

The Polish language original should be referred to in matters of interpretation



**PKO Bank Polski SA Group
Report
for three quarters of 2010**



PKO BANK POLSKI
SPÓŁKA AKCYJNA

Directors' Commentary to the financial results
of the PKO Bank Polski SA Group
for the third quarter of 2010

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1. Summary and selected financial data

NET PROFIT	2 349.2	PLN million	+	31.3%	(y/y)	as a result of increase in net interest income and net fee and commission income offset by a decrease in other result and an increase in negative net impairment allowance
RESULT ON BUSINESS ACTIVITIES*	7 545.3	PLN million	+	15.4%	(y/y)	the result of increase in net interest income (+ 31.7% y/y) and net fee and commission income (+24.1% y/y) offset by a decrease in other result by 57.9% (y/y)
NET INTEREST INCOME	4 785.3	PLN million	+	31.7%	(y/y)	the result of increase in income from loans and securities as well as a decrease in interest expense and as a result of introduction of hedge accounting in the Bank in the 2nd quarter of 2009
NET FEE AND COMMISSION INCOME	2 324.8	PLN million	+	24.1%	(y/y)	the result of increase in fee and commission income related to loans and their insurance and due to maintaining bank accounts and payment cards
COSTS	-3 092.5	PLN million	-	0.4%	(y/y)	the result of decrease in overhead expenses (-9.5% y/y), offset by an increase in staff costs (+3.6% y/y)
NET IMPAIRMENT ALLOWANCE	-1 441.9	PLN million	+	27.8%	(y/y)	the result of increase in impairment allowances on consumer and mortgage loans and recognising an impairment allowance on interests in an associate Bank Pocztowy
ROE NET	14.1%		-	1.0	pp.	the result of 31.3% (y/y) increase in net profit and increase in equity by 54.1% (y/y)
ROA NET	1.8%		+	0.2	pp.	due to 31.3% (y/y) increase in net profit and increase in assets by 13.8% (y/y)

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

In the 3rd quarter of 2010 the situation in the banking sector in Poland improved. However, it remained under the negative influence of the continued high credit risk. The situation on the deposit and loan market was affected by the revival on the housing loan market, limiting of activities in the scope of granting consumer loans and corporate loans, as well as a higher increase in deposits of individuals.

In this period, PKO Bank Polski SA continued its measures to maintain its strong deposit and equity base – these measures constitute a basis for a stable development of business activities, while the priorities relating to business effectiveness and effective cost control being maintained.

The net profit of the PKO Bank Polski SA Group generated in the three quarter period of this year amounted to PLN 2 349.2 million, which represents an increase of PLN 560.1 million (+31.3%) compared with the corresponding period of the previous year. The profit generated was determined by:

- ⇒ the high level of the result on business activities of the PKO Bank Polski SA Group – PLN 7 545.3 million, accompanied by the negative effect of net impairment allowance on the results of the PKO Bank Polski SA Group;
- ⇒ the effective structure of the statement of financial position – an increase in the deposits of the PKO Bank Polski SA Group of PLN 13.7 billion y/y and an increase in equity base of PLN 8.0 billion allowed business activities to increase dynamically. The loans to deposits ratio amounted to 96.3% as at the end of the 3rd quarter of 2010; 92.3% including long-term financing;
- ⇒ the cost stabilization – a 0.4% fall in costs y/y, including decrease in overheads by 9.5% y/y and an increase in staff costs by 3.6% y/y, which along with a 15.4% increase in income resulted in a fall in the C/I ratio to 41.0%.

2. External environment

Macroeconomic environment

In the 3rd quarter of 2010:

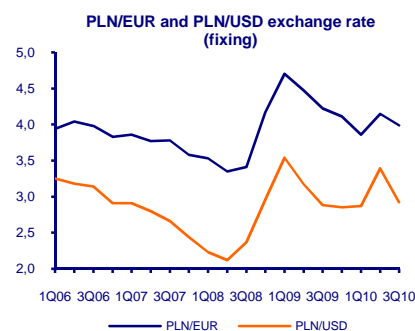
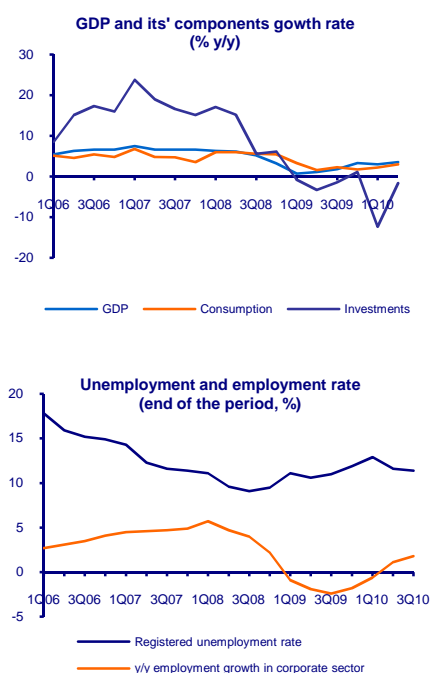
- there was a slight increase in the rate of economic growth compared with the 1st half of the year thanks to a higher growth dynamics in private consumption and a lower dynamics of a decrease in investments. At the same time, a stronger revival of the economic growth was limited by the deterioration of foreign trade results due to higher demand for imported goods. At the end of the 3rd quarter, the first signals were received of a slowdown in activities related to production for export purposes due to the deterioration of the macroeconomic data in the global economy;
- the low growth dynamics of household income continued, the annual growth of wages and salaries in the business sector amounted to ca. 2.0% on average p.a., which was accompanied by an increase in employee pensions and disability pensions of 6.3% p.a.; there was a gradual increase in the annual growth of employment in corporate sector to 1.8% in September; in September, the unemployment rate decreased to 11.5% from 11.7% in June;
- inflation measured with CPI increased to 2.5% y/y in September 2010 from 2.3% y/y in June, mainly due to a strong growth dynamics of the prices of food and non-alcohol beverages;
- the Monetary Policy Council (RPP) did not change the interest rates; the NBP reference rate amounted to 3.50% in the 3rd quarter.

At the same time, the following macroeconomic factors in Ukraine, where a subsidiary of PKO Bank Polski SA – KREDOBANK SA operates had an effect on the operations and results of the PKO Bank Polski SA Group in the 3rd quarter of 2010:

- the IMF's decision to begin the second Stand-by-Arrangement programme and to grant Ukraine the second loan of USD 15.1 billion for 2010-2011;
- the continued economic growth after the strong recession in 2009 due to the revival of the global economic growth and foreign demand. However, the growth rate remained very low due to a poor growth of private consumption and investments as a result of a very difficult internal situation in Ukraine's economy;
- no strong net outflow of foreign capital, which was observed in 2009;
- the stabilization of the exchange rate of the Ukrainian hryvna: during the quarter the official exchange rate of the hryvna as announced by the National Bank of Ukraine remained at 7.91 UAH/USD;
- the stabilization of the situation in the banking sector due to an increase in capital in the sector and the NBU's measures with regard to providing liquidity.
- at the same time, the situation in the sector is still described as very difficult due to availability of foreign financing still being limited and the continued deterioration of the loan portfolio;
- the continued decrease in Ukraine's credit risk due to the improvement in the situation on the global markets and the prospects for the financial situation of the country after the decision that the payment of tranches of the IMF's loan to Ukraine will be resumed.

Situation on the financial market

The levelling-off of the yield curve of Polish Treasury securities, which lasted from the beginning of the year, continued in the 3rd quarter, with profitability falling along the entire length of the curve. The average profitability of 10-year bonds decreased by 45 base points in the 3rd quarter, with the profitability of bonds with shorter maturities dropping by 7-34 base points. The fall in profitability at the longer end of the yield curve was brought about by the further inflow of foreign capital to the Polish debt market due to: the stabilization of the situation on the global financial markets as a result of the concern about the fiscal crisis in the euro zone ceasing to exist, increased expectations of low interest rates being maintained in the USA over a longer period of time, and investors seeking investments with a higher rate of return. The limitation of the supply of issues of Treasury securities also contributed to the fall in profitability of Treasury bonds, whereas higher market expectations of increases in NBP interest rates worked in the opposite direction (mainly affecting the short end of the yield curve).

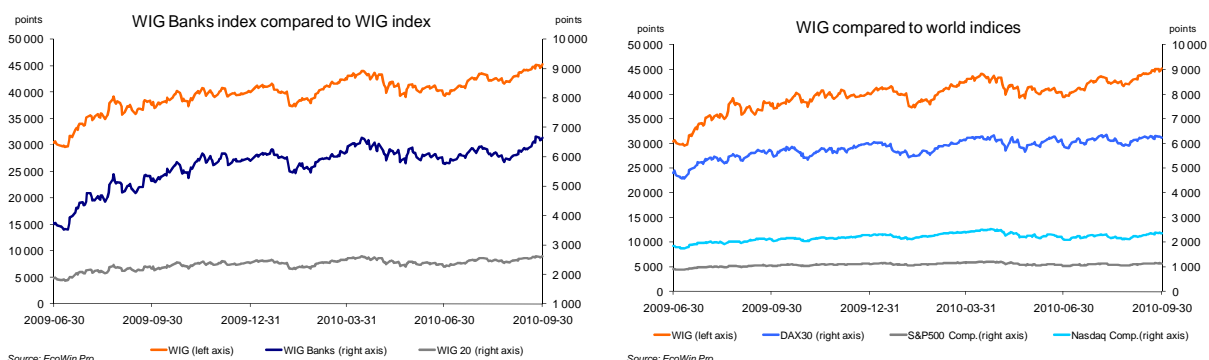


In the 3rd quarter, 1M WIBOR remained just above 3.60%. Shorter-term rates varied from the deposit rate to the NBP reference rate. The 3M to 12M rates were in the 3.80-4.25% bracket.

The 3rd quarter saw the return of the appreciation of the Polish zloty after its strong depreciation due to an increase in the global aversion to risk in the 2nd quarter caused by concern about the possibility of Greece becoming insolvent. As of the end of the 3rd quarter, the Polish zloty appreciated against the dollar by 16.1%, reaching 2.93 PLN/USD. The Polish zloty appreciated against the euro to 3.99 PLN/EUR, gaining 4.0% compared with the end of the 2nd quarter. The appreciation of the Polish zloty at that time was due to the limitation of the global risk premium and the return to stabilization on the international financial markets, which brought about a more intensive inflow of foreign capital to the Polish financial market. The intensification of depreciation pressure on the US dollar as a result of increased expectations of a further loosening of the monetary policy in the USA contributed to the stronger appreciation of PLN against USD.

Situation on the stock exchange

In the 3rd quarter of 2010, the situation on the Warsaw Stock Exchange was affected by the moods on foreign stock markets. There was an increase in stock exchange indices after the falls in the 2nd quarter of 2010. In total, in the 3rd quarter the main WIG index increased by 14.8%, and the index of companies with the highest capitalization, WIG20, increased by 15.2%. The increase in indices comprising small and medium-sized companies was smaller (the sWIG80 index increased by 10.2%, and the mWIG40 index increased by 11% respectively).



The favourable conditions on the stock market resulted in a significant increase in the market value of companies listed on the primary market. As at the end of the 3rd quarter of 2010, the capitalization of companies listed on the WSE was 9.5% higher as compared to the end of the 2nd quarter of 2010 and amounted to PLN 796 billion.

The situation on the WSE affected the banking market and the non-banking financial market. The following trends were noted:

- an increase in valuations of banks (WIG Banks increased by 14.9% q/q);
- an increase in the share of equity instruments and investment funds in the savings of individuals and a decrease in the share of bank deposits;
- an increase in the value of assets of investment funds and pension funds (by 7.9% and 8.4% q/q respectively).

Situation in the Polish banking sector

In the 3rd quarter of 2010, the situation in the banking sector improved but remained under the negative impact of the continued high credit risk. The situation on the deposit-and-loan market was affected by the revival on the housing loan market, the limitation of activities with regard to granting consumer loans and corporate loans, as well as a higher increase in deposits of individuals.

The banks' results were still under a strong pressure of the costs of realisation of the credit risk accumulated in the banks' loan portfolios as a result of their following a mild lending policy at the time of the boom in the economy. There was a further increase in non-performing loans, and the rate of growth of these loans was higher than as of the end of the 2nd quarter of 2010. As at the end of August 2010, non-performing loans of the non-financial sector increased by 38% y/y compared with 32% y/y as at the end of June 2009. This situation was due to a higher rate of growth of non-performing corporate loans which increased by ca. 23% y/y as at the end of August 2010 and an increase in non-performing household loans which went up by 54% y/y. Due to the increase in the entire loan portfolio being small, the share of non-performing loans in total loans increased to 8.6% from 8.5% as at the end of the 2nd quarter of 2010.

Changes in exchange rates, including the appreciation of the Polish currency in the 3rd quarter of 2010 which reduced the value of foreign currency loans and deposits expressed in Polish zloty, still contributed significantly to changes in the volume of loans and deposits as expressed in Polish zloty.

In the 3rd quarter of 2010, the value of the total loan portfolio increased by ca. PLN 8.4 billion, with a growth rate of 9.9% y/y compared with 18.9% y/y in the corresponding period of the previous year. However, taking into account changes in exchange rates the actual increase in loans was more than twice as high (PLN 19.6 billion). The growth of the portfolio related mainly to household loans the volume of which increased thanks to the continued revival on the housing loan market. The banks loosening their lending policies as a result of the growing competition on the housing loan market contributed to an improvement in the situation. The value of the housing loan portfolio increased by ca. PLN 1.8 billion, however, after the elimination of the effect of changes in exchange rates, the increase was nearly five times as high and amounted to ca. PLN 8.6 billion.

The banks continued to limit their consumer lending activities. In the 3rd quarter of 2010, the value of such loans increased by PLN 0.5 billion, and the growth rate dropped to 3.6% y/y compared with 18.8% y/y in the corresponding period of the previous year. The banks maintained stricter criteria and terms for granting such loans as a result of the deterioration of the quality of this loan portfolio.

In the 3rd quarter of 2010, the volume of corporate loans fell by ca. PLN 1.7 billion, but after taking into account changes in exchange rates they actually increased slightly by ca. PLN 1.5 billion. The drop in the growth dynamics of the loans amounted to 3.8% y/y compared with a 7% increase in the corresponding period of the previous year. According to an NBP survey, the banks continued to loosen their lending criteria gradually, but low demand for loans on the part of businesses was a barrier to growth.

In the 3rd quarter of the year, the deposit base grew faster than a year ago. Total deposits increased by ca. PLN 12.8 billion compared with PLN 4.4 billion in the corresponding period of the previous year, but their growth dynamics decreased to 10.3% y/y from 13% a year before. There was an increase in deposits of households which increased by ca. PLN 3.3 billion compared with PLN 1.1 billion in the 3rd quarter of the previous year. Corporate deposits decreased by ca. PLN 1 billion. An increase in deposits of government and local government bodies of ca. PLN 6.1 billion was a significant source of the increase in the deposit base of banks.

Regulatory factors

From among the new regulatory solutions which came into force in the 3rd quarter of 2010 the following regulations had the greatest impact on the financial position and the organizational situation of the PKO Bank Polski SA Group:

- Resolution No. 52/2010 of the Polish Financial Supervision Authority (KNF) dated 23 February 2010 on Recommendation T concerning best practices in managing the risk of retail loan exposures (Official Journal of the KNF No. 2, item 12), which is aimed at limiting the accumulation of credit risk in banks. Some of its provisions should be implemented by banks by 23 August 2010, and the remaining ones by 23 December 2010;
- Resolution No. 53/2010 of the Polish Financial Supervision Authority (KNF) dated 23 February 2010 on amending Recommendation I concerning managing currency risk in banks and the rules for banks conducting transactions subject to currency risk (Official Journal of the KNF No. 2, item 13), which, as of 1 July, puts banks under new obligations to their clients in order to mitigate the risk related to concluding loan transactions in foreign currencies and to improve currency risk management;
- Resolution No. 134/2010 of the Polish Financial Supervision Authority (KNF) dated 5 May 2010 on Recommendation A concerning managing the risk which accompanies the conclusion of transactions on the derivatives market by banks, which came into force on 1 August 2010, introducing changes to monitoring and controlling of the risk related to derivatives.

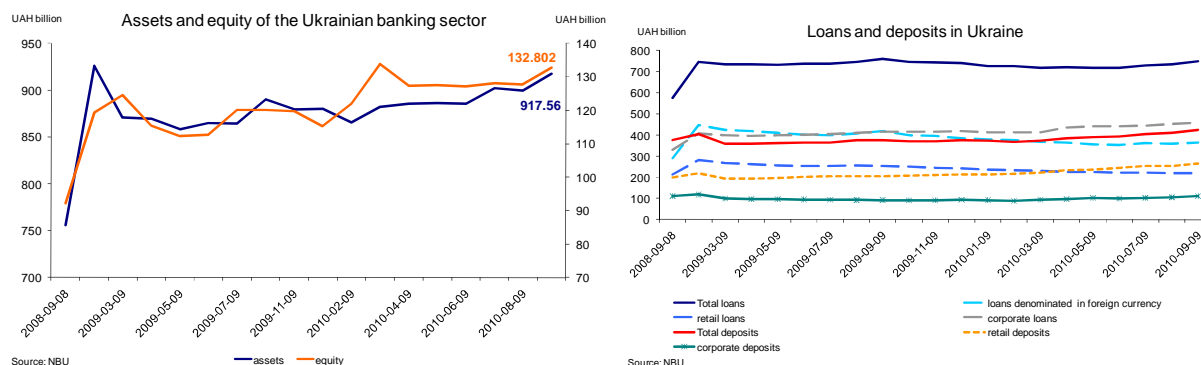
The situation of the Group was affected by new legal solutions implemented in Ukraine, including:

- the resolutions of the Management Board of the NBU which lowered the NBU interest rate twice during the 3rd quarter by a total of 1.75 pp. to 7.75%;
- Resolution No. 237 of the Management Board of the NBU dated 9 June which puts banks under an obligation to increase the regulatory capital to at least UAH 120 million as of 1 January 2012 and which provided that subordinated loans raised in foreign currencies would be included in capital at the exchange rate as of the report date (previously at the exchange rate as of the date of a loan being received).

The above-mentioned regulatory solutions will affect the operations of the PKO Bank Polski SA Group in the next periods.

Ukrainian market

In the 3rd quarter of 2010, despite a slight improvement, the situation in the banking sector in Ukraine remained difficult, which was a result of unstable economic situation following a deep recession in 2009.



According to the data of the National Bank of Ukraine, in the 3rd quarter of 2010, assets of the Ukrainian banking sector increased by UAH 32 billion (3.6% q/q) as compared to slight increases in the previous quarters (0.2% and 0.4% in the 1st and 2nd quarter respectively), which resulted from a slight improvement on the loans and deposits market.

The quarterly increase in equity amounted to 4.4% as the opposite to the 4.9% decrease in the previous quarter. There was a significant increase in equity in September, as a result of the banks' capital injection process performed. The above-mentioned process was caused mainly by regulatory solutions enabling an increase in the regulatory capital by 100% of subordinated loans obtained.

In the 3rd quarter of 2010, the amount of loans increased by 4.4%, compared to a fall in the previous three quarters. This resulted mainly from an increase in loans denominated in domestic currency. The fall tendency, which began in March 2009 with reference to household loans, as well as a growth tendency with reference to corporate loans continued. The dynamics of decreases in the volume of household loans granted amounted to -1.1% q/q and was smaller than during the previous quarters. In the 3rd quarter of 2010, the growth dynamics of corporate loans decreased slightly as compared to the previous quarter (3.7% q/q as compared to 6.9% in the previous quarter).

The share of loans denominated in foreign currencies in total loans decreased to 48.5% as compared to 49.4% in the previous year.

In the 3rd quarter of 2010, the situation on the deposit market improved as originated in the previous quarter after the opposite trend in the previous months, which is perceived as an increase in confidence in the banking sector. The deposits of households increased by 28.8% y/y, whereas deposits of the corporate sector increased by 19.7% y/ (8.3% and 10.6% on the quarterly basis respectively).

A further deterioration in the loan portfolio constituted a challenge for the Ukrainian banking sector. There was a further increase in non-performing loans ratio as well as in the amount of impairment allowances. According to the data of the National Bank of Ukraine the amount of non-performing loans increased by 23.7% since the beginning of the year; however, the growth dynamics was lower than in the previous quarter.

As a result of losses incurred by the banks, ROE and ROA ratios of the banking sector remained negative and amounted to -10.6% and -1.51% as compared to -32.5% and -4.4% as at the end of 2009.

3. Activities of the PKO Bank Polski SA Group and PKO Bank Polski SA

3.1. Commentary to the financial results

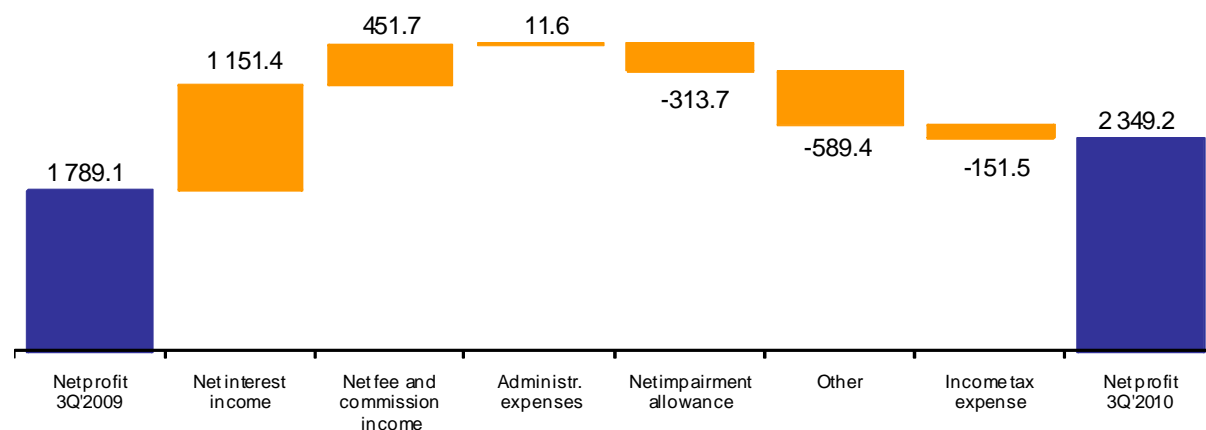
3.1.1. The PKO Bank Polski SA Group

Financial results and profitability ratios

PKO Bank Polski SA Group's net profit for the three quarters of 2010 amounted to PLN 2 349.2 million and was by PLN 560.1 million higher than in the corresponding period of the previous year (+31.3% y/y).

PKO Bank Polski SA Group's net profit in the 3rd quarter of 2010 amounted to PLN 846.9 million and was PLN 208.3 million higher than in the corresponding period of 2009 (+32.6% q/q).

Chart 1. Movements in income statement items of the PKO Bank Polski SA Group (in PLN million)



The main consolidated income statement items are as follows:

Table 1. Movements in income statement items of the PKO Bank Polski SA Group (in PLN million)

Income statement items	3rd quarter period from 01.07.2010 to 30.09.2010	Change (3rd Q2010/ 3rd Q2009)	3 quarters cumulatively period from 01.01.2010 to 30.09.2010	Change (3Q2010 / 3Q2009)	Comment
Net interest income	1 719.2	29.0%	4 785.3	31.7%	Increase as a result of increase in income from loans (due to lower interest rates offset by the increase of loan portfolio) and increase in gains realized from hedging derivatives (hedge accounting introduced in the 2nd quarter of 2009) as well as an increase in income from securities. The interest expense dropped by 2.4% y/y along with the strong growth of amounts due to customers (+11.7% y/y).
Net fee and commission income	797.6	13.7%	2 324.8	24.1%	Increase mainly as a result of higher commission income from loans (and their insurance). In comparison to the corresponding period of the previous year there was an increase in income from maintaining bank accounts and payment cards.
Other income	173.5	0.8%	435.2	-57.9%	Decrease in income caused mainly by the decrease in foreign exchange gains by PLN 468.4 million. The decrease in foreign exchange gains is related to the introduction of hedge accounting in the 2nd quarter of 2009, which resulted in transfer of the part of foreign exchange gains (mainly from CIRS transactions) into other income statement items.
Administrative expenses	-1 057.5	2.8%	-3 092.5	-0.4%	Decrease in administrative expenses and C/I ratio at 41.0% (-6.5 pp. y/y) as a result of decrease in overheads by 9.5% y/y. Employment within the Group has been reduced by 1 630 full time equivalents y/y, to 30 199 full time equivalents as at 30 September 2010.
Net impairment allowance	-558.7	53.4%	-1 441.9	27.8%	Increase mainly as a result of increase in net impairment allowance on consumer and mortgage loans and an impairment allowance on investment in an associate, Bank Pocztowy.

The main financial ratios of the PKO Bank Polski SA Group, including return on assets and return on equity ratios, are presented in the table below.

Table 2. The main financial ratios of the PKO Bank Polski SA Group

	30.09.2010	30.09.2009*	Change
ROA net (net profit/average total assets)	1.8%	1.6%	0.2 pp.
ROE net (net profit/average total equity)	14.1%	15.1%	-1 pp.
C/I (cost to income ratio)	41.0%	47.5%	-6.5 pp.
Interest margin (net interest income/average interest earning assets)	4.3%	4.3%	0 pp.
The share of loans valued using the individual and portfolio method**	8.7%	8.0%	0.7 pp.
The share of impaired loans***	8.0%	7.3%	0.7 pp.

* The change compared to previously published data results from the changed manner of calculating ROE, ROA and interest margin. To calculate the denominator of the said ratios, the average of quarterly balances of respective items of assets and equity and liabilities was used. Data brought to comparability.

** Calculated by way of dividing the gross carrying amount of loans and advances to customers, valued using the individual method and the portfolio method, by the gross carrying amount of loans and advances to customers.

*** Calculated by dividing the gross carrying amount of impaired loans and advances to customers by the gross carrying amount of loans and advances to customers.

Statement of financial position and off-balance sheet items

Table 3. Movements in the statement of financial position items of the PKO Bank Polski SA Group (in PLN thousand)

	30.09.2010	31.12.2009	Change	Comment
Cash and balances with the Central Bank	3 943 312	7 094 350	-44.4%	Increase in assets by PLN 10.4 billion (+6.6% 3Q2010/2009), comprising mainly of the increase in loans and advances to customers by PLN 10.1 billion (+8.7% 3Q2010/2009) – mainly mortgage loans and an increase in securities of PLN 3.6 billion (+16.0% 3Q2010/2009) offset by a decrease in cash and balances with the Central Bank of PLN 3.2 billion (-44.4% 3Q2010/2009).
Amounts due from banks	1 510 859	2 023 055	-25.3%	
Loans and advances to customers	126 715 100	116 572 585	8.7%	
Securities	26 134 391	22 527 856	16.0%	
Other assets	8 555 497	8 260 839	3.6%	
Total assets	166 859 159	156 478 685	6.6%	
Amount due to other banks	5 736 283	5 152 629	11.3%	The increase in amounts due to customers by 5.2% (3Q2010/2009) - mainly current liabilities due to retail customers and liabilities due to corporate entities along with an increase in other liabilities by PLN 0.9 billion (+23.9% 3Q2010/2009) and increase in equity by 11.7%.
Amounts due to customers	131 631 370	125 072 934	5.2%	
Debt securities in issue and subordinated liabilities	1 810 908	1 901 538	-4.8%	
Other liabilities	4 849 652	3 915 714	23.9%	
Total liabilities	144 028 213	136 042 815	5.9%	
Total equity	22 830 946	20 435 870	11.7%	
Total liabilities and equity	166 859 159	156 478 685	6.6%	
Loans/Amounts due to customers	96.3%	93.2%	3.1 pp.	Increase in loans by 8.7% (3Q2010/2009) and increase in securities by 16.0% (3Q2010/2009) and increase in amounts due to customers by 5.2% (3Q2010/2009).
Loans/Deposits*	92.3%	89.3%	3 pp.	
Interest bearing assets/Assets	92.5%	90.2%	2.3 pp.	
Interest paying liabilities/Liabilities	83.4%	84.4%	-1 pp.	

*Deposits include amounts due to customers and long-term financing in form of debt securities in issue, subordinated liabilities and loans received from financial institutions.

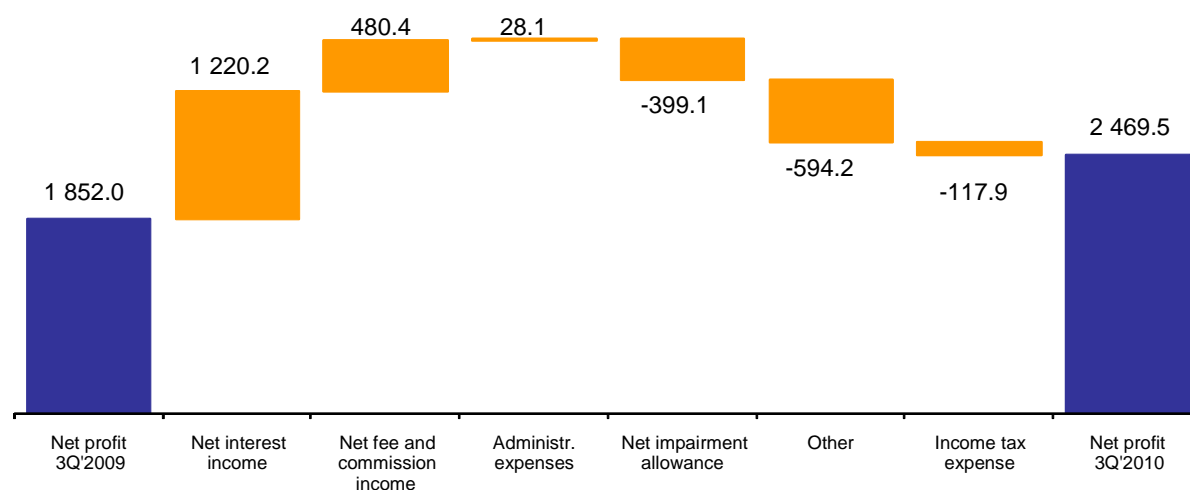
3.1.2. PKO Bank Polski SA

Financial result and profitability ratios

The net profit recorded by PKO Bank Polski SA for the three quarters of 2010 amounted to PLN 2 469.5 million and was PLN 617.5 million higher than in the corresponding period of 2009 (+33.3 y/y).

The net profit recorded by the Bank in the 3rd quarter of 2010 amounted to PLN 856.9 million and was PLN 293.8 million higher than in the corresponding period of 2009 (+52.2% q/q).

Chart 2. Movements in income statement items of PKO Bank Polski SA (in PLN million)



The main income statement items of the Bank are as follows:

Table 4. Movements in income statement items of PKO Bank Polski SA (in PLN million)

Income statement items	3rd quarter period from 01.07.2010 to 30.09.2010	Change (3rd Q2010/ 3rd Q2009)	3 quarters cumulatively period from 01.01.2010 to 30.09.2010	Change (3Q2010 / 3Q2009)	Comment
Net interest income	1 687.3	32.1%	4 694.7	35.1%	Increase as a result of increase in income from loans (due to lower interest rates offset by the increase of loan portfolio) and increase in gains realized from hedging derivatives (hedge accounting introduced in the 2nd quarter of 2009) as well as an increase in income from securities. The interest expense dropped by 1.7% y/y along with the strong growth of amounts due to customers (+11.8% y/y).
Net fee and commission income	752.1	18.4%	2 177.9	28.3%	Increase mainly as a result of higher commission income from loans (and their insurance) and from activities connected with service of investment funds. In comparison to the corresponding period of the previous year there was an increase in income from maintaining bank accounts and payment cards.
Other income	111.8	-15.2%	403.4	-59.6%	Decrease in income caused mainly by the decrease in foreign exchange gains by PLN 464.5 million. The decrease in foreign exchange gains is related to the introduction of hedge accounting in the 2nd quarter of 2009, which resulted in transfer of the part of foreign exchange gains (mainly from CIRS transactions) into other income statement items.
Administrative expenses	-964.1	1.5%	-2 840.7	-1.0%	Decrease in administrative expenses and C/I ratio at 39.0% (-7.5 pp. y/y) as a result of decrease in overheads by 11.1% y/y (mainly expenses due to marketing and promotion, telecommunication and IT as well as postal and courier services). Employment within the Bank has been reduced by 1 398 full time equivalents y/y, to 27 119 full time equivalents as at 30 September 2010.
Net impairment allowance	-517.7	37.6%	-1 359.6	41.6%	Deterioration mainly as a result of increase in net impairment allowance on consumer and mortgage loans, an impairment allowance on a guarantee towards receivables of KREDOBANK SA and revaluation of investment in an associate, Bank Pocztowy.

Main financial ratios of PKO Bank Polski SA, including return on assets and return on equity ratios, are presented in the table below.

Table 5. The main financial ratios of PKO Bank Polski SA

	30.09.2010	30.09.2009*	Change
ROA net (net profit/average total assets)	2.0%	1.5%	0.5 pp.
ROE net (net profit/average total equity)	15.2%	14.8%	0.4 pp.
C/I (cost to income ratio)	39.0%	46.5%	-7.5 pp.
Interest margin (net interest income/average interest earning assets)	4.2%	4.2%	0 pp.
The share of loans valued using the individual and portfolio method**	7.4%	6.7%	0.7 pp.
The share of impaired loans***	7.0%	6.1%	0.9 pp.

* The change compared to previously published data results from the changed manner of calculating ROE, ROA and interest margin. To calculate the denominator of the said ratios, the average of quarterly balances of respective items of assets and equity and liabilities was used. Data brought to comparability.

** Calculated by way of dividing the gross carrying amount of loans and advances to customers valued using the individual method and the portfolio method, by the gross carrying amount of loans and advances to customers.

*** Calculated by dividing the gross carrying amount of impaired loans and advances to customers by the gross carrying amount of loans and advances to customers.

3.2. Business development¹

3.2.1. Market shares of PKO Bank Polski SA

In the 3rd quarter of 2010, the Bank continued to strengthen the leading position of banking sector in terms of the share in loans market. In comparison to the 3rd quarter 2009, in terms of loans, it is worth to notice an increase in shares in retail loans, including consumer loans and other loans (+1.3 pp.) as well as mortgage loans in PLN (+1.1 pp.).

Compared to the 3rd quarter of 2009, the shares of deposits increased by 0.4 pp., whereas compared to the end of the year the shares remained on a stable level. An increase in the shares of deposits compared to the 3rd quarter of 2009 resulted from an increase in amounts due to institutional entities: non-monetary financial institutions and non-financial business entities.

Table 6. Market shares of PKO Bank Polski SA (%)*

	30.09.2010	31.12.2009	30.09.2009	Change 30.09.2010/ 31.12.2009	Change 30.09.2010/ 30.09.2009
Loans and advances to:	17.2	16.6	16.5	0.6 pp.	0.7 pp.
retail clients	20.0	19.5	19.2	0.5 pp.	0.8 pp.
mortgage loans	21.1	21.0	20.6	0.1 pp.	0.5 pp.
PLN	33.6	33.3	32.5	0.3 pp.	1.1 pp.
FX	13.7	14.3	14.6	-0.6 pp.	-0.9 pp.
consumer loans and other	18.2	17.1	16.9	1.1 pp.	1.3 pp.
corporate clients	14.1	13.8	13.7	0.3 pp.	0.4 pp.
Amounts due to:	18.5	18.5	18.1	0 pp.	0.4 pp.
retail clients	23.2	23.4	23.4	-0.2 pp.	-0.2 pp.
corporate clients	12.9	12.9	11.9	0 pp.	1 pp.

* Data according to NBP reporting system - WEBIS.

3.2.2. Retail segment

3.2.2.1. PKO Bank Polski SA's activities in the retail segment

The activities of PKO Bank Polski SA in the retail segment were concentrated on increasing attractiveness and competitiveness of the offered products and services with simultaneous improvement of sales efficiency.

As at 30 September 2010, the total value of deposits of the retail segment of PKO Bank Polski SA amounted to PLN 100.8 billion. Since the beginning of the year, the volume has increased by PLN 5.0 billion (i.e. 5.2%) as a result of an increase in retail and private banking deposit volumes (+ 5.8% since the beginning of the year), mainly due to the dynamic increase in volume of savings account and new term deposit products, including structured deposits.

¹ In this document, any differences in totals, percentages and ratios of changes are due to rounding of amounts to full PLN million and rounding of percentages to one decimal place.

Table 7. Deposits of PKO Bank Polski SA (in PLN million)

	30.09.2010	31.12.2009	30.09.2009	Change since:	
				31.12.2009	30.09.2009
Client deposits, of which:					
- retail and private banking	88 079	83 214	80 740	5.8%	9.1%
- small and medium entities	7 780	8 331	7 747	-6.6%	0.4%
- housing market	4 899	4 195	4 008	16.8%	22.2%
Total deposits	100 758	95 741	92 495	5.2%	8.9%

Source: Bank's Management information

As at the end of the 3rd quarter 2010, the gross value of loans and advances to the retail segment of PKO Bank Polski SA was PLN 99.3 billion, which constituted an increase of PLN 11.1 billion (i.e. by 12.6%) since the beginning of the year. This increase was caused mainly by the growth of the mortgage portfolio (+15.4% since the beginning of the year).

Table 8. Gross loans and advances* of PKO Bank Polski SA (in PLN million)

	30.09.2010	31.12.2009	30.09.2009	Change since:	
				31.12.2009	30.09.2009
Gross loans and advances, of which:					
- retail and private banking	23 526	21 566	20 985	9.1%	12.1%
- small and medium entities	14 011	11 993	11 468	16.8%	22.2%
- mortgage banking	54 875	47 541	45 536	15.4%	20.5%
- housing market (including refinanced by the state budget)	6 902	7 116	6 986	-3.0%	-1.2%
Total loans	99 315	88 216	84 975	12.6%	16.9%

Source: Bank's Management information

* loans without interest due and interest not due

As at 30 September 2010, the total number of current accounts amounted to 6.2 million units and the number of credit cards remained unchanged and amounted to 1.1 million units.

Table 9. Accounts and banking cards of PKO Bank Polski SA (in thousands of units)

	30.09.2010	31.12.2009	30.09.2009	Change since:	
				31.12.2009	30.09.2009
Total number of accounts, of which:	6 155	6 276	6 296	(120)	(141)
- Inteligo current accounts	646	702	701	(56)	(55)
Total number of banking cards, of which:	7 192	7 456	7 462	(265)	(271)
- credit cards	1 062	1 106	1 064	(44)	(2)

As at the end of the 3rd quarter of 2010, the network of the Bank's own ATMs amounted to 2 388 ATMs (no change as compared to the end of 2009).

In addition, based on the agreement concluded on 25 August 2010 by and between PKO Bank Polski SA and Bank Zachodni WBK, starting from the autumn, the Bank's clients may withdraw cash from BZ WBK's cash dispensers free of charge. Thus, they have nearly 3.5 thousand machines at their disposal. Since 1 September, the holders of Inteligo cards have also had this possibility, and since 15 November the holders of other debit cards of PKO Bank Polski SA will have such possibility.

In the retail segment, the sales network consisted of 1 143 own branches. During the three quarters, steps were taken to lead to further efficiency of the Bank's sales network. As a result, a number of branches decreased by 17 branches.

As at the end of September 2010, the Bank cooperated with 1 983 agencies – down 192 compared with the end of 2009. This fall was due to new rules of cooperation with agencies being introduced in May 2010, which require agents to meet increased client service standards, including standards relating to fixtures and fittings, location or the number of service desks in agencies.

Table 10. Branches and ATMs of PKO Bank Polski SA

	30.09.2010	31.12.2009	30.09.2009	Change since:	
				31.12.2009	30.09.2009
Total number of branches	1 211	1 228	1 233	(17)	(22)
- in the retail segment	1 143	1 160	1 165	(17)	(22)
Number of ATMs	2 388	2 388	2 368	-	20
Number of agencies	1 983	2 175	2 202	(192)	(219)

Table 11. Activities and achievements of PKO Bank Polski SA in the retail segment in the 3rd quarter of 2010

Product	Product characteristics
Revolving loan	On 8 September 2010, a new functionality of the revolving loan within the Inteligo account was made available. Clients who apply for a loan of up to PLN 10 thousand within an individual Inteligo account conclude an agreement in an electronic form.
Mortgage loan	In the 3rd quarter of 2010, PKO Bank Polski SA made high sales of mortgage loans – PLN 3.2 billion. The sales growth compared with the corresponding period of the previous year amounted to 102%. Changes were made to product procedures to adapt the Bank to the requirements of Recommendation T, which consisted of setting new maximum LTV levels for foreign currency loans. Clients were offered a possibility of verifying the legal state of real estate on-line in the Central Land and Mortgage Register Database (CBD KW). For clients whose real estate has a land and mortgage register in the CBD KW this means that they will not have to obtain an excerpt from the land and mortgage register or present such document to the Bank. The change implemented enables clients to avoid several visits to the land and mortgage register court which have been obligatory so far.
Cards	In August, the Inteligo credit card was added to the Bank's offer. In the first stage of implementation, the card was made available only to selected clients. The Inteligo credit card will be made available to all clients on 2 November 2010. The grace period for the Inteligo credit card is 55 days. The card can be used for making on-line and proximity payments. If cash transactions are made (a transfer from the card account, withdrawing cash from a POS or a cash dispenser) during the grace period no interest is charged on such transactions. The maximum lending period is 48 months with the possibility of being extended for another 48 months. <i>New Diners Club Standard</i> and <i>Executive</i> charge cards were introduced for SME clients with a deferred payment period of up to 59 days.
SME loans	On 1 September, a new offer of lending products dedicated to clients in the SME segment came into force – "SME Investment Loan", "SME Working Capital Loan" using the scoring method. The implementation of the new product offer was accompanied by the introduction of a methodology for assessing the Bank's credit risk related to financing of SME clients.
"NASZ REMONT z premią remontową z BGK" loan	In the 3rd quarter of 2010, PKO Bank Polski SA maintained a high rate of growth of sales of loans for financing of repair projects (it amounted to 200.7% compared with the 3rd quarter of 2009) and consolidated its dominant position in using the resources of the BGK Fund for Thermal Modernization and Building Repairs. As at the end of September 2010, the Bank's share in the market for loans with a thermal modernization bonus and a repair bonus amounted to 76.6%.
Current account	In September 2010, EMV debit cards were introduced for holders of current accounts, with an additional functionality which consists of the possibility of making proximity transactions.
iPKO, Inteligo	The following items were added to the Inteligo account offer: - in July – a new term deposit with interest paid daily (Dobolokata); - in August – the Inteligo credit card; - in September – a new functionality of the Inteligo revolving loan. A <i>CardMoney</i> functionality was made available to clients within the Inteligo account, which enables funds to be transferred from an Inteligo account to the recipient on the basis of his Inteligo Visa Electron card number. The transfer is made free of charge as soon as it is approved. In September, the offer of PKO TFI Investment Funds was expanded within iPKO and Inteligo accounts.
SME Business Deposit	A deposit added to the Bank's offer in December 2009, with an attractive interest rate of 4.04%. The deposit was in force up until the end of March 2010. In August, the 2nd edition of the sales of the SME Business Deposit with an interest rate of 3.7% after the expiration of the contractual period was resumed, also via iPKO.
"Dobolokata"	At the end of July 2010, a new term deposit with interest paid daily (Dobolokata) was added to the Inteligo account offer. The minimum deposit amount is PLN 1 thousand, and the maximum one is PLN 20 thousand. The contractual deposit term is 1 month, 3 or 6 months respectively. During the term of the Dobolokata contract clients may not pay in or withdraw any funds. There is a possibility of choosing the option of the deposit being renewed automatically. The fixed interest rate in the contractual period is 3.6% - 1M, 3.85% - 3M and 4.1% - 6M respectively, which constitutes 4.44%, 4.75% and 5.43% respectively in the case of deposits subject to income tax.
Akcji Plus/Stabilnego Wzrostu Plus Investment Deposit	A deposit with an investment fund is a product that is characterized by: 1) linking the deposit to units in an investment fund – the Akcji PLUS subfund or the Stabilnego Wzrostu PLUS subfund; 2) the deposit part bearing an interest rate of as much as 5.05%; 3) a low minimum investment amount – PLN 2 thousand; 4) no charges for repurchasing units after a period of 12 months.
Savings Policy with PZU Życie	A savings policy added to the Bank's offer from 7 July to 31 August 2010 is group endowment insurance with PZU Życie SA with a profit of 3.73% p.a. The savings policy guarantees endowment insurance which enables funds representing 101% of the value of principal to be paid to the beneficiary at the time of the holder's death, during the period of liability of the Insurer.

Product	Product characteristics
EUR/PLN Structured Deposit	<p>A deposit added to the Bank's offer from 30 August to 17 September 2010. A deposit opened for a period of 6 months is subject to subscription during which the funds in the structured deposit bear interest. The structured deposit is not renewable, and the cash accumulated in the structured deposit including accrued interest will be transferred to the account in conjunction with which it functions. The minimum deposit amount is PLN 10 thousand, and there is no upper limit. After the end of the contractual period clients receive the entire principal invested and, should the chosen investment scenario be realized, an additional profit.</p> <p>There are as many as three variants of the product to choose from: an increase, a fall or stabilization of the value of the Polish zloty. The client chooses the variant in which he believes the most and which corresponds to his predictions of changes in the EUR/PLN exchange rate for 6 months.</p>
Structured Policy "Texas Gold"	<p>A policy added to the Bank's offer from 13 September to 8 October 2010. The structured policy TEXAS GOLD is offered in the form of endowment insurance. It was prepared by PKO Bank Polski SA in co-operation with Aviva Towarzystwo Ubezpieczeń na Życie SA. The policy period is 3 years. The minimum payment is PLN 5 thousand. The amount of the endowment benefit is linked to the price of WTI oil. The benefits paid are exempt from the 19% tax on capital gains. After the end of the investment period the client's gain equals the amount by which the price of WTI oil goes up or down compared with its initial value. This is possible in the situation in which the price of WTI oil, over the period of 3 years, is never equal to or higher than the upper limit of 150% of its initial value and is never equal to or lower than the lower limit of 50% of its initial value.</p> <p>In the situation in which the price of WTI oil, at any given moment of the investment, is equal to or higher than the upper limit of 150%, or equal to or lower than the lower limit of 50% of its initial value, the client will gain a minimum of 5% over a period of 3 years.</p>

3.2.2.2. Activities of the PKO Bank Polski SA Group entities in the retail segment

Table 12. Activities and achievements of the PKO Bank Polski SA Group in the retail segment

SUBSIDIARY	SIGNIFICANT EVENTS OF THE 3RD QUARTER OF 2010
KREDOBANK SA	<ol style="list-style-type: none"> In the 3rd quarter of 2010, total assets of KREDOBANK SA decreased by PLN 369 million, i.e. 16.5% (total assets denominated in UAH decreased by 2.8%) and amounted to PLN 1 866 million as at 30 September 2010 (UAH 5 057 million). The Company's gross loan portfolio decreased by PLN 299 million i.e. 15.4% in the 3rd quarter of 2010 (the gross loan portfolio as denominated in UAH decreased by 1.5%) and amounted to PLN 1 644 million (UAH 4 456 million) as at the end of September 2010. In the 3rd quarter of 2010, clients' term deposits decreased by PLN 157 million, i.e. 14.3% (the value of deposits as denominated in UAH decreased by 0.3%). As at 30 September 2010, the term deposits amounted to PLN 937 million (UAH 2 541 million). On 22 July 2010, the XXth issue of shares of KREDOBANK SA has been registered. PKO Bank Polski SA has acquired shares in the new issue for a total value of UAH 367.5 million. After the said issue was registered, the PKO Bank Polski SA's share in the share capital of KREDOBANK SA and the voting rights at the Company's General Shareholders' Meeting increased from 99.4948% to 99.5655%. As at 30 September 2010, the network of KREDOBANK SA branches consisted of 10 branches and 135 subordinated branches in 22 out of 24 Ukrainian districts and in the Autonomous Republic of the Crimea. During the 3rd quarter of 2010 6 branches have been converted into subordinated branches and 9 branches were closed. <p><i>The financial information of Kredobank SA was recalculated using the average NBP rates prevailing at the last day of each month – as at 30 September 2010 UAH 1=PLN 0.3689 and UAH 1=PLN 0.4293 as at the end of June.</i></p>
PKO Towarzystwo Funduszy Inwestycyjnych SA	<ol style="list-style-type: none"> The value of the funds' assets managed by PKO TFI SA amounted to PLN 9.6 billion as at 30 September 2010, which is an increase of 9.1%* in comparison to the end of the 2nd quarter of 2009. The increase in value of the funds' assets is a result of the favourable situation on the stock exchange and positive net sales result. In terms of the value of net assets, PKO TFI SA has the fifth highest market share (8.7%) in the investment funds market. <p>* Source: Company's financial data</p>
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	<ol style="list-style-type: none"> As at the end of the 3rd quarter of 2010, the net assets of PKO BP BANKOWY OFE managed by PKO BP BANKOWY PTE SA amounted to PLN 6.0 billion, which is an increase of PLN 586 million in comparison to the end of June 2010. An increase in value of PKO BP Bankowy OFE's net assets results from positive trends at the Warsaw Stock Exchange and positive balance of payments and disbursements. According to PFSA's ranking, PKO BP BANKOWY OFE has achieved 4.249% rate of return for the period from 28 September 2007 to 30 September 2010 (5th position on the market), with weighted average rate of return of 3.360%.* As at the end of September 2010, the number of accounts maintained for participants of PKO BP OFE Bankowy amounted to 499 962. As at the end of the 3rd quarter of 2010, PKO BP BANKOWY OFE possessed the 10th largest net assets amongst pension funds and the 10th largest number of active member accounts, the same as at the end of the first half of 2010**. <p>* Source: www.knf.gov.pl ** Source: Company's financial data</p>

SUBSIDIARY	SIGNIFICANT EVENTS OF THE 3RD QUARTER OF 2010
Inteligo Financial Services SA	<ol style="list-style-type: none"> As at the end of the 3rd quarter of 2010, the Company provided electronic banking services to more than 3.6 million of PKO Bank Polski SA's customers using iPKO services, i.e. 110 thousand customers more than as at the end of the first half of 2010. The Company provided services to over 622 thousand Inteligo account clients (as at the end of the first half of 2010 the number of clients amounted to 618 thousand).
Centrum Elektronicznych Usług Płatniczych eService SA	<ol style="list-style-type: none"> Transactions with a total value of PLN 5.4 billion were performed by means of eService SA terminals during the 3rd quarter of 2010 (PLN 5.2 billion in the corresponding period of 2009). In terms of the value of card transactions, the Company's estimated market share as at the end of September 2010 amounted to approximately 22%. The number of terminals as at the end of the 3rd quarter of 2010 amounted to 53 259 units, which is a decrease of 1.87% compared to the end of the first half of 2010. In terms of the number of installed terminals, the Company's estimated market share amounted to 22% as at the end of the 3rd quarter of 2010. In the 3rd quarter of 2010, the Company launched 14 cash dispensers within its own network.
PKO BP Inwestycje Sp. z o.o.	<p>In the 3rd quarter of 2010, PKO BP Inwestycje Sp. z o.o. was engaged in the following investments via project companies:</p> <ul style="list-style-type: none"> - the "Nowy Wilanów" project in Warsaw via PKO BP Inwestycje - Nowy Wilanów Sp. z o.o., - the "Neptun Park" project in Gdańsk Jelitkowo via PKO BP Inwestycje – Neptun Park Sp. z o.o., - the "Kuźmińska" project in Kiev in Ukraine via UKRPOLINWESTYCJE Sp. z o.o., - the "Osiedle Sarnia Dolina" project in Janków near Gdańsk via PKO BP Inwestycje – Sarnia Dolina Sp. z o.o., - the "Osiedle Rezydencja Flotylla" project in Międzyzdroje via PKO BP Inwestycje - Rezydencja Flotylla Sp. z o.o.
Fort Mokotów Inwestycje Sp. z o.o.	<p>In the 3rd quarter of 2010, the Company was working on the organization of a development project on the plot of land located at 107 Raclawicka Street in Warsaw.</p>

3.2.2.3. Activities taken by PKO Bank Polski SA towards KREDOBANK SA

Enhancing the safety of KREDOBANK SA operations

1. Increase in share capital of KREDOBANK SA

On 22 July 2010, the XXth issue of shares of KREDOBANK SA has been registered. PKO Bank Polski SA participated in the share capital increase within the XXth issue of shares and acquired shares with a nominal value of UAH 367 497 387.35, representing 99.83% of the new share issue. After the said issue was registered, PKO Bank Polski SA's share in the share capital of KREDOBANK SA and the voting rights at the Company General Shareholders' Meeting increased from 99.4948% to 99.5655%

2. Guarantee

PKO Bank Polski SA set a guarantee limit for granting KREDOBANK SA a guarantee of payment of dues in respect of selected loan agreements amounting to a USD equivalent of UAH 500 million. The limit is exclusive of the amount of the guarantee granted to KREDOBANK SA on 30 June 2010. The relevant decision of the Supervisory Board of PKO Bank Polski SA in this matter was made on 6 October 2010.

On 11 October 2010, PKO Bank Polski SA granted, as part of the limit granted, a guarantee of repayment of liabilities of KREDOBANK SA's borrowers in respect of selected loan agreements. The nominal value of the guarantee is USD 36 838 948.41, and the guarantee expires on 10 January 2012.

Ongoing cooperation of PKO Bank Polski SA with the representatives of the National Bank of Ukraine

The Management Board of PKO Bank Polski SA continues its cooperation with the National Bank of Ukraine and the Ukrainian government. In the 3rd quarter of 2010, meetings with representatives of the Ukraine took place. These contacts, in addition to discussing the current financial and economic situation of KREDOBANK SA, were aimed at improving the image of KREDOBANK SA as a subsidiary of a stable and reliable shareholder, PKO Bank Polski SA.

Restructuring activities at KREDOBANK SA

1. The loan portfolio of KREDOBANK SA

Actions aimed at the effective restructuring of the loan portfolio of KREDOBANK SA and the creating of a new "healthy" loan portfolio were continued. Therefore, KREDOBANK SA Restructuring Committee in KREDOBANK SA was appointed, comprising three Polish Board Members of KREDOBANK SA, and a new credit policy has been introduced, determining the terms of KREDOBANK SA resuming lending.

Due to KREDOBANK SA being granted by PKO Bank Polski SA a guarantee of repayment of liabilities of KREDOBANK SA's borrowers in respect of selected loan agreements, KREDOBANK SA began introducing effective debt collection measures in relation to non-performing loans. To this end:

- on 11 August 2010, the Agreement for co-operation in collecting dues subject to a bank guarantee was signed by and between PKO Bank Polski SA and KREDOBANK SA, which enables an optimum strategy for handling the above-mentioned dues to be devised and pursued effectively;
- a task force was appointed in PKO Bank Polski SA for co-operating in collecting dues subject to the above-mentioned guarantee.

2. Cost and organizational restructuring and network optimization

In the 3rd quarter of 2010, PKO Bank Polski SA continued the restructuring measures undertaken in KREDOBANK SA in 2009 which consisted of optimizing the network of branches by closing down unprofitable branches and restructuring the costs and the organizational structure in order to tailor the employment and cost levels of KREDOBANK SA to the scale of the Bank's operations.

Continuing an intensified supervision over the investment

In the 3rd quarter of 2010, as part of increased supervision over the investment project, a separate organizational unit of the Head Office of PKO Bank Polski SA was established in PKO Bank Polski SA, placed in the Area of Risk and Debt Collection of PKO Bank Polski SA. This unit is supervised directly by the Vice President of the Bank's Management Board who is also the President of the Supervisory Board of KREDOBANK SA.

PKO Bank Polski SA, as part of the intensified supervision over its investment:

- conducted detailed monitoring of the financial and economic situation of KREDOBANK SA,
- continued cooperation in the area of implementing procedures at KREDOBANK SA that are similar to those applicable at PKO Bank Polski SA, including the development of amendments to already binding regulations,
- organized experience-sharing trips by its employees to KREDOBANK SA and traineeships for KREDOBANK SA's employees at PKO Bank Polski SA.

3.2.3. Corporate segment

3.2.3.1. Activities of PKO Bank Polski SA in the corporate segment

In the course of the 3rd quarter of 2010, the corporate segment consistently developed its lending policy that was aimed at creating value for the Bank by maximizing the return on capital employed and controlling credit risk. The stagnation on the business loan market brought about by, amongst others, a fall in investment projects, did not prevent the Bank from developing its lending activities and achieving volumes of corporate client loans with a value of PLN 29.4 billion as at the end of September 2010. This amount is similar to the record (in terms of volume) 2009 portfolio, and it is 6.6% higher than the one recorded in the corresponding period of the previous year. As regards the funds obtained from corporate clients in the third quarter of this year, the situation looks even better. The dynamic development of the deposit base (+23.5% compared with the end of September in the previous year) was the result of the intensification of the sales processes, which enabled the Bank to expand its co-operation with its existing clients and to attract new clients. The volume of corporate client deposits amounted to PLN 28.8 billion as at the end of September 2010.

Table 13. Gross loans and advances* and deposits of PKO Bank Polski SA (in PLN million)

	30.09.2010	31.12.2009	30.09.2009	Change since:	
				31.12.2009	30.09.2009
Gross corporate loans	29 367	29 475	27 541	-0.4%	6.6%
Corporate deposits	28 825	26 133	23 339	10.3%	23.5%

Source: Bank's Management information.

* loans without interest due and interest not due

The number of branches in the corporate segment remained unchanged compared with the end of 2009.

Table 14. Branches of PKO Bank Polski SA

	30.09.2010	31.12.2009	30.09.2009	Change since:	
				31.12.2009	30.09.2009
Total number of branches	1 211	1 228	1 233	(17)	(22)
- in the corporate segment:	68	68	68	-	-
regional corporate branches	13	13	13	-	-
corporate centers	55	55	55	-	-

Table 15. Activities and achievements of PKO Bank Polski SA in the corporate segment in the 3rd quarter of 2010

Scope of activity	Activity
Loan activity	<p>The key transactions carried out in the 3rd quarter of 2010:</p> <ol style="list-style-type: none"> 1) granting working capital and investment financing totalling PLN 290 million to a company in the aluminium industry, 2) granting working capital financing in excess of PLN 226 million in total to a company in the chemical industry, 3) granting an overdraft facility in the amount of PLN 200 million to a company in the petrochemical industry, 4) granting an investment loan in the amount of PLN 140 million to a water supply company, 5) granting an investment loan in excess of PLN 139.5 million for financing a project in the power industry.

PKO Bank Polski SA consistently develops its product offer dedicated to the corporate segment and improves the processes which contribute to increasing the effectiveness of serving clients in this segment. It raises the standard of its services thanks to, amongst others, building high quality *Customer Service*. At the same time, it develops internet transaction platforms aimed at handling all products within a single channel with active support from an advisor. As part of the new facilities for corporate clients, in the third quarter of 2010 the following improvements were made:

- a new product was implemented – *Zero Balancing Cash Pooling* – this product, owing to its specific nature, will be offered to clients who form business entities that are separate legal entities which follow a common financing policy and which co-ordinate mutual settlements (firms that make up groups of companies, holdings, etc.). Purchasing this product will enable clients to optimize surplus cash management, reduce external debt, reduce financing costs for the group and its individual members, optimize net interest income;
- the functionalities of the “iPKO biznes” system were expanded to include the possibility of the system being parameterized by the Bank’s employees. Thanks to this change corporate clients will be able to put the Bank in charge of, amongst others, managing the rights of “iPKO biznes” users;
- corporate clients were given the possibility of making the so-called “urgent” transfers by extending the hours for placing payment orders;
- a new charge card was added to the catalogue of the cards offered to corporate clients – the PKO *Diners Club* card.

The Bank still takes advantage of its asset – the trust and attachment of its clients to the PKO Bank Polski SA brand. In the third quarter of 2010, the process of implementation of a loyalty programme for corporate clients is being continued.

3.2.3.2. Activities of the PKO Bank Polski SA Group entities in the corporate segment

Table 16. Activities and achievements of the PKO Bank Polski SA Group entities in the corporate segment

SUBSIDIARY	SIGNIFICANT EVENTS OF THE 3RD QUARTER OF 2010
Bankowy Fundusz Leasingowy SA	<ol style="list-style-type: none"> 1. In the 3rd quarter of 2010, the BFL SA Group's entities leased fixed assets with a total net value of PLN 331.2 million. 2. The total carrying amount of the lease investments of the BFL SA Group's entities amounted to PLN 2 257 million as at 30 September 2010 in comparison to PLN 2 230 million at the end of June 2010.
Bankowe Towarzystwo Kapitałowe SA	<ol style="list-style-type: none"> 1. In 2010 PKO BP Faktoring SA – the subsidiary of BTK SA – rendered services of national factoring with recourse (incomplete) or national and export non-recourse factoring (full). 2. In the 3rd quarter of 2010, the volume of factoring turnover amounted to PLN 637 million.

3.2.4. Investment segment

3.2.4.1. Activities of PKO Bank Polski SA in the investment segment

The activities of the investment segment are focused on co-operating with institutional and individual clients, transactions concluded on the Treasury Securities market, the currency market and the capital market.

Concern about the stability of the economic revival in the world was the basic determinant of changes on the financial markets in the 3rd quarter of 2010. Investors tried to tailor their policies to the responses of central banks, including in particular the FED, to the threats arising from the low growth. The common expectation that the US central bank would decide to continue the policy of low interest rates and to implement non-standard monetary instruments was reflected in the prices of most categories of assets. The debt market and the raw materials market benefited the most, and the prices of shares also went up. The possibility of more funds being pumped into the US market considerably weakened the dollar against the euro and the currencies of other countries, forcing many of them to resort to currency

interventions. The increased credit risk of State issuers persisted – the sales of Treasury securities in Ireland, Greece, Portugal, and Spain were closely watched by the markets.

The more remote prospects of the monetary policy being tightened supported the debt market to the greatest extent. The profitability of *Treasuries* in the 3rd quarter of 2010, in the 5-year bracket, decreased by 53 base points and in the 10-year bracket – by 43 base points. The profitability of German bonds dropped by 1 base point and 31 base points respectively in the same period. In Poland, in spite of the relatively high supply of Polish Treasury securities on the primary market, profitability also demonstrated a downward trend. In the 3rd quarter, it decreased by 6 base points at the short end, whereas in the over-5-years bracket – by 32-34 base points. In the course of the 3rd quarter, there was a considerable increase in the exposure and participation of foreign investors in Polish Treasury securities, which, however, did not translate into a considerable increase in the exchange rate of the Polish currency against the euro. Poland's credit risk premium also decreased. The quotations of a 5-year CDS contract decreased to 135 base points, and Polish eurobonds denominated in euros were valued with a premium of 120 base points above the average swap rate in the 2nd decade of September.

In spite of the aforementioned concern about the condition of the global economy, the indices on the global stock exchanges increased. The S&P500 index gained 10.7% in the analyzed period, whereas the WIG20 index increased by 15.2% on GPW SA (the Warsaw Stock Exchange). In this case, the demand for shares may have been stimulated by signals that interest rates would be kept unchanged in the long run both in the euro zone and the United States, as well as speculations as to the implementation of further monetary stimulation programmes.

Table 17. Activities and achievements of PKO Bank Polski SA in the investment segment in the 3rd quarter of 2010

Development strategy and achieved results	
Treasury products	<p>The Bank has a wide range of Treasury products dedicated to institutional and individual clients: from deposit/investment products through currency exchange transactions to products tailored to individual client needs as regards foreign exchange and interest rate hedges. Treasury products are sold via one of the largest networks of advisors in the branch offices and dedicated dealers. In the 3rd quarter of 2010, the Bank continued working on developing distribution channels for Treasury products. There are plans that in the 4th quarter of 2010 the Bank's clients will be able to conclude currency exchange transactions via the internet without having to contact a branch office or a dealer.</p> <p>The development of sales of Treasury products via the internet network should translate into a further increase in the Bank's activity on that market. According to the data as at the end of August 2010, 9% of the SPOT transactions concluded on the market by non-bank clients were carried out via the Bank.</p> <p>In the 3rd quarter of 2010 compared with the corresponding period of the previous year, the number of SPOT transactions concluded by non-bank clients with the Bank was 38% higher, which translated into a 25% increase in sales.</p>
Treasury activities	<p>Achieved results</p> <p>The Bank is the dealer of Treasury bonds and the dealer of money market. Moreover, the Bank is the market maker of the national interest rate and currency market. As a result of high activities of the Bank on inter-bank market, the Bank took first place in the third assessment in the contest for Dealer of Treasury Bonds for 2011.</p> <p>As at the end of August 2010, the Bank's share in the IRS transactions' market was 23% and it nearly doubled in comparison to the end of August 2009, the share in the market of FRA transactions amounted to 17% and 9% in the market of SPOT transactions and 7% in the FORWARD's market.</p>
Inter-bank market	<p>Risk</p> <p>In order to provide security of turnovers, in the 3rd quarter 2010 the Bank signed 6 master agreements (ISDA) and 3 CSA security agreements (CSA) with domestic and foreign banks. The Bank actively managed financial risk (liquidity risk, interest rate risk, and currency risk) concentrating on minimization of the exposure. Cash surplus in PLN not engaged in loan activity of the Bank has been invested in NBP bills, T-bills and T-bonds.</p>

Brokerage activities	Share, futures and options markets	<p>As at the end of September 2010 Dom Maklerski serviced 112.6 thousand investment accounts, ie. 36% more than in the corresponding period of the previous year. Together with active registration accounts this number was more than 300 thousand.</p> <p>In the period from January to September, Dom Maklerski realised turnover of over PLN 20 billion and placed 5th in brokerage houses ranking. In the 3rd quarter of 2010, turnover on the contracts' market exceeded 300 thousand transactions, a 6% increase as compared to the corresponding period of the previous year, which promoted the entity to the 5th place from the 7th place taken at the end of 3rd quarter of 2009. Dom Maklerski's turnover on the option market reached close to 73 thousand of contracts, which promoted the entity to the 1st place from the 4th place taken at the end of the 3rd quarter of 2009.</p> <p>There was also an increase in sales on the bond market, and the value of these sales increased by 34% compared with the sales made in the 3rd quarter of 2009, which enabled the 1st place to be maintained, with a 45% market share.</p>
	Market maker	<p>In the 3rd quarter of 2010, Dom Maklerski had 55 contracts signed as a market maker and 23 contracts signed as an issuer and was respectively in the second and the fourth place in the ranking of brokerage houses. As a market maker of NewConnect, Dom Maklerski managed trading the shares of 29 companies and took the second place in terms of the number of animated companies on the market. The volume of turnover of Dom Maklerski on the share market of NewConnect exceeded PLN 100 million, which constitutes 12% share in all transactions. As at the end of September 2010, the DM offered 150 investment funds managed by 10 Investment Fund Management Companies.</p> <p>Moreover, in the previous quarter the Brokerage House launched more bonds on the Catalyst market (after the bonds of Zamość, Kórnik and Ustronie Morskie), namely the bonds of the city of Wodzisław Śląski, and began the next stage of the operation of the managerial programme of Elektrotim SA.</p>
Trustee activities		<p>PKO Bank Polski SA is a direct participant in the National Securities Deposit and the Securities Register (NBP) and maintains securities accounts and handles transactions on Polish and foreign markets, as well as provides trustee services and acts as depository for pension and investment funds. PKO Bank Polski SA is a member of the Board of Depository Banks and the Board for Non-Treasury Debt Securities under the aegis of the Polish Banks Association and is an active participant in works related to developing regulations and market standards.</p> <p>As at the end of September 2010, PKO Bank Polski SA maintained nearly 3 thousand securities accounts and the value of assets of trustee clients of the Bank amounted to PLN 30.5 billion, which is a 32% increase compared with the same period of the prior year.</p>

Table 18. Structured finance in the 3rd quarter of 2010

Scope of activity	Activity
Structured finance	<p>PKO Bank Polski SA possesses a wide range of products aimed at institutional clients. A comprehensive credit offer for large investment endeavors characterized by a wide range of available services, substantial flexibility, a variety of financing methods and most of all an individual approach to each project is one of the products offered by PKO Bank Polski SA. According to the data as at the end of August 2010, PKO Bank Polski SA held nearly 20% of the structural financing market. Moreover, the Bank was ranked 1st in terms of the value of issues of municipal bonds, 1st in terms of the value of issues of short-term corporate bonds, and took 4th place in the ranking of issues of long-term corporate bonds.</p> <p>In the 3rd quarter of 2010, the Bank concluded 51 agreements for the organization of issues of municipal bonds with a total value of PLN 612 million. Of note was the Bank's participation in the issue of bonds in the form of a banking syndicate for the Wielkopolska Region. PKO Bank Polski SA's share in this financing accounted to nearly 60% of the total amount of the issue.</p>

3.2.4.2. Activities of the PKO Bank Polski SA Group entities in the investment segment

Table 19. Activities of the PKO Bank Polski SA Group entities in the investment segment

SUBSIDIARY	SIGNIFICANT EVENTS IN THE 3RD QUARTER OF 2010
PKO Finance AB	<p>The Company's core activity is to raise funds for PKO Bank Polski SA deriving from issue of eurobonds. The company has started its statutory activities on the day of issue. PKO Bank Polski SA has issued 5-year Eurobonds in the amount of EUR 800 million. The demand for the first tranche of Eurobonds of PKO Bank Polski SA, issued within EMTN program, was large and significantly exceeded EUR 1 billion. Investors who, apart from domestic ones, were mainly institutions from Germany, Austria, Belgium, Holland and Luxemburg, have applied for over 100 subscriptions. Final valuation of Eurobonds amounted to 185 basis points over the midswap rate with the interest rate of 3.733 percent.*</p>
Centrum Finansowe Puławska Sp. z o.o.	<p>As at 30 September 2010, the Company rented 100% of the office and commercial space in the managed by itself Centrum Finansowe Puławska building, 90.83% of which was rented by the entities of the PKO Bank Polski SA Group.</p>

* subsequent event

Details of the segments of activities of PKO Bank Polski SA Group are enclosed in chapter 3 of these financial statements.

3.2.5. Awards and honours

In the 3rd quarter of 2010, PKO Bank Polski SA and other entities of the PKO Bank Polski SA Group were granted the following awards and honours:

1. PKO Bank Polski – the most versatile – *Comperia.pl* conducted research to find the most versatile bank in Poland. All in all, PKO Bank Polski SA was chosen as the bank that is best adapted to meet the high expectations of clients. It scored as many as 31.5 points out of the maximum score of 35 points and was the only one to exceed the threshold of 30 points. The Bank won in three partial rankings – in the mortgage loan category, the credit card category and the investment product category.
2. Inteligo – the on-line no. 1 bank – in the eighth edition of the ranking “The Newsweek’s friendly bank”, Inteligo was ranked first in the “On-line bank” category. The Bank was praised for, amongst others, the quality of its client service, an easy-to-navigate and reliable website, as well as friendly transaction-related procedures.
3. *Grand Prix* of the Consumer’s Laurel 2010 – a special prize in the investment fund category for PKO Towarzystwo Funduszy Inwestycyjnych SA.
4. An honourable mention granted to Centrum Elektronicznych Usług Płatniczych eService SA for implementing the first project on the acceptance of MasterCard *PayPass* cards in Poland, during the Proximity Payments and NFC Forum.