Credit risk of financial institutions

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

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

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

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

Interbank portfolio* [PLN thousand]					
Counterparty**	**Instrument type**				**Total**
	Deposit	**Securities**	**Credit Default Swap**	**Other derivatives**	
Counterparty 21	228 059	-	-	-	228 059
Counterparty 22	222 135	-	-	-	222 135
Counterparty 23	196 098	-	-	-	196 098
Counterparty 1	168 084	-	-	2 480	170 564
Counterparty 24	159 803	-	-	8 700	168 503
Counterparty 11	154 077	-	-	(17 350)	154 077
Counterparty 19	-	-	118 472	(193 941)	118 472
Counterparty 25	114 029	-	-	-	114 029
Counterparty 26	100 000	-	-	(3 401)	100 000
Counterparty 14	-	-	88 854	(78 015)	88 854
Counterparty 27	-	83 448	-	-	83 448
Counterparty 28	-	-	-	70 308	70 308
Counterparty 29	63 856	-	-	-	63 856
Counterparty 8	-	-	-	61 528	61 528
Counterparty 30	26 656	-	-	33 994	60 650
Counterparty 9	-	-	-	54 085	54 085
Counterparty 31	50 000	-	-	-	50 000
Counterparty 13	-	41 724	-	(104)	41 724
Counterparty 32	-	20 862	-	-	20 862
Counterparty 3	9 655	-	-	(40 332)	9 655

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

** Counterparty names (expressed as numbers) presented in the above table are consistent with counterparty names presented in the table "the greatest exposures of the PKO Bank Polski SA Group on the interbank market' as at 31 December 2009.

(in PLN thousand)

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

All of the 12 counterparties listed in the table above as at 31 December 2009, with whom the Bank carried out derivative instrument transactions, signed master agreements with the Bank. Master agreements allow for offsetting of mutual liabilities in the event of bankruptcy of any of the parties to the transaction. As at 31 December 2009 PKO Bank Polski SA had 23 master agreements signed with domestic banks and 31 with foreign banks and lending institutions. In addition to this, the Bank was a party to 17 CSA (Credit Support Annex) agreements which enable it to hedge its exposure from derivative instruments and 2 ISMA (International Securities Market Association) agreements which allow for an offsetting of liabilities arising from REPO and BSB/SBB transactions.

5 out of the 20 counterparties generating the largest exposures for the Group as at 31 December 2008 were also included in the population of the largest exposures as at 31 December 2009.

Geographical localization of counterparties

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

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

(in PLN thousand)

Counterparty structure by rating

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

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

Management of foreclosed collateral

Foreclosed collateral as a result of restructuring or debt collection activities is either used by the Group for internal purposes or designated for sale. Details of the foreclosed assets are analyzed in order to determine whether they can be used by the Group for internal purposes. All of the assets taken over as a result of restructuring and debt collection activities in the years ended 31 December 2009 and 31 December 2008, respectively, were designated for sale.

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

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

The carrying amounts of assets taken over in exchange for debts as at 31 December 2009 and 31 December 2008 are presented in Note 30, "Other assets', in line item "Other'.

Interest rate risk

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

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

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

Value at Risk (VaR) is defined as the potential loss resulting from a held structure of the statement of financial position and off-balance sheet sensitive to interest rate changes positions while keeping an assumed level of confidence and a holding period with consideration to correlation between risk factors.The Bank adopts a variance-covariance method with a confidence level of 99% for the purpose of determining VaR. In its interest rate risk management the Bank uses, among others, VaR determined for particular financial instruments and for the Bank's portfolios.

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

Stress-tests are used to estimate potential losses arising from a held structure of the statement of financial position and off-balance sheet items under market conditions that cannot be described in a standard manner using statistical measures. Two types of scenarios are used by the Bank:

1) hypothetical scenarios – which are based on arbitrary interest rate fluctuations: a parallel move in interest rate curves for the following currencies: PLN, EUR, USD, CHF and GBP by ±50 basis points and by ±200 basis points,
2) historical scenarios – in which interest rate fluctuations are adopted based on the behaviour of interest rates in the past, including: the highest historical change, a bend of a profit curve along with portfolio positions, a bend of profit curve of peak and twist types, the largest historical non-parallel fluctuation of the interest rate curves for securities and derivative instruments that hedge them.

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

Measures of interest rate gap and price sensitivity are determined for particular Group entities using similar methods to those used for determining the interest rate gap and price sensitivity for the Bank itself, taking into account the specific nature of the entities.

Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
PLN (PLN thousand)								**31.12.2009**
The Group Periodic Gap	26 078 583	28 008 165	(28 778 134)	(11 719 649)	(1 755 068)	1 598 803	268 068	**13 700 768**
The Group Cumulative Gap	26 078 583	54 086 748	25 308 614	13 588 964	11 833 896	13 432 700	13 700 768	-
PLN (PLN thousand)								**31.12.2008**
The Group Periodic Gap	(5 137 382)	6 674 699	11 206 058	1 378 098	(7 154 984)	(769 779)	38 592	**6 235 302**
The Group Cumulative Gap	(5 137 382)	1 537 317	12 743 375	14 121 473	6 966 489	6 196 710	6 235 302	-
USD (USD thousand)								**31.12.2009**
The Group Periodic Gap	117 747	(208 620)	(166 316)	(145 008)	31 720	65 766	127 461	**(177 250)**
The Group Cumulative Gap	117 747	(90 873)	(257 189)	(402 197)	(370 476)	(304 711)	(177 250)	-

USD (USD thousand)								**31.12.2008**
The Group Periodic Gap	(1 378)	(237 592)	(87 697)	(3 281)	18 347	79 263	126 272	**(106 066)**
The Group Cumulative Gap	(1 378)	(238 970)	(326 667)	(329 948)	(311 601)	(232 338)	(106 066)	-

EUR (EUR thousand)								**31.12.2009**
The Group Periodic Gap	(338 541)	82 100	(46 202)	(82 143)	7 144	21 090	2 740	(353 812)
The Group Cumulative Gap	(338 541)	(256 442)	(302 643)	(384 786)	(377 642)	(356 553)	(353 812)	-

EUR (EUR thousand)								**31.12.2008**
The Group Periodic Gap	(340 028)	(18 827)	33 410	36 954	(5 625)	63 539	(13 035)	**(243 612)**
The Group Cumulative Gap	(340 028)	(358 855)	(325 445)	(288 491)	(294 116)	(230 577)	(243 612)	-

CHF (CHF thousand)								**31.12.2009**
The Group Periodic Gap	(72 200)	(230 734)	1 937	(6 517)	1 280	875	6 044	(299 315)
The Group Cumulative Gap	(72 200)	(302 934)	(300 997)	(307 514)	(306 234)	(305 359)	(299 315)	-

CHF (CHF thousand)								**31.12.2008**
The Group Periodic Gap	4 970 312	(4 895 972)	1 292	(1 577)	(97)	-	3 092	**77 050**
The Group Cumulative Gap	4 970 312	74 340	75 632	74 055	73 958	73 958	77 050	-

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

The main tools used in interest rate risk management include:

1) written procedures for interest rate risk management,
2) limits and thresholds for interest rate risk,
3) defining allowable transactions for interest rates.

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

Methods of interest rate risk management in the other Group entities are defined by internal regulations implemented by those Group entities which are characterized by significant values of interest rate risk measure outcomes. These regulations are developed after consultation with the Bank and take into account recommendations issued by the Bank for Group entities.

As at 31 December 2009 and 31 December 2008, the exposure of the PKO Bank Polski SA Group to the interest rate risk mainly comprised of the exposure of the Bank. Interest rate risk generated by the other Group entities with regard to PLN, EUR and CHF did not have a significant effect on the interest rate risk of the entire Group and therefore did not significantly affect its risk profile. Interest rate risk with regard to USD was significantly changed by exposure of the Group, in which the biggest part has the exposure of KREDOBANK SA.

Exposure of the Group to interest rate risk was within accepted limits.

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

Name of sensitivity measure	31.12.2009	31.12.2008
VaR for a 10-day time horizon (PLN thousand)*	17 086	72 337
Parallel move of interest rate curves by +200 base points (PLN thousand)	233 304	266 216**

* 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 40 048 thousand as of 31 December 2009 and PLN 17 788 thousand as of 31 December 2008, respectively.
** Data brought to comparability

As at 31 December 2009, the interest rate VaR for the holding period of 10 days (10-day VaR) amounted to PLN 17 086 thousand, which accounted for approximately 0.10 % of the value of the Bank's own funds[3]. As at 31 December 2008, VaR for the Bank amounted to PLN 72 337 thousand, which accounted to approximately 0.60% of the Bank's own funds. The interest rate risk was generated mainly by the risk of a mismatch between the repricing dates of assets and liabilities.

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

Currency risk

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

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

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

The value at risk (VaR) is defined as a potential loss arising from the maintained currency position with the assumed probability level and the period remained to maturity and taking into account the correlation between the risk factors. The Bank adopts a variance-covariance method with a confidence level of 99% for the purpose of determining VaR. In its currency risk management the Bank determines VaR by type of activity.

Stress-testing and crash-testing are used to estimate potential losses arising from currency position under extraordinary market conditions that cannot be described in a standard manner using statistical measures. Two types of scenarios are used by the Bank:

1) hypothetical scenarios – which assume a hypothetical appreciation or depreciation of currency rates (by 15% and 50%),
2) historical scenarios – based on the behaviour of currency rates observed in the past.

The main tools used in currency risk management include:

1) written procedures for currency risk management,
2) limits and thresholds for currency risk,
3) defining allowable transactions in foreign currencies and the exchange rates used in such transactions.

[3] Own funds calculated in accordance with regulations governing calculation of the capital adequacy ratio.

The Bank sets limits and threshold values for the following items: currency positions, Value at Risk calculated for a 10-day time horizon and daily loss from transactions on currency market.

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

Methods of currency risk management in other entities of the Group are defined by internal regulations implemented by these entities. The regulations are developed by the Group entities, which are characterized by high level of currency risk measure outcomes. The regulations are issued after consultation with the Bank and take into account recommendations issued by the Bank to the Group entities.

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

Name of sensitivity measure	31.12.2009	31.12.2008
VaR for a 10-day time horizon (PLN thousand)*	1 092	11 297**
Change of PLN +15% (PLN thousands)	697	13 222

* Due to the nature of the activities carried out by the other Group entities generating significant currency risk (BFL and KREDOBANK SA) as well as a the specific nature of the market in which they operate, the Bank does not calculate consolidated VaR. These companies apply their own risk measures in the currency risk management. KREDOBANK SA uses the 10-day interest rate VaR which amounted to PLN 64 thousand as of 31.12.2009 and PLN 809 thousand as of 31.12.2008.
**VaR as at 31 December 2008 resulted mainly from USD position due to the acquisition of KREDOBANK SA shares, registered on 31 December 2008.

The level of the currency risk was low both in 2009 and 2008.

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

	31.12.2009	31.12.2008
	Currency position (PLN thousand)	Currency position (PLN thousand)
USD	(31 811)	(128 288)
GBP	1 501	(1 459)
CHF	(3 634)	(14 865)
EUR	26 489	17 728
Other (Global Net)	12 101	38 661

The volume of currency positions is a key factor determining the level of currency risk on which the Group is exposed (except for volatility of foreign exchange rates). The level of currency positions is determined by all foreign currency transactions, which are concluded by the Group, both in the statement of financial position (such as loans) and off-balance sheet transactions. In accordance with the currency risk management principles at the Bank, the daily currency position opened by the Bank within the banking book (such as disbursement of loans denominated in foreign currency in PLN, repayment of loans denominated in foreign currency by the clients, exposure currency conversion) is closed every day, also using derivative instruments. This means that the currency position of the Bank at the end of the day may constitute only of generated new position in banking book on this day and currency position in trading book within the limits, which results in a low exposure of the Bank to currency risk (with reference to own funds, VaR for a 10-day time horizon for the Bank's currency position as at 31 December 2009 amounted to approx. 0.01%).

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

(in PLN thousand)

Currency structure

In 2009 and 2008, the level of currency risk was low. The tables below present currency exposure by the specific types of assets, liabilities and contingent liabilities.

	Currency translated to PLN – 31.12.2009				
	PLN	**EUR**	**CHF**	**Other**	**Total**
ASSETS, of which:					
Cash and balances with the central bank	6 559 322	285 671	17 237	232 120	**7 094 350**
Amounts due from banks	259 619	1 143 695	190 444	456 406	**2 050 164**
Loans and advances to customers	91 383 795	5 090 291	21 479 796	2 555 827	**120 509 709**
Securities	22 481 403	39 587	-	28 438	**22 549 428**
Tangible assets	8 423 563	-	-	201 498	**8 625 061**
Other assets and derivatives	3 664 200	110 121	367	110 199	**3 884 887**
TOTAL ASSETS (GROSS)	132 771 902	6 669 365	21 687 844	3 584 488	**164 713 599**
DEPRECIATION / AMORTISATION / IMPAIRMENT	(7 447 737)	(111 175)	(188 753)	(487 249)	**(8 234 914)**
TOTAL ASSETS (NET)	**125 324 165**	**6 558 190**	**21 499 091**	**3 097 239**	**156 478 685**
EQUITY AND LIABILITIES, of which					
Amounts due to the central bank	6 581				**6 581**
Amounts due to other banks	1 846 331	415 729	2 740 971	143 017	**5 146 048**
Amounts due to customers	115 854 902	5 109 126	925 009	3 183 897	**125 072 934**
Debt securities in issue	289 251	-	-	109	**289 360**
Provisions	601 215	374	-	705	**602 294**
Subordinated liabilities	1 612 178				**1 612 178**
Other liabilities and derivatives and deferred tax liabilities	3 099 326	166 610	61	47 423	**3 313 420**
Equity	20 435 870	-	-	-	**20 435 870**
TOTAL EQUITY AND LIABILITIES	**143 745 654**	**5 691 839**	**3 666 041**	**3 375 151**	**156 478 685**
CONTINGENT LIABILITIES GRANTED	**29 542 617**	**2 164 022**	**306 355**	**869 646**	**32 882 640**

	Currency translated to PLN – 31.12.2008				
	PLN	**EUR**	**CHF**	**Other**	**Total**
ASSETS, of which:					
Cash and balances with the central bank	5 440 804	170 503	17 720	207 865	**5 836 892**
Amounts due from banks	1 091 618	1 540 624	82 160	677 308	**3 391 710**
Loans and advances to customers	74 473 200	4 414 600	22 509 669	2 628 298	**104 025 767**
Investment securities	14 071 879	384 793	-	235 623	**14 692 295**
Tangible assets	8 281 546	-	-	193 348	**8 474 894**
Other assets and derivatives	4 983 045	114 017	393	101 108	**5 198 563**
TOTAL ASSETS (GROSS)	108 342 092	6 624 537	22 609 942	4 043 550	**141 620 121**
DEPRECIATION / AMORTISATION / IMPAIRMENT	(6 529 624)	(125 160)	(32 485)	(296 866)	**(6 984 135)**
TOTAL ASSETS (NET)	**101 812 468**	**6 499 377**	**22 577 457**	**3 746 684**	**134 635 986**
EQUITY AND LIABILITIES, of which:					
Amounts due to the central bank	2 816	-	-	-	**2 816**
Amounts due to other banks	3 327 901	318 137	2 808 188	534 377	**6 988 603**
Amounts due to customers	95 807 697	3 689 313	111 145	3 331 126	**102 939 281**
Debt securities in issue	183 594	-	-	27 979	**211 573**
Provisions	565 549	305	-	162	**566 016**
Subordinated liabilities	1 509 178	-	-	109 577	**1 618 755**
Other liabilities, derivatives and deferred tax liabilities	7 939 345	271 776	7 409	92 396	**8 310 926**
Equity	13 998 016	-	-	-	**13 998 016**
TOTAL EQUITY AND LIABILITIES	**123 334 096**	**4 279 531**	**2 926 742**	**4 095 617**	**134 635 986**
CONTINGENT LIABILITIES GRANTED	**25 464 318**	**3 077 170**	**1 121 951**	**780 704**	**30 444 143**

Liquidity risk

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

The objective of liquidity risk management is to shape the structure of the Bank's statement of financial position and contingent liabilities and commitments that will ensure the continuous and future (and potential) liquidity of the Bank, taking into account the nature of its activities and requirements which may occur due to changes in market environment.

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

The Bank makes use of the following liquidity risk measures:

1) the contractual liquidity gap method and the liquidity gap in real terms method,
2) the surplus liquidity method,
3) analysis of stability of deposit and loan portfolios,
4) stress testing.

The main tools for liquidity risk management in PKO Bank Polski SA Group are as follows:

1) written procedures for liquidity risk management,
2) limits and thresholds mitigating liquidity risk,
3) deposit, investment and derivative transactions, including structural currency transactions and transactions for sale or purchase of securities,
4) transactions ensuring long-term financing of Bank's lending activities.

To ensure an adequate liquidity level, the Bank and the entities of the Group accepted limits and thresholds for liquidity risk. The limits and thresholds were set for both current liquidity measures and medium and long-term liquidity measures.

Methods of liquidity risk management in the other Group entities are defined by internal regulations implemented by those Group entities which are characterized by high levels of liquidity risk measure outcomes. These regulations are developed after consultation with the Bank and take into account recommendations issued by the Bank.

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

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

	a'vista	0 – 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 36 months	36 - 60 months	over 60 months
31.12.2009								**31.12.2009**
The Group - adjusted gap	7 168 054	15 375 687	(3 609 590)	316 614	3 587 227	1 655 613	4 769 757	**(29 263 362)**
The Group - cumulative adjusted gap	7 168 054	22 543 741	18 934 151	19 250 765	22 837 992	24 493 605	29 263 362	-
31.12.2008								
The Group - adjusted gap	4 610 491	5 668 033	(3 379 392)	(1 983 388)	2 146 647	3 864 988	2 630 081	**(13 557 460)**
The Group - cumulative adjusted gap	4 610 491	10 278 524	6 899 132	4 915 744	7 062 391	10 927 379	13 557 460	-

In all time horizons, the Group's cumulative[4] liquidity gap as at 31 December 2009 and 31 December 2008 was positive. This means a surplus of assets receivable over liabilities payable.

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

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

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

As at 31 December 2009, the level of permanent balances on deposits constituted approximately 95.5% of all deposits of the Bank's (excluding interbank market), which is approximately 1.5 p.p. higher as compared to the level as at 31 December 2008.

[4] The Group's liquidity gap in real terms has been determined as the sum of the Bank's liquidity gap in real terms and contractual liquidity gaps of the remaining entities of the Group.

(in PLN thousand)

Non-current and current assets and liabilities of the Group as at 31 December 2009

	Short term	Long term	Impairment allowances	Total carrying amount
Assets				
Cash and balances with the central bank	7 094 350	-	-	**7 094 350**
Amounts due from banks	2 049 848	316	(27 109)	**2 023 055**
Trading assets	1 534 181	678 774	-	**2 212 955**
Derivative financial instruments	683 976	1 345 146	-	**2 029 122**
Other financial instruments designated at fair value through profit and loss	12 360 510	180	-	**12 360 690**
Loans and advances to customers	26 618 614	93 891 095	(3 937 124)	**116 572 585**
Investment securities available for sale	3 309 874	4 665 909	(21 572)	**7 954 211**
Inventories	265 217	421 872	(34 014)	**653 075**
Other assets	1 331 776	4 517 882	(271 016)	**5 578 642**
TOTAL ASSETS	**55 248 346**	**105 521 174**	**(4 290 835)**	**156 478 685**
Liabilities				
Amounts due to the central bank	6 581	-	-	**6 581**
Amounts due to other banks	4 636 480	509 568	-	**5 146 048**
Derivative financial instruments	514 054	1 030 316	-	**1 544 370**
Amounts due to customers	124 995 298	77 636	-	**125 072 934**
Debt securities in issue	289 251	109	-	**289 360**
Subordinated liabilities	-	1 612 178	-	**1 612 178**
Other liabilities	2 359 346	11 998	-	**2 371 344**
TOTAL LIABILITIES	**132 801 010**	**3 241 805**	**-**	**136 042 815**
EQUITY	**-**	**20 435 870**	**-**	**20 435 870**
TOTAL LIABILITIES AND EQUITY	**132 801 010**	**23 677 675**	**-**	**156 478 685**

Non-current and current assets and liabilities of the Group as at 31 December 2008

	Short term	Long term	Impairment allowances	Total carrying amount
Assets				
Cash and balances with the central bank	5 836 892	-	-	**5 836 892**
Amounts due from banks	3 191 876	199 834	(28 111)	**3 363 599**
Trading assets	1 340 931	155 216	-	**1 496 147**
Derivative financial instruments	3 597 670	-	-	**3 597 670**
Other financial instruments designated at fair value through profit and loss	3 521 974	1 033 570	-	**4 555 544**
Loans and advances to customers	21 784 191	82 241 576	(2 917 876)	**101 107 891**
Investment securities available for sale	772 921	7 847 751	(5 759)	**8 614 913**
Inventories	479 181	143 229	-	**622 410**
Other assets	3 407 883	2 233 311	(200 274)	**5 440 920**
TOTAL ASSETS	**43 933 519**	**93 854 487**	**(3 152 020)**	**134 635 986**
Liabilities				
Amounts due to the central bank	2 816	-	-	**2 816**
Amounts due to other banks	3 127 387	3 861 216	-	**6 988 603**
Derivative financial instruments	6 150 337	-	-	**6 150 337**
Amounts due to customers	91 457 004	11 482 277	-	**102 939 281**
Debt securities in issue	183 594	27 979	-	**211 573**
Subordinated liabilities	-	1 618 755	-	**1 618 755**
Other liabilities	2 228 722	497 883	-	**2 726 605**
TOTAL LIABILITIES	**103 149 860**	**17 488 110**	**-**	**120 637 970**
EQUITY	**-**	**13 998 016**	**-**	**13 998 016**
TOTAL LIABILITIES AND EQUITY	**103 149 860**	**31 486 126**	**-**	**134 635 986**

(in PLN thousand)

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

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value	Carrying amount
Liabilities:							
Amounts due to the central bank	6 581	-	-	-	-	6 581	**6 581**
Amounts due to other banks	1 544 583	194 536	287 966	3 155 324	189 908	5 372 317	**5 146 048**
Derivative financial instruments	991 914	2 195 028	7 412 837	14 926 893	2 773 816	28 300 488	**1 544 370**
Amounts due to customers	72 246 082	20 462 087	29 552 945	3 358 205	728 239	126 347 558	**125 072 934**
Debt securities in issue	140 050	122 886	31 975	130	-	295 041	**289 360**
Subordinated liabilities	-	-	84 997	255 224	1 940 921	2 281 142	**1 612 178**
Other liabilities	1 298 593	9 630	228 613	16 662	13 126	1 566 624	**1 566 623**
Off-balance sheet liabilities – financial liabilities granted	15 085 902	313 335	5 111 897	2 191 153	4 682 872	27 385 159	-
Off-balance sheet liabilities – guarantee liabilities issued	1 366 411	1 505 984	1 541 703	1 083 653	-	5 497 481	-

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

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value	Carrying amount
Liabilities:							
Amounts due to the central bank	2 816	-	-	-	-	2 816	**2 816**
Amounts due to other banks	2 465 019	707 941	303 961	3 658 612	173 577	7 309 109	**6 988 603**
Derivative financial instruments	6 476 728	5 399 820	7 228 909	21 651 941	5 876 889	46 634 287	**6 150 337**
Amounts due to customers	61 955 089	17 672 964	11 820 792	12 536 123	376 525	104 361 493	**102 939 281**
Debt securities in issue	79 851	75 711	30 905	39 703	-	226 170	**211 573**
Subordinated liabilities	-	-	126 135	506 893	2 121 604	2 754 632	**1 618 755**
Other liabilities	564 141	260 184	794 266	32 196	16 989	1 667 776	**1 667 776**
Off-balance sheet liabilities – financial liabilities granted	13 720 195	157 146	3 512 534	4 231 245	4 520 324	26 141 444	**-**
Off-balance sheet liabilities – guarantee liabilities issued	1 436 768	169 003	1 086 418	1 489 656	120 854	4 302 699	**-**

Other price risk

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

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

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

Derivative instruments risk

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

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

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

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

The Bank measures the derivative instrument risk using, among others, the Value at Risk (VaR) model described in the section on interest rate risk or currency risk, depending on the risk factor which affects the value of the instrument.

The main tools used in derivative risk management are as follows:

1) written procedures for derivative risk management,
2) limits and thresholds set for the risk related to derivative instruments,
3) master agreements (ISDA – (International Swaps and Derivatives Accociation), ZBP (Polish Bank Association)) specifying, among others, settlement mechanisms.

Risk management is carried out by imposing limits on the individual derivative instruments included in the Bank's trading and banking portfolios, monitoring limits, observation and reporting risk level.

Master agreements concluded by the Bank with the major business partners based on the standards developed by the Polish Bank Association (domestic banks) and ISDA (foreign banks and credit institutions), which allow offsetting mutual liabilities, both due (mitigation of settlement risk) and not yet due (mitigation of pre-settlement risk), are particularly important for mitigating the risk associated with derivative instruments. Additional collateral for exposures, resulting from derivative instruments are collateral deposits escrowed by counterparties as a part of CSA agreement (Credit Support Annex).

Methods of derivative risk management in the other Group entities are defined by internal regulations implemented by these entities which take positions in derivative instruments or plan to take positions in such instruments. These regulations are developed after consultation with the Bank and take into account the recommendations issued by the Bank for the Group entities.

The Group uses the following measures in the process of derivative risk management:

1) measures of derivative risk set for the individual Group entities and for the Bank,
2) positions taken by the Group entities in particular derivative instruments, defined by the Bank.

Positions taken by the other Group entities in particular derivative instruments are determined using similar methods to those used for positions taken by the Bank in such instruments, taking into account the specific nature of the business conducted by the Group entities.

In the current year, the Group's sole company (apart from the Bank) which used derivative financial instruments to manage market risk was Bankowy Fundusz Leasingowy.

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 Group to events which are beyond its control.

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

Operational risk management is performed through systemic solutions as well as regular ongoing management of the risk.

Systemic management of operational risk includes building internal regulations and using other tools related to operational risk, in the scope of:

- human resources,
- organization of the Bank,
- accounting,
- communication and IT technologies,
- security,
- internal processes,
- customer service processes,
- outsourcing of banking activities.

Systemic operational risk management is centralised at the Bank's head office level. Each business and support line has a designated unit which is responsible for identification and monitoring of operational threats in monitored products and internal processes and taking adequate steps to ensure an acceptable level of operational risk.

The ongoing operational risk management consists of:

- prevention of operational threats arising at a stage of product development - both in internal processes and systems,
- undertaking steps aimed at limiting the number and scale of occurring threats ('operational events'),
- eliminating negative effects of operational events,

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

A vital role in the process of operational risk management is fulfilled by the Banking Risk Division, which coordinates identification, measurement, reporting and monitoring of operational risk in the PKO Bank Polski SA Group.

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

- control solutions,
- human resources management (proper staff selection, enhancement of professional qualification of employees, motivation packages),

- setting threshold values of Key Risk Indicators (KRI),
- contingency plans,
- insurances,
- outsourcing.

The selection of instruments, which are used to limit operational risk, is made in consideration with:

- availability and adequacy of the risk reducing instruments,
- nature of an activity or a process, in which operational risk was identified,
- importance of risk,
- cost of instrument's implementation.

In addition, internal regulations prevent the Bank from engaging in excessively risky activities. If such activity is already in place, the regulations call for abandonment of it, or for limitation of its scope. The level of operational risk is regarded as excessive if potential benefits are lower than potential operational losses for a given type of activity.

Measurement of operational risk is conducted with the use of:

- accumulation of data on operational events,
- results of internal audit,
- results of functional internal control,
- results of self-assessment of operational risk,
- Key Risk Indicators (KRI).

The Bank continuously monitors the level of KRI and operating events which exceed threshold values for operational risk.

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

The dominant impact on the operational risk profile is exercised by the following three entities: PKO Bank Polski SA, BFL SA Group and KREDOBANK SA (in total 99% of all financial results). The other Group entities, considering their significantly smaller scale and type of activity, generate reduced operational risk and they manage operational risk according to principles of managing the risk in PKO Bank Polski SA, considering their specific nature and scale of activity.

In 2009, the Group entities continued work in the area of development of key operational risk indicators (KRI).

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

The other Group entities manage operational risk according to principles of managing the risk in PKO Bank Polski SA, considering their specific nature and scale of activity.

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 Group, 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 Bank Polski SA Group as of entities that are reliable, fair, honest and compliant with law and adopted standards. This is achieved through mitigating compliance risk, reputation risk and legal sanction risk.

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

In all of the Group entities principles of compliance risk management are consistent.

Strategic risk

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

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

Management of the Bank's strategic risk comprises:
- measuring the level of the strategic risk;
- reporting the level of the strategic risk and its changes;
- actions taken in the event of a high strategic risk arising.

In measuring the strategic risk, the Bank takes the following into account:
- external factors;
- factors related to the growth and development of the banking operations;
- factors related to the management of human resources;
- factors related to investment activities;
- factors related to the organization's culture.

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

Reputation risk

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

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

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

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

Capital adequacy

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

The process of managing the Group’s capital adequacy comprises:

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

The main measures of capital adequacy are:

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

The capital adequacy level of the Bank in 2009 remained on a safe level and was significantly above the statutory limits.

Compared with 31 December 2008, the Group's capital adequacy level increased by 3.37%, which was mainly caused by an increase in the Bank’s own funds through the Bank’s own issue amounting to PLN 5.08 billion with a simultaneous increase in capital requirements because of credit risk, which was mainly due to high dynamics in the growth of the loan portfolio of the Group.

Own funds for the capital adequacy requirements

Own funds comprise basic funds, supplementary funds and short-term capital.

Basic funds are comprised of the following items:

1) principal funds comprising: share capital, reserve capital, other reserve capital,
2) general banking risk fund,
3) retained earnings,
4) net profit prior to approval and net profit for the current reporting period, calculated based on appropriate accounting standards, decreased by any expected charges and dividends, in amounts not exceeding amounts audited by certified public accountants, in accordance with the Banking Act, Article 127, Point 2c.

Basic funds are reduced by deducting the following items:

1) intangible assets stated at carrying amount,

(in PLN thousand)

2) the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies – in the amount of 50% of the value of such exposures,
3) unrealised losses on debt and equity instruments classified as available for sale.

Supplementary funds are comprised of the following items:

1) subordinated liabilities,
2) unrealised gains on debt and equity instruments classified as available for sale – in the amount of 60% of their pre-tax value.

Moreover, the supplementary funds are reduced by 50% of the value of the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies. If the amount of reduction would result in supplementary funds failing below nil, the amount is subtracted from the basic funds.

In addition, the following items are included in the calculation of consolidated own funds:

1) goodwill of subsidiaries (which decreases the value of own funds),
2) negative goodwill of subsidiaries (which increases the value of own funds),
3) minority interests in equity (which increase the value of own funds),
4) currency translation differences from foreign operations (negative differences decrease own funds, whereas positive differences increase own funds).

In 2009, the value of the Groups own funds increased by PLN 4 980 061 thousand, which was mainly due to the issuance of shares at PLN 5 081 125 thousand and a simultaneous increase in capital exposure decreasing the Group's own funds by PLN 137 779 thousand. The net profit for 2009 was not recognized in the own funds.

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

GROUP'S OWN FUNDS	31.12.2009	31.12.2008
Basic funds (Tier 1 capital)	**16 254 416**	**11 265 718**
Share capital	1 250 000	1 000 000
Reserve capital	12 149 682	7 274 717
Other reserves	3 405 087	1 523 827
General banking risk fund	1 070 000	1 070 000
Net profit for the current period in the part verified by a certified auditor after deduction of forecasted charges	-	1 824 745
Retained earnings	248 806	53 232
Unrealised losses on debt and equity instruments classified as available for sale	(52 749)	(43 346)
Intangible assets, of which:	(1 572 577)	(1 352 778)
goodwill of subsidiaries	(264 933)	(164 720)
Equity exposures	(142 371)	(73 482)
Currency translation differences from foreign operations	(108 791)	(57 413)
Minority interest	7 329	46 216
Supplementary funds (Tier 2 capital)	**1 481 052**	**1 528 517**
Subordinated liabilities classified as supplementary funds	1 600 700	1 600 700
Unrealised profits on debt and equity instruments classified as available for sale (up to 60% of their values before tax)	22 723	1 298
Equity exposures	(142 371)	(73 481)
Short-term equity (Tier 3 capital)	**129 876**	**91 048**
TOTAL EQUITY	**17 865 344**	**12 885 283**

(in PLN thousand)

Capital requirements (Pillar 1)

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

The scale of the Bank's and the Group's trading activities is significant, therefore the total capital requirements constitute sum of the capital requirements for:

1) credit risk – including credit risk of the banking book and counterparty credit risk,
2) market risk – including foreign exchange risk, commodities risk, equity securities risk, specific risk of debt instruments, general risk of interest rates,
3) operational risk,
4) other types of capital requirements in respect of:
    - settlement/delivery risk,
    - the risk of exceeding the exposure concentration limit and the large exposure limit,
    - the risk of exceeding the capital concentration threshold.

An increase of capital requirement in respect of credit risk in 2009 was mainly caused by a material increase in a loan portfolio amounting to 15%.

The tables below show the Group's exposure to credit risk and other types of risk. The values have been calculated according to the requirements of Basel II.

Capital requirements	31.12.2009	31.12.2008
Credit risk	**8 487 800**	**7 676 474**
credit risk (banking book)	8 413 635	7 514 510
counterparty risk (trading book)	74 165	161 964
Market risk	**204 148**	**202 677**
equity securities risk	2 390	1 069
specific risk of debt instruments	168 088	167 505
general risk of interest rates	33 670	34 103
Operational risk	**1 057 384**	**1 247 584**
Total capital requirements	**9 749 332**	**9 126 735**
Capital adequacy ratio	**14.66%**	**11.29%**

* Includes capital requirements as regards the settlement and delivery risks, the risk of exceeding the exposure concentration limit and the large exposure limit, and the risk of exceeding the capital concentration threshold.

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

– in case of exposure of the statement of financial position (instruments of the statement of financial position) – a product of a carrying amount, a risk weight of the assigned exposure according to the standard method of credit risk requirement calculation and 8% (considering collateral),

– in case of contingent liabilities granted – a product of nominal value of liability, a product risk weight, a risk weight of the assigned exposure according to the standard method of credit risk requirement calculation and 8% (considering collateral),

– in case of off-balance sheet transactions (derivative instruments) – product of risk weight of the assigned exposure according to the standard method of credit risk requirement calculation, the value of the statement of financial position equivalent and 8% (the value of the statement of financial position equivalent is calculated in accordance with the mark-to-market method).

(in PLN thousand)

The structure of the capital requirement for credit risk and a risk-weighted value on account of specific risk of instruments from the trading portfolio of the Bank as at 31 December 2009 is as follows:

Instrument type	Carrying amount	Risk-weighted value
Banking book	150 587 660	95 585 435
Trading book	5 891 025	1 179 941
Total instruments in the statement of financial position	**156 478 685**	**96 765 376**

Instrument type	Nominal value	Statement of financial position equivalent	Risk-weighted value
Banking book	31 633 985	10 818 489	9 047 584
Trading book	1 248 655	1 248 655	951 029
Total off-balance sheet instruments	**32 882 640**	**12 067 144**	**9 998 613**

Instrument type	Nominal value*	Statement of financial position equivalent	Risk-weighted value
Banking book	47 224 887	1 643 096	537 420
Trading book	134 168 429	1 947 141	927 058
Total derivatives	**181 393 316**	**3 590 237**	**1 464 478**

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

The structure of the capital requirement for credit risk and a risk weighted value on account of specific risk of instruments from the trading portfolio of the Bank as at 31 December 2008 is as follows:

Instrument type	Carrying amount	Risk-weighted value
Banking book	130 532 605	84 891 321
Trading book	4 103 381	1 449 025
Total instruments in the statement of financial position	**134 635 986**	**86 340 346**

Instrument type	Nominal value	Statement of financial position equivalent	Risk-weighted value
Banking book	29 623 138	9 840 259	8 603 259
Trading book	821 005	821 005	658 148
Total off-balance sheet instruments	**30 444 143**	**10 661 264**	**9 261 407**

Instrument type	Nominal value*	Statement of financial position equivalent	Risk-weighted value
Banking book	44 127 146	1 616 891	436 796
Trading book	194 935 280	3 927 062	2 024 547
Total derivatives	**239 062 426**	**5 543 953**	**2 461 343**

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

Internal capital (Pillar 2)

As of the beginning of 2008, internal capital is designated in accordance with Resolution No 4/2007 of the Banking Supervision Authority of 13 March 2007 on detailed principles for functioning of risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating and maintaining internal capital (NBP Journal of 2007, No. 3, item 6).

Internal capital is the amount of capital estimated by the Group that is necessary to cover all of the significant risks characteristic of the Bank's activities and the effect of changes in the business environment, taking account of the anticipated risk level.

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

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

The total internal capital of each of the Group's entities is the sum of internal capital amount necessary to cover all of the significant risks for each of the entities.

The total internal capital of the Group is the sum of internal capital of the Bank and internal capitals of all of the Group's entities.

The correlation coefficient for different types of risk and different companies of the Group used in the internal capital calculation is equal to 1.

The Bank regularly monitors the significance of the individual risk types relating to the Bank's activities and activities of Group's entities.

Disclosures (Pillar 3)

In accordance with § 6 of Resolution 6/2007 of the Banking Supervision Authority of 13 March 2007, on the detailed principles and methods for banks to disclose qualitative and quantitative information concerning capital adequacy and the scope of the information to be announced, the Powszechna Kasa Oszczędności Bank Polski SA, which is the holding company within the meaning of §3 of the resolution, publishes information about capital adequacy in a separate document on an annual basis, not later than within 30 days of the date of authorization of the annual financial statements by the Annual General Shareholders' Meeting.

Details of the scope of capital adequacy information disclosed, the method of its verification and publication are presented in the PKO Bank Polski SA Capital Adequacy Information Policies, which are available on the Bank's website (www.pkobp.pl).

55. Influence of the global crisis on the Group's results

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

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

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

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

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

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

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

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

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

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

56. Information on the entity authorised to audit financial statements

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

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

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

57. Events after the reporting period

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

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

On 24 February 2010, the Supervisory Board of PKO Bank Polski S.A. accepted the strategy for the years 2010-2012. The strategy assumes that the Bank will continue the sustainable development, as well as focus on sustaining stable profitability in accordance with shareholders' expectations and will run a conservative risk management policy. Sustainable development will be based on funds obtained from the share issuance which took place in the fourth quarter of 2009 and on a stable loan policy. The strategy predicts the use of an immense potential of the PKO Bank Polski Group.

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

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

Signatures of all Members of the Bank's Management Board

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

Signature of person responsible for
maintaining the books of account

09.03.2010
Danuta Szymańska

Director of the Bank
(signature)