

Powszechna Kasa Oszczędności Bank Polski SA Group

**Report on the consolidated financial statements
As at and for the year ended 31 December 2010**

**Independent registered auditor's report
on the consolidated financial statements
to the General Shareholders' Meeting and the Supervisory Board of
Powszechna Kasa Oszczędności Bank Polski SA**

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Powszechna Kasa Oszczędności Bank Polski SA Group

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I. General information about the Group

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

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

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

- (b) As at 31 December 2010, the Parent Company's registered share capital amounted to PLN 1,250,000 thousand and consisted of 1,250,000,000 ordinary shares with PLN 1 par value each, including:

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

- (c) In the audited period, the Group's operations comprised i.a.:

- performing activities typical of a universal bank;
- brokerage activities;
- managing pension funds;
- managing investment funds;
- managing real estate;
- services in the area of technical assistance for electronic banking;
- services in the area of card transaction processing and settlement;
- leasing.

- (d) During the year, the following people were on the Parent Company's Management Board:

Zbigniew Jagiełło	President of the Management Board	throughout the year
Piotr Stanisław Alicki	Vice-President of the Management Board	from 2 November 2010
Bartosz Drabikowski	Vice-President of the Management Board	throughout the year
Krzysztof Dresler	Vice-President of the Management Board	throughout the year
Jarosław Myjak	Vice-President of the Management Board	throughout the year
Wojciech Papierak	Vice-President of the Management Board	throughout the year
Jakub Papierki	Vice-President of the Management Board	from 22 March 2010
Mariusz Zarzycki	Vice-President of the Management Board	to 31 July 2010

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I. General information about the Group (cont.)

(e) As at 31 December 2010, the Powszechna Kasa Oszczędności Bank Polski SA Group comprised the following entities:

Entity name	Nature of equity relationship (% shareholding)	Consolidation method	Auditor	Type of opinion	Balance date
Powszechna Kasa Oszczędności Bank Polski SA	Parent Company	n/a	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2010
Bankowe Towarzystwo Kapitałowe SA	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	During the audit ¹	31 December 2010
Bankowy Fundusz Leasingowy SA	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2010
Centrum Elektronicznych Usług Płatniczych eService SA	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2010
Centrum Finansowe Puławska Sp. z o.o.	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2010
Fort Mokotów Inwestycje Sp. z o.o.	Subsidiary (99.99%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2010
Inteligo Financial Services SA	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2010
Kredobank SA	Subsidiary (99.57%)	Full	LLC AF Pricewaterhouse-Coopers (Audit)	During the audit ¹	31 December 2010
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2010
PKO BP Finat Sp. z o.o.	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2010
PKO BP Inwestycje Sp. z o.o.	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2010
PKO Finance AB	Subsidiary (100%)	Full	Öhrlings Pricewaterhouse-Coopers AB	Unqualified opinion	31 December 2010
PKO Towarzystwo Funduszy Inwestycyjnych SA	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2010

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

¹ Consolidation was based on audited consolidation package of the entity.

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I. General information about the Group (cont.)

Key financial data of the companies consolidated as at and for the year ended 31 December 2010 are as follows:

Entity name	Total assets PLN thousand	Total income PLN thousand	Equity PLN thousand	Net profit PLN thousand
Powszechna Kasa Oszczędności Bank Polski SA	167,238,919	14,356,576	21,201,848	3,311,209
PKO Finance AB	3,196,356	22,892	425	28
Bankowy Fundusz Leasingowy SA	2,715,662	212,583	99,835	10,531
Kredobank SA	1,758,614	262,776	340,616	(40,314)
PKO BP Inwestycje Sp. z o.o.	502,633	158,147	147,786	(10,574)
Centrum Finansowe Puławska Sp. z o.o.	283,344	45,637	210,299	11,920
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	280,921	63,006	237,433	12,125
Inteligo Financial Services SA	192,436	104,020	152,724	18,076
Centrum Elektronicznych Usług Płatniczych eService SA	111,017	184,501	85,417	24,215
PKO Towarzystwo Funduszy Inwestycyjnych SA	107,623	279,280	75,603	48,463
Fort Mokotów Inwestycje Sp. z o.o.	106,601	149	105,609	(261)
Bankowe Towarzystwo Kapitałowe SA	104,688	7,963	5,124	(4,440)
Total	176,598,814	15,697,530	22,662,719	3,380,978
Consolidation adjustments	(6,938,313)	(506,483)	(1,303,151)	(168,172)
Total	169,660,501	15,191,047	21,359,568	3,212,806

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

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

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I. General information about the Group (cont.)

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

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II. Information about the audit

- (a) PricewaterhouseCoopers Sp. z o.o. was appointed a registered auditor to the Group by Resolution No. 26/2008 of the Supervisory Board passed on 17 April 2008, in accordance with section 15, subsection 1, item 3 of the Parent Company's Memorandum of Association.
- (b) PricewaterhouseCoopers Sp. z o.o. and the principal registered auditor conducting the audit are independent of the Group entities within the meaning of art. 56, clause 2-4 of the Act on registered auditors and their council, entities entitled to provide audit of financial statements and public supervision of 7 May 2009 (Journal of Laws 2009, No. 77, item 649).
- (c) The audit was conducted in accordance with an agreement signed on 12 May 2008, in the following periods:
- interim audit from 11 October to 10 December 2010;
 - final audit from 10 January to 2 March 2011.

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III. The Group's results and financial position

The consolidated financial statements do not take account of inflation. The consumer price index (on a December to December basis) amounted to 3.1% in the audited year (3.5% in 2009).

The observations below are based on knowledge obtained during the audit of the consolidated financial statements.

Powszechna Kasa Oszczędności Bank Polski SA is the Parent Company of the Group, which as at 31 December 2010 comprised 11 direct subsidiaries and 10 indirect subsidiaries. The data of four direct subsidiaries and the data of two joint ventures was disclosed in the consolidated financial statements under the equity method. In the previous year, the Group consisted of 11 direct subsidiaries and 11 indirect subsidiaries; the data of four direct associates and two joint ventures was disclosed in the consolidated financial statements under the equity method.

- As at 31 December 2010, total assets amounted to PLN 169,660,501 thousand and were PLN 13,181,816 thousand (i.e. 8%) higher than as at 31 December 2009.
- This increase was financed mainly by an increase in the amounts due to customers of PLN 7,908,281 thousand (i.e. 6%) as a result of an increase in deposits, an increase in liabilities resulting from the securities issue of PLN 3,009,507 thousand (i.e. 1,040%) and an increase in equity of PLN 923,698 thousand (i.e. 5%) mainly as a result of the accumulation of profits, accompanied by an increase in the negative valuation of derivative instruments of PLN 860,425 thousand (i.e. 56%), as well as an increase in the balance of other liabilities of PLN 526,211 thousand (i.e. 34%).
- In 2010, as in the previous year, amounts due to customers were the main source of financing for assets. The balance of amounts due to customers amounted to PLN 132,981,215 thousand as at the balance date and accounted for 78% of total assets (a decrease of 2 p.p. compared with the balance as at 31 December 2009). The change in the balance of amounts due to customers was mainly a result of a significant increase in amounts due to retail customers (an increase of PLN 7,550,453 thousand, i.e. 9%, compared with the balance as at 31 December 2009) and corporate entities (an increase of PLN 3,992,009 thousand, i.e. 14%, compared with the balance as at 31 December 2009) (Note 14).
- The balance of amounts due to banks amounted to PLN 5,233,875 thousand as at the balance date and mainly comprised a syndicated loan received by the Parent Company in Swiss francs, whose Polish zloty equivalent amounted to PLN 2,999,116 thousand (PLN 2,621,791 thousand as at 31 December 2009) and loans from other banks received by the Bankowy Fundusz Leasingowy Group in the amount of PLN 1,051,693 thousand (PLN 894,030 thousand as at 31 December 2009). The increase in the total balance of PLN 87,827 thousand (i.e. 2%) compared with the balance as at 31 December 2009 was mainly due to the increase in the balance of loans and advances received of PLN 470,493 thousand (i.e. 13%), which resulted mainly from an increase in the valuation of the syndicated loan due to the increase in the exchange rate of the Swiss franc and was partly offset by a decrease in the balance of deposits accepted from banks (a decrease of PLN 372,467 thousand, i.e. 27%) (Note 13).

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

- The balance of debt securities in issue as at the balance date was PLN 3,298,867 thousand (PLN 289,360 thousand as at 31 December 2009), of which PKO Finance AB accounted for PLN 3,187,766 thousand (no liability as at 31 December 2009). The increase in the balance as at 31 December 2010 was mainly due to the issue of eurobonds of EUR 800,000 thousand as part of the EMTN programme (Note 15).
- As at 31 December 2010, liabilities in respect of the negative valuation of derivative instruments amounted to PLN 2,404,795 thousand (PLN 1,544,370 thousand as at 31 December 2009). The increase in the balance as at the balance date was mainly the result of the exchange rates being higher than at the end of 2009 and an increase in activity on the derivative instrument market (the nominal value of the derivative transactions concluded increased by PLN 139,092,995 thousand (i.e. 41%) compared with the balance as at 31 December 2009) (Note 4).
- The balance of subordinated liabilities amounted to PLN 1,611,779 thousand as at the balance date (PLN 1,612,178 thousand as at 31 December 2009) and comprised valuation of bonds issued by the Bank in 2007 in the nominal amount of PLN 1,600,700 thousand (Note 16).
- The Bank's equity as at 31 December 2010 amounted to PLN 21,359,568 thousand (PLN 20,435,870 thousand as at 31 December 2009) and increased by PLN 923,698 thousand (i.e. 5%). The increase in the balance was mainly due to the Group generating a profit of PLN 3,216,883 thousand in 2010. At the same time, the Parent Company's shareholders earmarked PLN 2,375,000 thousand of the profit for 2009 for payment of a dividend. The remaining portion of the profit for 2009 was earmarked for increasing the reserve capital (PLN 50,000 thousand) and other reserves (PLN 7,152 thousand) (Note 19).
- The value of own funds amounted to PLN 17,618,729 thousand as at 31 December 2010 (PLN 17,872,919 thousand as at 31 December 2009) and was PLN 6,316,943 thousand higher than the total capital requirement (PLN 11,301,786 thousand as at the end of 2010). The capital adequacy ratio calculated as at the balance date based on the banking and trading portfolios amounted to 12.47% and was 2.34 p.p. lower than as at the end of the previous year.
- The higher level of financing was reflected mainly in an increase in the balance of loans and advances to customers as at the balance – up PLN 14,095,534 thousand (i.e. 12%) – and an increase in the balance of financial instruments available for sale – up PLN 2,275,083 thousand (i.e. 29%). As at 31 December 2010, these balances amounted to PLN 130,668,119 thousand and PLN 10,219,400 thousand respectively.
- As at the balance date, loans and advances to customers accounted for 77% of total assets (up 2 p.p. compared with the end of 2009). The gross value of the loan portfolio as at 31 December 2010 amounted to PLN 135,524,789 thousand and increased by PLN 15,015,080 thousand (i.e. 12%) compared with 31 December 2009. This increase was mainly due to an increase in the balance of mortgage and corporate loans granted to customers in the non-financial sector (up PLN 10,006,859 thousand, i.e. 19%, and PLN 3,599,869 thousand, i.e. 10% respectively) (Note 6).

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

- The quality of the Group's portfolio of loans and advances to customers and lease receivables as at the balance date, measured as a share of impaired loans in total loans and advances, deteriorated compared with the end of 2009. As at 31 December 2010, the share of impaired loans and lease receivables in total loans and advances increased by 0.4 p.p. and amounted to 8.0%. At the same time, the coverage of impaired loans with impairment allowances amounted to 40.0% as at 31 December 2010 and increased by 3.4 p.p. compared with the end of the year 2009. The deterioration in the quality of the loan portfolio was mainly related to consumer loans and loans to small and medium-sized enterprises.
- The balance of financial instruments designated at fair value through profit and loss amounted to PLN 10,758,331 thousand as at the balance date. The fall in the balance (of PLN 1,602,359 thousand, i.e. 13%) was mainly due to a decrease in the Group's exposure to short-term securities – compared with the end of the year 2009, the balances of NBP bills and Treasury bills decreased by PLN 2,996,438 thousand (i.e. 43%) and PLN 2,673,448 thousand (i.e. 59%), respectively – and was partly offset by an increase in the balance of Treasury bonds (up PLN 3,942,836 thousand, i.e. 495%) (Note 5).
- The balance of investment securities available for sale amounted to PLN 10,219,400 thousand as at the balance date and was PLN 2,275,083 thousand (i.e. 29%) higher than the balance at the end of 2009. The increase mainly related to the Group's exposure to Treasury securities (up PLN 830,708 thousand, i.e. 17%), municipal bonds (up PLN 823,952 thousand, i.e. 41%) and corporate bonds in PLN (up PLN 661,384 thousand, i.e. 84%) (Note 7).
- Other liquid assets of the Group – comprising cash and balances with the Central Bank, amounts due from banks, trading assets and derivative financial instruments – fell by a total of PLN 1,647,304 thousand (i.e. 12%) as at the balance date, which was mainly due to a decrease in the balance of cash and balances with the Central Bank and a decrease in trading assets (Notes 1-4).
- The Group's 1-month and 3-month adjusted accumulated liquidity gaps calculated on the basis of data about the assets receivable and the liabilities payable, adjusted to reflect the actual maturities, amounted to PLN 17,310,022 thousand and 16,360,180 thousand respectively (PLN 22,170,980 thousand and PLN 18,698,860 thousand respectively as at the end of 2009).
- The share of interest-bearing assets in total assets increased by 0.8 p.p. compared with 31 December 2009 and amounted to 93.9% as at the end of 2010.

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

- The operating profit for 2010 amounted to PLN 4,080,051 thousand and was PLN 1,137,123 thousand (i.e. 39%) higher than the profit for 2009. The operating profit comprised mainly: net interest income of PLN 6,516,166 thousand, net fee and commission income of PLN 3,142,829 thousand, net foreign exchange gains of PLN 346,762 thousand and other operating income of PLN 469,388 thousand. At the same time, the operating profit was decreased by administrative expenses of PLN 4,249,136 thousand and net impairment allowance of PLN 1,868,364 thousand.
- The Group's net interest income in 2010 amounted to PLN 6,516,166 thousand and was PLN 1,464,984 thousand (i.e. 29%) higher than in 2009. The main reason for the increase was an increase in interest income from loans and advances to customers (up PLN 969,857, i.e. 13%), mainly as a result of an increase in the loan portfolio (gross increase of PLN 15,015,080 thousand, i.e. 12%), while interest expenses were slightly lower than in the previous year (a decrease of PLN 80,999 thousand, i.e. 2%). In 2010, the interest margin, being the ratio of net interest income/expense to interest income, increased by 7 p.p. compared with 2009 and amounted to 63% (Note 21). Compared with 2009, the profitability ratio on interest-bearing assets was also higher. It amounted to 6.8% in 2010 (up 0.1 p.p.). However, there was a decrease in the cost of borrowings (down from 3.3% in 2009 to 2.8% in 2010).
- In 2010, the net fee and commission income was higher than in 2009 and amounted to PLN 3,142,829 thousand (an increase of PLN 559,826 thousand, i.e. 22%). Compared with 2009, fee and commission income increased by PLN 545,516 thousand (up 16% to PLN 3,880,863 thousand), mainly in respect of loan insurance and loans and advances granted. At the same time, there was a slight decrease in fee and commission expense of PLN 14,310 thousand (i.e. 2%) to PLN 738,034 thousand (Note 22).
- The net foreign exchange gains amounted to PLN 346,762 thousand in the audited year and were PLN 562,377 thousand (i.e. 62%) lower than in 2009. Net foreign exchange gains comprised foreign exchange losses of PLN 1,026,841 thousand (foreign exchange gains of PLN 2,712,617 thousand in 2009) on instruments measured at fair value through profit or loss and foreign exchange gains of PLN 1,373,603 thousand (foreign exchange losses of PLN 1,803,478 thousand in 2009) on other assets and liabilities and realized foreign exchange differences (Note 23).
- In 2010, net impairment allowance amounted to PLN 1,868,364 thousand (PLN 1,681,075 thousand in 2009). The increase in net impairment allowance (recognized in the income statement) mainly related to corporate and mortgage loans granted to customers – up PLN 160,454 thousand (i.e. 33%) and PLN 18,108 thousand (i.e. 7%) respectively (Note 26).

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

- In 2010, administrative expenses were PLN 5,301 thousand (i.e. 0.1%) higher than in the previous year and amounted to PLN 4,249,136 thousand. The increase was mainly the result of an increase in staff costs (up PLN 67,387 thousand, i.e. 3%) and depreciation and amortization (up PLN 43,167 thousand, i.e. 9%) and was offset by a decrease in overheads (down PLN 113,316 thousand, i.e. 8%) (Note 27). The overall business effectiveness, being the quotient of costs and income (the C/I ratio) improved in 2010 (the ratio fell by 6.2 p.p. to 41.7%). The positive change in the ratio was mainly due to interest income being higher than in 2009.
- Gross profitability (being the ratio of the profit before income tax to total income) amounted to 26.9% in the audited year and increased by 5.8 p.p. compared with the previous year.
- The income tax expenses amounted to PLN 866,430 thousand in 2010 (PLN 631,486 thousand in 2009). The effective tax rate was 21.2% in 2010 and was 0.3 p.p. lower than in 2009.
- As a result, in 2010 the Group generated a net profit of PLN 3,212,806 thousand, which was PLN 901,022 thousand (i.e. 39%) higher than in 2009. The net profitability (being the ratio of the net profit to total income) amounted to 21.1% in 2010 (16.6% in 2009).
- Return on assets (being the ratio of the net profit to average total assets) amounted to 2.0% in 2010 and increased by 0.4 p.p. compared with 2009. In the audited year, return on equity amounted to 15.4% and was 2.0 p.p. higher than in 2009.

The consolidated financial statements have been prepared in accordance with the going concern principle.

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IV. Discussion of consolidated financial statement components

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2010

ASSETS	Note	31.12.2010	31.12.2009	Change	Change	31.12.2010	31.12.2009
		PLN '000	PLN '000	PLN '000	(%)	Structure (%)	Structure (%)
Cash and balances with the Central Bank	1	6,182,412	7,094,350	(911,938)	(13)	4	5
Amounts due from banks	2	2,307,032	2,023,055	283,977	14	2	1
Trading assets	3	1,503,649	2,212,955	(709,306)	(32)	1	2
Derivative financial instruments	4	1,719,085	2,029,122	(310,037)	(15)	1	1
Financial instruments designated at fair value through profit and loss	5	10,758,331	12,360,690	(1,602,359)	(13)	6	8
Loans and advances to customers	6	130,668,119	116,572,585	14,095,534	12	77	75
Investment securities available for sale	7	10,219,400	7,944,317	2,275,083	29	6	5
Securities held to maturity		-	9,894	(9,894)	(100)	-	-
Investments in associates and jointly controlled entities	8	172,931	228,692	(55,761)	(24)	-	-
Non-current assets held for sale		19,784	13,851	5,933	43	-	-
Inventories	9	530,275	653,075	(122,800)	(19)	-	-
Intangible assets	10	1,802,037	1,572,577	229,460	15	1	1
Tangible fixed assets	11	2,576,445	2,777,694	(201,249)	(7)	2	2
Current income tax receivables	28	4,318	7,184	(2,866)	(40)	-	-
Deferred income tax assets	28	582,802	403,218	179,584	45	-	-
Other assets	12	613,881	575,426	38,455	7	-	-
Total assets		169,660,501	156,478,685	13,181,816	8	100	100

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2010 (cont.)

LIABILITIES AND EQUITY	Note	31.12.2010	31.12.2009	Change	Change	31.12.2010	31.12.2009
		PLN '000	PLN '000	PLN '000	(%)	Structure (%)	Structure (%)
Amounts due to the Central Bank		3,370	6,581	(3,211)	(49)	-	-
Amounts due to banks	13	5,233,875	5,146,048	87,827	2	3	4
Derivative financial instruments	4	2,404,795	1,544,370	860,425	56	2	1
Amounts due to customers	14	132,981,215	125,072,934	7,908,281	6	78	80
Debt securities in issue	15	3,298,867	289,360	3,009,507	1.040	2	-
Subordinated liabilities	16	1,611,779	1,612,178	(399)	-	1	1
Other liabilities	17	2,092,834	1,566,623	526,211	34	1	1
Current income tax liabilities	28	67,744	181,893	(114,149)	(63)	-	-
Deferred income tax liability	28	22,764	20,534	2,230	11	-	-
Provisions	18	583,690	602,294	(18,604)	(3)	-	-
Total liabilities		148,300,933	136,042,815	12,258,118	9	87	87
Share capital		1,250,000	1,250,000	-	-	1	1
Other capital		16,888,145	16,732,988	155,157	1	10	11
Currency translation differences from foreign operations		(109,747)	(108,791)	(956)	1	-	-
Unappropriated profits		112,297	248,806	(136,509)	(55)	-	-
Net profit for the year		3,216,883	2,305,538	911,345	40	2	1
Capital and reserves attributable to equity holders of the parent company		21,357,578	20,428,541	929,037	5	13	13
Non-controlling interests		1,990	7,329	(5,339)	(73)	-	-
Total equity	19	21,359,568	20,435,870	923,698	5	13	13
Total liabilities and equity		169,660,501	156,478,685	13,181,816	8	100	100

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

CONSOLIDATED INCOME STATEMENT for the year ended 31 December 2010

	Note	2010 PLN '000	2009 PLN '000	Change PLN '000	Change (%)	2010 Structure (%)	2009 Structure (%)
Interest and similar income		10,415,315	9,031,330	1,383,985	15	69	65
Interest expenses and similar changes		(3,899,149)	(3,980,148)	80,999	(2)	35	36
Net interest income	21	6,516,166	5,051,182	1,464,984	29		
Fee and commission income		3,880,863	3,335,347	545,516	16	26	24
Fee and commission expense		(738,034)	(752,344)	14,310	(2)	7	7
Net fee and commission income	22	3,142,829	2,583,003	559,826	22		
Dividend income		5,663	5,381	282	5	-	-
Net income from financial instruments measured at fair value through profit and loss		(62,577)	60,872	(123,449)	(203)	1	-
Gains less losses on investment securities		73,056	(2,622)	75,678	(2,886)	-	-
Net foreign exchange gains	23	346,762	909,139	(562,377)	(62)	2	7
Other operating income	24	469,388	584,949	(115,561)	(20)	3	4
Other operating expense	25	(293,736)	(324,066)	30,330	(9)	2	3
Net impairment allowance	26	(1,868,364)	(1,681,075)	(187,289)	11	17	15
Administrative expenses	27	(4,249,136)	(4,243,835)	(5,301)	-	38	39
Operating profit		4,080,051	2,942,928	1,137,123	39		
Share of profit (loss) of associates and jointly controlled entities		(815)	342	(1,157)	(338)	-	-
Profit before income tax		4,079,236	2,943,270	1,135,966	39		

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

CONSOLIDATED INCOME STATEMENT for the year ended 31 December 2010 (cont.)

	Note	2010 PLN '000	2009 PLN '000	Change PLN '000	Change (%)	2010 Structure (%)	2009 Structure (%)
Profit before income tax		4,079,236	2,943,270	1,135,966	39		
Income tax expense	28	(866,430)	(631,486)	(234,944)	37		
Net profit (including non-controlling interest)		3,212,806	2,311,784	901,022	39		
Net profit (loss) attributable to non-controlling shareholders		4,077	(6,246)	10,323	(165)		
Net profit attributable to equity holders of the parent company		3,216,883	2,305,538	911,345	40		
Total income		15,191,047	13,927,360	1,263,687	9	100	100
Total expenses		(11,111,811)	(10,984,090)	(127,721)	1	100	100
Profit before income tax		4,079,236	2,943,270	1,135,966	39		

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

Selected ratios presenting the Group's financial position and results

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

	2010	2009
Profitability ratios		
Gross profitability (profit before tax/total income)	26.9%	21.1%
Net profitability (net profit / total income)	21.1%	16.6%
Return on equity (net profit /average net assets) (2)	15.4%	13.4%
Return on assets (net profit /average total assets) (2)	2.0%	1.6%
Profitability ratio on interest-bearing assets (interest income / average interest-bearing assets) (2)	6.8%	6.7%
Cost/Income ratio (administrative expenses / net result on banking activities) (3)	41.7%	47.9%
Cost of borrowings (interest expenses / average interest-bearing liabilities) (2)	2.8%	3.3%
Asset quality ratios		
Interest-bearing assets to total assets (4)	93.9%	93.1%
Impaired loans to total gross loans and advances to customers	8.0%	7.6%
Impairment allowances on impaired loans and advances to customers to impaired loans and advances to customers	40.0%	36.6%
Liquidity ratios		
Accumulated adjusted liquidity gap up to 1 month in PLN '000 (5)	17,310,022	22,170,980
Accumulated adjusted liquidity gap up to 3 months in PLN '000 (5)	16,360,180	18,698,860
Other ratios		
Capital adequacy ratio	12,47%	14,81%
Own funds calculated on the regulatory basis (PLN '000)	17,618,729	17,872,919
Total capital requirement (PLN '000)	11,301,786	9,653,727

(1) Individual ratio levels may differ from those presented in the consolidated financial statements due to a different method of calculation being applied.

(2) The average balances of statement of financial position items were calculated on the basis of the balances of the individual items at the beginning and the end of the current and previous year.

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

(4) Interest-bearing assets are defined as balances with the Central Bank (excluding cash), amounts due from banks and customers, investment securities, financial instruments designated at fair value through profit and loss and trading assets.

(5) Liquidity ratios are defined as ratio of assets receivable to liabilities payable at the actual maturities as at the balance date.

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

Consolidated statement of financial position as at 31 December 2010

1. Cash and balances with the Central Bank

As at 31 December 2010, the balance of the item "Cash and balances with the Central Banks" amounted to PLN 6,182,412 thousand (PLN 7,094,350 thousand as at the end of 2009), of which 99% (PLN 6,112,562 thousand) represented funds maintained by the Bank. The funds maintained by the Bank on its account with the National Bank of Poland represented more than half of the total balance (PLN 3,782,717 thousand; PLN 4,625,073 thousand as at 31 December 2009).

As at the balance date, the Bank calculated and maintained a mandatory reserve in accordance with Resolution No. 15/2004 of the Management Board of the National Bank of Poland dated 13 April 2004 on the terms and procedures for calculating and maintaining mandatory reserves by banks. The declared mandatory reserve to be maintained with the National Bank of Poland as at 31 December 2010 amounted to PLN 4,553,482 thousand (PLN 3,491,459 thousand as at 31 December 2009).

2. Amounts due from banks

As at the balance date, amounts due from banks were PLN 2,307,032 thousand, of which PLN 2,135,065 thousand (i.e. 93%) represented the amounts due to the Bank (PLN 1,731,194 thousand, i.e. 86%, as at 31 December 2009). The balance of amounts due from banks as at the respective balance dates and the movements therein are presented in the table below:

	31.12.2010	31.12.2009	Change	Change
	PLN '000	PLN '000	PLN '000	(%)
Placements with banks	1,493,827	1,160,377	333,450	29
Current accounts	722,717	617,388	105,329	17
Loans and advances granted	84,462	134,365	(49,903)	(37)
Receivables due from unsettled transactions	28,089	27,013	1,076	4
Cash in transit	6,862	5,594	1,268	23
Repo transactions	-	105,427	(105,427)	(100)
Total	2,335,957	2,050,164	285,793	14
Impairment allowances	(28,925)	(27,109)	(1,816)	7
Total, net	2,307,032	2,023,055	283,977	14

Compared with the balance as at 31 December 2009, the increase in the amounts due from banks (of PLN 283,977 thousand, i.e. 14%) was mainly due to the increase in the balance of placements with banks (up PLN 333,450 thousand, i.e. 29%) and an increase in the balance on current accounts (up PLN 105,329 thousand, i.e. 17%) and was partly offset with no exposure to repo transactions as at the balance date (down PLN 105,427 thousand, i.e. 100%).

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

2. Amounts due from banks (cont.)

As at the balance date, receivables denominated in foreign currencies amounted to the equivalent of PLN 2,087,392 thousand, i.e. 89% of the gross balance (PLN 1,790,545 thousand, i.e. 87% of the gross balance as at 31 December 2009).

The impairment allowances on amounts due from banks of PLN 28,925 thousand (PLN 27,109 thousand as at 31 December 2009) comprised mainly an allowance on receivables from unsettled derivatives transactions which have been declared due of PLN 28,089 thousand (PLN 27,013 thousand as at 31 December 2009).

3. Trading assets

The balance of 'Trading assets' as at 31 December 2010 amounted to PLN 1,503,649 thousand and comprised the Bank's assets only (PLN 2,212,955 thousand as at 31 December 2009). The balance comprised the following assets:

	31.12.2010	31.12.2009	Change	Change
	PLN '000	PLN '000	PLN '000	(%)
Treasury bonds (PLN)	1,483,144	1,810,340	(327,196)	(18)
Treasury bills	-	388,500	(388,500)	(100)
Other	20,505	14,115	6,390	45
Total	<u>1,503,649</u>	<u>2,212,955</u>	<u>(709,306)</u>	<u>(32)</u>

The decrease in the valuation of trading assets of PLN 709,306 thousand (i.e. 32%) as at the balance date was due to a decrease in the Bank's exposure to both Polish Treasury bonds and Treasury bills (down PLN 327,196 thousand, i.e. 18%, and PLN 388,500 thousand, i.e. 100% respectively) – as at 31 December 2010 the Bank did not have any Treasury bills in its portfolio. A particularly significant fall in the balance occurred in December 2010 – the falls in the balance of Treasury bonds and bills amounted to PLN 931,006 thousand and PLN 296,943 thousand respectively compared with November 2010.

As at 31 December 2010, Polish Treasury bonds accounted for 99% of the balance of all the trading assets.

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

4. Derivative financial instruments

The balance of receivables in respect of positive valuation of derivative instruments compared with 2009 decreased by PLN 310,037 thousand (i.e. 15%) and as at 31 December 2010 amounted to PLN 1,719,085 thousand. The balance of liabilities in respect of negative valuation of derivative instruments amounted to PLN 2,404,795 thousand and increased by PLN 860,425 thousand (i.e. 56%) compared with 2009. The Bank's share in both balances was close to 100% and comprised the valuations of the following transactions:

	31.12.2010	31.12.2010	31.12.2009	31.12.2009
	Assets	Liabilities	Assets	Liabilities
	PLN '000	PLN '000	PLN '000	PLN '000
Interest Rate Swaps	1,585,613	2,252,113	1,716,740	1,338,133
- including CIRS	126,219	687,977	402,221	33,699
Foreign exchange forward transactions	80,560	126,585	114,223	76,530
Foreign exchange options and equity options	46,397	25,382	198,159	127,847
Other	6,515	715	-	1,860
Total	1,719,085	2,404,795	2,029,122	1,544,370

The changes in the balances presented above as at 31 December 2010 compared with 31 December 2009 are presented below:

	Change	Change	Change	Change
	Assets	Assets	Liabilities	Liabilities
	PLN '000	%	PLN '000	%
Interest Rate Swaps	(131,127)	(8)	913,980	68
- including CIRS	(276,002)	(69)	654,278	1,942
Foreign exchange forward transactions	(33,663)	(29)	50,055	65
Foreign exchange options and equity options	(151,762)	(77)	(102,465)	(80)
Other	6,515	-	(1,145)	(62)
Total	(310,037)	(15)	860,425	56

In 2010, there was a fall in the positive valuation and an increase in the negative valuation of derivative transactions. In the case of CIRS transactions, this change was mainly due to the depreciation of the Polish zloty against the Swiss franc during the year. The average CHF exchange rate based on NBP data as at 31 December 2010 compared with 31 December 2009 increased by 14% (from PLN 2.77 to PLN 3.16).

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

4. Derivative financial instruments (cont.)

The depreciation of the Polish zloty against other currencies contributed in a similar manner to a decrease in the positive valuation and an increase in the negative valuation of foreign exchange forward transactions.

The significant fall in the positive and negative valuation of foreign exchange options and equity options was mainly due to the level of customers' activity on the market being significantly lower.

In 2009, the Bank applied hedging accounting (macro cash flow hedge) in accordance with IAS 39 F6.2 – F6.3 for the first time. In 2010, the Bank established two new hedging relationships:

- a hedge of the cash flow volatility on mortgage loans denominated in CHF and negotiated deposits in PLN as a result of the interest rate risk and the currency risk, using CIRS transactions (without the reset mechanism) – due to the strategy being pursued in 2010, a net amount of PLN (1,405) thousand was recognized in the statement of comprehensive income;
- a hedge of the cash flow volatility on floating interest rate loans in EUR as a result of the interest rate risk, using IRS transactions – due to the strategy being pursued in 2010, a net amount of PLN (16,515) thousand was recognized in the statement of comprehensive income.

In addition, the Bank continued to use the hedging relationships established in 2009:

- a hedge of the cash flow volatility on mortgage loans denominated in CHF and negotiated deposits in PLN as a result of the interest rate risk and the currency risk, using CIRS transactions (with the reset mechanism) – due to the strategy being pursued in 2010, a net amount of PLN 119,921 thousand was recognized in the statement of comprehensive income;
- a hedge of the cash flow volatility on floating interest rate loans in PLN as a result of the interest rate risk, using IRS transactions – due to the strategy being pursued in 2010, a net amount of PLN (3,353) thousand was recognized in the statement of comprehensive income.

In total, as a result of using hedge accounting, the Bank recognized PLN 98,648 thousand (net of deferred income tax) in the statement of comprehensive income.

In accordance with the Bank's accounting policies, the valuation of derivative hedging transactions is decomposed and affects the following items:

- foreign exchange differences on revaluation of the nominal value – net foreign exchange gains;
- interest accrued as at the balance date – net interest income;
- mark-to-market (MTM) – revaluation reserve and net income from financial instruments measured at fair value (the inefficient part).

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

4. Derivative financial instruments (cont.)

As at the balance date, the net valuation of CIRS transactions designated to hedge accounting as part of the two hedging strategies based on these instruments used by the Bank amounted to PLN (486,526) thousand:

	Assets	Liabilities	Net
	31.12.2010	31.12.2010	31.12.2010
	PLN '000	PLN '000	PLN '000
Mark-to-market, including:	114,394	202,271	316,665
- MTM until the introduction of hedge accounting (net income from financial instruments measured at fair value)	140,855	(101,320)	39,535
- MTM from the date of introduction of hedge accounting (revaluation reserve)	(26,461)	303,591	277,130
Foreign exchange differences on revaluation of the nominal value (net foreign exchange gains)	(70,029)	(801,955)	(871,984)
Accrued interest (net interest income)	6,337	62,456	68,793
Total	50,702	(537,228)	(486,526)

As at 31 December 2009, the net value of CIRS transactions designated to hedging accounting amounted to PLN 319,432 thousand:

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

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

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

The balance of "Financial instruments designated at fair value through profit and loss" decreased by PLN 1,602,359 thousand (i.e. 13%) compared with the end of 2009. As at 31 December 2010, the balance amounted to PLN 10,758,331 thousand and comprised instruments held by the Bank only (as at 31 December 2009, the instruments held by the Bank represented almost the entire balance). The portfolio comprised the following categories of securities:

	31.12.2010	31.12.2009	Change	Change
	PLN '000	PLN '000	PLN '000	(%)
Treasury bonds	4,738,644	795,808	3,942,836	495
NBP bills	3,997,780	6,994,218	(2,996,438)	(43)
Treasury bills	1,893,058	4,566,506	(2,673,448)	(59)
Municipal bonds	128,849	-	128,849	-
UAH corporate bonds	-	4,158	(4,158)	(100)
Total	10,758,331	12,360,690	(1,602,359)	(13)

The fall in the balance of financial instruments designated at fair value through profit and loss was mainly due to the Group limiting its exposure to short-term securities – compared with the end of 2009 the balances of NBP bills and Treasury bills decreased by PLN 2,996,438 thousand (i.e. 43%) and PLN 2,673,448 thousand (i.e. 59%) respectively. This fall was partly offset with an increase in the balance of Treasury bonds (up PLN 3,942,836 thousand, i.e. 495% compared with the balance as at 31 December 2009). The most significant increase in the Group's exposure to Treasury bonds occurred in April and May 2010 – an increase in the balance of PLN 1,578,360 thousand and PLN 1,386,726 thousand respectively compared with the preceding month.

Moreover, as at the end of 2010 the Group had an exposure of PLN 128,849 thousand to a portfolio of municipal bonds denominated in EUR. Compared with the previous year, there were no corporate bonds issued by non-financial entities in UAH in the Group portfolio.

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

6. Loans and advances to customers

The portfolio of loans and advances to customers measured by gross value of loans granted increased by PLN 15,015,080 thousand (i.e. 12%) in 2010 compared with the balance as at 31 December 2009 and amounted to PLN 135,524,789 thousand.

The analysis of the loan portfolio structure and quality is presented below.

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

As at the balance date, the loan portfolio comprised:

	31.12.2010	31.12.2009	Change	Change
	PLN '000	PLN '000	PLN '000	(%)
Financial sector (excluding banks)	3,002,012	2,461,210	540,802	22
corporate loans	3,002,012	2,461,210	540,802	22
Non-financial sector	128,672,279	113,080,762	15,591,517	14
consumer loans	25,643,155	23,658,366	1,984,789	8
mortgage loans	62,680,066	52,673,207	10,006,859	19
corporate loans	40,349,058	36,749,189	3,599,869	10
Public sector	3,850,498	4,967,737	(1,117,239)	(22)
corporate loans	3,849,854	4,967,737	(1,117,883)	(23)
mortgage loans	644	-	644	-
Total gross loans and advances	135,524,789	120,509,709	15,015,080	12
Impairment allowances	(4,856,670)	(3,937,124)	(919,546)	23
Total net loans and advances	130,668,119	116,572,585	14,095,534	12

As at the balance date, the net balance of loans and advances granted to customers amounted to PLN 130,668,119 thousand, of which loans and advances worth PLN 127,065,998 thousand (i.e. 97%) were granted by the Bank (PLN 112,973,218 thousand, i.e. 97% as at 31 December 2009). The remaining 3% comprised lease receivables of the Bankowy Fundusz Leasingowy SA Group of PLN 2,470,759 thousand (PLN 2,286,882 thousand as at 31 December 2009) and loans and advances granted by Kredobank SA of PLN 1,035,672 thousand (PLN 1,295,867 thousand as at 31 December 2009).

As at 31 December 2010, 23% (i.e. PLN 31,655,036 thousand) of the balance of gross loans and advances represented amounts due in foreign currencies, of which 72% related to amounts due denominated in Swiss francs. As at 31 December 2009, amounts due in foreign currencies accounted for 24% of the balance, i.e. PLN 29,125,914 thousand (of which 74% related to amounts denominated in Swiss francs).

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

6. Loans and advances to customers (cont.)

b) The quality of the Group's loan portfolio

	31.12.2010	31.12.2009	31.12.2010 Structure	31.12.2009 Structure
	PLN '000	PLN '000	%	%
Impaired loans and advances	10,659,485	8,842,254	7.9	7.3
Non-impaired loans and advances	122,304,640	109,308,751	90.3	90.7
Impaired lease receivables	227,689	265,896	0.1	0.3
Non-impaired lease receivables	2,332,975	2,092,808	1.7	1.7
Total gross loans and advances	135,524,789	120,509,709	100.0	100.0
Impairment allowances for identified impairment – loans and advances	(4,274,096)	(3,271,823)	88.0	83.2
Impairment allowances for incurred but not reported losses (IBNR) – loans and advances	(492,669)	(593,479)	10.1	15.1
Allowances for identified impairment – lease receivables	(77,522)	(62,143)	1.6	1.5
Allowances for incurred but not reported losses (IBNR) – lease receivables	(12,383)	(9,679)	0.3	0.2
Total impairment allowances on loans and advances	(4,856,670)	(3,937,124)	100.0	100.0
Total net loans and advances	130,668,119	116,572,585		

As at the end of 2010, the share of impaired loans in the total loan portfolio deteriorated compared with the end of 2009 and amounted to 8.0% (7.6% as at 31 December 2009). At the same time, coverage of impaired loans with impairment allowances increased and amounted to 40.0% (36.6% as at 31 December 2009).

In the case of the subsidiaries Kredobank SA and the Bankowy Fundusz Leasingowy SA Group, the balance of impairment allowances as at 31 December 2010 increased by PLN 49,655 thousand (i.e. 11%) and PLN 18,083 thousand (i.e. 25%) respectively. The share of impaired loans/ lease receivables in the total balance of loans/ lease receivables amounted as at the balance date to 76.4% for Kredobank SA and 8.9% for the Bankowy Fundusz Leasingowy SA Group and was 1.7 p.p. and 2.4 p.p., respectively, lower than as at 31 December 2009.

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

6. Loans and advances to customers

b) The quality of the Group's loan portfolio (cont.)

The reconciliation of the change in the balance of impairment allowances for loans and advances to customers in the statement of financial position and the net impairment allowance as at 31 December 2010 is presented below (in PLN'000):

	consumer loans	mortgage loans	corporate loans and lease receivables	Total
Impairment allowances on loans and advances to customers presented in the statement of financial position as at 31 December 2009	(1,362,621)	(734,760)	(1,839,743)	(3,937,124)
Net impairment allowance on loans and advances to customers and amounts due from banks – total	(813,788)	(268,661)	(664,504)	(1,746,953)
Net impairment allowances on amounts due from banks – recognized in the income statement			738	738
Decrease in impairment allowances due to the derecognition of assets, not affecting the income statement	668,058	44,286	157,695	870,039
Foreign exchange differences and other items	(5,366)	(24,176)	(13,828)	(43,370)
Impairment allowances on loans and advances to customers in the statement of financial position as at 31 December 2010	<u>(1,513,717)</u>	<u>(983,311)</u>	<u>(2,359,642)</u>	<u>4,856,670</u>

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

7. Investment securities available for sale

As at 31 December 2010, the balance of "Investment securities available for sale" was PLN 10,219,400 thousand, of which PLN 9,868,073 thousand, i.e. 97% related to the Bank (PLN 7,720,482 thousand, i.e. 97% as at 31 December 2009). The analysis of the balance as at the balance date is provided in the table below:

	31.12.2010	31.12.2009	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Debt securities available for sale, net				
issued by the State Treasury	5,813,314	4,982,606	830,708	17
issued by local authorities	2,824,173	2,000,221	823,952	41
issued by non-financial institutions	1,456,333	794,812	661,521	83
issued by other banks	50,858	90,086	(39,228)	(44)
Impairment of available-for-sale debt securities	(21,259)	(19,155)	(2,104)	11
Total debt securities available for sale, net	10,123,419	7,848,570	2,274,849	29
Equity securities available for sale	96,631	98,164	(1,533)	(2)
Impairment on available-for-sale equity securities	(650)	(2,417)	1,767	(73)
Total equity securities available for sale, net	95,981	95,747	234	-
Total, net	10,219,400	7,944,317	2,275,083	29

The change in the balance as at the balance date was mainly due to an increase in the Group's exposure to securities issued by the State Treasury (an increase of PLN 830,708 thousand, i.e. 17%) and an increase in the portfolio of municipal bonds (of PLN 823,952 thousand, i.e. 41%) and corporate bonds in PLN (of PLN 661,384 thousand, i.e. 84%). The increase was partly offset by a decrease in the Group's exposure in securities issued by banks – as at the balance date, the Group did not have in its portfolio any bonds of foreign banks (a decrease of PLN 39,185 thousand, i.e. 100% compared with the balance as at 31 December 2009).

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

7. Investment securities available for sale (cont.)

The impairment allowance on debt securities of PLN 21,259 thousand comprised mainly an allowance recorded in connection with impairment of corporate debt securities and bills in the Bank's portfolio of PLN 13,045 thousand (PLN 13,183 thousand as at 31 December 2009). The impairment allowance on equity securities of PLN 650 thousand (PLN 2,417 thousand as at 31 December 2009) comprised mainly an allowance recorded in connection with non-listed shares of companies in the Bank's portfolio of PLN 530 thousand (PLN 2,393 thousand as at 31 December 2009).

8. Investments in associates and jointly controlled entities

As at 31 December 2010, the balance of investments in associates and jointly controlled entities was PLN 172,931 thousand and it went down by PLN 55,761 thousand, i.e. 24% compared with the end of 2009:

	31.12.2010	31.12.2009	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Jointly controlled entities	41,279	49,240	(7,961)	(16)
Centrum Haffnera Sp. z o.o. Group	31,981	38,058	(6,077)	(16)
Centrum Obsługi Biznesu Sp. z o.o.	9,298	11,182	(1,884)	(17)
Associates	191,790	184,480	7,310	4
Bank Pocztowy SA	186,598	179,173	7,425	4
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	4,967	5,028	(61)	(1)
Agencja Inwestycyjna Corp SA	225	279	(54)	(19)
Investment in associates and jointly controlled entities – total, gross	233,069	233,720	(651)	-
Impairment allowances	(60,138)	(5,028)	(55,110)	1,096
Investment in associates and jointly controlled entities, net	172,931	228,692	(55,761)	(24)

The decrease in net investments in associates and jointly controlled entities and associates was mainly due to recording an impairment allowance on shares in Bank Pocztowy SA of PLN 55,171 thousand.

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

9. Inventories

Inventories as at the balance date amounted to PLN 530,275 thousand, of which PLN 403,849 thousand, i.e. 76%) related to the PKO BP Inwestycje Group (PLN 534,117 thousand, i.e. 82% as at 31 December 2009). The balance comprised:

	31.12.2010	31.12.2009	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Work in progress	261,609	424,824	(163,215)	(38)
Construction projects for sale	195,817	144,347	51,470	36
Supplies	96,298	105,252	(8,954)	(9)
Materials	11,409	12,666	(1,257)	(10)
Impairment allowances on inventories	(34,858)	(34,014)	(844)	2
Total	530,275	653,075	(122,800)	(19)

The largest portion of the remaining part of the balance comprised assets of the Bankowy Fundusz Leasingowy SA Group of PLN 78,612 thousand (i.e. 15%) related to non-current assets waiting to be leased and previously leased assets currently recovered shown in the balance of supplies.

Impairment allowances of PLN 34,858 thousand as at 31 December 2010 related mainly to impairment allowances on previously leased assets currently recovered in the Bankowy Fundusz Leasingowy SA Group of PLN 9,251 thousand (PLN 7,403 thousand as at 31 December 2009) and impairment allowances of PLN 25,607 thousand (PLN 26,587 thousand as at 31 December 2009), mainly due to impairment of land and capitalized capital expenditure in the PKO BP Inwestycje Group.

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

10. Intangible assets

As at the balance date, intangible assets amounted to PLN 1,802,037 thousand, of which PLN 1,521,855 thousand, i.e. 85% related to the Bank (PLN 1,268,781 thousand, i.e. 81% as at 31 December 2009). An analysis of the balance is presented in the table below.

	31.12.2010	31.12.2009	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Software	2,479,718	2,254,339	225,379	10
Goodwill on acquisition	344,695	344,695	-	-
Development costs	3,486	3,414	72	2
Other, including capitalized costs	397,155	180,126	217,029	120
Total, gross	3,225,054	2,782,574	442,480	16
Accumulated amortization	(1,290,045)	(1,114,862)	(175,183)	16
Impairment allowance	(132,972)	(95,135)	(37,837)	40
Total, net	1,802,037	1,572,577	229,460	15

The impairment allowance of PLN 132,972 thousand as at the balance date comprised mainly the impairment allowance on goodwill of Kredobank SA of PLN 79,762 and on the PKO BP Inwestycje Group companies of PLN 35,193 thousand (PLN 79,762 thousand and nil respectively as at 31 December 2009). The impairment allowance on goodwill of the PKO BP Inwestycje Group companies recorded in 2010 related to PKO BP Inwestycje – Nowy Wilanów Sp. z o.o. (PLN 28,179 thousand) and PKO BP Inwestycje – Sarnia Dolina Sp. Z o.o. (PLN 7,014 thousand).

The wear and tear of intangible assets, measured as the ratio of accumulated amortization to the gross carrying amount was 40% as at the balance date (no change compared with 31 December 2009).

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

11. Tangible fixed assets

As at the balance date, the net carrying amount of the balance of 'Tangible fixed assets' was PLN 2,576,445 thousand and 80% of the balance related to the Bank (82% as at 31 December 2009). An analysis of the balance is presented in the table below.

	31.12.2010	31.12.2009	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Land and buildings	2,485,233	2,444,010	41,223	2
Plant and machinery	2,314,537	2,430,397	(115,860)	(5)
Fixed assets under construction	113,268	207,251	(93,983)	(45)
Vehicles	79,982	72,073	7,909	11
Investment properties	793	731	62	8
Other	452,619	454,305	(1,686)	-
Gross tangible fixed assets	5,446,432	5,608,767	(162,335)	(3)
Accumulated depreciation	(2,851,553)	(2,829,217)	(22,336)	1
Impairment allowances	(18,434)	(1,856)	(16,578)	893
Net tangible fixed assets	2,576,445	2,777,694	(201,249)	(7)

As at the balance date, the gross carrying amount of tangible fixed assets fell by PLN 162,335 thousand (i.e. 3%). The fall in the balance mainly related to the sale and scrapping of plant and machinery in the amount of PLN 246,740 thousand.

The balance of tangible fixed assets also included assets provided to other companies under an operating lease of PLN 16,052 thousand (PLN 9,737 thousand as at 31 December 2009).

An increase in the balance of impairment allowances as at the balance date resulted mainly from an impairment allowance recorded at the Bank in 2010 in connection with impairment of fixed assets under construction of PLN 17,246 thousand.

The wear and tear of property, plant and equipment, being the ratio of accumulated depreciation to gross carrying amount was 52% as at the balance date (50% as at 31 December 2009).

Tangible fixed assets are valued at cost less accumulated depreciation and impairment allowances.

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

12. Other assets

In 2010, the balance of other assets increased by PLN 38,455 thousand (i.e. 7%) and amounted to PLN 613,881 thousand as at the balance date, of which PLN 367,781 thousand (i.e. 60%) related to the Bank, and PLN 142,558 thousand (i.e. 23%) related to PKO BP Bankowy Powszechnie Towarzystwo Emerytalne SA (PLN 385,107 thousand, i.e. 67% and PLN 94,027 thousand, i.e. 16% respectively as at 31 December 2009). The balance comprised the following categories of assets:

	31.12.2010	31.12.2009	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Settlements in respect of card transactions	204,677	230,400	(25,723)	(11)
Prepayments and deferred costs	170,978	112,543	58,435	52
Amounts due from customers	86,592	67,888	18,704	28
Settlements of financial instruments	39,750	33,865	5,885	17
Receivables from the State Budget relating to the distribution of fiscal stamps by the Bank	9,311	13,800	(4,489)	(33)
Receivables in respect of unsettled transactions in derivative instruments	7,121	20,598	(13,477)	(65)
Settlements in respect of trading in securities	5,022	9,551	(4,529)	(47)
Receivables in respect of foreign exchange activities	-	336	(336)	(100)
Other	90,430	86,445	3,985	5
Total	613,881	575,426	38,455	7

As at the balance date, prepayments and deferred costs comprised mainly deferred acquisition costs of PLN 133,594 thousand (PLN 84,113 thousand as at 31 December 2009) incurred by PKO BP Bankowy Powszechnie Towarzystwo Emerytalne SA in respect of fund membership agreements, which will result in the future in an inflow of income from the management fee or fee on contributions.

The gross amount of other assets of PLN 789,147 thousand as at the balance date (PLN 744,635 thousand as at 31 December 2009) was decreased by impairment allowances of PLN 175,266 thousand (PLN 169,209 thousand as at 31 December 2009), of which 96%, i.e. PLN 167,508 thousand related to the Bank (95%, i.e. PLN 161,422 thousand as at 31 December 2009). They mainly comprised impairment allowances for receivables arising from unsettled negotiated foreign exchange and derivatives transactions at the Bank of PLN 102,475 thousand (PLN 103,142 thousand as at 31 December 2009).

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

13. Amounts due to banks

The balance of amounts due to banks as at 31 December 2010 was PLN 5,233,875 thousand (PLN 5,146,048 thousand as at the end of 2009), of which 80% related to the Bank (81% as at 31 December 2009). Apart from the Bank, the Bankowy Fundusz Leasingowy SA Group also had material liabilities in respect of other banks (20% of the balance and 17% as at 31 December 2009). The balance comprised the following items:

	31.12.2010	31.12.2009	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Loans and advances received	4,068,332	3,597,839	470,493	13
Deposits from banks	1,027,518	1,399,985	(372,467)	(27)
Other money market deposits	93,646	121,679	(28,033)	(23)
Current accounts	44,379	26,545	17,834	67
Total	5,233,875	5,146,048	87,827	2

The balance of loans and advances received related mainly to the Bank's liability in respect of the syndicated loan in Swiss francs of PLN 2,999,116 thousand (PLN 2,621,791 thousand as at 31 December 2009) granted by a consortium of Polish and foreign banks in 2007 for five years, with an extension option, and loans from other banks received by the Bankowy Fundusz Leasingowy SA Group of PLN 1,051,693 thousand (PLN 894,030 thousand as at 31 December 2009).

The increase in amounts due to banks compared with the balance as at 31 December 2009 was mainly due to an increase in the balance of loans and advances received (an increase of PLN 470,493 thousand, i.e. 13%), mainly due to a change in the valuation of the syndicated loan in the Bank denominated in Swiss francs (the increase in the valuation of PLN 377,325 thousand in connection with the weakening of the zloty), and it was partly offset by a decrease in the balance of deposits from banks (a decrease of PLN 372,467 thousand, i.e. 27%).

As at the balance date, foreign currency liabilities accounted for 72% of the balance of amounts due to banks (64% as at 31 December 2009).

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

14. Amounts due to customers

As at the balance date, amounts due to customers amounted to PLN 132,981,215 thousand, of which PLN 131,847,359 thousand, (i.e. 99%) related to the Bank (PLN 123,791,581 thousand, i.e. 99% as at 31 December 2009).

	31.12.2010	31.12.2009	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Amounts due to retail customers	95,107,854	87,557,401	7,550,453	9
Amounts due to corporate entities	31,826,551	27,834,542	3,992,009	14
Amounts due to state budget entities	6,046,810	9,680,991	(3,634,181)	(38)
Total	132,981,215	125,072,934	7,908,281	6

In 2010, the Bank continued to increase its deposit base. In order to achieve this objective, the Bank actively sought new funds by offering products intended for retail customers (Deposit 3+3, Deposit 6+6, Deposit 9+9 and a building society book), as well as by offering negotiated deposits intended for corporate entities.

As at the balance date, amounts due denominated in foreign currencies accounted for 8% of the balance (7% as at 31 December 2009).

As at 31 December 2010, the value of the ratio of deposits to gross loans decreased and amounted to 98% (104% as at 31 December 2009).

15. Debt securities in issue

The balance of debt securities in issue as at 31 December 2010 amounted to PLN 3,298,867 thousand (PLN 289,360 thousand as at 31 December 2009), of which PLN 3,187,766 thousand, i.e. 97% related to PKO Finance AB (nil as at 31 December 2009), and PLN 111,101 thousand, i.e. 3% to the Bankowy Fundusz Leasingowy SA Group (PLN 289,251 thousand as at 31 December 2009).

The balance related to PKO Finance AB resulted from Eurobonds of EUR 800,000 thousand issued as part of the EMTN programme in 2010. The bonds with 5-year maturity and 3.733% interest rate are listed on the stock exchange in Luxembourg.

The balance relating to Bankowy Fundusz Leasingowy resulted from corporate bonds issued bearing an average interest rate of 5.36% as at the balance date (5.77% as at 31 December 2009). All the securities in issue as at 31 December 2010 matured within 12 months.

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

16. Subordinated liabilities

The balance of subordinated liabilities as at 31 December 2010 in the amount of PLN 1,611,779 thousand (PLN 1,612,178 thousand as at 31 December 2009) comprised the valuation of subordinated bonds issued by the Bank in 2007 with a total nominal value of PLN 1,600,700 thousand maturing on 30 October 2017.

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

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

17. Other liabilities

The balance of other liabilities as at the balance date was PLN 2,092,834 thousand, of which PLN 1,774,930 thousand (i.e. 85%) related to the Bank (PLN 1,310,054 thousand, i.e. 84% as at 31 December 2009). Apart from the Bank, the Bankowy Fundusz Leasingowy Group had a material share in the balance of other liabilities (PLN 150,570 thousand, i.e. 7% and PLN 95,941 thousand, i.e. 6% respectively as at 31 December 2009) and the PKO BP Inwestycje Group (PLN 50,672 thousand, i.e. 3% and PLN 76,744 thousand, i.e. 5% respectively as at 31 December 2009). The balance comprised:

	31.12.2010	31.12.2009	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Deferred income	345,302	291,704	53,598	18
Costs payable	304,515	227,492	77,023	34
Other liabilities, including:	1,443,017	1,047,427	395,590	38
settlements with the State Budget	283,408	137,194	146,214	107
liabilities arising from investing activities and internal operations	196,687	12,689	183,998	1,450
liabilities in respect of settlements relating to transactions in securities	181,456	276,221	(94,765)	(34)
interbank settlements	174,854	182,275	(7,421)	(4)
trade payables	162,137	148,896	13,241	9
liabilities in respect of foreign exchange activities	131,849	47,934	83,915	175
settlements of financial instruments	39,683	36,325	3,358	9
liabilities to UOKiK (Office for Competition and Consumer Protection)	22,310	22,310	-	-
liabilities in respect of payment cards	20,430	1,468	18,962	1,292
liabilities in respect of transactions with non-financial entities	12,022	7,951	4,071	51
liabilities in respect of other settlements	4,177	8,058	(3,881)	(48)
other	214,004	166,106	47,898	29
Total	2,092,834	1,566,623	526,211	34

As at the balance date, the largest components of the balance of other liabilities were deferred income (16%) of PLN 345,302 thousand – up PLN 53,598 thousand, i.e. 18% compared with the balance as at 31 December 2009 – and costs payable (15%) of PLN 304,515 thousand - up PLN 77,023 thousand, (i.e. 34%) compared with the balance as at 31 December 2009.

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

17. Other liabilities (cont.)

The balance of "other" liabilities of PLN 214,004 thousand related mainly to the Bank (PLN 130,063 thousand, i.e. 61% and PLN 112,898 thousand, i.e. 65% respectively as at 31 December 2009) and the Bankowy Fundusz Leasingowy SA Group (PLN 62,592 thousand, i.e. 29% and PLN 41,945 thousand, i.e. 24% respectively as at 31 December 2009). They comprised mainly liabilities of BFL SA in respect of guarantee deposits of PLN 47,741 thousand (PLN 30,266 thousand), liabilities to insurance companies of PLN 25,465 thousand (PLN 18,859 thousand as at 31 December 2009) and liabilities in respect of settlements with the State Treasury relating temporary purchase of interest on loans from the so-called old mortgage loans portfolio of PLN 17,175 thousand (PLN 27,060 thousand as at 31 December 2009).

18. Provisions

As at the balance date, the balance of provisions amounted to PLN 583,690 thousand, of which PLN 580,266 thousand, i.e. 99%) related to the Bank (PLN 598,626 thousand, i.e. 99% as at 31 December 2009). The balance of provisions as at 31 December 2010 comprised the following items:

	31.12.2010	31.12.2009	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Provision for anniversary bonuses and retirement benefits	411,792	368,295	43,497	12
Provision for liabilities and guarantees granted	82,320	111,721	(29,401)	(26)
Provisions for legal claims	7,479	8,128	(649)	(8)
Other provisions	82,099	114,150	(32,051)	(28)
Total	583,690	602,294	(18,604)	(3)

The decrease in the balance of provisions as at the end of 2010 was mainly due to a decrease in the level of provisions for liabilities and guarantees granted of PLN 29,401 thousand (i.e. 26%) and other provisions of PLN 32,051 thousand (i.e. 28%), mainly relating to the provision for claims related to sold portfolios of receivables in the Bank (a decrease of PLN 20,159 thousand compared with the balance as at 31 December 2009).

As at the balance date, the provision for anniversary bonuses and retirement benefits related mainly to the Bank (PLN 410,723 thousand as at the end of 2010 and PLN 367,291 thousand as at the end of 2009) and it was based on the calculation performed by an independent actuary and presented in a report prepared in January 2011. The report was prepared on the basis of the balances as at the balance date.

As at 31 December 2010, the item "Other provisions" comprised, amongst others, provisions for claims relating to the portfolios of receivables sold of PLN 11,430 thousand and a restructuring provision of PLN 65,861 thousand (PLN 31,589 thousand and PLN 75,004 thousand respectively as at 31 December 2009). The restructuring provision comprises future liabilities in respect of compensation and severance paid to employees whose employment contracts will be terminated for reasons unrelated to the employees. In accordance with IAS 37.72, the Bank's employment restructuring plan is the basis for recognizing this provision.

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

19. Equity

The balance of equity as at 31 December 2010 amounted to PLN 21,359,568 thousand (PLN 20,435,870 thousand as at 31 December 2009). Movements in equity in the audited year are presented in the table below:

	As at 31.12.2009	Gains recorded directly in other comprehensive income	Net profit for 2010	Transfer from retained earnings	Distribution of profit - earmarking to equity	Distribution of profit - earmarking for dividend	Other movements	As at 31.12.2010
Share capital	1,250,000	-	-	-	-	-	-	1,250,000
Other capital, including:	16,732,988	85,510	-	-	69,647	-	-	16,888,145
Other capital components								
Reserve capital	12,149,682	-	-	-	62,495	-	-	12,212,177
Other reserves	3,405,087	-	-	-	7,152	-	-	3,412,239
General banking risk fund	1,070,000	-	-	-	-	-	-	1,070,000
Share in other comprehensive income of an associate	705	271	-	-	-	-	-	976
Financial assets available-for-sale	(11,762)	(13,409)	-	-	-	-	-	(25,171)
Cash flow hedge	119,276	98,648	-	-	-	-	-	217,924
Currency transaction differences on foreign operations	(108,791)	(956)	-	-	-	-	-	(109,747)
Unappropriated profits	248,806	-	-	2,305,538	(69,647)	(2,375,000)	2,600	112,297
Net profit	2,305,538	-	3,216,883	(2,305,538)	-	-	-	3,216,883
Total	20,428,541	84,554	3,216,883	-	-	(2,375,000)	2,600	21,357,578
Non-controlling interests	7,329	(255)	(4,077)	-	-	-	(1,007)	1,990
Total equity	20,435,870	84,299	3,212,806	-	-	(2,375,000)	1,593	21,359,568

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

19. Equity (cont.)

On 23 July 2010, the General Shareholders' Meeting of Powszechna Kasa Oszczędności Bank Polski SA adopted a resolution on the appropriation of the profit for 2009 in the amount of PLN 2,432,152 thousand, earmarking PLN 50,000 thousand for increasing the reserve capital, PLN 7,152 thousand for increasing other reserves and PLN 2,375,000 thousand for paying a dividend. The above resolution provided for appropriating the profit in the aforementioned manner on condition that up until 10 December 2010 the Bank did not finally: (i) take control over a bank with its registered office in the territory of the Republic of Poland by acquiring, whether directly or indirectly, a majority shareholding, or (ii) acquire the right to take control in the manner specified in point (i) above. Due to the said condition not being met, the profit for 2009 was appropriated in the manner described above.

As at 31 December 2010, the Bank's share capital amounted to PLN 1,250,000 thousand and consisted of 1,250,000,000 ordinary shares with a par value of PLN 1 each, including:

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

The Group's own funds, calculated in accordance with the Banking Law and Resolution No. 381/2008 of the Polish Financial Supervision Authority, amended by Resolution No. 367/2010 of the Polish Financial Supervision Authority, amounted to PLN 17,618,729 thousand (PLN 17,872,919 thousand as at 31 December 2009) and were PLN 6,316,943 thousand higher than the total capital requirement of PLN 11,301,786 thousand as at the balance date (PLN 9,653,727 thousand as at 31 December 2009). The capital adequacy ratio calculated as at the balance date was 12.47% (14.81%² as at 31 December 2009).

² the originally published data for 2009 brought to comparability in accordance with the provisions of the aforementioned resolution

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

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

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

	31.12.2010	31.12.2009
	PLN'000	PLN'000
Net assets of companies / Groups:		
Powszechna Kasa Oszczędności Bank Polski SA	21,201,848	20,179,517
Kredobank SA	340,616	232,124
PKO BP BANKOWY Powszechnie Towarzystwo Emerytalne SA	237,433	225,483
Centrum Finansowe Puławska	210,299	210,871
Inteligo Financial Services S.A. Group	152,724	179,523
PKO BP Inwestycje Sp. z o.o. Group	147,786	136,072
Fort Mokotów Inwestycje Sp. z o.o.	105,609	105,871
Bankowy Fundusz Leasingowy S.A. Group	99,835	90,084
Centrum Elektronicznych Usług Płatniczych eService SA	85,417	90,203
PKO Towarzystwo Funduszy Inwestycyjnych SA	75,603	86,512
Bankowe Towarzystwo Kapitałowe SA	5,124	9,564
PKO Finance AB	425	359
Total net assets	22,662,719	21,546,183
Eliminations and consolidation adjustments:		
- of share capitals of subsidiaries	(1,386,194)	(1,222,882)
- of other capital items of subsidiaries	197,998	192,331
- impairment allowances on goodwill	(114,955)	(79,762)
Total eliminations	(1,303,151)	(1,110,313)
Consolidated net assets:	21,359,568	20,435,870

As at 31 December 2010, impairment allowances on goodwill of PLN 114,955 thousand related to goodwill recognized on taking up shares in Kredobank SA of PLN 79,762 thousand and goodwill recognized on taking up shares in the PKO BP Inwestycje Group entities of PLN 35,193 thousand.

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

Consolidated income statement for the year ended 31 December 2010

21. Net interest income

The net interest income generated by the Group in 2010 amounted to PLN 6,516,166 thousand, of which PLN 6,328,304 thousand (i.e. 97%) related to the Bank (PLN 5,051,182 thousand, i.e. 94% in 2009). The balance comprised the following items:

	2010	2009	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Income from loans and advances to customers	8,532,201	7,562,344	969,857	13
Income from hedging financial instruments	649,116	403,899	245,217	61
Income from securities at fair value through profit and loss	494,702	403,112	91,590	23
Income from investment securities	457,958	393,530	64,428	16
Income from deposits with banks	148,494	159,262	(10,768)	(7)
Income from trading assets	128,940	97,207	31,733	33
Other	3,904	11,976	(8,072)	(67)
Interest income	10,415,315	9,031,330	1,383,985	15
Interest expense on amounts due to customers and loans received from banks	(3,715,721)	(3,785,790)	70,069	(2)
Interest expense on debt securities in issue	(123,382)	(119,319)	(4,063)	3
Interest expense on deposits from banks	(30,276)	(47,470)	17,194	(36)
Other	(29,770)	(27,569)	(2,201)	8
Interest expense	(3,899,149)	(3,980,148)	80,999	(2)
Net interest income	6,516,166	5,051,182	1,464,984	29

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

21. Net interest income (cont.)

In 2010, income from financial hedging instruments of PLN 649,116 thousand (PLN 403,899 thousand in 2009) related solely to the Bank and comprised the following items:

	2010	2009	Change	Change
	<u>PLN'000</u>	<u>PLN'000</u>	<u>PLN'000</u>	<u>(%)</u>
Interest received on hedging instruments subject to hedge accounting	530,183	375,046	155,137	41
<i>including the realization of the valuation recognized in the revaluation reserve in the prior periods</i>	87,566	16,496	71,070	431
Interest accrued	270,756	72,930	197,826	271
Interest paid	<u>(151,823)</u>	<u>(44,077)</u>	<u>(107,746)</u>	<u>244</u>
Total income from hedging financial instruments	<u>649,116</u>	<u>403,899</u>	<u>245,217</u>	61

The increase in interest income of PLN 1,383,985 thousand in 2010 was mainly due to interest income on loans and advances to customers and income from hedging financial instruments being higher than in 2009 (up PLN 969,857 thousand, i.e. 13% and PLN 245,217 thousand, i.e. 61% respectively). The increase in interest income on loans and advances to customers was mainly the result of an increase in the portfolio of loans (a gross increase of PLN 15,015,080 thousand, i.e. 12% (Note 6)).

At the same time, despite the increase in the balance of amounts due to customers in the audited year of PLN 7,908,281 thousand (i.e. 6%) compared with the end of 2009, in 2010 interest expense decreased slightly by PLN 80,999 thousand (i.e. 2%) and amounted to PLN 3,899,149 thousand. This fall was mainly due to a fall in the deposit interest rates offered by the Bank to customers which affected the entire banking market. This trend was the effect of an improvement in the liquidity of the banking sector in 2010.

As a result, the interest margin (being the ratio of net interest income to interest income) improved and amounted to 63% in 2010 (56% in 2009).

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

22. Net fee and commission income

Net fee and commission income generated by the Group in 2010 amounted to PLN 3,142,829 thousand, of which PLN 2,799,996 thousand (i.e. 89%) related to the Bank (PLN 2,302,891 thousand, i.e. 89% in 2009) and PLN 263,399 thousand (i.e. 8%) to PKO Towarzystwo Funduszy Inwestycyjnych SA (PLN 199,189 thousand, i.e. 8% in 2009). The balance comprised the following items:

	2010	2009	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Income from payment cards	963,434	932,319	31,115	3
Income from maintenance of bank accounts	922,632	895,974	26,658	3
Income from loan insurance	653,501	327,312	326,189	100
Income from loans and advances granted	528,824	367,955	160,869	44
Income from services provided to investment funds and open pension funds (OFE) (including management fees)	338,144	310,366	27,778	9
Income from cash transactions	177,684	189,221	(11,537)	(6)
Income from transactions in securities	73,261	53,300	19,961	37
Income from foreign mass transactions	44,754	41,524	3,230	8
Income from sale and distribution of fiscal stamps	26,255	27,842	(1,587)	(6)
Income from fiduciary services	1,659	1,654	5	-
Other	150,715	187,880	(37,165)	(20)
Fee and commission income	3,880,863	3,335,347	545,516	16
Expense on payment cards	(293,247)	(334,400)	41,153	(12)
Expense on loan insurance	(150,842)	(92,937)	(57,905)	62
Expense on acquisition services	(144,252)	(152,428)	8,176	(5)
Expense on clearing services	(21,751)	(20,401)	(1,350)	7
Expense on asset management	(21,672)	(58,266)	36,594	(63)
Expense on commissions for the operating services of banks	(10,137)	(6,734)	(3,403)	51
Other	(96,133)	(87,178)	(8,955)	10
Fee and commission expense	(738,034)	(752,344)	14,310	(2)
Net fee and commission income	3,142,829	2,583,003	559,826	22

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

22. Net fee and commission income (cont.)

In 2010, net fee and commission income increased by PLN 545,516 thousand (i.e. 16%). This increase was mainly due to the increase of PLN 326,189 thousand (i.e. 100%) in income from loan insurance and an increase of PLN 160,869 thousand (i.e. 44%) in income from loans and advances granted. The increase in the above-mentioned income was mainly due to the said increase in the loan portfolio. Moreover, in 2010, there was an increase in income from services provided to investment funds and open pension funds (OFE). The increase of PLN 27,778 thousand (i.e. 9%) resulted mainly from higher income generated by PKO Towarzystwo Funduszy Inwestycyjnych SA (up PLN 28,111 thousand, i.e. 11% compared with 2009) and was related to the increased activity of customers in this area.

The balance of fee and commission expenses decreased by PLN 14,310 thousand (i.e. 2% compared with 2009). The decrease was mainly due to the decrease in commission expense related to payment cards (down PLN 41,153 thousand, i.e. 12%), mainly as a result of the card organizations (Visa, Mastercard) lowering interchange fees in the first half of 2010, and the reduction of asset management costs (down PLN 36,594 thousand, i.e. 63%). The decrease was offset by PLN 57,905 thousand (i.e. 62%) higher costs of loan insurance, resulting mainly from the above-mentioned increase in the loan portfolio.

23. Net foreign exchange gains

Net foreign exchange gains contain gains and losses on revaluation and transactions in assets and liabilities in foreign currencies, as well as the measurement of foreign exchange derivative instruments (FX forward, FX swap, CIRS and foreign exchange options) at fair value. In 2010, net foreign exchange gains amounted to PLN 346,762 thousand, of which PLN 341,348 thousand (i.e. 98%) related to the Bank (PLN 894,216 thousand, i.e. 98% in 2009). Compared with 2009, net foreign exchange gains dropped by PLN 562,377 thousand (i.e. 62%).

	2010	2009	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Unrealized foreign exchange differences	(1,026,841)	2,712,617	(3,739,458)	(138)
Realized foreign exchange differences	1,373,603	(1,803,478)	3,177,081	(176)
Total	346,762	909,139	(562,377)	(62)

Compared with 2009, the results on the individual components of net foreign exchange gains were reversed. Due to the exchange rates of the Swiss franc and the euro increasing throughout most of 2010 (approx. 22% of the Group's loan portfolio and approx. 5% of its customer deposits are denominated in these currencies), the net foreign exchange result (including the result on the revaluation of loans and deposits) was positive and amounted to PLN 1,373,603 thousand (down PLN 3,177,081 thousand, i.e. 176% compared with the prior year).

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

23. Net foreign exchange gains (cont.)

At the same time, in 2010, the Group realized a loss on the valuation of instruments measured at fair value through profit or loss (a loss of PLN 1,026,841 thousand compared with a gain of PLN 2,712,617 thousand in 2009). This result was mainly determined by the valuation of derivative instruments and resulted mainly from a change in the valuation of currency interest rate swaps (CIRS) which are used primarily to manage interest rate risk. Their net valuation changed by PLN 930,280 thousand, i.e. 252% (a change from a positive net valuation of PLN 368,522 thousand as at the end of 2009 to a negative net valuation of PLN 561,758 thousand as at the end of 2010, of which PLN 486,526 thousand related to CIRS instruments subject to hedge accounting – Note 4).

24. Other operating income

Other operating income in 2010 amounted to PLN 469,388 thousand (PLN 584,949 thousand in 2009). The largest share in the balance was represented by the PKO BP Inwestycje Group (PLN 155,833 thousand, i.e. 33% and PLN 177,553 thousand, i.e. 30% in 2009) and Centrum Elektronicznych Usług Płatniczych eService SA (PLN 146,158 thousand, i.e. 31% and PLN 129,856 thousand, i.e. 22% in 2009). The balance comprised:

	31.12.2010	31.12.2009	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Net sales of finished goods and services	323,919	326,105	(2,186)	(1)
Sale or scrapping of property, plant and equipment, intangible assets and disposal assets	51,255	67,224	(15,969)	(24)
Compensation, penalties and fines received	23,443	32,390	(8,947)	(28)
Sundry income	20,730	21,614	(884)	(4)
Expired, forgiven and uncollectible receivables recovered	4,977	20,084	(15,107)	(75)
Sales of shares in associates and jointly controlled entities	1,426	512	914	179
Other	43,638	117,020	(73,382)	(63)
Total	469,388	584,949	(115,561)	(20)

In 2010, net sales of finished goods and services related mostly to income from development activities of the PKO BP Inwestycje Group (PLN 155,342 thousand, i.e. 48% of the balance and PLN 171,630 thousand, i.e. 53% respectively in 2009) and the activities of Centrum Elektronicznych Usług Płatniczych eService SA (PLN 145,164 thousand, i.e. 45% of the balance and PLN 128,907 thousand, i.e. 40% of the balance respectively in 2009).

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

25. Other operating expenses

Other operating expenses in 2010 amounted to PLN 293,736 thousand, of which PLN 110,923 thousand (i.e. 38%) related to the PKO BP Inwestycje Group (PLN 110,407 thousand, i.e. 34% in 2009), PLN 90,489 thousand (i.e. 31%) to Centrum Elektronicznych Usług Płatniczych eService SA (PLN 69,116 thousand, i.e. 21% in 2009) and PLN 62,455 thousand (i.e. 21%) to the Bankowy Fundusz Leasingowy SA Group (PLN 75,225 thousand, i.e. 23% in 2009). The balance comprised the following items:

	31.12.2010	31.12.2009	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Cost of finished goods and services sold	(200,536)	(179,385)	(21,151)	12
Sale or scrapping of property, plant and equipment, intangible assets and disposal assets	(48,107)	(60,268)	12,161	(20)
Sundry costs	(4,378)	(5,004)	626	(13)
Costs of donations made	(4,296)	(3,648)	(648)	18
Other	(36,419)	(75,761)	39,342	(52)
Total	(293,736)	(324,066)	30,330	(9)

In 2010, costs of finished goods and services sold related mostly to costs of development activities of the PKO BP Inwestycje Group (PLN 110,352 thousand, i.e. 55% of the balance in 2010 and PLN 109,579 thousand, i.e. 61% respectively of the balance in 2009) and activities of Centrum Elektronicznych Usług Płatniczych eService (PLN 89,607 thousand, i.e. 45% of the balance in 2010 and PLN 69,302 thousand, i.e. 39% respectively of the balance in 2009).

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

26. Net impairment allowance

The net impairment allowance was negative in 2010 (an excess of impairment allowances recognized over those released) and amounted to PLN 1,868,364 thousand. The negative balance increased by PLN 187,289 thousand compared with 2009. The cost of impairment allowances recognised at the Bank of PLN 1,673,082 thousand, i.e. 89% (PLN 1,330,951 thousand, i.e. 79% in 2009) was the largest component of the balance. The remaining balance comprised mainly the negative net impairment allowance of Kredobank SA of PLN 122,655 thousand, i.e. 7% (PLN 278,723 thousand, i.e. 17% in 2009), of the PKO BP Inwestycje Group of PLN 38,843 thousand, i.e. 2% (PLN 26,595 thousand, i.e. 2% in 2009) and of the Bankowy Fundusz Leasingowy SA Group of PLN 32,720 thousand, i.e. 2% (PLN 44,541 thousand, i.e. 3% in 2009).

	2010	2009	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Loans and advances to customers and amounts due from banks	(1,746,953)	(1,583,376)	(163,577)	10
Investments in entities measured using the equity method	(55,110)	(3,876)	(51,234)	1,322
Intangible assets	(37,837)	(3,402)	(34,435)	1,012
Tangible fixed assets	(28,790)	161	(28,951)	(17,982)
Investment securities available for sale	(1,319)	(3,292)	1,973	(60)
Non-current assets held for sale	(1,281)	(1,680)	399	(24)
Other	2,926	(85,610)	88,536	(103)
Net impairment allowance	(1,868,364)	(1,681,075)	(187,289)	11

The change in the balance in 2010 was largely due to an increase in net impairment allowance for corporate loans of PLN 160,454 thousand (i.e. 33%) and mortgage loans – up PLN 18,108 thousand (i.e. 7%). Detailed information on the quality of the loan portfolio is presented in Note 6. The increase in the balance also resulted from recording in 2010 an impairment allowance on shares in an associate Bank Pocztowy SA of PLN 55,171 thousand, and an impairment allowance on goodwill of the PKO BP Inwestycje Group companies of PLN 35,193 thousand (relating to goodwill of PKO BP Inwestycje – Nowy Wilanów Sp. z o.o. of PLN 28,179 thousand and to PKO BP Inwestycje – Sarnia Dolina Sp. z o.o. of PLN 7,014 thousand).

The cost of impairment allowances recognized at Kredobank SA, which amounted to PLN 122,655 thousand (i.e. 7% of the balance) in 2010, was a significant component of the balance. This was related to the macroeconomic situation in the Ukraine which translated into the deterioration in the quality of the loan portfolio of Kredobank SA.

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

27. Administrative expenses

Administrative expenses incurred by the Group in 2010 amounted to PLN 4,249,136 thousand and were PLN 5,301 thousand (i.e. 0.1%) higher than the costs incurred in 2009. The Bank's expenses represented 90% of the total expense balance of the Group (no change compared with 2009).

	2010	2009	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Staff costs	(2,374,901)	(2,307,514)	(67,387)	3
Overheads	(1,237,892)	(1,351,208)	113,316	(8)
Amortization and depreciation	(512,319)	(469,152)	(43,167)	9
Taxes and charges	(70,640)	(66,338)	(4,302)	6
Contribution and payments to the Bank Guarantee Fund	(53,384)	(49,623)	(3,761)	8
Total	(4,249,136)	(4,243,835)	(5,301)	-

The increase in the Group's administrative expenses in 2010 was mainly due to an increase in the staff costs (up PLN 67,387 thousand, i.e. 3%) and the increase in the amortization and depreciation expense of PLN 43,167 thousand, i.e. 9%) and was partly offset by a decrease in overheads of PLN 113,316 thousand, i.e. 8%).

The fall in the overheads in 2010 mainly comprised a decrease of PLN 124,919 thousand (i.e. 10%) in the costs of the Bank, which amounted to PLN 1,068,662 thousand in 2010. The decrease resulted mainly from reducing the costs of promotional and advertising activities and the costs of IT activities.

In the audited year, the Group's effectiveness ratios were as follows:

	2010	2009
	PLN'000	PLN'000
Administrative expenses	(4,249,136)	(4,243,835)
Average annual number of employees	31,152	31,982
Administrative expenses per one employee	(136)	(133)
Net profit per one employee	103	72

In the audited year, the cost to income ratio was 41.7% (47.9% in 2009). The improvement in the C/I ratio was mainly due to an increase in interest income (Note 21). At the same time, there was an increase in the net profit per one employee (up 43% compared with 2009). Administrative expenses per one employee increased mainly due to employment being reduced by 830 people, i.e. 2.6% (in average annual terms).

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

28. Income tax expense

The total income tax expense for the audited year was as follows:

	2010	2009	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Deferred income tax (a)	197,744	185,992	11,752	6
Current income tax expense (b)	(1,064,174)	(817,478)	(246,696)	30
Income tax expense disclosed in the income statement	(866,430)	(631,486)	(234,944)	37
Income tax expense disclosed in other comprehensive income	(20,390)	(21,690)	1,300	(6)
Total	(886,820)	(653,176)	(233,644)	36

The effective tax rate was 21.2% in 2010 and was 0.3 p.p. lower than in the previous year.

(a) Deferred income tax

Deferred income tax is the difference between the book values of assets and liabilities and their tax bases. The deferred income tax balance comprised deductible and taxable temporary differences:

	Statement of financial position 31.12.2010 PLN'000	Statement of financial position 31.12.2009 PLN'000	Income statement PLN'000
Deferred income tax liability			
Capitalized interest on housing loans (regular)	211,576	238,446	26,870
Interest accrued on loans and advances	111,398	88,454	(22,944)
Interest on securities	44,537	37,713	(6,824)
Valuation of derivative financial instruments, including:	98,859	40,935	x
- recognized in the income statement	47,741	12,957	(34,784)
- recognized in other comprehensive income	51,118	27,978	x
Difference between the carrying amount and the tax base of tangible fixed assets	256,004	233,516	(22,488)
Other taxable temporary differences	24,786	23,190	x
- recognized in the income statement	24,535	22,940	(1,595)
- recognized in other comprehensive income	251	250	x
Gross deferred income tax liability	747,160	662,254	x
- recognized in the income statement	695,791	634,026	(61,765)
- recognized in other comprehensive income	51,369	28,228	x

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

28. Corporate income tax (cont.)

(a) Deferred income tax (cont.)

	Statement of financial position 31.12.2010 PLN'000	Statement of financial position 31.12.2009 PLN'000	Income statement PLN'000
Deferred income tax assets			
Interest accrued on liabilities	406,364	326,419	79,945
Valuation of securities, including:	57,394	15,090	x
- recognized in the income statement	50,640	11,272	39,368
- recognized in other comprehensive income	6,754	3,818	x
Adjustment to EIR valuation	218,000	191,507	26,493
Impairment allowances on loan exposures	335,477	236,494	98,983
Provisions for anniversary bonuses and retirement benefits	118,613	110,171	8,442
Valuation of derivative financial instruments, including:	19,470	17,410	x
- recognized in the income statement	19,470	17,410	2,060
- recognized in other comprehensive income	-	-	x
Other deductible temporary differences, including:	151,880	147,847	x
- recognized in the income statement	152,262	148,044	4,218
- recognized in other comprehensive income	(382)	(197)	x
Gross deferred income tax assets, including:	1,307,198	1,044,938	x
- recognized in the income statement	1,300,826	1,041,317	259,509
- recognized in other comprehensive income	6,372	3,621	x
Total effect of temporary differences, including:	560,038	382,684	x
- recognized in the income statement	605,035	407,291	197,744
- recognized in other comprehensive income	(44,997)	(24,607)	x
Deferred income tax asset	582,802	403,218	x
Deferred income tax liability	22,764	20,534	x
Net effect of deferred income tax on the income statement			197,744

Due to there being net deductible differences, the Group recognized a deferred income tax asset of PLN 582,802 thousand as at the end of 2010 (PLN 403,218 thousand as at the end of 2009). The deferred income tax liability presented in the statement of financial position was PLN 22,764 thousand (PLN 20,534 thousand as at the end of 2009).

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

28. Income tax expense (cont.)

(b) Current income tax

	2010	2009	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Profit before income tax	4,079,236	2,943,270	1,135,966	39
Current income tax at the tax rate on profit before income tax (19%)	(775,055)	(559,221)	(215,834)	39
Effect of different tax rates	(340)	13,183	(13,523)	(103)
Permanent differences, including:	(66,154)	(71,965)	5,811	(8)
Release of provisions and reversal of write-downs which do not constitute taxable income	(36,487)	(43,301)	6,814	(16)
Other non-deductible costs	(19,480)	(43,185)	23,705	(55)
Dividend income	20,501	20,525	(24)	-
Other non-taxable income	(1,047)	17,098	(18,145)	(106)
Other	(29,641)	(23,102)	(6,539)	28
Other differences, including donations	(25,064)	(19,878)	(5,186)	26
Deduction of tax losses	183	6,395	(6,212)	(97)
Total income tax expense	(866,430)	(631,486)	(234,944)	37
Effective tax rate	21.2%	21.5%	-0.3 pp.	(1)
Temporary difference resulting from deferred income tax, disclosed in the income statement	197,744	185,992	11,752	6
Total current income tax expense	(1,064,174)	(817,478)	(246,696)	30

In the audited year, corporate income tax for Group companies was calculated at a rate of 19% (for Poland) and 25% (for the Ukraine), based on profit before tax determined on the basis of IFRS regulations as adopted by the EU, adjusted for non-taxable income and non-deductible costs. Corporate income tax for the year constitutes the sum of current income tax calculated by Group entities (including the Bank – PLN 1,019,630 thousand and subsidiaries – PLN 44,544 thousand).

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

29. Reconciliation of the net result of the consolidated entities with the Group's consolidated net result

Reconciliation of the net result of consolidated entities with the consolidated net result of the Group for the audited year is shown below:

	2010	2009
	PLN'000	PLN'000
Net profit/(loss):		
Powszechna Kasa Oszczędności Bank Polski SA	3,311,209	2,432,152
PKO Towarzystwo Funduszy Inwestycyjnych SA	48,463	60,850
Centrum Elektronicznych Usług Płatniczych eService SA	24,215	31,981
Inteligo Financial Services S.A. Group	18,076	13,473
Centrum Finansowe Puławska Sp. z o.o.	11,920	12,491
Bankowy Fundusz Leasingowy S.A. Group	10,531	3,184
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	12.125	23,619
PKO Finance AB	28	63
Fort Mokotów Inwestycje Sp. z o.o.	(261)	(602)
Bankowe Towarzystwo Kapitałowe SA	(4,440)	(4,693)
PKO BP Inwestycje Sp. z o.o. Group	(10.574)	(6,623)
Kredobank SA	(40,314)	(190,192)
Total net profit of the consolidated entities	3.380.978	2,375,703
Consolidation eliminations	(168.172)	(63,919)
including:		
- dividends	(104,232)	(96,179)
- impairment allowances on goodwill	(35,193)	(3,402)
- impairment allowances on investment in subsidiaries	-	67,622
- other	(28.747)	(31,960)
Net profit of the Group	3,212,806	2,311,784

The impairment allowance on goodwill recorded in 2010 of PLN 35,193 thousand related to impairment allowances on goodwill of the PKO BP Inwestycje Group companies (on goodwill of PKO BP Inwestycje – Nowy Wilanów Sp. z o.o. of PLN 28,179 thousand and PKO BP Inwestycje – Sarnia Dolina Sp. z o.o. of PLN 7,014 thousand).

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

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

30. Off-balance items

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

	31.12.2010	31.12.2009	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Off-balance sheet liabilities granted, including:	36,785,378	32,882,640	3,902,738	12
Financing granted	29,505,024	27,385,159	2,119,865	8
Guarantees and warranties granted – nominal value	7,280,354	5,497,481	1,782,873	32
Off-balance sheet liabilities received, including:	4,129,941	4,580,021	(450,080)	(10)
Guarantees and warranties received	3,726,067	3,736,394	(10,327)	-
Financial	403,874	843,627	(439,753)	(52)

The increase in off-balance sheet liabilities granted of PLN 3,902,738 thousand (i.e. 12%) was due to an increase in off-balance sheet liabilities in respect of financing of PLN 2,119,865 thousand (i.e. 8%) and an increase in the nominal value of guarantees and warranties granted of PLN 1,782,873 thousand (i.e. 32%). The Bank's share in the balance as at the balance date was 99.2% (99.5% as at 31 December 2009).

Off-balance sheet liabilities received decreased by PLN 450,080 thousand (i.e. 10%). The Bank's share in the balance as at 31 December 2010 was 64%, i.e. PLN 2,627,052 thousand (73%, i.e. PLN 3,327,395 thousand as at 31 December 2009). Kredobank SA also had a considerable share in the balance (36%, i.e. PLN 1,494,461 thousand). As at the end of 2009, off-balance liabilities received by Kredobank amounted to PLN 1,090,527 thousand, i.e. 24%.

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V. The independent registered auditor's statement

- (a) The Management Board of the Parent Company provided all the information, explanations, and representations required by us in the course of the audit and provided us with a representation letter confirming the completeness of the information included in the consolidation documentation and the disclosure of all contingent liabilities and post-balance-sheet events which occurred up to the date on which that letter was signed.
- (b) The scope of the audit was not limited.
- (c) The consolidation documentation was complete and accurate and it is stored in a manner ensuring its proper safeguarding.
- (d) The accounting policies and disclosures specified by the Parent Company's Management complied with the International Financial Reporting Standards as adopted by the European Union in all material respects. There were no changes in the accounting policies and methods compared with the previous year.
- (e) The calculation of goodwill and its recognition in the consolidated financial statements complied with IFRSs as adopted by the European Union in all material respects.
- (f) The consolidation of equity items and the determination of non-controlling interest were carried out properly in all material respects.
- (g) The elimination of intercompany balances (receivables and payables) and transactions (revenue and costs) of the consolidated entities were carried out in accordance with the IFRSs as adopted by the European Union in all material respects.
- (h) Eliminations of gains/losses unrealized by the consolidated entities included in the value of assets and in respect of dividends were conducted in accordance with the IFRSs as adopted by the European Union in all material respects.
- (i) The impact of the disposal or partial disposal of shares in subordinated entities was accounted for properly in all material respects.
- (j) The Notes to the consolidated financial statements present all the material information required by the IFRSs as adopted by the European Union.
- (k) The information in the Group Directors' Report for the year ended 31 December 2010 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws No. 33, item 259).

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v. The independent registered auditor's statement (cont.)

- (l) The consolidated financial statements of the Group as at and for the year ended 31 December 2009 were approved by Resolution no. 7/2010 passed by the General Shareholders' Meeting on 25 June 2010, filed with the National Court Register in Warsaw on 3 August 2010 and published in Monitor Polski B no. 2061 on 21 October 2010.
- (m) The consolidated financial statements for the previous year were audited by PricewaterhouseCoopers Sp z o.o. The registered auditor issued an unqualified opinion.
- (n) We determined the materiality levels at the planning stage. Materiality levels specify the limits up to which identified irregularities may be left unadjusted without any detriment to the quality of the financial statements and to the correctness of the underlying books of account, since failing to make such adjustments will not be misleading for the readers of the financial statements. Materiality measures both the quantity and quality of audited items and that is why it varies for different statement of financial position and income statement items. Due to the complexity and quantity of the materiality levels adopted for audit purposes, they are included in the audit documentation.
- (o) No significant violations of the law affecting the consolidated financial statements and significant violations of the Memorandum of Association of the Parent Company were noted in the course of the audit.
- (p) The total capital requirement, calculated on the consolidated basis, amounted to PLN 11,301,786 thousand as at the balance date. The capital adequacy ratio, calculated on the consolidated basis, as at 31 December 2010 amounted to 12.47%. As at the balance date, the Group complied with the prudence principle in all material respects.



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VI. Final notes and comments

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

- (a) the consolidated statement of financial position as at 31 December 2010, showing total assets and total liabilities & equity of PLN 169,660,501 thousand;
- (b) the consolidated income statement for the period from 1 January to 31 December 2010, showing a net profit of PLN 3.216.883 thousand;
- (c) the consolidated statement of comprehensive income for the period from 1 January to 31 December 2010 showing a total net comprehensive income of PLN 3,297,105 thousand;
- (d) the consolidated statement of changes in equity for the period from 1 January to 31 December 2010, showing an increase in equity of PLN 923,698 thousand;
- (e) the consolidated statement of cash flows for the period from 1 January to 31 December 2010, showing a net decrease in cash and cash equivalents of PLN 553,712 thousand;
- (f) additional information on adopted accounting policies and other explanatory notes.

The consolidated financial statements were signed by the Management Board of the Parent Company on 1 March 2011. This report should be read in conjunction with the Independent Registered Auditor's Opinion to the General Shareholders' Meeting and the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski SA, signed on 2 March 2011, concerning the above-mentioned consolidated financial statements. The opinion is a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the consolidated financial statements as a whole.

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

Antoni F. Reczek
President of the Management Board

Registered Auditor of the Group, Principal Registered Auditor
No. 90011

Warsaw, 2 March 2011