



PricewaterhouseCoopers Sp. z o.o.
Al. Armii Ludowej 14
00-638 Warszawa
Polska
Telephone +48 (22) 523 4000
Facsimile +48 (22) 523 4040
<http://www.pwc.com/pl>

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

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

- (a) the statement of financial position as at 31 December 2009, showing total assets and total liabilities & equity of PLN 153,647,479 thousand;
- (b) the income statement for the period from 1 January to 31 December 2009, showing a net profit of PLN 2,432,152 thousand;
- (c) the statement of comprehensive income for the period from 1 January to 31 December 2009 showing a total net comprehensive income of PLN 2,569,020 thousand;
- (d) the statement of changes in equity for the period from 1 January to December 2009, showing an increase in equity of PLN 6,650,145 thousand;
- (e) the statement of cash flows for the period from 1 January to 31 December 2009, showing a net increase in cash and cash equivalents of PLN 562,151 thousand;
- (f) additional information on adopted accounting policies and other explanatory notes.

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

We conducted our audit in accordance with the following:

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

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



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

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

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

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

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

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

Warsaw, 10 March 2010

Powszechna Kasa Oszczędności Bank Polski SA

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

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

This report contains 49 consecutively numbered pages and consists of:

	Page
I. General information about the Bank.....	2
II. Information about the audit	5
III. The Bank's results and financial position	6
IV. Discussion of financial statement components.....	10
V. The independent registered auditor's statement.....	47
VI. Final information and comments	49

Powszechna Kasa Oszczędności Bank Polski SA

Independent registered auditor's report on the financial statements as at and for the year ended 31 December 2009

I. General information about the Bank

- (a) 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, the 16th Registration Department. Currently, the Bank is registered under the number KRS 0000026438, and the District Court for the City of Warsaw, the 13th Business Department of the National Court Register, is the competent registration court.

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

- (b) As at 31 December 2009, the Bank's registered share capital amounted to PLN 1,250,000 thousand and consisted of 1,250,000,000 ordinary shares, each of PLN 1 par value, 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) Based on art. 111 of the Act on trading in financial instruments dated 29 July 2005, the Bank conducts brokerage activities through a separate organizational unit (a branch office) of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Oddział – Dom Maklerski PKO Banku Polskiego w Warszawie in Warsaw (hereinafter called "the Brokerage House of PKO BP SA").

The Brokerage House of PKO BP SA has existed since 1991. Based on Resolution No. 17/91 of the Polish Securities Commission dated 26 August 1991, the Brokerage House of PKO BP SA obtained a licence for public trading in securities. By Resolution No. 24/91 of Giełda Papierów Wartościowych w Warszawie SA (the Warsaw Stock Exchange) dated 26 September 1991, the Brokerage House of PKO BP SA was entered in the register of direct participants in the National Depository for Securities.

- (d) In the audited year, the Bank's operations comprised:
- accepting cash deposits payable on demand or on an agreed date and maintaining accounts for such deposits;
 - granting loans and cash advances;
 - granting and confirming bank guarantees;
 - clearing cash transactions;
 - issuing cards and conducting transactions with the use of cards;
 - conducting forward transactions.

At the same time, the Bank conducts brokerage activities through the Brokerage House of PKO BP SA.

Powszechna Kasa Oszczędności Bank Polski SA **Independent registered auditor's report on the financial statements** **as at and for the year ended 31 December 2009**

I. General information about the Bank (cont.)

(e) The following people were on the Bank's Management Board during the financial year:

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

(f) The Bank has the following related entities:

Bankowe Towarzystwo Kapitałowe SA	- subsidiary
Bankowy Fundusz Leasingowy SA	- subsidiary
Centrum Elektronicznych Usług Płatniczych eService SA	- subsidiary
Centrum Finansowe Puławska Sp. z o.o.	- subsidiary
Fort Mokotów Inwestycje Sp. z o.o.	- subsidiary
Inteligo Financial Services SA	- subsidiary
Kredobank SA	- subsidiary
PKO BP BANKOWY Powszechnie Towarzystwo Emerytalne SA	- subsidiary
PKO BP Inwestycje Sp. z o.o.	- subsidiary
PKO Finance AB	- subsidiary
PKO Towarzystwo Funduszy Inwestycyjnych SA	- subsidiary
Centrum Haffnera Sp. z o.o.	- jointly controlled entity
Centrum Obsługi Biznesu Sp. z o.o.	- jointly controlled entity
Agencja Inwestycyjna CORP SA	- associate
Bank Pocztowy SA	- associate
Kolej Gondolowa Jaworzyna Krynicka SA	- associate
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	- associate

and the companies that are members of the capital groups of Bankowe Towarzystwo Kapitałowe SA, Bankowy Fundusz Leasingowy SA, Inteligo Financial Services SA and PKO BP Inwestycje Sp. z o.o.

(g) The Bank is an issuer of securities admitted for trading on the Warsaw Stock Exchange. In accordance with the choice of selecting accounting policies permitted by the Accounting Act, the Company has decided to prepare its financial statements in accordance with IFRS as adopted by the European Union since 2005.

The decision to prepare the Bank's financial statements in accordance with these standards was made by the General Shareholders' Meeting in their Resolution No. 28/2005 passed on 19 May 2005.

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

I. General information about the Bank (cont.)

- (h) As the Parent Company of the Group, the Bank has also prepared consolidated financial statements according to IFRS as adopted by the European Union as at 15 March 2010. To better understand the Bank's financial position and its results of operations as the Parent Company, the financial statements should be read in conjunction with the consolidated financial statements.

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

II. Information about the audit

- (a) PricewaterhouseCoopers Sp. z o.o. was appointed independent registered auditor to the Bank by Resolution No. 26/2008 of the Supervisory Board dated 17 April 2008, in accordance with paragraph 15, clause 1, item 3 of the Bank's Memorandum of Association.
- (b) PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the audited entity 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 dated 12 May 2008 in the following periods:
- Interim audit from 12 October to 11 December 2009;
 - Final audit from 11 January to 10 March 2010.

Powszechna Kasa Oszczędności Bank Polski SA

Independent registered auditor's report on the financial statements as at and for the year ended 31 December 2009

III. The Bank's results and financial position

The financial statements do not take account of the effects of inflation. The consumer price index (on a December to December basis) amounted to 3.5% in the audited year (3.3% in 2008).

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

- As at 31 December 2009, total assets amounted to PLN 153,647,479 thousand and were PLN 22,402,652 thousand (i.e. 17%) higher than as at 31 December 2008.
- This increase was financed mainly with an increase in the amounts due to customers of PLN 22,187,470 thousand (i.e. 22%), which was due to an increase in deposits and equity of PLN 6,650,145 thousand (i.e. 49%) resulting from a share issue. At the same time the negative valuation of derivatives decreased by PLN 4,605,967 thousand (i.e. by 75%) and the amounts due to other banks decreased by PLN 1,532,727 thousand (i.e. by 27%).
- In 2009, as in the previous year, the amounts due to customers were the main source of financing assets. The balance of amounts due to customers amounted to PLN 124,044,400 thousand as at 31 December 2009 and accounted for 81% of total assets (an increase of 3 p.p. compared with 31 December 2008). The change in the balance of amounts due to customers was mainly the result of a significant increase in amounts due to retail customers (an increase of PLN 11,213,859 thousand, i.e. of 15%, compared with 31 December 2008) and to corporate customers (an increase of PLN 8,572,063 thousand, i.e. of 45%, compared with 31 December 2008) (see Note 13).
- The balance of amounts due to banks amounted to PLN 4,166,725 thousand as at the balance date, and comprised mainly a syndicated loan received in Swiss francs, which Polish zloty equivalent amounted to PLN 2,621,791 thousand (PLN 2,656,004 thousand as at 31 December 2008) and deposits from other banks of PLN 1,399,985 thousand. The decrease in the total balance of PLN 1,532,727 thousand (i.e. of 27%) compared with 31 December 2008 was mainly due to a decrease in the balance of deposits accepted of PLN 1,435,742 thousand (i.e. of 51%) (see Note 12).
- As at 31 December 2009, liabilities resulting from the negative valuation of derivatives amounted to PLN 1,544,370 thousand (PLN 6,150,337 thousand as at 31 December 2008). The decrease in this balance as at 31 December 2009 was mainly due to a decrease in the volume of transactions concluded and lower foreign exchange rates compared with the end of 2008 (see Note 4).
- The balance of subordinated liabilities amounted to PLN 1,612,178 thousand as at the balance date (PLN 1,618,755 thousand as at 31 December 2008) and comprised the valuation of bonds issued by the Bank in 2007 in the nominal amount of PLN 1,600,700 thousand (see Note 14).

Powszechna Kasa Oszczędności Bank Polski SA

Independent registered auditor's report on the financial statements as at and for the year ended 31 December 2009

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

- Equity amounted to PLN 20,179,517 thousand as at 31 December 2009 (PLN 13,529,372 thousand as at 31 December 2008). The increase in this balance of PLN 6,650,145 thousand (i.e. of 49%) was mainly due to a share capital increase of PLN 250,000 thousand in 2009 and the share premium of PLN 4,831,125 thousand being credited to the reserve capital. At the same time, the Bank decided to pay out a part of the profit for 2008 amounting to PLN 1,000,000 thousand as dividend. The remaining part of the profit for 2008 was transferred to other reserves (PLN 1,881,260 thousand) (see Note 17).
- The amount of regulatory capital as at 31 December 2009 was PLN 16,938,039 thousand (PLN 12,389,193 thousand as at 31 December 2008) and exceeded the total capital requirement by PLN 7,447,526 thousand (PLN 9,490,513 thousand as at 31 December 2009). The capital adequacy ratio as at the balance date, based on the banking and trading portfolios, amounted to 14.28% and was 3.04 p.p. higher than at the end of the previous year.
- The higher level of financing was reflected mainly in an increase, as at the balance date, in the balance of loans and advances to customers of PLN 16,323,770 thousand (i.e. of 17%) and in the balance of financial instruments measured at fair value through profit and loss of PLN 7,810,035 thousand (i.e. of 172%). As at 31 December 2009, these balances amounted to PLN 114,425,789 thousand and PLN 12,356,532 thousand respectively.
- As at 31 December 2009, loans and advances to customers accounted for 75% of total assets (as in the previous year). The gross value of the loan portfolio as at 31 December 2009 was PLN 117,840,734 thousand and was PLN 17,138,175 thousand (i.e. 17%) higher than at 31 December 2008. This increase was mainly due to an increase in the balance of mortgage and corporate loans granted to non-financial customers (an increase of PLN 6,781,274 thousand, i.e. of 15%, and of PLN 5,105,085 thousand, i.e. of 18% respectively) (see Note 6).
- The quality of the loan portfolio as at the balance date, measured with reference to the share of impaired loans in total loans and advances, deteriorated compared with the end of 2008. As at 31 December 2009, the share of impaired loans in total loans and advances was 3.3 p.p. higher, and amounted to 6.4%. At the same time, the coverage of impaired loans with impairment allowances was 38.1% as at 31 December 2009, and decreased by 22.9 p.p. compared with the end of the previous year. These changes were due to the fact that the Bank extended the range of individual impairment indicators. If the range of impairment indicators had not been extended, the share of impaired loans as at 31 December 2009 would have amounted to 3.5% and would have been 0.4 p.p. higher than at the end of 2008. Similarly, the coverage of impaired loans with impairment allowances would have amounted to 69.3% and would have been 8.3 p.p. higher than at the end of 2008. The deterioration in the quality of the loan portfolio was mainly due to deterioration in the financial standing of borrowers.

Powszechna Kasa Oszczędności Bank Polski SA

Independent registered auditor's report on the financial statements as at and for the year ended 31 December 2009

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

- The balance of financial assets measured at fair value through profit and loss amounted to PLN 12,356,532 thousand as at the balance date. The increase in the balance (of PLN 7,810,035 thousand, i.e. of 172%) was mainly due to the Bank's exposure to NBP bills (the balance of this exposure as at 31 December 2009 was PLN 6,994,218 thousand compared with nil as at 31 December 2008), and an increase in exposure to Treasury bills of PLN 2,506,052 thousand (i.e. of 122%) (see Note 5).
- The balance of available-for-sale investment securities amounted to PLN 7,965,697 thousand as at the balance date and was PLN 790,814 thousand (i.e. 9%) lower than the balance at the end of 2008. This decrease was mainly related to NBP bonds and was partly offset by an increase in the Bank's exposure to Treasury bonds and bills (see Note 7).
- The balance of other liquid assets, comprising cash and balances with the central bank, amounts due from banks, trading assets and derivative financial instruments, decreased by PLN 1,470,304 thousand (i.e. by 10%) as at the balance date, which was mainly due to a decrease in the amounts due from banks and a lower positive valuation of derivatives compared with the previous year, which was partly offset with an increase in cash and balances with the Central Bank (see Notes 1-4).
- The Bank's 1-month and 3-month liquidity ratios calculated on the basis of assets receivable and liabilities payable, adjusted to reflect actual maturities, amounted to 2.47 and 1.98 respectively (1.49 and 1.29 as at the end of 2008).
- The share of interest-bearing assets in total assets increased by 1.9 p.p. compared with 31 December 2008 and amounted to 93.5% as at the end of 2009.
- The operating profit for 2009 amounted to PLN 3,055,431 thousand and was PLN 642,419 thousand (i.e. 17%) lower than the profit for 2008. The operating profit comprised mainly: net interest income of PLN 4,842,449 thousand, net fee and commission income of PLN 2,363,647 thousand and net foreign exchange gains of PLN 894,680 thousand. At the same time, in 2009 the operating profit was decreased by administrative expenses of PLN 3,904,592 thousand and net impairment allowance of PLN 1,393,480 thousand.
- Net interest income in 2009 amounted to PLN 4,842,449 thousand and was PLN 1,125,634 thousand (i.e. 19%) lower than in 2008. This decrease was mainly due to higher interest expenses on amounts due to customers (by PLN 1,092,617 thousand, i.e. by 44%), resulting from the fact that interest on deposits offered by the Bank had to be competitive. In 2009, the interest margin, calculated as the ratio of net interest income to interest income, dropped by 13 p.p. compared with 2008 and amounted to 56% (see Note 18). The interest income on interest-bearing assets, which in 2009 amounted to 6.5%, was also lower than in 2008 (by 1.5 p.p.). On the other hand, the cost of external financing increased from 2.7% in 2008 to 3.1% in 2009.

Powszechna Kasa Oszczędności Bank Polski SA

Independent registered auditor's report on the financial statements as at and for the year ended 31 December 2009

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

- In 2009, the net fee and commission income was higher than in 2008 and amounted to PLN 2,363,647 thousand (an increase of PLN 230,832 thousand, i.e. of 11%). The fee and commission income increased by PLN 269,981 thousand compared with 2008 (an increase of 10% to the amount of PLN 3,083,059 thousand). This increase was mainly due to an increase in income from loan insurance, bank cards and bank account maintenance. At the same time, fee and commission expenses increased by PLN 39,149 thousand (i.e. by 6%) to PLN 719,412 thousand (see Note 19).
- The net foreign exchange gains amounted to PLN 894,680 thousand in the audited year and were PLN 198,545 thousand (i.e. 29%) higher than in 2008. Net foreign exchange gains comprised foreign exchange gains of PLN 2,713,081 thousand (in 2008: foreign exchange losses of PLN 2,246,278 thousand) on instruments measured at fair value through profit and loss, and foreign exchange losses of PLN 1,818,401 thousand (in 2008: foreign exchange gains of PLN 2,942,413 thousand) on other assets and liabilities and realised foreign exchange differences.
- In 2009, the net impairment allowance amounted to PLN 1,393,480 thousand (PLN 1,148,930 thousand in 2008). The increase in the net impairment allowance (recognised in the income statement) related mainly to consumer and mortgage loans to customers – an increase of PLN 395,169 thousand (i.e. 98%) and PLN 145,878 thousand (i.e. 308%) respectively. At the same time, net impairment allowance relating to investments in subsidiaries, jointly controlled entities and associates were PLN 192,965 thousand (i.e. 74%) lower than in 2008 (see Note 23).
- In 2009, administrative expenses were PLN 64,655 thousand (i.e. 2%) lower than in the previous year and amounted to PLN 3,904,592 thousand. This decrease was mainly due to a reduction in staff costs of PLN 133,373 thousand (i.e. of 6%) to PLN 2,136,166 thousand (see Note 24). The overall effectiveness of operations, calculated as the ratio of costs to income (C/I) deteriorated in 2009 (C/I increased by 1.7 p.p. to 46.7%). The adverse change in this ratio was due to the fact that income (primarily interest income) was lower than in 2008.
- Gross profitability (measured as the ratio of profit before tax to total income) amounted to 23.2% in the audited year and was 6.4 p.p. lower than in the previous year.
- The income tax expenses amounted to PLN 623,279 thousand in 2009 (PLN 816,590 in 2008). The effective tax rate was 20.4% in 2009 and was 1.7 p.p. lower than in 2008.
- As a result, in 2009 the Bank generated a net profit of PLN 2,432,152 thousand, which was PLN 449,108 thousand (i.e. 16%) lower than in 2008. Net profitability (calculated as the ratio of net profit to total income) amounted to 18.8% in 2009. (23.1% in 2008).
- Return on assets (calculated as the ratio of net profit to average total assets) amounted to 1.7% in 2009 and was 0.7 p.p. lower than in 2008. In the audited year, return on equity amounted to 14.4% and was 8.4 p.p. lower than in 2008.

The Bank's financial statements have been prepared on the assumption that the Bank will continue in operation as a going concern .

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009.

IV. Discussion of financial statement components

STATEMENT OF FINANCIAL POSITION as at 31 December 2009

ASSETS	Note	31.12.2009	31.12.2008	Change	Change	31.12.2009	31.12.2008
		PLN '000	PLN '000	PLN '000	(%)	Structure (%)	Structure (%)
Cash and balances with the central bank	1	6,993,966	5,758,248	1,235,718	21	5	4
Amounts due from banks	2	2,053,767	3,906,973	(1,853,206)	(47)	1	3
Trading assets	3	2,212,955	1,496,147	716,808	48	1	1
Derivative financial instruments	4	2,029,921	3,599,545	(1,569,624)	(44)	1	3
Financial instruments designated at fair value through profit and loss	5	12,356,532	4,546,497	7,810,035	172	8	3
Loans and advances to customers	6	114,425,789	98,102,019	16,323,770	17	75	75
Investment securities – available for sale	7	7,965,697	8,756,511	(790,814)	(9)	5	7
Investments in subsidiaries, jointly controlled entities and associates	8	1,333,707	823,518	510,189	62	1	1
Non-current assets held for sale		13,851	-	13,851	-	-	-
Intangible assets	9	1,268,781	1,155,042	113,739	10	1	1
Tangible assets	10	2,291,949	2,462,967	(171,018)	(7)	2	2
Deferred tax assets	25	275,204	166,803	108,401	65	-	-
Other assets	11	425,360	470,557	(45,197)	(10)	-	-
Total assets		153,647,479	131,244,827	22,402,652	17	100	100

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

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

EQUITY AND LIABILITIES	Note	31.12.2009	31.12.2008	Change	Change	31.12.2009	31.12.2008
		PLN '000	PLN '000	PLN '000	(%)	Structure (%)	Structure (%)
Amounts due to the central bank		6,581	2,816	3,765	134	-	-
Amounts due to other banks	12	4,166,725	5,699,452	(1,532,727)	(27)	3	4
Derivative financial instruments	4	1,544,370	6,150,337	(4,605,967)	(75)	1	5
Amounts due to customers	13	124,044,400	101,856,930	22,187,470	22	81	78
Subordinated liabilities	14	1,612,178	1,618,755	(6,577)	-	1	1
Other liabilities	15	1,319,917	1,355,396	(35,479)	(3)	1	1
Current income tax liabilities		175,165	470,416	(295,251)	(63)	-	-
Provisions	16	598,626	561,353	37,273	7	-	1
Total liabilities		133,467,962	117,715,455	15,752,507	13	87	90
Share capital		1,250,000	1,000,000	250,000	25	1	1
Other capital		16,497,365	9,648,112	6,849,253	71	11	7
Net profit for the period		2,432,152	2,881,260	(449,108)	(16)	1	2
Equity	17	20,179,517	13,529,372	6,650,145	49	13	10
Total equity and liabilities		153,647,479	131,244,827	22,402,652	17	100	100

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

INCOME STATEMENT
for the year ended 31 December 2009

		2009	2008	Change	Change	2009	2008
	Note	PLN '000	PLN '000	PLN '000	(%)	Structure (%)	Structure (%)
Interest and similar income		8.603.448	8.646.426	(42.978)	-	67	69
Interest expense and similar charges		(3.760.999)	(2.678.343)	(1.082.656)	40	38	31
Net interest income	18	4.842.449	5.968.083	(1.125.634)	(19)		
Fee and commission income		3.083.059	2.813.078	269.981	10	24	23
Fee and commission expenses		(719.412)	(680.263)	(39.149)	6	7	8
Net fee and commission income	19	2.363.647	2.132.815	230.832	11		
Dividend income	20	101.560	130.896	(29.336)	(22)	1	1
Net income from financial instruments at fair value	21	61.402	(156.998)	218.400	(139)	-	2
Losses less gains on investment securities		(594)	(951)	357	(38)	-	-
Net foreign exchange gains	22	894.680	696.135	198.545	29	7	6
Other operating income		167.069	160.736	6.333	4	1	1
Other operating expenses		(76.710)	(114.689)	37.979	(33)	1	1
Net impairment allowance	23	(1.393.480)	(1.148.930)	(244.550)	21	14	13
Administrative expenses	24	(3.904.592)	(3.969.247)	64.655	(2)	40	45
Operating profit		3.055.431	3.697.850	(642.419)	(17)		
Income tax expense	25	(623.279)	(816.590)	193.311	(24)		
Net profit		2.432.152	2.881.260	(449.108)	(16)		
Total income		12.911.218	12.447.271	463.947	4	100	100
Total expenses		(9.855.787)	(8.749.421)	(1.106.366)	13	100	100
Profit before income tax		3.055.431	3.697.850	(642.419)	(17)		

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

Selected ratios characterizing the Bank's financial position and results

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

	<u>2009</u>	<u>2008</u>
Profitability ratios		
Gross profitability (profit before tax/total income)	23.2%	29.6%
Net profitability (net profit / total income)	18.8%	23.1%
Return on equity (net profit for the year /average net assets) (2)	14.4%	22.8%
Return on assets (net profit for the year /average total assets) (2)	1.7%	2.4%
Profitability ratio on interest-bearing assets (interest income / average interest-bearing assets) (2)	6.5%	8.0%
Cost/Income ratio (administrative expenses / net profit/loss on banking activities) (3)	46.7%	45.0%
Cost of borrowings (interest expenses / average interest-bearing liabilities) (2)	3.1%	2.7%
Quality of assets		
Interest-bearing assets to total assets (4)	93.5%	91.6%
Impaired loans to total gross loans and advances to customers	6.4%	3.1%
Impairment allowances on impaired loans and advances to customers	38.1%	61.0%
Liquidity ratios		
1-month liquidity ratio (5)	2.47	1.49
3-month liquidity ratio (5)	1.98	1.29
Other ratios		
Capital adequacy ratio	14.28%	11.24%
Equity (PLN '000)	16,938,039	12,389,193
Total capital requirement (PLN '000)	9,490,513	8,821,840

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

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

(3) The result on banking operations 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 and trading securities.

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

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

Statement of financial position as at 31 December 2009

1. Cash and balances with the Central Bank

As at 31 December 2009, cash and balances with the Central Bank amounted to PLN 6,993,996 thousand (PLN 5,758,248 thousand as at the end of 2008), of which PLN 4,625,073 thousand were balances maintained by the Bank on its account with the National Bank of Poland (PLN 3,419,832 thousand as at 31 December 2008).

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

2. Amounts due from banks

The balances of and movements in amounts due from banks as at the respective balance dates are as follows:

	31.12.2009	31.12.2008	Change	Change
	PLN '000	PLN '000	PLN '000	(%)
Deposits with other banks	1,133,859	2,108,482	(974,623)	(46)
Loans and advances	454,653	940,197	(485,544)	(52)
<i>including: to related entities</i>	321,322	698,501	(377,179)	(54)
Current accounts	354,587	247,292	107,295	43
Reverse repo transactions	105,427	603,200	(497,773)	(83)
Receivables due from unsettled transactions	27,013	28,067	(1,054)	(4)
Cash in transit	5,337	7,846	(2,509)	(32)
Total	2,080,876	3,935,084	(1,854,208)	(47)
Impairment allowances	(27,109)	(28,111)	1,002	(4)
Total net	2,053,767	3,906,973	(1,853,206)	(47)

Compared with the balance as at 31 December 2008, the decrease in the amounts due from banks (of PLN 1,853,206 thousand, i.e. 47%) was mainly due to a decrease in deposits with other banks (a decrease of PLN 974,623 thousand, i.e. 46%), a decrease in exposure to repo transactions (of PLN 497,773 thousand, i.e. 83%), and the repayment by Kredobank SA of part of a loan granted by the Bank (a decrease in exposure of PLN 377,179 thousand, i.e. 54%, compared with 31 December 2008).

Receivables denominated in foreign currencies amounted to the equivalent of PLN 1,828,257 thousand, i.e. they accounted for 88% of the balance as at the balance date (PLN 2,862,899 thousand, i.e. 73% of the balance, as at 31 December 2008).

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

2. Amounts due from banks (cont.)

The balance of deposits with other banks comprised mainly cash deposited with banks with ratings exceeding A- according to S&P and Fitch of PLN 1,047,774 thousand, i.e. 92% (PLN 1,739.071 thousand, i.e. 82%, as at 31 December 2008).

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

3. Trading assets

As at 31 December 2009, trading assets of PLN 2,212,955 thousand comprised the following assets:

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

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

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

4. Derivative financial instruments

The balance of receivables arising from a positive valuation of derivative instruments compared with 2008 decreased by PLN 1,569,624 thousand (i.e. by 44%) and as at 31 December 2009 amounted to PLN 2,029,921 thousand. The balance of liabilities arising from a negative valuation of derivative instruments amounted to PLN 1,544,370 thousand and decreased by PLN 4,605,967 thousand (i.e. 75%) compared with the end of 2008. The balances referred to above comprised the following items:

	31.12.2009	31.12.2009	31.12.2008	31.12.2008
	Assets	Liabilities	Assets	Liabilities
	PLN '000	PLN '000	PLN '000	PLN '000
Interest Rate Swap	1,717,539	1,338,133	2,786,213	5,070,104
- including CIRS	402,221	33,699	56,290	2,391,272
Foreign exchange and equity options	198,159	127,847	574,434	585,414
FX Forward	114,223	76,530	226,705	494,759
Other	-	1,860	12,193	60
Total	2,029,921	1,544,370	3,599,545	6,150,337

The changes in the balances presented above as at 31 December 2009 compared with 31 December 2008 are presented below:

	Change	Change	Change	Change
	Assets	Assets	Liabilities	Liabilities
	PLN '000	%	PLN '000	%
Interest Rate Swap	(1,068,674)	(38)	(3,731,971)	(74)
- including CIRS	345,931	615	(2,357,573)	(99)
Foreign exchange and equity options	(376,275)	(66)	(457,567)	(78)
FX Forward	(112,482)	(50)	(418,229)	(85)
Other	(12,193)	(100)	1,800	3.000
Total	(1,569,624)	(44)	(4,605,967)	(75)

The balance of both positive and negative valuation of derivatives decreased significantly in 2009. As far as foreign exchange and equity options and FX forward transactions are concerned, this change was mainly the result of the fact that the customers were less active on the market of derivatives.

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

4. Derivative financial instruments (cont.)

A significant decrease in the negative valuation of CIRS was mainly due to the fact that the situation on the currency market stabilized compared with the end of 2008 and the market liquidity was re-established (particularly in the case of CHF), leading to a significant reduction in the base margin used in the CIRS calculation model.

The valuation of receivables arising from derivative transactions as at the balance date takes into account the fair value adjustment of counterparty credit risk of PLN 6,463 thousand (a decrease of PLN 108,985 thousand compared with 31 December 2008).

In 2009, the Bank applied hedge accounting (macro cash flow hedge) in accordance with IAS 39 F6.2 – F6.3 for the first time. The following hedge relationships were concluded as at the balance date:

- hedging of the risk of cash flow volatility on mortgage loans denominated in foreign currency (CHF) and negotiated deposits (PLN) resulting from changes in interest rates and foreign exchange rates. The portfolio of basis swap (CIRS) transactions with a nominal value of CHF 5,600,000 thousand is the hedging instrument designated by the Bank.
- hedging of the risk of cash flow volatility on floating interest rate loans (PLN), resulting from changes in interest rates. The Bank hedges this risk with the use of four IRS contracts with a nominal value of PLN 430,000 thousand.

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/ (losses);
- interest accrued as at the balance date – net interest income/ (expenses);
- mark-to-market (MTM) – revaluation reserve and net gain/(loss) on financial instruments measured at fair value (the inefficient part).

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

4. Derivative financial instruments (cont.)

The net value of CIRS transactions designated to hedge accounting amounted to PLN 319,432 thousand as at the balance date.

	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 gain/(loss) on financial instruments measured at fair value)	145,777	108,943	36,834
- MTM from the date of introduction of hedge accounting (revaluation reserve)	74,403	(88,990)	163,393
Foreign exchange differences on revaluation of the nominal value (net foreign exchange gains/(losses))	53,790	7,515	46,275
Accrued interest (net interest income/(expenses))	70,681	(2,249)	72,930
Total	344,651	25,219	319,432

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

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

The balance of financial instruments designated at fair value through profit and loss increased by PLN 7,810,035 thousand compared with the end of 2008 (i.e. by 172%) and amounted to PLN 12,356,532 thousand as at 31 December 2009. The portfolio comprised the following categories of securities:

	31.12.2009	31.12.2008	Change	Change
	PLN '000	PLN '000	PLN '000	(%)
NBP bills	6,994,218	-	6,994,218	-
Treasury bills	4,566,506	2,060,454	2,506,052	122
Treasury bonds	795,808	2,313,167	(1,517,359)	(66)
Foreign bonds	-	172,876	(172,876)	(100)
Total	<u>12,356,532</u>	<u>4,546,497</u>	<u>7,810,035</u>	<u>172</u>

The increase in the balance of financial instruments designated at fair value through profit and loss as at the balance date was mainly due to the Bank's exposure to NBP bills, which offset the redemption of NBP bonds by the issuer in January 2009 (a decrease of PLN 2,673,729 thousand, i.e. 100%). As at the end of 2008, the said NBP bonds were included in the portfolio of investment securities available for sale (see Note 7). Moreover, in 2009, The Bank increased its exposure to Treasury bills, at the same time reducing the number of Treasury bonds in its portfolio (an increase of PLN 2,506,052 thousand, i.e. 122%, and a decrease of PLN 1,517,359 thousand, i.e. 66%, respectively). At the same time, throughout the year 2009, the Bank gradually reduced its portfolio of foreign bonds issued by banks – a decrease of PLN 172,876 thousand (i.e. 100%). This change was due to the macroeconomic situation resulting in a growth in the issuers' credit risk and lower liquidity on the market of bank debt securities.

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

6. Loans and advances to customers

In 2009 the portfolio of loans and advances to customers measured with reference to the gross value of loans granted increased by PLN 17,138,175 thousand (i.e. 17%) compared with the balance as at 31 December 2008, and amounted to PLN 117,840,734 thousand.

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

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

	31.12.2009	31.12.2008	Change	Change
	PLN '000	PLN '000	PLN '000	(%)
Financial sector (excluding banks)	3,291,503	2,592,355	699,148	27
corporate loans	3,291,503	2,592,355	699,148	27
Non-financial sector	109,581,494	94,894,814	14,686,680	15
consumer loans	23,512,508	20,712,187	2,800,321	14
mortgage loans	52,306,096	45,524,822	6,781,274	15
corporate loans	33,762,890	28,657,805	5,105,085	18
Public sector	4,967,737	3,215,390	1,752,347	54
corporate loans	4,967,737	3,215,390	1,752,347	54
Gross total loans and advances	117,840,734	100,702,559	17,138,175	17
Impairment allowances	(3,414,945)	(2,600,540)	(814,405)	31
Net total loans and advances	114,425,789	98,102,019	16,323,770	17

The Bank's share in the total amount of loans and advances granted by the banking sector (including cooperative banks) was ca. 18% (ca. 16% as at 31 December 2008).¹

As at the balance date, receivables in foreign currencies amounted to PLN 27,035,243 thousand (i.e. 23% of the balance) (PLN 27,145,521 thousand as at 31 December 2008, i.e. 27% of the balance), of which 79% were the amounts in Swiss francs (82% as at 31 December 2008).

¹ Based on the publication *Sektor bankowy – podstawowe dane 12/2009 (The banking sector – basic data 12/2009)*, by the Financial Supervision Authority.

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

6. Loans and advances to customers (cont.)

b) The Bank's loan portfolio in terms of quality

	31.12.2009	31.12.2008	31.12.2009	31.12.2008
	PLN '000	PLN '000	Structure	Structure
			%	%
Impaired loans and advances	7,500,728	3,161,595	6.4	3.1
Non-impaired loans and advances, gross	110,340,006	97,540,964	93.6	96.9
Total loans and advances, gross	117,840,734	100,702,559	100.0	100.0
Allowance for impairment on loans and advances	(2,856,695)	(1,928,032)	83.7	74.1
Allowance for incurred but not reported impairment (IBNR)	(558,250)	(672,508)	16.3	25.9
Total impairment allowances on loans and advances	(3,414,945)	(2,600,540)	100.0	100.0
Total loans and advances, net	114,425,789	98,102,019		

In 2009, the Bank sold a part of its portfolio of loans and advances to customers classified as impaired. The total gross amount of sold balance sheet and off-balance sheet receivables was PLN 1,513,073 thousand.

In 2009, the Bank extended the range of individual impairment indicators. As a result, the share of impaired loans in the total loan portfolio increased compared with the end of 2008 to 6.4% (3.1% as at 31 December 2008). At the same time, the coverage of impaired loans with impairment allowances decreased by 22.9 p.p. to 38.1%. If the range of impairment indicators had not been extended, the share of impaired loans as at 31 December 2009 would have amounted to 3.5% and would have been 0.4 p.p. higher than at the end of 2008. Similarly, the coverage of impaired loans with impairment allowances would have amounted to 69.3% and would have been 8.3 p.p. higher than at the end of 2008.

The deterioration in the quality of the loan portfolio was mainly associated with consumer loans – an increase in the balance of impairment allowances of PLN 630,932 thousand (i.e. 91%). This increase was mitigated by a significant increase in the total value of the loan portfolio of PLN 17,138,175 thousand (i.e. of 17%) compared with 31 December 2008.

The share of allowances for incurred but not identified losses (IBNI) in total impairment allowances was lower than in the previous year and amounted to 16.3% as at the balance date (25.9% as at 31 December 2008). The decrease in IBNI losses was due to more effective restructuring and debt collection activities and the resulting increase in recovery ratios in the impairment model.

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

6. Loans and advances to customers (cont.)

b) The Bank's loan portfolio in terms of quality (cont.)

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

	consumer loans	mortgage loans	corporate loans	Total
Balance of impairment allowances on loans and advances to customers presented in the statement of financial position as at 31 December 2008	(694,648)	(488,157)	(1,417,735)	(2,600,540)
Net impairment allowance on loans and advances and amounts due from banks – total	(797,506)	(193,272)	(293,235)	(1,284,013)
Net impairment allowance on amounts due from banks – recognised in the income statement	-	-	52	52
Decrease in impairment allowances due to derecognition of assets, not affecting the income statement	166,574	38,374	264,608	469,556
Balance of impairment allowances on loans and advances to customers presented in the statement of financial position as at 31 December 2009	<u>(1,325,580)</u>	<u>(643,055)</u>	<u>(1,446,310)</u>	<u>(3,414,945)</u>

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

7. Investment securities available for sale

As at 31 December 2009, the balance of investment securities available for sale decreased compared with 31 December 2008 by PLN 790,814 thousand (i.e. 9%) and amounted to PLN 7,965,697 thousand (PLN 8,756,511 thousand as at 31 December 2008).

	31.12.2009	31.12.2008	Change	Change
	PLN '000	PLN '000	PLN '000	(%)
Treasury bonds	4,286,685	3,286,726	999,959	30
Municipal bonds	2,000,222	1,418,099	582,123	41
Corporate bonds	1,069,806	1,184,934	(115,128)	(10)
Treasury bills	495,688	-	495,688	-
Foreign bonds	39,185	122,200	(83,015)	(68)
Listed equity instruments	68,067	65,939	2,128	3
Other	6,044	4,884	1,160	24
NBP bonds	-	2,673,729	(2,673,729)	(100)
Total	<u>7,965,697</u>	<u>8,756,511</u>	<u>(790,814)</u>	<u>(9)</u>

The change in the balance as at the balance date was mainly due to an earlier redemption of bonds (before maturity) by the National Bank of Poland in January 2009. This decrease was partly offset by the purchase of Treasury bonds and bills by the Bank (an increase of PLN 999,959 thousand, i.e. 30%, and PLN 495,688 thousand respectively) and an increase in the municipal bonds portfolio (of PLN 582,123 thousand, i.e. 41%).

The balance of corporate and municipal bonds comprised bonds issued by companies and local authorities, for which the Bank acted as underwriter. The increase in the balance of municipal bonds was due to a large number of new issues in the last quarter of 2009 (an increase of PLN 339,101 thousand, i.e. 20% compared with the balance as at the end of the third quarter of 2009).

The balance of foreign bonds comprised the bonds purchased in 2008 denominated in EUR. The Bank has a policy of gradually selling foreign bonds.

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

8. Investments in subsidiaries, jointly controlled entities and associates

The balance of investments in subsidiaries, jointly controlled entities and associates as at 31 December 2009 amounted to PLN 1,333,707 thousand and was PLN 510,189 thousand higher than as at 31 December 2008.

In accordance with IAS 27.37a, the Bank measures subsidiaries, jointly controlled entities and associates at cost less impairment allowances.

	31.12.2009	31.12.2008	Change	Change
	PLN '000	PLN '000	PLN '000	(%)
Subsidiaries	1,125,309	600,805	524,504	87
value at cost	1,559,698	918,835	640,863	70
impairment allowances	(434,389)	(318,030)	(116,359)	37
Jointly controlled entities	61,869	61,869	-	-
value at cost	61,869	61,869	-	-
impairment allowances	-	-	-	-
Associates	146,529	160,844	(14,315)	(9)
value at cost	148,029	168,960	(20,931)	(12)
impairment allowances	(1,500)	(8,116)	6,616	(82)
Investments in subsidiaries, jointly controlled entities and associates	1,333,707	823,518	510,189	62

The increase in the balance of investments in subsidiaries, jointly controlled entities and associates was mainly due to the purchase of 25% of the shares of PKO Towarzystwo Funduszy Inwestycyjnych SA from Credit Suisse Asset Management Luxembourg (an increase in exposure of PLN 117,935 thousand compared with 31 December 2008), as well as to the Bank taking up the new issue of shares of a subsidiary Kredobank SA (an increase of PLN 430,644 thousand compared with 31 December 2008) and registration in 2009 of the Kredobank SA capital increase executed in 2008 (PLN 48,737 thousand). As at 31 December 2008, unregistered capital was presented under "Other assets" (see Note 11). At the same time, impairment allowances for Kredobank SA shares of PLN 67,622 thousand were recognised in 2009 and an allowance on a previously unregistered capital of PLN 48,737 thousand was reclassified.

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

8. Investments in subsidiaries, jointly controlled entities and associates (cont.)

The most important investments of the Bank in subsidiaries, jointly controlled entities and associates as at 31 December 2009 are described below:

	Gross	Impairment	Net	Structure
	PLN '000	PLN '000	PLN '000	(%)
Subsidiaries	1,559,698	(434,389)	1,125,309	84
Kredobank SA	786,746	(423,723)	363,023	27
PKO BP BANKOWY Powszechnie Towarzystwo Emerytalne SA	205,786	-	205,786	15
PKO Towarzystwo Funduszy Inwestycyjnych SA	186,989	-	186,989	14
other	380,177	(10,666)	369,511	28
Jointly controlled entities	61,869	-	61,869	5
Centrum Haffnera Sp. z o.o.	44,371	-	44,371	4
other	17,498	-	17,498	1
Associates	148,029	(1,500)	146,529	11
Bank Pocztowy SA	146,500	-	146,500	11
other	1,529	(1,500)	29	-
Investments in subsidiaries, jointly controlled entities and associates	1,769,596	(435,889)	1,333,707	100

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

9. Intangible assets

As at the balance date, the balance of intangible assets amounted to PLN 1,268,781 thousand and was PLN 113,739 thousand (i.e. 10%) higher than as at 31 December 2008. The analysis of this balance is presented below:

	31.12.2009	31.12.2008	Change	Change
	PLN '000	PLN '000	PLN '000	(%)
Software	2,200,662	1,787,570	413,092	23
Other, including development costs	79,479	216,154	(136,675)	(63)
Gross total	2,280,141	2,003,724	276,417	14
Accumulated amortisation	(995,987)	(833,309)	(162,678)	20
Impairment allowances	(15,373)	(15,373)	-	-
Net total	1,268,781	1,155,042	113,739	10

The Integrated Information System (ZSI) with a net carrying amount of PLN 682,052 thousand (PLN 577,925 thousand as at 31 December 2008) was the largest component of the balance. The expenditure on ZSI amounted to PLN 118,650 thousand in the audited year (PLN 160,490 thousand in 2008).

The amount of impairment allowances did not change in the audited year and related to unused functions of the ZSI system only.

The wear and tear of intangible assets, measured as the ratio of accumulated amortization to the gross carrying amount was 44% as at the balance date (42% as at 31 December 2008).

10. Tangible assets

As at the balance date, the net balance of tangible assets amounted to PLN 2,291,949 thousand and was PLN 171,018 thousand (i.e. 7%) lower than as at the end of 2008.

	31.12.2009	31.12.2008	Change	Change
	PLN '000	PLN '000	PLN '000	(%)
Plant and machinery	2,120,753	2,082,754	37,999	2
Land and buildings	2,064,032	1,954,645	109,387	6
Fixed assets under construction	160,362	530,553	(370,191)	(70)
Vehicles	3,813	8,101	(4,288)	(53)
Investment properties	731	32,009	(31,278)	(98)
Other	406,545	383,710	22,835	6
Gross value of tangible assets	4,756,236	4,991,772	(235,536)	(5)
Accumulated depreciation	(2,463,121)	(2,526,889)	63,768	(3)
Impairment allowances	(1,166)	(1,916)	750	(39)
Net value of tangible assets	2,291,949	2,462,967	(171,018)	(7)

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

10. Tangible assets (cont.)

The gross carrying amount of tangible assets as at the balance date decreased by PLN 235,536 thousand (i.e. by 5%) compared with the end of the previous year. This decrease was mainly due to the sale and scrapping of plant and machinery amounting to PLN 264,242 thousand.

As at 31 December 2009, the impairment allowances of PLN 1,166 thousand related to buildings (PLN 1,163 thousand) and plant and machinery (PLN 3 thousand).

The wear and tear of tangible assets measured as the ratio of accumulated depreciation to the gross carrying amount, was 52% as at the balance date (51% as at 31 December 2008).

11. Other assets

The value of other assets decreased by PLN 45,197 thousand (i.e. by 10%) and amounted to PLN 425,360 thousand as at the balance date. The balance comprised the following categories of assets:

	31.12.2009	31.12.2008	Change	Change
	PLN '000	PLN '000	PLN '000	(%)
Amounts due from customers	130,399	157,892	(27,493)	(17)
Settlements of payment cards transactions	125,196	131,974	(6,778)	(5)
Receivables from unsettled foreign exchange and derivative transactions	123,740	7,249	116,491	1,607
Settlements of financial instruments	33,865	55,628	(21,763)	(39)
Accruals and prepayments	21,114	29,729	(8,615)	(29)
Inventories relating to utilization, auxiliary and investment activities	15,499	15,211	288	2
Receivables from the state budget relating to distribution of treasury stamps	13,800	8,883	4,917	55
Settlements of trading in securities	9,551	7,255	2,296	32
Receivables relating to foreign exchange activity	6,679	8,628	(1,949)	(23)
Unregistered capital increase of the subsidiary Kredobank SA	-	48,737	(48,737)	(100)
Other	106,939	127,907	(2,376)	(16)
Gross total	586,782	599,093	(12,311)	(2)
Impairment allowances	(161,422)	(128,536)	(32,886)	26
Net total	425,360	470,557	(45,197)	(10)

As at the balance date, settlements with a subsidiary eService SA amounting to PLN 109,997 thousand (PLN 111,289 thousand as at 31 December 2008) constituted the largest component of the balance of amounts due from customers.

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

11. Other assets (cont.)

The balance of settlements of financial instruments as at the balance date comprised mainly the settlement of premium paid on the purchase of options in the amount of PLN 21,261 thousand (PLN 42,994 thousand as at 31 December 2008).

As at the balance date, the item "Other" comprised mainly receivables relating to deficits and losses with a gross carrying amount of PLN 28,245 thousand, i.e. 23% of the balance (PLN 44,571 thousand, i.e. 35% as at 31 December 2008).

The balance of other assets as at 31 December 2009 is decreased by impairment allowances of PLN 161,422 thousand (PLN 128,536 thousand as at 31 December 2008). The impairment allowances include mainly an impairment allowance for receivables arising from unsettled, negotiated foreign exchange transactions and transactions in derivative instruments of PLN 103,142 thousand (PLN 5,952 thousand as at 31 December 2008). Moreover, as at 31 December 2008, the balance comprised an allowance for 100% of the value of the Kredobank SA capital increase, which was unregistered as at the balance date, in the amount of PLN 48,737 thousand.

12. Amounts due to other banks

The balance of amounts due to banks decreased by PLN 1,532,727 thousand (i.e. by 27%) as at the balance date and comprised the following items:

	31.12.2009	31.12.2008	Change	Change
	PLN '000	PLN '000	PLN '000	(%)
Syndicated loan in CHF	2,621,791	2,656,004	(34,213)	(1)
Deposits from other banks	1,399,985	2,835,727	(1,435,742)	(51)
Other money-market deposits	121,679	115,171	6,508	6
Current accounts	23,270	92,550	(69,280)	(75)
Total	4,166,725	5,699,452	(1,532,727)	(27)

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

The Bank's liability in respect of the syndicated loan of PLN 2,621,791 thousand (PLN 2,656,004 thousand as at 31 December 2008) concerns a loan of CHF 950,000 thousand granted by a consortium of Polish and foreign banks in 2007 for a period of five years with an extension option.

As at the balance date, liabilities expressed in foreign currencies constituted 69% of the amounts due to other banks (55% as at 31 December 2008).

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

13. Amounts due to customers

The amounts due to customers amounted to PLN 124,044,400 thousand as at the balance date and were PLN 22,187,470 thousand (i.e. 22%) higher than as at 31 December 2008:

	31.12.2009	31.12.2008	Change	Change
	PLN '000	PLN '000	PLN '000	(%)
Amounts due to retail customers	86,627,306	75,413,447	11,213,859	15
Amounts due to corporate customers	27,736,114	19,164,051	8,572,063	45
Amounts due to state budget entities	9,680,980	7,279,432	2,401,548	33
Total	124,044,400	101,856,930	22,187,470	22

The Bank's share in the total balance of the amounts due from the banking sector (including cooperative banks) to non-financial sector customers and the public sector was ca. 19% as at 31 December 2009 (ca. 18% as at 31 December 2008).²

As at 31 December 2009, the ratio of deposits to gross loans and advances improved and amounted to 105% (101% as at 31 December 2008).

Liabilities expressed in foreign currencies constituted 6% of the balance as at the balance date (the same percentage as at 31 December 2008).

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

14. Subordinated liabilities

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

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

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

² Based on the publication *Sektor bankowy – podstawowe dane 12/2009 (The banking sector – basic data 12/2009)*, by the Financial Supervision Authority.

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

15. Other liabilities

As at 31 December 2009, other liabilities amounted to PLN 1,319,917 thousand and were PLN 35,479 thousand (i.e. 3%) lower than as at the end of 2008. The balance comprised:

	31.12.2009	31.12.2008	Change	Change
	PLN '000	PLN '000	PLN '000	(%)
Deferred income	252,675	178,246	74,429	42
Costs payable	201,827	213,723	(11,896)	(6)
Other liabilities relating to:	865,415	963,427	(98,012)	(10)
settlements of security transactions	276,221	205,896	70,325	34
interbank settlements	182,275	241,034	(58,759)	(24)
settlements with the state budget	127,156	116,903	10,253	9
liabilities arising from foreign currency activities	47,934	76,854	(28,920)	(38)
trade payables	36,776	29,308	7,468	25
settlements of financial instruments	36,325	57,764	(21,439)	(37)
amounts due to UOKiK (the Office for Competition and Consumer Protection)	22,310	22,310	-	-
liabilities arising from investing activities and internal operations	12,345	51,164	(38,819)	(76)
liabilities arising from transactions with non-financial entities	6,586	9,947	(3,361)	(34)
liabilities relating to payment cards	5,949	4,815	1,134	24
settlement of purchases of plant and machinery	3,570	34,465	(30,895)	(90)
other	107,968	112,967	(4,999)	(4)
Total	1,319,917	1,355,396	(35,479)	(3)

As at the balance date, the largest components of the balance of other liabilities were settlements of security transactions of PLN 276,221 thousand (21%) – an increase of PLN 70,325 thousand (i.e. 34%) compared with the balance as at 31 December 2008, and deferred income of PLN 252,675 thousand (19%) – an increase of PLN 74,429 thousand (i.e. 42%) compared with 31 December 2008.

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

16. Provisions

The balance of provisions as at 31 December 2009 comprised:

	31.12.2009	31.12.2008	Change	Change
	PLN '000	PLN '000	PLN '000	(%)
Provision for anniversary and retirement bonuses	367,291	364,945	2,346	1
Provision for liabilities and guarantees granted	110,642	77,782	32,860	42
Provision for legal claims	6,841	6,841	-	-
Other provisions	113,852	111,785	2,067	2
Total	598,626	561,353	37,273	7

The increase in provisions as at the end of 2009 was mainly due to an increase in the provisions for liabilities and guarantees granted of PLN 32,860 thousand (i.e. 42%). This increase was partly a result of an increase in the balance of off-balance sheet liabilities granted of PLN 2,685,921 thousand compared with the balance as at 31 December 2008 (see Note 26).

The provision for anniversary and retirement bonuses is based on the calculation performed by an independent actuary and presented in the report prepared in February 2010. The report was prepared on the basis of the balances as at the balance date.

As at the balance date, other provisions comprised, inter alia, provisions for claims associated with the portfolios of receivables sold (PLN 31,589 thousand) and a restructuring provision (PLN 72,604 thousand). The restructuring provision relates to future liabilities in respect of compensations and severance payments to employees whose employment contracts will be terminated for reasons that are without their fault. In accordance with IAS 37.72, the basis for creating this provision is the Bank's employment restructuring plan.

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

17. Equity

Movements in equity in the audited year are presented in the table below:

	Share capital	Reserve capital	Financial assets available for sale	Cash flow hedge	General banking risk fund	Other reserves	Other capital	Retained earnings	Net profit	TOTAL
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
As at 31.12.2008	1,000,000	7,216,986	(33,874)	-	1,070,000	1,395,000	9,648,112	-	2,881,260	13,529,372
Share issue (at the nominal value)	250,000	-	-	-	-	-	-	-	-	250,000
Share premium	-	4,831,125	-	-	-	-	4,831,125	-	-	4,831,125
Change in available for sale investments less deferred tax	-	-	17,592	-	-	-	17,592	-	-	17,592
Hedge accounting	-	-	-	119,276	-	-	119,276	-	-	119,276
Net profit for 2009	-	-	-	-	-	-	-	-	2,432,152	2,432,152
Transfer from retained earnings	-	-	-	-	-	-	-	2,881,260	(2,881,260)	-
Transfer from net profit to capital	-	-	-	-	-	1,881,260	1,881,260	(1,881,260)	-	-
Transfer from net profit to dividends	-	-	-	-	-	-	-	(1,000,000)	-	(1,000,000)
As at 31.12.2009	1,250,000	12,048,111	(16,282)	119,276	1,070,000	3,276,260	16,497,365	-	2,432,152	20,179,517

Powszechna Kasa Oszczędności Bank Polski SA

Independent registered auditor's report on the financial statements as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

17. Equity (cont.)

On 30 June 2009, the General Shareholders' Meeting of Powszechna Kasa Oszczędności Bank Polski passed a resolution on the distribution of net profit for 2008 of PLN 2,881,260 thousand: PLN 1,881,260 thousand was transferred to other reserves and PLN 1,000,000 thousand was earmarked for the payment of dividend.

In 2009, The Bank increased its share capital. The capital increase was executed in accordance with the resolution of the General Shareholders' Meeting of 30 June 2009, amended by a resolution of the Extraordinary General Shareholders' Meeting of 31 August 2009, on issuing up to 300,000,000 D-series ordinary bearer shares with PLN 1 nominal value per share. The issue price was determined at the level of PLN 20.50 per share. The increase in the Bank's share capital by the issue of 250,000,000 D-series shares was registered on 11 December 2009. The nominal value of the registered shares (PLN 250,000 thousand) was credited to the Bank's share capital, and the share premium of PLN 4,831,125 thousand was credited to the reserve capital.

As at 31 December 2009, the Bank's share capital amounted to PLN 1,250,000 thousand and comprised 1,250,000,000 ordinary shares with PLN 1 nominal 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.

The Bank's equity, calculated in accordance with the Banking Law and Resolution No. 2/2007 of the Banking Supervision Commission, amounted to PLN 16,938,039 thousand as at the balance date (PLN 12,389,193 thousand as at 31 December 2008) and was PLN 7,447,526 thousand higher than the total capital requirement, which as at the balance date amounted to PLN 9,490,513 thousand (PLN 8,821,840 thousand as at 31 December 2008). The solvency ratio as at the balance date was 14.28% (11.24% as at 31 December 2008).

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

Income statement for the year ended 31 December 2009

18. Net interest income

In 2009, net interest income amounted to PLN 4,842,449 thousand and decreased by PLN 1,125,634 thousand (i.e. 19%) compared with 2008. The balance comprised:

	2009	2008	Change	Change
	PLN '000	PLN '000	PLN '000	(%)
Interest income:	8,603,448	8,646,426	(42,978)	-
Income from loans and advances to customers and other banks	7,140,485	7,388,610	(248,125)	(3)
Income from hedging financial instruments	403,899	-	403,899	-
Income from financial instruments designated at fair value through profit and loss	403,112	433,975	(30,863)	(7)
Income from investment securities	389,355	355,460	33,895	10
Income from deposits with other banks	158,576	389,275	(230,699)	(59)
Income from trading securities	97,207	64,046	33,161	52
Other	10,814	15,060	(4,246)	(28)
Interest expenses:	(3,760,999)	(2,678,343)	(1,082,656)	40
Interest expenses on amounts due to customers and loans received from other banks	(3,589,601)	(2,496,984)	(1,092,617)	44
Interest expenses on debt securities in issue	(99,575)	(115,315)	15,740	(14)
Interest expenses on deposits from other banks	(47,523)	(60,771)	13,248	(22)
Other	(24,300)	(5,273)	(19,027)	361
Net interest income	4,842,449	5,968,083	(1,125,634)	(19)

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

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

18. Net interest income (cont.)

The decrease in interest income of PLN 42,978 thousand in 2009 was mainly due to the fact that interest income on loans and advances to customers and banks and income from deposits with other banks were lower than in 2008 (a decrease of PLN 248,125 thousand, i.e. 3%, and PLN 230,699 thousand, i.e. 59% respectively). This was mainly a result of a reference interest rate decrease in 2009 (the average annual WIBOR 1M rate was 3.87% in 2009 and 6.10% in 2008). As far as interest income on loans and advances to customers and banks is concerned, this effect was partly offset by the growth in the loan portfolio (of PLN 16,323,770 thousand, i.e. 17%, in 2009) (see Note 6), accompanied by a decrease in loans and advances to banks (of PLN 485,544 thousand, i.e. 52%). In the case of income from deposits with other banks, this effect was reinforced by a decrease in the balance of such deposits as at the end of 2009 of PLN 974,623 thousand, i.e. 46% (see Note 2).

The rate of growth of interest expenses was higher than the rate of growth of interest income and amounted to 40%, which resulted in an increase in interest expenses of PLN 1,082,656 thousand in 2009. This was mainly due to higher interest expenses on amounts due to customers and loans received from banks (an increase of PLN 1,092,617 thousand, i.e. 44%). This increase was partly due to the Bank's strategy of seeking financing in the form of customers' deposits, which required more competitive interest offered on deposits.

Consequently, the interest margin (being the ratio of the net interest income to interest income) amounted to 56% in 2009 (69% in 2008).

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

19. Net fee and commission income

Net fee and commission income in 2009 amounted to PLN 2,363,647 thousand and was PLN 230,832 thousand (i.e. 11%) higher than in 2008. The balance comprised:

	2009	2008	Change	Change
	PLN '000	PLN '000	PLN '000	(%)
Fee and commission income	3,083,059	2,813,078	269,981	10
Income from payment cards	932,890	848,610	84,280	10
Income from maintenance of bank accounts	858,781	780,759	78,022	10
Income from loans and advances	365,522	313,309	52,213	17
Income from loan insurance	327,312	225,063	102,249	45
Income from cash transactions	177,354	188,345	(10,991)	(6)
Income from services provided to investment funds (incl. management fees)	92,049	159,570	(67,521)	(42)
Income from securities transactions	53,128	43,873	9,255	21
Income from foreign mass transactions	41,524	41,181	343	1
Income from distribution of treasury stamps	21,664	21,738	(74)	-
Other	212,835	190,630	22,205	12
Fee and commission expenses	(719,412)	(680,263)	(39,149)	6
Expenses on payment cards	(374,547)	(348,243)	(26,304)	8
Expenses on acquisition services	(139,969)	(134,773)	(5,196)	4
Expenses on loan insurance	(92,937)	(94,140)	1,203	(1)
Expenses on commissions for operating services provided by other banks	(6,518)	(8,112)	1,594	(20)
Expenses on commissions paid to Poczta Polska	(4,399)	(5,240)	841	(16)
Other	(101,042)	(89,755)	(11,287)	13
Net fee and commission income	2,363,647	2,132,815	230,832	11

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

19. Net fee and commission income (cont.)

In 2009, fee and commission income increased by PLN 269,981 thousand (i.e. by 10%). This increase was partly due to the fact that income from loan insurance was PLN 102,249 thousand (i.e. by 45%) higher, income from payment cards was PLN 84,280 thousand (i.e. by 10%) higher, and income from maintenance of bank accounts was PLN 78,022 thousand (i.e. by 10%) higher. The increase in income from payment cards was partly due to the fact that the number of card transactions executed by the Bank's customers was bigger by ca. 6%, as well as due to the growth in the number of cards used by customers by ca. 1%. In 2009, income from loans and advances also increased (by PLN 52,213 thousand, i.e. by 17%). Such commissions are deferred and recognized in the income statement on a straight line basis. They relate mainly to guarantees and warranties granted, overdrafts, working capital loans and other credit products without fixed repayment schedules. In 2009, the Bank recognized a decrease in income from services provided to investment funds (such income was PLN 67,521 thousand, i.e. 42%, lower than in the previous year), which was due to a decrease in the customers' activity in this area.

The balance of fee and commission expenses increased in relation to the year 2008 by PLN 39,149 thousand (i.e. by 6%). This increase was mainly due to the fact that commission expenses on payment cards were PLN 26,304 thousand (i.e. 8%) higher, which was mainly the result of the increase in the number of transactions and cards discussed above. These expenses comprise commissions payable to payment card organizations (VISA, MasterCard and Polcard).

20. Dividend income

In 2009, dividend income amounted to PLN 101,560 thousand and was PLN 29,336 thousand (i.e. 22%) lower than in 2008. The balance comprised mainly dividends paid by PKO Towarzystwo Funduszy Inwestycyjnych SA of PLN 78,750 thousand (PLN 92,250 thousand in 2008), by CEUP eService SA of PLN 9,959 thousand (no dividend in 2008), and by Centrum Finansowe Puławska Sp. z o.o. of PLN 7,376 thousand (2008: PLN 16,626 thousand).

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

Net income from financial instruments at fair value through profit and loss in 2009 amounted to PLN 61,402 thousand. In the previous year, the Bank had a loss of PLN 156,998 thousand.

	2009 PLN '000	2008 PLN '000	Change PLN '000	Change (%)
Derivative instruments	33,567	(119,581)	153,148	(128)
Debt instruments	24,536	(31,774)	56,310	(177)
Equity instruments	1,946	(5,716)	7,662	(134)
Other	1,353	73	1,280	1.753
Total	61,402	(156,998)	218,400	(139)

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

21. Net income from financial instruments at fair value through profit and loss (cont.)

Derivative instruments include the result realized on and the valuation of derivatives, excluding foreign exchange transactions whose valuation is included in net foreign exchange gains/ (losses) (see Note 22). The gain recognized in 2009 is a result of the positive valuation of derivatives (see Note 4).

Debt instruments comprise the result on the sale and valuation of debt securities classified as designated at fair value through profit and loss.

22. Net foreign exchange gains

In 2009, net foreign exchange gains amounted to PLN 894,680 thousand (PLN 696,135 thousand in 2008) and comprised gains and losses on revaluation of and transactions in assets and liabilities in foreign currencies and the valuation at fair value of currency derivatives (FX forward, FX swap and CIRS). Compared with 2008, net foreign exchange gains increased by PLN 198,545 thousand (i.e. by 29%).

The results on the individual components of net foreign exchange gains were opposite to those recorded in 2008. Due to the decreasing exchange rates of the Swiss franc and euro over a major part of the year 2009 (ca. 22% of the Bank's loan portfolio and ca. 5% of customers' deposits are denominated in these currencies), the net foreign exchange result (including the result on revaluation of loans and deposits) was negative and amounted to PLN (1,818,401) thousand (a decrease of PLN 4,760,814 thousand, i.e. 162%, in relation to the prior year).

At the same time, in 2009 the Bank recognized gain on valuation of instruments designated at fair value through profit and loss (a gain of PLN 2,713,081 thousand compared with a loss of PLN 2,246,278 thousand in 2008). This result was mainly determined by the valuation of derivatives 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 value changed by PLN 2,703,504 thousand, i.e. by 116% (a change from a net loss of PLN 2,334,982 thousand as at the end of 2008 to a net gain of PLN 368,522 thousand as at the end of 2009; of this, CIRS used for hedging purposes accounted for PLN 319,432 thousand – see Note 4).

Moreover, due to the implementation of hedging accounting at the Bank, the income from interest on CIRS used as hedging instruments of PLN 403,899 thousand was reclassified to net interest income (see Note 18).

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

23. Net impairment allowance

Net impairment allowance was negative in 2009 (an excess of impairment allowances recognized over those released) and amounted to PLN 1,393,480 thousand (an increase in the negative balance compared with 2008 of PLN 244,550 thousand):

	2009	2008	Change	Change
	PLN'000	PLN'000	PLN '000	(%)
Loans and advances to customers and amounts due from other banks	(1,284,013)	(763,932)	(520,081)	68
Investments in subsidiaries, jointly controlled entities and associates	(68,085)	(261,050)	192,965	(74)
Investment securities available for sale	(1,050)	2,796	(3,846)	(138)
Tangible assets	683	(436)	1,119	(257)
Other	(41,015)	(126,308)	85,293	(68)
Net impairment allowance	(1,393,480)	(1,148,930)	(244,550)	21

The change in the balance in 2009 was mainly due to an increase in net impairment allowance on consumer loans of PLN 395,169 thousand (i.e. 98%) and mortgage loans – an increase of PLN 145,878 thousand, (i.e. 308%). Detailed information on the quality of the loan portfolio is presented in Note 6.

The difference between the change in the allowance for loans and advances to customers recognized in the statement of financial position of PLN 814,405 thousand and the cost of impairment allowances for such exposures recognised in the income statement of PLN 1,283,961 thousand results from the fact that a part of the allowance in the amount of PLN 469,556 thousand was derecognised from the statement of financial position in the audited year together with the corresponding assets (which did not affect the income statement). This decrease was mainly due to the sale of a part of the portfolio of loans and advances to customers in the audited year (see Note 6).

Additionally, in 2009, the Bank recognized an impairment allowance with respect to its subsidiary Kredobank SA of PLN 67,622 thousand. The Bank's exposure to Kredobank SA is described more extensively in Note 8.

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

24. Administrative expenses

Administrative expenses incurred by the Bank in 2009 amounted to PLN 3,904,592 thousand and were PLN 64,655 thousand (i.e. 2%) lower than the expenses incurred in 2008.

	2009	2008	Change	Change
	PLN '000	PLN '000	PLN '000	(%)
Staff costs	(2,136,166)	(2,269,539)	133,373	(6)
Overheads	(1,259,749)	(1,270,174)	10,425	(1)
Depreciation and amortisation	(405,393)	(361,382)	(44,011)	12
Taxes and other charges	(53,661)	(51,415)	(2,246)	4
Contribution and payments to the Banking Guarantee Fund	(49,623)	(16,737)	(32,886)	196
Total	(3,904,592)	(3,969,247)	64,655	(2)

The decrease in administrative expenses in 2009 was mainly due to a decrease in staff costs (of PLN 133,373 thousand, i.e. 6%) and was partly offset by an increase in amortization and depreciation (of PLN 44,011 thousand, i.e. 12%) and an increase in contribution and payments to the Banking Guarantee Fund (of PLN 32,886 thousand, i.e. 196%).

The decrease in staff costs in 2009 was mainly due to a decrease in the cost of wages and salaries of PLN 95,431 thousand (i.e. 5%). In 2009, the cost of wages and salaries amounted to 1,801,038 thousand (PLN 1,896,469 thousand in 2008). This decrease was mainly due to reducing employment – the average level of employment at the Bank decreased by 1,558, from 29,403 full-time equivalents in December 2008 to 27,845 full-time equivalents in December 2009.

The increase in amortization and depreciation in 2009 was mainly due to the costs of depreciation of computer hardware (PLN 117,853 thousand) and amortization of intangible assets (PLN 161,636 thousand).

The contribution and payments to the Banking Guarantee Fund also increased significantly in 2009 (an increase of PLN 32,886 thousand, i.e. 196% compared with 2008). This increase was due to the introduction of new secondary legislation concerning the principles for calculation of contributions and the obligation of the Bank to pay the total contribution, whereas previously a half of it was financed by the National Bank of Poland.

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

	2009	2008
	PLN '000	PLN '000
Administrative expenses	3,904,592	3,969,247
Average annual number of employees	28,653	30,113
Administrative expenses per one employee	136	132
Net profit per one employee	85	96

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

24. Administrative expenses (cont.)

In the audited year, the cost to income ratio was 46.7% (45.0% in 2008). The deterioration of the C/I ratio was mainly due to a decrease in interest income (see Note 18). At the same time, the net profit per one employee decreased by 11% compared with 2008. Administrative expenses per one employee increased mainly due to reducing employment by 1,460 persons, i.e. 5% (in annual average terms).

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

25. Income tax expense

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

	2009 PLN '000	2008 PLN '000	Change PLN '000	Change (%)
Deferred income tax	140,506	133,283	7,223	5
Current income tax expense	(763,785)	(949,873)	186,088	(20)
Income tax expense disclosed in the income statement	(623,279)	(816,590)	193,311	(24)
Income tax expense disclosed in equity	(32,105)	2,011	(34,116)	(1,696)
Total	(655,384)	(814,579)	159,195	(20)

The effective tax rate was 20.4% in 2009 and was 1.7 p.p. lower than in the previous year.

(a) Deferred income tax

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

	Statement of financial position 31.12.2009 PLN '000	Statement of financial position 31.12.2008 PLN '000	Income statement PLN '000
Deferred income tax provision			
Capitalized interest on performing mortgage loans	238,446	258,759	20,313
Interest accrued on receivables	88,454	100,892	12,438
Interest on securities	37,713	44,113	6,400
Valuation of derivatives, including:	40,935	-	x
- transferred to income statement	12,957	-	(12,957)
- transferred to equity	27,978	-	x
Valuation of securities, including:	-	11,486	x
- transferred to income statement	-	6,365	6,365
- transferred to equity	-	5,121	x
Difference between book value and tax value of tangible assets	233,516	196,000	(37,516)
Other taxable temporary differences	2,656	3,597	(941)
Gross deferred tax liability	641,720	614,847	(4,016)

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

25. Income tax expense (cont.)

(a) Deferred income tax (cont.)

	Statement of financial position 31.12.2009 PLN '000	Statement of financial position 31.12.2008 PLN '000	Income statement PLN '000
Deferred tax assets:			
Interest accrued on liabilities	326,419	223,004	103,415
Valuation of securities, including:	15,090	27,825	x
- transferred to income statement	11,272	14,759	(3,487)
- transferred to equity	3,818	13,066	x
Adjustment of EIR valuation	191,507	166,449	25,058
Impairment allowances	236,494	159,789	76,705
Provisions for anniversary and retirement bonuses	110,171	110,037	134
Valuation of derivatives	17,410	77,734	(60,324)
Other	19,833	16,812	3,021
Gross deferred income tax asset	916,924	781,650	144,522
Net deferred tax	275,204	166,803	140,506

In connection with net deductible temporary differences as at the end of 2009, the Bank recognized a deferred tax asset of PLN 275,204 thousand (PLN 166,803 thousand at the end of 2008).

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

25. Income tax expense (cont.)

(b) Current income tax

In the audited year, income tax was calculated at the rate of 19% on the basis of profit before tax determined on the basis of the IFRS as adopted by the European Union, and adjusted for non-taxable income and non-deductible costs.

	2009	2008	Change	Change
	PLN '000	PLN '000	PLN '000	(%)
Profit before income tax	3,055,431	3,697,850	(642,419)	(17)
Increase in tax base, of which:	1,206,363	1,810,878	(604,515)	(33)
Permanent differences	445,721	759,948	(314,227)	(41)
Non-deductible costs	217,168	103,121	114,047	111
Release/ (increase) of impairment allowances and positive revaluation constituting non-tax-deductible expenses	160,932	300,726	(139,795)	(46)
Impairment allowance recognised on Kredobank SA	67,621	356,100	(288,479)	(81)
Temporary negative differences	760,642	1,050,930	(290,288)	(28)
Interest accrued on liabilities	544,289	446,063	98,226	22
Valuation of securities	(18,353)	(38,453)	20,100	(52)
Adjustment to valuation at effective interest rate	131,885	89,211	42,674	48
Cost of impairment allowance	403,711	424,189	(20,478)	(5)
Provision for anniversary bonuses and retirement benefits	705	111,384	(110,679)	(99)
Valuation of derivatives	(317,495)	81,068	(398,563)	(492)
Other	15,900	(62,532)	78,432	(125)

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

25. Income tax expense (cont.)

(b) Current income tax (cont.)

	2009	2008	Change	Change
	PLN '000	PLN '000	PLN '000	(%)
Decrease in tax base, of which:	241,874	509,399	(267,525)	(53)
Permanent differences	220,738	159,958	60,780	38
Income on dividends	101,395	111,263	(9,868)	(9)
Other income	88,958	27,863	61,095	219
Other, including donations:	30,385	20,832	9,553	46
Temporary positive differences	21,136	349,441	(328,305)	(94)
Capitalized interest on performing mortgage loans	(106,911)	(100,358)	(6,553)	7
Interest accrued on receivables	(65,463)	4,989	(70,452)	(1412)
Interest on securities	(33,684)	84,142	(117,826)	(140)
Valuation of derivative	68,195	-	68,195	
Valuation of securities	(33,500)	29,789	(63,289)	(212)
Difference between book value and tax value of tangible assets	197,453	326,705	(129,252)	(40)
Other taxable temporary differences	(4,954)	4,174	(9,126)	(219)
Taxable profit	4,019,920	4,999,329	(979,409)	(20)
Income tax at 19%	763,785	949,873	(186,088)	(20)

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

IV. Discussion of financial statement components (cont.)

26. Off-balance sheet items

Off-balance sheet items as at the balance date are presented below:

	31.12.2009	31.12.2008	Change	Change
	PLN '000	PLN '000	PLN '000	(%)
Contingent liabilities, including:	33,442,339	30,756,418	2,685,921	9
Financial liabilities granted	27,628,880	26,196,875	1,432,005	5
Guarantees and warranties granted – nominal value	5,813,459	4,559,543	1,253,916	28
Contingent assets, including:	3,331,191	3,829,183	(497,992)	(13)
Guarantees and warranties received	2,702,564	3,370,219	(667,655)	(20)
Other	628,627	458,964	169,663	37

The increase in contingent liabilities of PLN 2,685,921 thousand (i.e. 9%) was due to an increase in off-balance sheet financial liabilities in of PLN 1,432,005 thousand (i.e. 5%) and an increase in the nominal value of guarantees and warranties granted of PLN 1,253,916 thousand (i.e. 28%).

Contingent assets decreased in 2009 by PLN 497,992 thousand (i.e. by 13%).

Guarantees and warranties received comprised mainly loan repayment guarantees received of PLN 2,265,629 thousand (PLN 2,865,339 thousand as at 31 December 2008), including the amount of PLN 2,129,841 thousand relating to the guarantee granted by the State Treasury in respect of the repayment of "old portfolio" mortgage loans pursuant to the Act on guarantees granted by the State Treasury for repayment of certain mortgage loans dated 29 November 2000 (PLN 2,438,004 thousand as at 31 December 2008).

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

V. The independent registered auditor's statement

- (a) The Bank's Management Board provided all the information, explanations, and representations required by us in the course of the audit and provided us with a letter of representation confirming the completeness of the information included in the accounting records, and a disclosure of all the 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 Bank has updated documentation of its accounting policies, approved by the Management Board. The Bank's accounting policies were tailored to its needs and ensured the identification of all events with a material effect on the assessment of its financial position and results, taking into consideration the prudence principle. There were no changes to the accounting policies compared with the previous year.
- (d) The closing balances as at the end of the prior year were correctly brought forward as the opening balances of the current financial year in all material respects.
- (e) We have assessed the operation of the accounting system. Our assessment covered in particular:
 - the accuracy of the documentation relating to business transactions;
 - the fairness, accuracy and verifiability of the accounting records, including computerized accounting records;
 - the methods used for controlling access to data and computerized data processing systems;
 - the safeguarding of accounting documentation, accounting records and the financial statements.

This assessment together with our verification of individual items of the financial statements is a basis for expressing a general, comprehensive and unqualified opinion on the truth and fairness of these financial statements. The audit was not intended to provide a comprehensive opinion on the operations of the said system.

- (f) The notes to the financial statements present all the material information required by the International Financial Reporting Standards, as adopted by the European Union.
- (g) The information in the Directors' Report for the year ended 31 December 2009 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws No. 33, item 259) and is consistent with the information presented in the audited financial statements.
- (h) Counts of assets and liabilities and equity were carried out and reconciled in accordance with the Accounting Act, and their results were included in the accounting records for the audited year.

Powszechna Kasa Oszczędności Bank Polski SA
Independent registered auditor's report on the financial statements
as at and for the year ended 31 December 2009

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

- (i) No significant violations of the law were identified during the audit, which might affect the financial statements.
- (j) 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.
- (k) The total regulatory requirement, together with the requirement concerning the risk of excessive capital exposure, amounted to PLN 9,490,513 thousand as at the balance date. The capital adequacy ratio as at 31 December 2009 amounted to 14.28%. As at the balance date, the Bank complied with the prudence principle in all material respects.
- (l) The financial statements for the previous year were audited by PricewaterhouseCoopers Sp. z o.o. The registered auditor issued an unqualified opinion.
- (m) The financial statements of the Bank as at and for the year ended 31 December 2008 were approved by Resolution No. 4/2009 passed by the General Shareholders' Meeting on 30 June 2009, filed with the National Court Register in Warsaw on 14 July 2009 and published in Monitor Polski B No. 1792 on 29 September 2009.

VI. Final information and comments

This report has been prepared in connection with our audit of the financial statements of Powszechna Kasa Oszczędności Bank Polski SA, with its registered office _____ in _____ Warsaw, ul. Puławska 15. The audited financial statements comprise:

- (a) the statement of financial position as at 31 December 2009, showing total assets and total liabilities & equity of PLN 153,647,479 thousand;
- (b) the income statement for the period from 1 January to 31 December 2009, showing a net profit of PLN 2,432,152 thousand;
- (c) the statement of comprehensive income for the period from 1 January to 31 December 2009, showing a total net comprehensive income of PLN 2,569,020 thousand;
- (d) the statement of changes in equity for the period from 1 January to 31 December 2009, showing an increase in equity of PLN 6,650,145 thousand;
- (e) the statement of cash flows for the period from 1 January to 31 December 2009, showing a net increase in cash and cash equivalents of PLN 562,151 thousand;
- (f) additional information on adopted accounting policies and other explanatory notes

The financial statements were signed by the Bank's Management Board and the person responsible for maintaining the accounting records on 9 March 2009. This report should be read in conjunction with the Independent Registered Auditor's Opinion to the General Shareholders' Meeting and the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski SA, signed on 10 March 2009 concerning the above-mentioned financial statements. The opinion is a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components or issues. This assessment takes account of the impact of the facts noted on the truth and fairness of the financial statements as a whole.

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

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

Warsaw, 10 March 2010