Independent Registered Auditor's Opinion
To the General Meeting of Shareholders and the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski SA

We have audited the accompanying consolidated financial statements of Powszechna Kasa Oszczędności Bank Polski SA Group (hereinafter called 'the Group'), of which Powszechna Kasa Oszczędności Bank Polski SA is the parent company (hereinafter called 'the Parent Company'), with its registered office in Warsaw, 15 Puławska Street, which comprise of the consolidated statement of financial position as at 31 December 2011, showing total assets and total equity and liabilities of PLN 190,748,037 thousand; the consolidated income statement for the financial year from 1 January to 31 December 2011, showing a net profit attributable to equity holders of the Parent Company of PLN 3,807,195 thousand; the consolidated statement of comprehensive income for the financial year from 1 January to 31 December 2011, showing a total comprehensive income of PLN 3,937,416 thousand; the consolidated statement of changes in equity, the consolidated statement of cash flows for the financial year and additional information on accounting policies and other relevant matters.

The Management Board of the Parent Company is responsible for preparing the consolidated financial statements and a Directors' Report for the Group in accordance with the applicable regulations. The Management Board and Members of the Supervisory Board of the Parent Company are required to ensure that the consolidated financial statements and the Director's Report for the Group meet the requirements set out in the Accounting Act of 29 September 1994 (uniform text, Journal of Laws of 2009, No. 152, item 1223 with further amendments, hereinafter referred to as 'the Act').

Our responsibility was to perform an audit of the accompanying consolidated financial statements and to express an opinion on whether in all material respects the consolidated financial statements comply with the applicable accounting policies and whether they present fairly the financial position and results of the Group.

We conducted our audit in accordance with the following:

(a) the provisions of Chapter 7 of the Act;

(b) national auditing standards as issued by the National Chamber of Registered Auditors;

(c) International Standards on Auditing.

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Independent Registered Auditor's Opinion
To the General Meeting of Shareholders and the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski SA (cont.)

Our audit was planned and performed to obtain reasonable assurance that the consolidated 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 consolidated financial statements. The audit also included an assessment of the accounting policies applied by the Group and significant estimates made in the preparation of the consolidated financial statements as well as an evaluation of the overall presentation thereof. We believe that our audit provided a reasonable basis for our opinion.

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

(a) present fairly the Group's financial position as at 31 December 2011 and the results of its operations for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union;

(b) comply in form and content with the relevant laws applicable to the Group;

(c) have been prepared on the basis of properly maintained consolidation documentation.

The information in the Directors' Report for the Group for the year ended 31 December 2011 has been prepared in accordance with the provisions of the Decree of the Minister of Finance of 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equivalent information required by the laws of another state not being a member state ('*the Decree*' – Journal of Laws of 2009, No. 33, item 259, with further amendments) and is consistent with the information presented in the audited consolidated financial statements.

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

Antoni F. Reczek
President of the Management Board

PricewaterhouseCoopers Sp. z o.o.

Principal Registered Auditor
No. 90011

Warsaw, 29 February 2012

The Powszechna Kasa Oszczędności Bank Polski SA Group

Report on the consolidated financial statements
As at and for the year ended 31 December 2011

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

This report contains 55 consecutively numbered pages and consists of:

I. General information about the Group

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

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

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

(b) As at 31 December 2011, the Parent Company's registered share capital amounted to PLN 1,250,000 thousand and consisted of 1,250,000,000 ordinary shares with PLN 1 par value each, including:

- 312,500,000 A-series registered shares;
- 197,500,000 A-series bearer shares;
- 105,000,000 B-series bearer shares;
- 385,000,000 C-series bearer shares;
- 250,000,000 D-series bearer shares.

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

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

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

Zbigniew Jagiełło	President of the Management Board	throughout the year
Piotr Alicki	Vice-President of the Management Board	throughout the year
Bartosz Drabikowski	Vice-President of the Management Board	throughout the year
Andrzej Kołatkowski	Vice-President of the Management Board	since 9 August 2011
Jarosław Myjak	Vice-President of the Management Board	throughout the year
Jacek Obłękowski	Vice-President of the Management Board	since 30 June 2011
Jakub Papierski	Vice-President of the Management Board	throughout the year
Krzysztof Dresler	Vice-President of the Management Board	to 30 June 2011
Wojciech Papierak	Vice-President of the Management Board	to 30 June 2011

I. General information about the Group (cont.)

(e) As at 31 December 2011, the Powszechna Kasa Oszczędności Bank Polski SA Group comprised the following entities:

Entity name	Nature of equity relationship (% shareholding)	Consolida-tion method	Auditor	Type of opinion	Balance date
Powszechna Kasa Oszczędności Bank Polski SA	Parent Company	n/a	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2011
Bankowe Towarzystwo Kapitałowe SA	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2011
Bankowy Fundusz Leasingowy SA	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2011
Centrum Elektronicznych Usług Płatniczych 'eService' SA	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2011
Centrum Finansowe Puławska Sp. z o.o.	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2011
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	Subsidiary (100%)	Full	LLC AF Pricewaterhouse-Coopers (Audit)	During the audit[1]	31 December 2011
Fort Mokotów Inwestycje Sp. z o.o.	Subsidiary (99.99%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2011
Inteligo Financial Services SA	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2011
Kredobank SA	Subsidiary (99.57%)	Full	LLC AF Pricewaterhouse-Coopers (Audit)	Unqualified opinion	31 December 2011
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2011
PKO BP Finat Sp. z o.o. [2]	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2011
PKO Finance AB	Subsidiary (100%)	Full	Öhrlings Pricewaterhouse-Coopers AB	During the audit[1]	31 December 2011
PKO Towarzystwo Funduszy Inwestycyjnych SA	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2011
Qualia Development Sp. z o.o.[3]	Subsidiary (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2011

and subsidiaries of Bankowe Towarzystwo Kapitałowe SA, Bankowy Fundusz Leasingowy SA and Qualia Development Sp. z o.o.

[1] Consolidation was based on audited consolidation package of the entity.
[2] Previously the subsidiary of Inteligo Financial Services SA.
[3] The previous name PKO BP Inwestycje Sp. z o.o.

I. General information about the Group (cont.)

Key financial data of the companies consolidated as at and for the year ended 31 December 2011 are as follows:

Entity name	Total assets PLN thousand	Total income PLN thousand	Equity PLN thousand	Net profit PLN thousand
Powszechna Kasa Oszczędności Bank Polski SA	188,372,690	15,992,428	22,802,375	3,953,622
Bankowe Towarzystwo Kapitałowe SA	188,785	15,729	5,318	(2,806)
Bankowy Fundusz Leasingowy SA	3,161,176	246,933	108,177	8,412
Centrum Elektronicznych Usług Płatniczych 'eService' SA	121,049	216,683	86,927	23,710
Centrum Finansowe Puławska Sp. z o.o. – w likwidacji	265,544	47,512	261,918	12,619
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	241,32	701	1,414	81
data in UAH thousand	*567,145*	*1,887*	*3,322*	*219*
Fort Mokotów Inwestycje Sp. z o.o.	106,096	113	105,087	(522)
Inteligo Financial Services SA	190,479	92,756	152,612	19,898
Kredobank SA	1,577,401	184,719	282,116	(93,815)
data in UAH thousand	*3,707,170*	*497,09*	*663,023*	*(252,463)*
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	282,342	66,135	240,450	4,714
PKO BP Finat Sp. z o.o.	16,102	17,741	11,878	970
PKO Finance AB	4,477,024	140,213	892	393
data in UAH thousand	*1,013,635*	*33,867*	*202*	*95*
PKO Towarzystwo Funduszy Inwestycyjnych SA	85,206	277,118	61,034	37,821
Qualia Developement Sp. z o.o.	592,133	105,858	208,355	(4,555)
Total	**199,677,347**	**17,404,639**	**24,328,553**	**3,960,542**
Consolidation adjustments	(8,929,310)	(713,71)	(1,506,569)	(155,797)
Total	**190,748,037**	**16,690,925**	**22,821,984**	**3,804,745**

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

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

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

II. Information about the audit

(a) The audit of the consolidated financial statements as at and for the year ended 31 December 2011 was conducted by PricewaterhouseCoopers Sp. z o.o. having its seat in Warsaw, Al. Armii Ludowej 14, registered audit firm no. 144. The audit was conducted on behalf of the registered audit firm under the supervision of the principal registered auditor Antoni F. Reczek (register no. 90011).

(b) PricewaterhouseCoopers Sp. z o.o. was appointed a registered auditor to the Group by Resolution No. 15/2011 of the Supervisory Board passed on 28 March 2011, in accordance with section 15, subsection 1, item 3 of the Parent Company's Memorandum of Association.

(c) PricewaterhouseCoopers Sp. z o.o. and the principal registered auditor conducting the audit are independent of the Group entities within the meaning of art. 56, clause 2-4 of the Act on registered auditors and their council, entities entitled to provide audit of financial statements and public supervision of 7 May 2009 (Journal of Laws 2009, No. 77, item 649, with subsequent amendments).

(d) The audit was conducted in accordance with an agreement signed on 14 April 2011, in the following periods:

- interim audit from 28 October to 22 December 2011;
- final audit from 9 January to 29 February 2012.

III. The Group's results and financial position

The consolidated financial statements do not take into account the inflation. The consumer price index (on a December to December basis) amounted to 4.6% in the audited year (3.1% in 2010).

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

Powszechna Kasa Oszczędności Bank Polski SA is the parent company of the Group, which as at 31 December 2011 comprised 13 direct subsidiaries and 15 indirect subsidiaries. The data of three direct associates and the data of two jointly controlled entities was disclosed in the consolidated financial statements under the equity method. In the year preceding the audited year, the Group consisted of 11 direct subsidiaries and 10 indirect subsidiaries; the data of four direct associates and two jointly controlled entities was disclosed in the consolidated financial statements under the equity method.

- As at 31 December 2011, total assets amounted to PLN 190,748,037 thousand and increased by PLN 21,087,536 thousand (i.e. by 12%) as compared to the balance as at 31 December 2010.

- The increase was mainly financed with the increase in amounts due to customers of PLN 13,492,682 thousand (i.e. 10%), mainly as a result of an increase in deposits in the Bank and an increase in liabilities in respect of an issue of securities of PLN 4,472,912 thousand (i.e. 136%), an increase in amounts due to banks of PLN 1,005,289 thousand (i.e. 19%) and an increase in equity of PLN 1,462,416 thousand (i.e. 7%).

- The main source of financing of assets in 2011 were amounts due to customers (similarly to the prior year). The balance of amounts due to customers amounted to PLN 146,473,897 thousand as at the balance date and represented 77% of the total assets (a decrease of 1 pp. as compared with the balance as at 31 December 2010). The change in the balance of amounts due to customers was mainly the effect of a considerable growth in amounts due to individuals (an increase of PLN 9,075,240 thousand, i.e. 10%, compared with the balance as at 31 December 2010) and to corporates (an increase of PLN 6,642,009 thousand, i.e. 21%, compared with the balance as at 31 December 2010) (Note 14).

- The balance of liabilities resulting from securities in issue as at the balance date was PLN 7,771,779 thousand (PLN 3,298,867 thousand as at 31 December 2010), of which PLN 4,476,996 thousand related to bonds in CHF and EUR issued by the Group in the years 2010-2011 through the intermediation of PKO Finance AB (PLN 3,187,766 thousand as at 31 December 2010). The increase in the balance as at 31 December 2011 was mainly the result of the Bank issuing short-term bonds to the Polish market of PLN 2,929,973 thousand and issuing Eurobonds of CHF 250,000 thousand through the intermediation of PKO Finance AB (Note 15).

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

- The balance of amounts due to banks was PLN 6,239,164 thousand as at the balance date and comprised mainly the syndicated loan in Swiss francs obtained by the Parent Company, which amounted to PLN 3,443,872 thousand (PLN 2,999,116 thousand as at 31 December 2010) and loans from banks received by the Bankowy Fundusz Leasingowy SA Group of PLN 899,536 thousand (PLN 1,051,693 thousand as at 31 December 2010). The increase in the total balance of PLN 1,005,289 thousand (i.e. 19%) as compared with the balance as at 31 December 2010 resulted mainly from the increase in the balance of bank deposits of PLN 399,563 thousand (i.e. 41%), the balance of current accounts of PLN 378,328 thousand (i.e. 852%) and the balance of loans and advances received of PLN 292,546 thousand (i.e. 7%) mainly as a result of the increase in the valuation of the syndicated loan in connection with the exchange rate of the Swiss franc going up (Note 13).

- As at 31 December 2011, the liabilities in respect to the negative valuation of derivatives amounted to PLN 2,645,281 thousand (PLN 2,404,795 thousand as at 31 December 2010). The increase in the balance as at the balance date was mainly a result of a higher valuation of IRS transactions and currency forwards compared with the balance as at the end of 2010 and it was offset by a drop in the negative valuation of CIRS transactions (Note 4)

- Subordinated liabilities amounted to PLN 1,614,377 thousand as at the balance date (PLN 1,611,779 thousand as at 31 December 2010) and they comprised the valuation of bonds issued by the Bank in 2007 in the nominal amount of PLN 1,600,700 thousand (Note 16).

- The balance of consolidated equity as at 31 December 2011 was PLN 22,821,984 thousand (PLN 21,359,568 thousand as at 31 December 2010) and was higher by PLN 1,462,416 thousand (i.e. 7%). The increase in the balance was mainly brought about by a profit generated by the Group in 2011 of PLN 3,807,195 thousand. At the same time, the shareholders of the Parent Company made a decision to earmark PLN 2,475,000 thousand out of the profit for 2010 for the payment of dividend. The remaining portion of the Bank's profit for 2010 was earmarked for increasing reserve capital (by PLN 800,000 thousand) and other reserves (by PLN 36,209 thousand) (Note 19).

- The balance of own funds calculated on the regulatory basis was PLN 18,342,916 thousand as at 31 December 2011 (PLN 17,618,546 thousand as at 31 December 2010) and was PLN 6,478,224 thousand higher than the total capital requirement (PLN 6,316,760 thousand as at the end of 2010). The capital adequacy ratio calculated as at the balance date based on the bank portfolio and the trading portfolio was 12.37% and it decreased by 0.10 pp. as compared with the end of the prior year.

- The higher level of financing was mainly reflected in the PLN 10,966,375 thousand (i.e. 8%) increase in loans and advances to customers as at the balance date and the PLN 4,173,876 thousand (i.e. 41%) increase in the balance of available-for-sale financial instruments. Cash and balances with the central bank also increased by PLN 2,959,756 thousand (i.e. by 48%), financial instruments designated at fair value through profit or loss increased by PLN 1,708,870 thousand (i.e. by 16%) and the positive valuation of derivatives increased by PLN 1,345,648 thousand (i.e. by 78%).

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

- As at the balance date, loans and advances to customers amounted to PLN 141,634,494 thousand and represented 74% of the total assets (a decrease of 3 pp. as compared with the end of 2010). The gross balance of the loan portfolio as at 31 December 2011 amounted to PLN 147,292,737 thousand and increased by PLN 11,767,948 thousand (i.e. by 9%) as compared with the balance as at 31 December 2010. The increase resulted mainly from the increase in the balance of mortgage loans and loans to developers, as well as corporate loans granted to customers from the non-financial sector (an increase of PLN 8,476,187 thousand, i.e. 14% and PLN 5,131,878 thousand, i.e. 13% respectively) (Note 6).

- The quality of the loan portfolio and of the Group's lease receivables as at the balance date measured with the ratio of loans with identified impairment to the total balance of loans and advances did not change as compared with the end of 2010. As at 31 December 2011, the ratio of loans and lease receivables with identified impairment to the total loans and advances did not change compared with 2010 and amounted to 8.0%. At the same time, the coverage of loans with identified impairment by impairment allowances amounted to 42.3% as at 31 December 2011 and was 2.3 pp. higher than as at the end of 2010.

- The balance of available-for-sale investment securities amounted to PLN 14,393,276 thousand as at the balance date and was PLN 4,173,876 thousand (i.e. 41%) higher than the balance as at the end of 2010. The increase related mainly to the Group's exposure to securities issued by the State Treasury (an increase of PLN 2,865,714 thousand, i.e. 49%), corporate bonds (an increase of PLN 680,882 thousand, i.e. 47%) and municipal bonds (an increase of PLN 634,183 thousand, i.e. 22%) (Note 7).

- The balance of financial instruments designated at fair value through profit or loss amounted to PLN 12,467,201 thousand as at the balance date. The increase (of PLN 1,708,870 thousand, i.e. 16%) resulted mainly from the change in the structure of the balance – the share of short-term NBP bills increased by PLN 4,596,011 thousand (i.e. 115%) and the balance of Polish Treasury bonds in PLN was lower than a year before (by PLN 3,420,366 thousand, i.e. 72%) (Note 5).

- Other liquid assets of the Group, which comprised of cash and balances with the central bank, amounts due from banks, financial assets held for trading and derivative financial instruments increased in aggregate as at the balance date by PLN 4,202,039 thousand (i.e. by 36%), which was mainly a result of an increase in the balance of cash and balances with the central bank and derivative financial instruments (Notes 1-4).

- The Group's cumulative liquidity gaps up to 1 month and from 1 to 3 months, in real terms, calculated on the basis of the due dates of both assets and liabilities in accordance with real terms amounted to PLN 19,393,513 thousand and PLN 17,793,708 thousand respectively (PLN 17,310,022 thousand and PLN 16,360,180 thousand as at the end of 2010).

- The share of interest-bearing assets in total assets did not change as compared with the balance as at 31 December 2010 and amounted to 93.9% as at the end of 2011. The loans to deposits ratio (L/D) was on a level of 96.7% as at the end of 2011 (98.3% as at the end of 2010).

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

- The profit before tax for 2011 was PLN 4,780,860 thousand and was PLN 701,624 thousand (i.e. 17%) higher than in 2010. The profit before tax comprised mainly of: net interest income of PLN 7,609,116 thousand, net commission income of PLN 3,101,444 thousand, net foreign exchange gains of PLN 337,296 thousand and other operating income of PLN 451,723 thousand. At the same time, the profit before tax was reduced by administrative expenses of PLN 4,411,357 thousand, net impairment allowance and write-downs of PLN 1,930,447 thousand and other operating expenses of PLN 309,186 thousand.

- Net interest income of the Group amounted to PLN 7,609,116 thousand in 2011 and was PLN 1,092,950 thousand (i.e. 17%) higher than the net interest income generated in 2010. The increase was mainly due to higher interest income on loans and advances to customers (an increase of PLN 1,250,267 thousand, i.e. 15%) primarily as a result of the growth in the loan portfolio (a gross growth of PLN 11,767,948 thousand, i.e. 9%). In 2011, the interest margin calculated as the ratio of net interest income to interest income remained on the 2010 level and amounted to 63% (Note 21). The interest spread, calculated as the difference between the rate of interest income on interest-bearing assets and the price of borrowings was 4.2% and did not change significantly (an increase of 0.2 pp.) as compared with 2010.

- Net fee and commission income in 2011 was lower than in 2010 and amounted to PLN 3,101,444 thousand (a decrease of PLN 41,385 thousand, i.e. 1%), which was mainly due to lower commission income than in the prior year. Compared with 2010, fee and commission income dropped by PLN 43,698 thousand (a decrease of 1% to PLN 3,837,165 thousand), mainly due decrease of fee and commission income from loan insurance (down by PLN 138,002 thousand, i.e. 21%) and was partly offset by an increase in income from payment cards and from loans and advances granted (an increase of PLN 85,286 thousand and PLN 53,276 thousand, i.e. 9% and 10% respectively) (Note 22).

- In the audited year, net foreign exchange gains amounted to PLN 337,296 thousand and were PLN 9,466 thousand (i.e. 3%) lower than in 2010. Net foreign exchange gains are a net position of gains of PLN 523,174 thousand (net position of losses of PLN 1,026,841 thousand in 2010) resulting from foreign exchange differences on instruments designated at fair value through profit and loss and losses on negative valuation of PLN 185,878 thousand (gains of PLN 1,373,603 thousand in 2010) in respect of other assets and liabilities and realized foreign exchange differences (Note 23).

- Other operating income of the Group amounted to PLN 451,723 thousand in 2011 (PLN 469,388 thousand in 2010) and related mainly to net income on sales of products and services, which comprised mainly from income on development activities of the Qualia Development Group (PLN 102,983 thousand, i.e. 40% of the balance and PLN 155,342 thousand, i.e. 48% respectively in 2010) and the activities of Centrum Elektronicznych Usług Płatniczych eService (PLN 124,390 thousand, i.e. 49% of the balance and PLN 145,164 thousand, i.e. 45% of the balance in 2010). The balance of other operating income in 2011 was PLN 17,665 thousand (i.e. 4%) higher than the balance in 2010.

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

- In 2011 administrative expenses were PLN 162,221 thousand, i.e. 4% higher than in the prior year and amounted to PLN 4,411,357 thousand. The increase was mainly related to the growth in the contributions and payments to the Bank Guarantee Fund (up by PLN 83,353 thousand, i.e. 156%), overheads (up by PLN 38,694 thousand, i.e. 3%) and employee benefits (up by PLN 28,843 thousand, i.e. 1%) (Note 27). The general effectiveness of operations calculated as the ratio of costs to income (the C/I ratio) improved in 2011 (the ratio decreased by 2.1 pp. to 39.6%). The positive change in the ratio was mainly due to higher net interest income than in 2010.

- Net impairment allowances in 2011 amounted to PLN 1,930,447 thousand (PLN 1,868,364 thousand in 2010). The increase in the net impairment allowance (recognized in the income statement) was mainly related to mortgage loans and loans to developers as well as corporate loans - an increase of PLN 123,445 thousand, i.e. 46% and PLN 120,490 thousand, i.e. 19% respectively (Note 26). The cost of risk amounted to 1.3% in 2011 (1.4% in 2010).

- Other operating expenses amounted to PLN 309,186 thousand in 2011 (PLN 293,736 thousand in 2010) and related mainly to the cost of sale of products and services, comprising mainly of costs of development activities conducted by the Qualia Development Group (PLN 73,370 thousand, i.e. 43% of the balance in 2011 and PLN 110,352 thousand, i.e. 55% respectively of the balance in 2010) and the activities of Centrum Elektronicznych Usług Płatniczych eService (PLN 98,742 thousand, i.e. 57% of the balance in 2011 and PLN 89,607 thousand, i.e. 45% of the balance in 2010).

- Gross profitability (calculated as profit before income tax to total income) amounted to 28.6% in the audited year and increased by 1.7 pp. compared with the prior year.

- Income tax expense in 2011 amounted to PLN 976,115 thousand (PLN 866,430 thousand in 2010). The effective income tax rate amounted to 20.4% in 2011 and was by 0.8 pp. lower than in 2010.

- As a result, in 2011 the Group generated a net profit of PLN 3,804,745 thousand which was PLN 591,939 thousand (i.e. by 18%) higher than the net profit for 2010. Net profitability (calculated as net profit to total income) amounted to 22.8% in 2011 (21.1% in 2010).

- The return on assets (calculated as net profit to average total assets) amounted to 2.1% in 2011 and it increased by 0.1 pp. compared with 2010. In the audited year, the return on equity amounted to 17.2% and was 1.8 pp. higher than in 2010.

The consolidated financial statements have been prepared on the going concern basis.

IV. Discussion of consolidated financial statement components

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2011

ASSETS	Note	31.12.2011 PLN'000	31.12.2010 PLN'000	Change PLN'000	Change (%)	31.12.2011 Structure (%)	31.12.2010 Structure (%)
Cash and balances with the central bank	1.	9,142,168	6,182,412	2,959,756	48	5	4
Amounts due from banks	2.	2,396,227	2,307,032	89,195	4	1	1
Financial assets held for trading	3.	1,311,089	1,503,649	(192,560)	(13)	1	1
Derivative financial instruments	4.	3,064,733	1,719,085	1,345,648	78	2	2
Financial instruments designated at fair value through profit and loss	5.	12,467,201	10,758,331	1,708,870	16	7	6
Loans and advances to customers	6.	141,634,494	130,668,119	10,966,375	8	74	77
Investment securities available for sale	7.	14,393,276	10,219,400	4,173,876	41	8	6
Investments in associates and jointly controlled entities	8.	123,119	172,931	(49,812)	(29)	-	-
Non-current assets held for sale		20,410	19,784	626	3	-	-
Inventories	9.	566,846	530,275	36,571	7	-	-
Intangible assets	10.	1,800,008	1,802,037	(2,029)	-	1	1
Tangible fixed assets	11.	2,541,317	2,576,445	(35,128)	(1)	1	2
Current income tax receivables	28.	5,957	4,318	1,639	38	-	-
Deferred income tax asset	28.	543,922	582,802	(38,880)	(7)	-	-
Other assets	12.	737,270	613,881	123,389	20	-	-
Total assets		**190,748,037**	**169,660,501**	**21,087,536**	**12**	**100**	**100**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2011 (cont.)

LIABILITIES AND EQUITY	Note	31.12.2011 PLN'000	31.12.2010 PLN'000	Change PLN'000	Change (%)	31.12.2011 Structure (%)	31.12.2010 Structure (%)
Amounts due to the central bank		3,454	3,370	84	2	-	-
Amounts due to banks	13.	6,239,164	5,233,875	1,005,289	19	4	3
Derivative financial instruments	4.	2,645,281	2,404,795	240,486	10	1	2
Amounts due to customers	14.	146,473,897	132,981,215	13,492,682	10	77	78
Debt securities in issue	15.	7,771,779	3,298,867	4,472,912	136	4	2
Subordinated liabilities	16.	1,614,377	1,611,779	2,598	-	1	1
Other liabilities	17.	2,450,763	2,092,834	357,929	17	1	1
Current income tax liabilities	28.	78,810	67,744	11,066	16	-	-
Deferred income tax liability	28.	29,364	22,764	6,600	29	-	-
Provisions	18.	619,164	583,690	35,474	6	-	-
Total liabilities		**167,926,053**	**148,300,933**	**19,625,120**	**13**	**88**	**87**
Share capital		1,250,000	1,250,000	-	-	1	1
Other capital		17,881,264	16,888,145	993,119	6	9	10
Foreign exchange differences on translation of foreign entities		(92,023)	(109,747)	17,724	(16)	-	-
Retained earnings		(23,162)	112,297	(135,459)	(121)	-	-
Net profit for the year		3,807,195	3,216,883	590,312	18	2	2
Equity attributable to equity holders of the parent company		**22,823,274**	**21,357,578**	**1,465,696**	**7**	**12**	**13**
Non-controlling interests		(1,290)	1,990	(3,280)	(165)	-	-
Total equity	19.	**22,821,984**	**21,359,568**	**1,462,416**	**7**	**12**	**13**
Total equity and liabilities		**190,748,037**	**169,660,501**	**21,087,536**	**12**	**100**	**100**

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

CONSOLIDATED INCOME STATEMENT
for the financial year ended 31 December 2011

	Note	2011 PLN'000	2010 PLN'000	Change PLN'000	Change (%)	2011 Structure (%)	2010 Structure (%)
Interest income		12,037,762	10,415,315	1,622,447	16	72	69
Interest expense		(4,428,646)	(3,899,149)	(529,497)	14	37	35
Net interest income	**21.**	**7,609,116**	**6,516,166**	**1,092,950**	**17**		
Fee and commission income		3,837,165	3,880,863	(43,698)	(1)	23	26
Fee and commission expense		(735,721)	(738,034)	2,313	-	6	7
Net fee and commission income	**22.**	**3,101,444**	**3,142,829**	**(41,385)**	**(1)**		
Dividend income		6,800	5,663	1,137	20	-	-
Net income from financial instruments designated at fair value through profit and loss		(75,056)	(62,577)	(12,479)	20	1	1
Gains less losses from investment securities		20,179	73,056	(52,877)	(72)	-	-
Net foreign exchange gains	23.	337,296	346,762	(9,466)	(3)	2	2
Other operating income	24.	451,723	469,388	(17,665)	(4)	3	3
Other operating expense	25.	(309,186)	(293,736)	(15,450)	5	3	2
Net impairment allowance and write-downs	26.	(1,930,447)	(1,868,364)	(62,083)	3	16	17
Administrative expenses	27.	(4,411,357)	(4,249,136)	(162,221)	4	37	38
Operating profit/loss		**4,800,512**	**4,080,051**	**720,461**	**18**		
Share in profits and losses of associates and jointly controlled entities		(19,652)	(815)	(18,837)	2,311	-	-
Profit before income tax		**4,780,860**	**4,079,236**	**701,624**	**17**		

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

CONSOLIDATED INCOME STATEMENT
for the financial year ended 31 December 2011 (cont.)

	Note	2011 PLN'000	2010 PLN'000	Change PLN'000	Change (%)	2011 Structure (%)	2010 Structure (%)
Profit before income tax		**4,780,860**	**4,079,236**	**701,624**	**17**		
Corporate income tax		(976,115)	(866,430)	(109,685)	13		
Net profit (including non-controlling interests)		**3,804,745**	**3,212,806**	**591,939**	**18**		
Profits and losses of non-controlling interests		(2,450)	(4,077)	1,627	(40)		
Net profit attributable to the parent company		**3,807,195**	**3,216,883**	**590,312**	**18**		
Total income		16,690,925	15,191,047	1,499,878	10	**100**	**100**
Total expenses		(11,910,065)	(11,111,811)	(798,254)	7	**100**	**100**
Profit before income tax		**4,780,860**	**4,079,236**	**701,624**	**17**		

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

Selected ratios characterizing the Group's financial position and results

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

	2011	2010
Profitability ratios		
Gross profitability (profit before tax/total income)	28.6%	26.9%
Net profitability (net profit / total income)	22.8%	21.1%
Return on equity (net profit /average net assets) (2)	17.2%	15.4%
Return on assets (net profit /average total assets) (2)	2.1%	2.0%
Cost / income ratio (administrative expenses / profit on banking activities (3)	39.6%	41.7%
Profitability ratio on interest-bearing assets (interest income / average interest-bearing assets) (2)	7.1%	6.8%
Cost of borrowings (interest expense / average interest-bearing liabilities) (2)	2.9%	2.8%
Asset quality ratios		
Interest-bearing assets to total assets (4)	93.9%	93.9%
Loans with identified impairment to total loans to customers	8.0%	8.0%
Coverage with impairment allowances of impaired loans and advances to customers	42.3%	40.0%
Cost of risk (5)	1.3%	1.4%
Liquidity ratios		
Cumulated liquidity gap up to 1 month in real terms, in PLN'000 (6)	19,393,513	17,310,022
Cumulated liquidity gap from 1 to 3 months in real terms, in PLN'000 (6)	17,793,708	16,360,180
Loans to deposits	96.7%	98.3%
Other ratios		
Capital adequacy ratio	12.37%	12.47%
Own funds (PLN'000)	18,342,916	17,618,546
Total capital requirement (PLN'000)	11,864,692	11,301,786

(1) Individual ratio levels may differ from those presented in the consolidated financial statements due to a different calculation method.
(2) The average balances of balance sheet items were calculated on the basis of the balances of individual items at the beginning and the end of the current and prior financial year.
(3) The profit on banking activities defined as operating profit less administrative expenses and net impairment allowances.
(4) Interest-bearing assets are defined as balances with the central bank (excluding cash), amounts due from banks and customers, investment securities and securities designated at fair value through profit and loss and held for trading.
(5) The cost of risk calculated by dividing net impairment allowances on loans and advances to customers for the year by the average balance of gross loans and advances to customers.
(6) Liquidity ratios are defined as the ratio of assets receivable to liabilities payable in accordance with due dates in real terms as at the balance date.

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

Consolidated statement of financial position as at 31 December 2011

1. Cash and balances with the central bank

As at 31 December 2011, 'Cash and balances with the central bank' amounted to PLN 9,142,168 thousand (PLN 6,182,412 thousand in 2010), of which 99% (PLN 9,060,280 thousand) related to the Bank. Three fourths of the total balance (PLN 6,845,759 thousand) was represented by the cash maintained by the Bank on the account in the National Bank of Poland (PLN 3,782,717 thousand as at 31 December 2010).

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 with the NBP as at 31 December 2011 amounted to PLN 4,975,268 thousand (PLN 4,553,482 thousand as at 31 December 2010).

2. Amounts due from banks

As at the balance date, the balance of amounts due from banks was PLN 2,396,227 thousand, of which PLN 2,189,913 thousand (i.e. 91%) related to the Bank (PLN 2,135,065 thousand, i.e. 93% as at 31 December 2010). The balance of amounts due from banks as at respective balance dates and the movements therein are presented in the table below:

	31.12.2011	**31.12.2010**	**Change**	**Change**
	PLN'000	**PLN'000**	**PLN'000**	**(%)**
Placements with other banks	1,912,647	1,493,827	418,820	28
Current accounts	405,724	722,717	(316,993)	(44)
Loans and advances granted	76,483	84,462	(7,979)	(9)
Receivables in respect of transactions not yet cleared	32,385	28,089	4,296	15
Cash in transit	1,800	6,862	(5,062)	(74)
Total	**2,429,039**	**2,335,957**	**93,082**	**4**
Impairment allowance	(32,812)	(28,925)	(3,887)	13
Total, net	**2,396,227**	**2,307,032**	**89,195**	**4**

The increase in the balance of amounts due from banks (of PLN 89,195 thousand, i.e. 4%) was mainly due to the increase in the balance of placements with other banks (an increase of PLN 418,820 thousand, i.e. 28%), which was partly offset by a drop in the balance of current accounts (a decrease of PLN 316,993 thousand, i.e. 44%).

The impairment allowance of PLN 32,812 thousand (PLN 28,925 thousand as at 31 December 2010) was mainly related to amounts due from a foreign bank in respect of transactions in derivative instruments not yet cleared but declared due, in the amount of PLN 32,385 thousand (PLN 28,089 thousand as at 31 December 2010).

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

2. Amounts due from banks (cont.)

As at the balance date, amounts due denominated in foreign currencies represented an equivalent of PLN 2,062,246 thousand, i.e. 85% of the gross balance (PLN 2,087,392 thousand, i.e. 89% of the gross balance as at 31 December 2010).

3. Financial assets held for trading

As at 31 December 2011, the balance of 'Financial assets held for trading' amounted to PLN 1,311,089 thousand and comprised solely the Bank's balance. The balance comprised the following assets:

	31.12.2011 PLN'000	31.12.2010 PLN'000	Change PLN'000	Change (%)
Treasury bonds (PLN)	1,219,069	1,483,144	(264,075)	(18)
Treasury bills	49,402	-	49,402	100
Other	42,618	20,505	22,113	108
Total	**1,311,089**	**1,503,649**	**(192,560)**	**(13)**

The fall in the valuation of financial assets held for trading of PLN 192,560 thousand (i.e. 13%) as at the balance date was due to a decrease in the Bank's exposure in Polish Treasury bonds (down PLN 264,075 thousand, i.e. 18%) and it was partly offset by an increase in the Bank's exposure in Treasury bills (up by PLN 49,402 thousand, there were none in the portfolio as at 31 December 2010) and other securities (up by PLN 22,113 thousand, i.e. 108%). The portfolio of financial assets held for trading was subject to significant fluctuations as at the end of the individual months of the audited period, reaching the highest balance as at the end of March 2011 (PLN 3,329,249 thousand).

As at 31 December 2011, Treasury bonds represented 93% of the balance of all financial assets held for trading.

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

4. Derivative financial instruments

The balance of receivables in respect of positive fair value of derivatives increased by PLN 1,345,648 thousand (i.e. by 78%) compared with the end of 2010 and amounted to PLN 3,064,733 thousand as at 31 December 2011. The liabilities in respect of negative fair value of derivatives amounted to PLN 2,645,281 thousand and they increased by PLN 240,486 thousand (i.e. by 10%) compared with the end of 2010. The Bank's share in both balances was nearly 100% and comprised the following transactions:

	31.12.2011 Assets PLN'000	**31.12.2011 Liabilities PLN'000**	**31.12.2010 Assets PLN'000**	**31.12.2010 Liabilities PLN'000**
Interest rate swaps	2,399,066	2,378,165	1,585,613	2,252,113
- including CIRS:	*419,640*	*421,039*	*126,219*	*687,977*
Currency forwards	557,624	195,991	80,560	126,585
Options	106,492	70,112	46,397	25,382
Other	1,551	1,013	6,515	715
Total	**3,064,733**	**2,645,281**	**1,719,085**	**2,404,795**

The movements in the above-mentioned balances as at 31 December 2011 compared with the balances as at 31 December 2010 are presented in the table below:

	Change Assets PLN'000	**Change Assets %**	**Change Liabilities PLN'000**	**Change Liabilities %**
Interest rate swaps	813,453	51	126,052	6
- including CIRS	*293,421*	*232*	*(266,938)*	*(39)*
Currency forwards	477,064	592	69,406	55
Options	60,095	130	44,730	176
Other	(4,964)	(76)	298	42
Total	**1,345,648**	**78**	**240,486**	**10**

In 2011, there was an increase in both the positive and negative fair values of derivatives. The most significant change related to the increase in the positive fair value of interest rate transactions and currency forwards and was due to (among other things) the increase in the nominal amounts of the transactions concluded (an increase of PLN 157,724,082 thousand, i.e. 36% and PLN 23,845,196 thousand, i.e. 95% respectively).

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

4. Derivative financial instruments (cont.)

Beginning from 2009, the Bank has applied hedge accounting (a macro cash flow hedge) in accordance with IAS 39 F6.2 – F6.3. In 2011, the Bank established one new hedging relationship:

- A hedge of the cash flow volatility on floating interest rate loans in CHF as a result of the interest rate risk, using IRS transactions. In connection with establishing the new hedging relationship in 2011, a net amount of PLN 28,415 thousand was recognized in the statement of comprehensive income.

In addition, the Bank continued to use the hedging relationships created in the previous years:

- a hedge of the cash flow volatility on mortgage loans denominated in CHF and negotiated deposits in PLN as a result of the interest rate risk and the exchange risk, using CIRS transactions – due to the strategy being pursued in 2011, a net amount of PLN 45,337 thousand was recognized in the statement of comprehensive income;
- a hedge of the cash flow volatility on floating interest rate loans in EUR as a result of the interest rate risk, using IRS transactions – due to the strategy being pursued in 2011, a net amount of PLN 70,325 thousand was recognized in the statement of comprehensive income;
- a hedge of the cash flow volatility on floating interest rate loans in PLN as a result of the interest rate risk, using IRS transactions – due to the strategy being pursued in 2011, a net amount of PLN 184 thousand was recognized in the statement of comprehensive income.

In total, as a result of applying hedge accounting the Bank recognized PLN 144,261 thousand, net of deferred income tax (PLN 98,648 thousand net of deferred income tax in 2010) in the statement of comprehensive income. At the same time, the Bank recognized the ineffective portion of cash flow hedges of PLN 64,342 thousand in the income statement (PLN 82,879 thousand in 2010).

At the same time, the amount of PLN (1,112,235) thousand was cleared to net profit out of comprehensive income (PLN 267,292 thousand in 2010).

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 amount – net foreign exchange gains;
- interest accrued as at the balance date – net interest income;
- mark-to-market – revaluation reserve and net gain/(loss) on financial instruments designated at fair value (the ineffective part).

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

4. Derivative financial instruments (cont.)

As at the balance date, the net fair value measurement of derivative transactions designated as hedges as part of two hedging relationships applied by the Bank based on these instruments amounted to PLN 174,327 thousand:

	Assets 31.12.2011 PLN'000	Liabilities 31.12.2011 PLN'000	Net 31.12.2011 PLN'000
Fair value measurement, including:	**313,182**	**67,845**	**381,027**
- measurement until the date of introducing hedge accounting (net income/loss from financial instruments designated at fair value)	111,117	(100,373)	10,744
- measurement from the date of introducing hedge accounting (revaluation reserve)	202,065	168,218	370,283
Foreign exchange differences on the revaluation of the nominal amount (net foreign exchange gains/losses);	74,732	(453,863)	(379,131)
Interest accrued (net interest income)	129,011	43,420	172,431
Total	**516,925**	**(342,598)**	**174,327**

As at 31 December 2010, the net measurement to fair value of derivative transactions designated as hedges amounted to PLN (402,062) thousand:

	Assets 31.12.2010 PLN'000	Liabilities 31.12.2010 PLN'000	Net 31.12.2010 PLN'000
Fair value measurement, including:	**114,394**	**202,271**	**316,665**
- measurement until the date of introducing hedge accounting (net income/loss from financial instruments designated at fair value)	140,855	(101,320)	39,535
- measurement from the date of introducing hedge accounting (revaluation reserve)	(26,461)	303,591	277,130
Foreign exchange differences on revaluation of the nominal amount (net foreign exchange gains/losses);	(74,055)	(822,521)	(896,576)
Interest accrued (net interest income)	113,582	64,267	177,849
Total	**153,921**	**(555,983)**	**(402,062)**

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

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

The balance of 'Financial instruments designated at fair value through profit and loss' increased by PLN 1,708,870 thousand (i.e. by 16%) compared with the end of 2010 As at 31 December 2011, it was PLN 12,467,201 thousand, and as in the previous year, comprised solely the Bank's balance. The portfolio comprised the following categories of securities:

	31.12.2011	31.12.2010	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
NBP bills	8,593,791	3,997,780	4,596,011	115
Treasury bills	2,180,148	1,893,058	287,090	15
Treasury bonds (PLN)	1,318,278	4,738,644	(3,420,366)	(72)
Municipal bonds (EUR)	143,973	128,849	15,124	12
Treasury bonds (EUR)	122,089	-	122,089	100
Municipal bonds	108,922	-	108,922	100
Total	**12,467,201**	**10,758,331**	**1,708,870**	**16**

The increase in the balance of financial instruments designated at fair value through profit and loss resulted mainly from increasing the Bank's exposure in short-term securities – compared with the end of 2010, the balances of NBP bills and Treasury bills increased by PLN 4,596,011 thousand (i.e. by 115%) and PLN 287,090 thousand (i.e. 15%) respectively. The increase was partly offset by a drop in the balance of Treasury bonds in PLN (a decrease of PLN 3,420,366 thousand, i.e. 72% compared with the balance as at 31 December 2010). The most significant increase in the Bank's exposure in NBP bills took place in December 2011 – the balance increased by PLN 3,595,066 thousand compared with the previous month.

All the financial instruments designated at fair value through profit and loss were issued by Polish entities. As at the balance date, instruments quoted on organized stock exchanges represented 11% of the balance (29% as at the end of 2010).

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

6. Loans and advances to customers

The portfolio of loans and advances to customers, measured by reference to the gross value of loans granted, increased in 2011 by PLN 11,767,948 thousand (i.e. 9%) compared with the balance as at 31 December 2010 and amounted to PLN 147,292,737 thousand.

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

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

As at the balance date, the loan portfolio comprised:

	31.12.2011	31.12.2010	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Financial sector (excluding banks)	**1,252,368**	**2,999,096**	**(1,746,728)**	**(58)**
corporate loans	1,252,368	2,999,096	(1,746,728)	(58)
Non-financial sector	**140,973,940**	**128,675,195**	**12,298,745**	**10**
mortgage loans and loans to developers	71,156,253	62,678,534	8,477,719	14
corporate loans	45,480,936	40,353,507	5,127,429	13
consumer loans	24,336,751	25,643,154	(1,306,403)	(5)
Public sector	**5,066,429**	**3,850,498**	**1,215,931**	**32**
corporate loans	5,066,429	3,849,854	1,216,575	32
mortgage loans	-	644	(644)	(100)
Total loans and advances, gross	**147,292,737**	**135,524,789**	**11,767,948**	**9**
Impairment allowance	(5,658,243)	(4,856,670)	(801,573)	17
Total loans and advances, net	**141,634,494**	**130,668,119**	**10,966,375**	**8**

As at the balance date, the net loans and advances to customers amounted to PLN 141,634,494 thousand, of which PLN 137,548,973 thousand, i.e. 97%) related to the Bank (PLN 127,065,998 thousand, i.e. 97% as at 31 December 2010). The remaining 3% comprised among others lease receivables of Grupa Bankowy Fundusz Leasingowy SA of PLN 2,886,287 thousand (PLN 2,470,759 thousand as at 31 December 2010) and loans and advances granted by Kredobank SA of PLN 775,708 thousand (PLN 1,035,672 thousand as at 31 December 2010). The decrease in the balance of loans and advances granted by Kredobank resulted from selling a part of the impaired loans portfolio to Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. in the amount of PLN 239,187 thousand (both companies belong to the Group and are consolidated under the acquisition accounting method).

As at 31 December 2011, 24% (i.e. PLN 35,679,608 thousand) out of the balance of loans and advances was related to loans and advances granted in foreign currencies (of which 69% was denominated in the Swiss franc). As at 31 December 2010, amounts due denominated in foreign currencies represented 23% of the balance i.e. PLN 31,655,036 thousand (of which 72% related to the Swiss franc).

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

6. Loans and advances to customers (cont.)

b) Structure of the Group's loan portfolio in terms of quality

	31.12.2011 PLN'000	31.12.2010 PLN'000	31.12.2011 Structure %	31.12.2010 Structure %
Impaired loans and advances	11,547,179	10,659,485	7.8	7.9
Loans and advances not impaired, gross	132,749,417	122,304,640	90.1	90.3
Impaired lease receivables	250,053	227,689	0.2	0.1
Lease receivables not impaired, gross	2,746,088	2,332,975	1.9	1.7
Total loans and advances, gross	**147,292,737**	**135,524,789**	**100.0**	**100.0**
Allowances for loans and advances impaired	(4,893,392)	(4,281,537)	86.5	88.1
Impairment allowances for incurred but not reported losses (IBNR) of loans and advances	(656,478)	(485,228)	11.6	10.0
Allowances for lease receivables impaired	(96,271)	(77,522)	1.7	1.6
Impairment allowances for incurred but not reported losses (IBNR) of lease receivables	(12,102)	(12,383)	0.2	0.3
Total impairment allowances for loans and advances	**(5,658,243)**	**(4,856,670)**	**100.0**	**100.0**
Total loans and advances, net	**141,634,494**	**130,668,119**		

As at the end of 2011, the share of impaired loans in the total loan portfolio did not change compared with the end of 2010 and amounted to 8.0%. At the same time, the ratio of coverage with impairment allowances of impaired loans and advances to customers increased and amounted to 42.3% (40.0% as at 31 December 2010).

As at 31 December 2011 the balance sheet amount of impairment allowances in respect of the subsidiaries in Ukraine (Kredobank SA, Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.) and the Bankowy Fundusz Leasingowy SA Group increased by PLN 188,333 thousand, i.e. 49% (where 30% is the actual increase in the balance and 19% is a result of foreign exchange rate fluctuations) and by PLN 20,524 thousand (i.e. 23%) respectively. The share of impaired loans/impaired lease receivables in the total balance of loans/lease receivables as at the balance date was 73.2% for the subsidiaries in the Ukraine (in total) and 8.3% for the Bankowy Fundusz Leasingowy SA Group and was by 3.2 pp. and by 0.6 pp. respectively lower than as at 31 December 2010.

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

6. Loans and advances to customers

b) Structure of the Group's loan portfolio in terms of quality (cont.)

The total gross carrying amount of the sold in 2011 impaired loans was PLN 1,342,488 thousand (the net amount was PLN 361,610 thousand).

The share of allowances for incurred but not reported impairment (IBNR) in the total allowances was higher than in the prior year - as at the balance date, the allowance amounted to PLN 668,580 thousand (11.8% of the total allowances), whereas in the prior year it amounted to PLN 505,052 thousand (10.4% of the total allowances). This was a result, among other things, of changing the methodology for calculating impairment allowances in respect of mortgage loans and periodic updating of the parameters applied in the calculation of the allowances at the Bank.

The reconciliation of the change in the balance of impairment allowances for loans and advances to customers in the balance sheet and the net impairment allowances as at 31 December 2011 is presented below (in PLN'000):

	consumer loans PLN'000	**mortgage loans PLN'000**	**corporate loans and lease receivables PLN'000**	**Total PLN'000**
Impairment allowances on loans and advances to customers in the balance sheet as at 31 December 2010	(1,513,717)	(983,311)	(2,359,642)	**(4,856,670)**
Net impairment allowances on loans recognized in the income statement	(661,032)	(392,106)	(785,667)	**(1,838,805)**
Other changes	(13,328)	(49,639)	(69,982)	**(132,949)**
Decrease in impairment allowances due to the derecognition of assets, not affecting the income statement	724,234	101,226	344,721	**1,170,181**
Impairment allowances on loans and advances to customers in the balance sheet as at 31 December 2011	**(1,463,843)**	**(1,323,830)**	**(2,870,570)**	**(5,658,243)**

Other changes comprised mainly foreign exchange differences related to impairment allowances on amounts due in foreign currencies.

A decrease in impairment allowances due to the derecognition of assets, not affecting the income statement mainly relates to selling impaired loans.

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

7. Investment securities available for sale

As at 31 December 2011, the balance of 'Investment securities available for sale' was PLN 14,393,276 thousand, of which PLN 14,016,676 thousand, i.e. 97%, related to the Bank (PLN 9,868,073 thousand, i.e. 97% as at 31 December 2010). The breakdown of the balance as at the balance date is provided in the table below:

	31.12.2011 PLN'000	31.12.2010 PLN'000	Change PLN'000	Change (%)
Issued by the State Treasury	8,679,028	5,813,314	2,865,714	49
Municipal bonds	3,458,356	2,824,173	634,183	22
Corporate bonds	2,137,215	1,456,333	680,882	47
Issued by other banks	50,870	50,858	12	-
Impairment	(17,944)	(21,259)	3,315	(16)
Total debt securities, net	**14,307,525**	**10,123,419**	**4,184,106**	**41**
Equity securities available for sale, gross	88,370	96,631	(8,261)	(9)
Impairment	(2,619)	(650)	(1,969)	303
Total equity securities, net	**85,751**	**95,981**	**(10,230)**	**(11)**
Total, net	**14,393,276**	**10,219,400**	**4,173,876**	**41**

The change in the balance as at the balance date was mainly due to an increase in the Group's exposure in securities issued by the State Treasury (an increase of PLN 2,865,714 thousand, i.e. 49%) and the growth in the corporate bonds portfolio (of PLN 680,882 thousand, i.e. 47%) and municipal bonds (of PLN 634,183 thousand, i.e. 22%).

The balance of corporate and municipal bonds comprised bonds issued by companies and local authorities for which the Bank acted as the underwriter. The material increase in the balance of corporate and municipal bonds was due to new issues being carried out in the last month of 2011 (an increase of PLN 337,506 thousand, i.e. 17% and PLN 331,642 thousand, i.e. 11%).

The impairment allowance for debt securities of PLN 17,944 thousand comprised mainly of an allowance recorded in connection with impairment of corporate debt securities and bills in the Bank's portfolio of PLN 12,998 thousand (PLN 13,045 thousand as at 31 December 2010). The impairment allowance for equity securities of PLN 2,619 thousand (PLN 650 thousand as at 31 December 2010) comprised mainly of an allowance recorded in connection with equity securities not admitted for trading in the Bank's portfolio of PLN 2,504 thousand (PLN 533 thousand as at 31 December 2010).

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

8. Investments in associates and jointly controlled entities

As at 31 December 2011, the balance of investments in associates and jointly controlled entities amounted to PLN 123,119 thousand and was PLN 49,812 thousand (i.e. 29%) lower than as at 31 December 2010:

	31.12.2011	31.12.2010	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Jointly controlled entities	**15,972**	**41,279**	**(25,307)**	**(61)**
The Centrum Haffnera Sp. z o.o. Group	10,665	31,981	(21,316)	(67)
Centrum Obsługi Biznesu Sp. z o.o.	5,307	9,298	(3,991)	(43)
Associates	**196,100**	**191,790**	**4,310**	**2**
Bank Pocztowy SA	190,698	186,598	4,100	2
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	4,975	4,967	8	-
Agencja Inwestycyjna Corp-SA SA	427	225	202	89
Shares in associates and co-subsidiaries - total, gross	**212,072**	**233,069**	**(20,997)**	**(9)**
Impairment allowance	(88,953)	(60,138)	(28,815)	48
Shares in jointly controlled entities and associates	**123,119**	**172,931**	**(49,812)**	**(29)**

The drop in net investments in jointly controlled entities and associates was caused mainly by setting up an impairment allowance for Bank Pocztowy SA in the amount of PLN 28,807 thousand.

9. Inventories

As at 31 December 2011, inventories amounted to PLN 566,846 thousand, of which PLN 440,429 thousand (i.e. 83%) related to the Qualia Development Group (PLN 403,849 thousand i.e. 78% as at 31 December 2010). The balance comprised:

	31.12.2011	31.12.2010	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Work in progress – construction projects	271,709	261,609	10,100	4
Construction projects for sale	216,851	195,817	21,034	11
Goods for resale	102,412	96,298	6,114	6
Materials	8,962	11,409	(2,447)	(21)
Inventory write-downs	(33,088)	(34,858)	1,770	(5)
Total	**566,846**	**530,275**	**36,571**	7

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

9. Inventories (cont.)

The largest portion of the remaining part of the balance comprised assets of the Bankowy Fundusz Leasingowy SA Group with a value of PLN 73,378 thousand (i.e. 13%) relating to non-current assets waiting to be leased and previously leased assets currently recovered – recognized in the goods for resale balance.

Impairment allowances on inventories of PLN 33,088 thousand as at 31 December 2011 related mainly to allowances in respect of the leased assets recovered by the Bankowy Fundusz Leasingowy SA Group of PLN 7,480 thousand (PLN 9,251 thousand as at 31 December 2010) and impairment allowances in the Qualia Development Group of PLN 25,607 thousand (unchanged compared with 2010), relating mainly to impairment of land and capitalized capital expenditure.

10. Intangible assets

As at the balance date, intangible assets amounted to PLN 1,800,008 thousand, of which PLN 1,508,310 thousand i.e. 84% related to the Bank (PLN 1,521,855 thousand, i.e. 85% as at 31 December 2010). The analytical break-down of the balance is shown in the table below.

	31.12.2011	**31.12.2010**	**Change**	**Change**
	PLN'000	**PLN'000**	**PLN'000**	**(%)**
Software	2,859,020	2,479,718	379,302	15
Goodwill on acquisition	344,865	344,695	170	-
Development costs	3,486	3,486	-	-
Other intangible assets (including capital expenditure)	224,958	397,155	(172,197)	(43)
Total, gross	**3,432,329**	**3,225,054**	**207,275**	**6**
Accumulated amortization	(1,497,026)	(1,290,045)	(206,981)	16
Impairment allowance	(135,295)	(132,972)	(2,323)	2
Total, net	**1,800,008**	**1,802,037**	**(2,029)**	-

Impairment allowance on inventories of PLN 135,295 thousand as at the balance date related mainly to impairment allowances in respect of Kredobank SA of PLN 79,762 thousand and companies of the Qualia Development Group of PLN 37,754 thousand (PLN 79,762 thousand and PLN 35,193 thousand as at 31 December 2010 respectively). Impairment allowance in respect of the Qualia Development Group related to Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów sp.k (PLN 30,740 thousand) and Sarnia Dolina Sp. z o.o. (PLN 7,014 thousand).

The wear and tear of intangible assets measured with the ratio of accumulated amortization to gross intangible assets amounted to 44% (40% as at 31 December 2010).

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

11. Tangible fixed assets

As at the balance date the net carrying amount of the balance of 'Tangible fixed assets' amounted to PLN 2,541,317 thousand of which 79% related to the Bank (80% as at 31 December 2010). The analytical break-down of the balance is shown in the table below.

	31.12.2011	31.12.2010	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Land and buildings	2,514,959	2,485,233	29,726	1
Machinery and equipment	2,262,764	2,314,537	(51,773)	(2)
Fixed assets under construction	149,975	113,268	36,707	32
Means of transport	89,587	79,982	9,605	12
Investment properties	793	793	-	-
Other	437,268	452,619	(15,351)	(3)
Tangible fixed assets, gross	**5,455,346**	**5,446,432**	**8,914**	**-**
Accumulated depreciation	(2,907,641)	(2,851,553)	(56,088)	2
Impairment allowance	(6,388)	(18,434)	12,046	(65)
Tangible fixed assets, net	**2,541,317**	**2,576,445**	**(35,128)**	**(1)**

As at the balance date, the gross amount of tangible fixed assets increased slightly by PLN 8,914 thousand compared with the end of the prior year. The increase in the balance of fixed assets and buildings of PLN 36,707 thousand (i.e. 32%) and land and buildings of PLN 29,726 thousand (i.e. 1%) was offset by a drop in the balance of machinery and equipment of PLN 51,773 thousand (i.e. 2%).

The balance of tangible fixed assets also included assets leased out under operating lease contracts of PLN 24,715 thousand (PLN 16,052 thousand as at 31 December 2010).

The decrease in the balance of impairment allowences as at 31 December 2011 resulted mainly from the Bank's derecognition of fixed assets under construction (impairment allowance of PLN 17,246 thousand as at 31 December 2011).

The wear and tear of tangible fixed assets measured with the ratio of accumulated depreciation to gross tangible fixed assets amounted to 53% (52% as at 31 December 2010).

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

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

12. Other assets

In 2011, the value of other assets increased by PLN 123,389 thousand (i.e. 20%) and amounted to PLN 737,270 thousand as at the balance date, of which PLN 448,971 thousand (i.e. 61%) related to the Bank, and PLN 179,314 thousand (i.e. 24%) to PKO BP Bankowy Powszechne Towarzystwo Emerytalne SA (PLN 367,781 thousand, i.e. 60% and PLN 142,558 thousand, i.e. 23% respectively as at 31 December 2010). The balance comprised the following asset categories:

	31.12.2011 PLN'000	31.12.2010 PLN'000	Change PLN'000	Change (%)
Prepayments and deferred costs	209,379	170,978	38,401	22
Settlements of payment card transactions	161,552	204,677	(43,125)	(21)
Settlement of financial instruments	143,845	47,279	96,566	204
Receivables from customers	87,995	86,592	1,403	2
Receivables from other transactions with financial and non-financial entities	26,538	11,088	15,450	139
Receivables and settlements of securities turnover	1,730	8,020	(6,290)	(78)
Receivables from unsettled transactions in derivatives	6,134	7,121	(987)	(14)
Receivables from the State budget due to distribution of court fee stamps conducted by the Bank	3,350	9,311	(5,961)	(64)
Other	96,747	68,815	27,932	41
Total	**737,270**	**613,881**	**123,389**	**20**

As at the balance date, prepayments and deferred costs related mainly to deferred customer acquisition costs of PLN 172,843 thousand (PLN 133,594 thousand as at 31 December 2010) incurred by PKO BP Bankowy Powszechne Towarzystwo Emerytalne SA.

As at the balance date, the gross carrying amount of other assets of PLN 922,388 thousand (PLN 789,147 thousand as at 31 December 2010) was reduced by impairment allowances of PLN 185,118 thousand (PLN 175,266 thousand as at 31 December 2010), of which 92%, i.e. PLN 170,651 thousand related to the Bank (96%, i.e. PLN 167,509 thousand as at 31 December 2010). Impairment allowances comprised mainly allowances on receivables due to unsettled, negotiated currency exchange transactions and transactions in derivatives conducted by the Bank of PLN 84,698 thousand (PLN 102,475 thousand as at 31 December 2010).

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

13. Amounts due to banks

As at 31 December 2011 the balance of 'Amounts due to banks' amounted to PLN 6,239,164 thousand (PLN 5,233,875 thousand as at the end of 2010), of which 85% related to the Bank (80% as at 31 December 2010). Apart from the Bank, the Bankowy Fundusz Leasingowy SA Group also had material liabilities in respect of other banks covering 14% of the balance (20% of the balance as at 31 December 2010). The balance comprised:

	31.12.2011 PLN'000	31.12.2010 PLN'000	Change PLN'000	Change (%)
Loans and advances received	4,360,878	4,068,332	292,546	7
Bank deposits	1,372,635	973,072	399,563	41
Current accounts	422,707	44,379	378,328	852
Other money-market deposits	82,944	93,646	(10,702)	(11)
Amounts due to repurchase agreement	-	54,446	(54,446)	(100)
Total	**6,239,164**	**5,233,875**	**1,005,289**	**19**

The balance of loans and advances received related mainly to the Bank's liabilities in respect of the syndicated loan in Swiss francs of PLN 3,443,872 thousand (PLN 2,999,116 thousand as at 31 December 2010) granted by a consortium of Polish and foreign banks in 2007 for five years, with an extension option, and loans from other banks received by the Bankowy Fundusz Leasingowy SA Group of PLN 899,536 thousand (PLN 1,051,693 thousand as at 31 December 2010).

The increase in loans and advances received as at 31 December 2011 was caused mainly by an increase in the valuation of the loan granted to the Bank (an increase of PLN 444,756 thousand, i.e. 15%) – due to the change in the CHF/PLN exchange rate (an increase from 3.16 as at the end of 2010 to 3.63 as at the end of 2011), with a drop in the balance of bank loans for other Group companies.

As at the balance date, 74% of amounts due to banks comprised foreign currency liabilities (72% as at 31 December 2010).

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

14. Amounts due to customers

As at the balance date, the balance of the 'Amounts due to customers' amounted to PLN 146,473,897 thousand, of which PLN 145,283,767 thousand (i.e. 99%) related to the Bank (PLN 131,847,359 thousand, i.e. 99% respectively as at 31 December 2010).

	31.12.2011 PLN'000	31.12.2010 PLN'000	Change PLN'000	Change (%)
Amounts due to retail customers	**104,183,094**	**95,107,854**	**9,075,240**	**10**
term deposits	55,523,745	48,398,185	7,125,560	15
current accounts and overnight deposits	48,187,307	46,416,011	1,771,296	4
other money-market deposits	472,042	293,658	178,384	61
Amounts due to corporate entities	**38,468,560**	**31,826,551**	**6,642,009**	**21**
term deposits	23,949,758	18,009,746	5,940,012	33
current accounts and overnight deposits	11,399,925	11,264,473	135,452	1
loans and advances received	1,988,013	1,856,819	131,194	7
repo transactions	644,005	446,175	197,830	44
other money-market deposits	486,859	249,338	237,521	95
Amounts due to State budget entities	**3,822,243**	**6,046,810**	**(2,224,567)**	**(37)**
current accounts and overnight deposits	2,241,333	2,689,369	(448,036)	(17)
term deposits	1,516,981	3,349,821	(1,832,840)	(55)
other money-market deposits	63,929	7,620	56,309	739
Total amounts due to customers	**146,473,897**	**132,981,215**	**13,492,682**	**10**

In 2011 the structure of amounts due to customers changed – the share of term deposits increased (57% of the balance compared with 54% at the end of 2010) which was partly offset by a drop in current accounts (43% of the balance compared with 46% as at the end of 2010).

As at the balance date, 10% of the balance comprised liabilities denominated in foreign currencies (8% as at 31 December 2010).

In 2011, the Bank continued to increase its deposit base. The aim was realized by actively seeking new funds by products addressed to retail customers (housing savings account, term deposit with daily interest capitalization, Lokata 3+3, and Lokata 6+6) as well as by offering negotiable placements to corporate entities.

As at the balance date the value of the loan to deposit ratio (L/D) dropped and amounted to 96.7% (98.3% as at 31 December 2010).

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

15. Debt securities in issue

	31.12.2011 PLN'000	31.12.2010 PLN'000	Change PLN'000	Change (%)
Financial instruments measured at amortized cost	7,596,164	3,298,867	4,297,297	130
Bank bonds issued by PKO Bank Polski SA	2,929,973	-	2,929,973	100
Bonds issued by PKO Finance AB	4,476,996	3,187,766	1,289,230	40
Bonds issued by BFL SA	189,195	111,101	78,094	70
Financial instruments designated at fair value through profit and loss - bank securities issued by PKO Bank Polski SA	175,615	-	175,615	100
Total	**7,771,779**	**3,298,867**	**4,472,912**	**136**

As at 31 December 2011, the balance of securities in issue amounted to PLN 7,771,779 thousand (PLN 3,298,867 thousand as at 31 December 2010), of which as at 31 December 2011, PLN 3,105,588 thousand (i.e. 40%) related to the Bank (PLN 4,476,996 thousand (i.e. 58%) related to PKO Finance AB, and PLN 189.195 thousand (i.e. 2%) to the Bankowy Fundusz Leasingowy SA Group (as at 31 December 2010 the Bank's balance was nil, PLN 3,187,766 thousand (i.e. 97%) related to PKO Finance AB, and PLN 111.101 thousand, (i.e. 3%) to the Bankowy Fundusz Leasingowy SA Group).

In 2011 under the Bond Issue Program (the issue limit was set at PLN 5 billion), the Bank issued three-month zero-coupon bonds denominated in PLN. As at 31 December 2011 the Bank had bond liabilities in the nominal amount of PLN 2,250,000 thousand, at a discount rate of 5.27% issued in November 2011 and bonds in the nominal amount of PLN 700,000 thousand, at a discount rate of 5.32% issued in December 2011.

The balance relating to PKO Finance AB (of PLN 4,476,996 thousand) resulted from Euro bonds of PLN 800,000 thousand issued on international markets in 2010 and Euro bonds of CHF 250,000 thousand issued in 2011 – both issues were made on behalf of the Bank. PKO Finance AB is a Special Purpose Entity of the Parent Company and is fully consolidated.

BFL SA bonds carry a fluctuating coupon and mature in 2012.

Moreover, in 2011 the Bank offered its customers structured bank securities based on the S&P500 index, price of copper and gold. As at 31 December 2011 the Bank's liabilities in respect of the securities issued amounted to PLN 175,615 thousand (no respective liability as at 31 December 2010). In accordance with IAS 39.11A (a) the Bank does not separate the embedded derivative from the underlying contract and measures the whole instrument at fair value through profit and loss.

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

16. Subordinated liabilities

The balance of subordinated liabilities as at 31 December 2011 of PLN 1,614,377 thousand (PLN 1,611,779 thousand as at 31 December 2010), which related fully to the Bank, comprised subordinated bonds issued by the Bank in 2007 with a total nominal value of PLN 1,600,700 thousand maturing on 30 October 2017 (with the option of early redemption in 2012).

The bonds were issued on the basis of the Act on Bonds of 29 June 1995 in order to increase the Bank's supplementary funds in accordance with art. 127 par. 3 clause 2b of the Banking Law, pursuant to a decision of the Banking Supervision Authority No. 91 dated 5 December 2007 (the supplementary funds are increased by the nominal value of the bonds).

17. Other liabilities

As at the balance sheet date, other liabilities amounted to PLN 2,450,763 thousand, of which PLN 2,145,743 thousand (i.e. 88%) related to the Bank (PLN 1,774,930 thousand, i.e. 85% respectively as at 31 December 2010). Apart from the Bank, the following had a material share in the balance of other liabilities: Bankowy Fundusz Leasingowy Group (PLN 122,301 thousand (i.e. 5%) and respectively PLN 150,570 thousand (i.e. 7%) as at 31 December 2010) and the Qualia Development Group (PLN 68,318 thousand, i.e. 3%. and PLN 50,672 thousand, i.e. 3% respectively as at 31 December 2010). The balance comprised:

	31.12.2011	**31.12.2010**	**Change**	**Change**
	PLN'000	**PLN'000**	**PLN'000**	**(%)**
Deferred income	305,372	345,302	(39,930)	(12)
Accounts payable	291,040	304,515	(13,475)	(4)
Other liabilities relating to:	**1,854,351**	**1,443,017**	**411,334**	**29**
Interbank settlements	580,998	174,854	406,144	232
liabilities relating to settlements of security transactions	279,204	181,456	97,748	54
liabilities due to suppliers	195,740	162,137	33,603	21
liabilities relating to investment activities and internal operations	182,964	196,687	(13,723)	(7)
liabilities arising from social and legal transactions	147,009	283,408	(136,399)	(48)
liabilities arising from foreign exchange transactions	140,546	131,849	8,697	7
settlements of financial instruments	82,861	39,851	43,010	108
liabilities related to payment cards	27,981	20,430	7,551	37
liabilities due to insurance companies	24,821	25,465	(644)	(3)
liabilities due to UOKIK (the Competition and Consumer Protection Office)	16,597	22,310	(5,713)	(26)
Subtotal – to be carried forward to the next page	**1,678,721**	**1,238,447**	**440,274**	**36**

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

17. Other liabilities (cont.)

	31.12.2011 PLN'000	31.12.2010 PLN'000	Change PLN'000	Change (%)
Subtotal – carried forward from the previous page	**1,678,721**	**1,238,447**	**440,274**	**36**
liabilities related to sales of value marks	12,626	14,375	(1,749)	(12)
settlement of acquisition of machinery and equipment, materials, work and services regarding the construction of tangible fixed assets	10,265	4,844	5,421	112
liabilities arising from transactions with financial and non-financial entities	11,949	29,065	(17,116)	(59)
other	140,790	156,286	(15,496)	(10)
Total	**2,450,763**	**2,092,834**	**357,929**	**17**

As at 31 December 2011, the following had the largest share in other liabilities: interbank settlements (24%) amounting to PLN 580.998 thousand, deferred income (12%) of PLN 305,372 thousand and accrued costs (12%) of PLN 291,040 thousand. These balances increased by PLN 406,144 thousand (i.e. 232%), PLN 39,930 thousand (i.e. 12%) and PLN 13,475 thousand (i.e. 4%) respectively as compared with the balances as at 31 December 2010.

The increase in other liabilities of PLN 357,929 thousand was generated mainly by an increase in the balance of interbank settlements of PLN 406,144 thousand, settlements arising from transactions in securities of PLN 97,748 thousand, and settlements of financial instruments of PLN 43,010 thousand, and was offset mainly by a drop in liabilities arising from social and legal transactions of PLN 136,399 thousand and deferred income of PLN 39,930 thousand.

18. Provisions

As at the balance sheet date, provisions amounted to PLN 619,164 thousand, of which PLN 615,489 thousand (i.e. 99%) related to the Bank (PLN 580,266 thousand, i.e. 99% respectively as at 31 December 2010). As at 31 December 2011, provisions comprised:

	31.12.2011 PLN'000	31.12.2010 PLN'000	Change PLN'000	Change (%)
Provision for retirement benefits and anniversary bonuses	428,299	411,792	16,507	4
Provision for liabilities and guarantees granted	111,970	82,320	29,650	36
Provisions for disputed claims	3,638	7,479	(3,841)	(51)
Other provisions	75,257	82,099	(6,842)	(8)
Total	**619,164**	**583,690**	**35,474**	**6**

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

18.Provisions (cont.)

The increase in the balance of provisions as at the end of 2011 resulted mainly from an increase in the level of provisions for liabilities and guarantees granted of PLN 29,650 thousand (i.e. 36%) and provisions for pension and disability pension benefits and anniversary bonuses of PLN 16,507 thousand (i.e. 4%).

As at 31 December 2011, the provision for pension and retirement pension benefits, and for anniversary bonuses related mainly to the Bank (PLN 426,973 thousand as at the end of 2011 and PLN 410,723 thousand as at the end of 2010) and was based on the calculations of an independent actuary included in the report from February 2012. The report was prepared on the basis of balances as at 31 December 2011.

As at 31 December 2011 'Other provisions' related mainly to the restructuring provision of PLN 63,636 thousand (PLN 65,861 thousand as at 31 December 2010). The restructuring provision relates to future liabilities in respect of compensations and severance payments to employees whose employment contracts will be terminated for reasons other than their fault. In accordance with IAS 37.72, the basis for creating this provision is the Bank's employment restructuring plan.

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

19. Equity

As at 31 December 2011, equity amounted to PLN 22,821,984 thousand (PLN 21,359,568 thousand as at 31 December 2010). The table below shows changes in equity in the audited year:

		As at 31.12.2010	Profits recognized directly in other comprehensive income	Net profit for 2011	Transfer of retained earnings	Transfer from net profit to capital	Transfer from net profit to dividends	Other	As at 31.12.2011
		PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
	Share capital	1,250,000	-	-	-	-	-	-	1,250,000
	Other funds, including	**16,888,145**	**115,777**	**-**	**-**	**874,555**	**-**	**2.787**	**17,881,264**
Other reserves	Reserve capital	12,212,177	-	-	-	826,426	-	2.787	13,041,390
	Other reserves	3,412,239	-	-	-	48,129	-	-	3,460,368
	General Banking Risk Fund	1,070,000	-	-	-	-	-	-	1,070,000
	Share in other comprehensive income of associate	976	(1,233)	-	-	-	-	-	(257)
	Available-for-sale financial assets	(25,171)	(27,251)	-	-	-	-	-	(52,422)
	Cash flow hedge	217,924	144,261	-	-	-	-	-	362,185
	Differences on translation of foreign operations	(109,747)	17,724	-	-	-	-	-	(92,023)
	Retained earnings	112,297	-	-	3,216,883	(874,555)	(2,475,000)	(2.787)	(23,162)
	Net profit	3,216,883	-	3,807,195	(3,216,883)	-	-	-	3,807,195
	Total	**21,357,578**	**133,501**	**3,807,195**	**-**	**-**	**(2,475,000)**	**-**	**22,823,274**
	Non-controlling shares	1,990	(830)	(2,450)	-	-	-	-	(1,290)
	Total equity	**21,359,568**	**132,671**	**3,804,745**	**-**	**-**	**(2,475,000)**	**-**	**22,821,984**

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

19. Equity (cont.)

As at 31 December 2011, the Bank's share capital amounted to PLN 1,250,000 thousand and consisted of 1,250,000,000 ordinary shares, each with a par value of PLN 1, including:

- 312,500,000 series A registered shares;
- 197,500,000 series A bearer shares;
- 105,000,000 series B bearer shares;
- 385,000,000 series C bearer shares;
- 250,000,000 series D bearer shares.

On 30 June 2011, the General Shareholders' Meeting of Powszechna Kasa Oszczędności Bank Polski SA passed a resolution relating to the appropriation of profit for 2010, in the amount of PLN 3,311,209 thousand, according to which PLN 800,000 thousand was to be transferred to reserve capital, PLN 36.209 thousand was to be transferred to other reserves and PLN 2,475,000 thousand to be paid out as dividend.

On 30 May 2011, the Ordinary General Shareholders' Meeting of Bankowy Fundusz Leasingowy SA passed a resolution on appropriating the Company's profit for 2010, earmarking PLN 17,037 thousand for transfer to reserve capital.

On 15 June 2011, the Ordinary General Shareholders' Meeting of Qualia spółka z ograniczoną odpowiedzialnością – Neptun Park sp.k. (previous name - PKO BP Inwestycje – Neptun Park sp. z o.o.) passed a resolution on appropriating the Company's profit for 2010 of PLN 5,556 thousand to be fully transferred to reserve capital.

On 1 June 2011, the Ordinary General Shareholders' Meeting of Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów sp.k. (previous name - PKO BP Inwestycje – Nowy Wilanów sp. z o.o.) passed a resolution on appropriating the Company's profit for 2010 of PLN 3,188 thousand to be fully transferred to reserve capital.

On 28 June 2011, the Ordinary General Shareholders' Meeting of Inteligo Financial Services SA passed a resolution on appropriating the Company's profit for 2010 of PLN 17,116 thousand, earmarking PLN 16,716 thousand to be paid out as dividend on behalf of the Bank and PLN 400 thousand to be transferred to reserve capital.

On 15 June 2011, the Ordinary General Shareholders' Meeting of Centrum Elektronicznych Usług Płatniczych eService SA passed a resolution on the appropriation of the profit for 2010 of PLN 24,215 thousand earmarking PLN 22,200 thousand for payment of dividend to the Bank and PLN 2,015 thousand to be transferred to reserve capital (in accordance with art. 396 of the Commercial Companies Code).

On 27 May 2011, the Ordinary General Shareholders' Meeting of Centrum Finansowe Puławska sp. z o.o – in liquidation passed a resolution to appropriate the Company's profit for 2010 of PLN 11,920 thousand earmarking it for transfer to other reserves.

On 30 May 2011, the Ordinary General Shareholder's Meeting of Bankowy Leasing Sp. z o.o. passed a resolution to cover company's losses for 2010 of PLN 783 thousand from the reserve capital.

On 8 July 2011, the Ordinary General Shareholder's Meeting of Fort Mokotów Sp. z o.o. passed a resolution to cover company's losses for 2010 pf PLN 1,936 thousand (PLN 987 thousand related to the Bank) from the reserve capital.

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

19. Equity (cont.)

The Group's own funds calculated in accordance with the Banking Law and Resolution no. 325/2011 of the Polish Financial Supervision Authority amounted to PLN 18,342,916 thousand as at 31 December 2011 (PLN 17,618,546 thousand as at 31 December 2010) and were PLN 6,478,224 thousand higher than the total capital requirements which amounted to PLN 11,864,692 thousand (PLN 11,301,786 thousand as at 31 December 2010). As at 31December 2011, the capital adequacy ratio calculated amounted to 12.37% (12.47% as at 31 December 2010).

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

The following table shows a reconciliation of equity of the consolidated entities with the consolidated equity of the Group as at the balance sheet date:

	31.12.2011	31.12.2010
	PLN'000	PLN'000
Net assets of companies / Groups:		
Powszechna Kasa Oszczędności Bank Polski SA	22,802,375	21.201.848
The Bankowe Towarzystwo Kapitałowe SA Group	5,318	5.124
Bankowy Fundusz Leasingowy SA Group	108,177	99.835
Centrum Elektronicznych Usług Płatniczych 'eService' SA	86,927	85.417
Centrum Finansowe Puławska Sp. z o.o. - in liquidation	261,918	210.299
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	1,414	-
Fort Mokotów Inwestycje Sp. z o.o.	105,087	105.609
Inteligo Financial Services SA	152,612	152.724
Kredobank SA	282,116	340.616
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	240,450	237.433
PKO BP Finat Sp. z o.o.	11,878	-
PKO Finance AB	892	425
PKO Towarzystwo Funduszy Inwestycyjnych SA	61,034	75.603
Qualia Development Sp. z o.o. Group	208,355	147.786
Total net assets	**24.328.553**	**22,662,719**
Eliminations / consolidation adjustments:		
- of share capitals of subsidiaries	(1.544.158)	(1,386,194)
- of other equity items of subsidiaries	155.105	197,998
- impairment allowances for goodwill	(117.516)	(114,955)
Total eliminations	**(1.506.569)**	**(1,303,151)**
Consolidated net assets	**22.821.984**	**21,359,568**

As at 31 December 2011 impairment allowance for goodwill of PLN 117,516 thousand related to goodwill recognized on the acquisition of shares in Kredobank SA of PLN 79,762 thousand and goodwill recognized on the acquisition of shares in the Qualia Development Group companies of PLN 37,754 thousand (Note 10).

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

Consolidated income statement for the year ended 31 December 2011

21.Net interest income

The net interest income earned by the Group in 2011 amounted to PLN 7,609,116 thousand, of which PLN 7,528,168 thousand (i.e. 99%) related to the Bank (PLN 6,328,304 thousand, i.e. 97% in 2010). Net interest income comprised the following items:

	2011	2010	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Interest income:	**12,037,762**	**10,415,315**	**1,622,447**	**16**
Income from loans and advances to customers	9,782,468	8,532,201	1,250,267	15
Income from hedging instruments	814,275	649,116	165,159	25
Income from available-for-sale investment securities	576,630	457,802	118,828	26
Income from financial assets designated at fair value through profit or loss at initial recognition	561,826	494,702	67,124	14
Income from placements with banks	218,731	148,494	70,237	47
Income from financial instruments held for trading	74,847	128,940	(54,093)	(42)
Income from securities held to maturity	-	156	(156)	(100)
Other	8,985	3,904	5,081	130
Interest expense:	**(4,428,646)**	**(3,899,149)**	**(529,497)**	**14**
Interest expense on customers	(4,101,578)	(3,715,721)	(385,857)	10
Expenses on issue of debt securities	(278,178)	(123,382)	(154,796)	125
Interest expense on deposits from banks	(45,684)	(30,276)	(15,408)	51
Premium expense on available-for-sale debt securities	(1,322)	(3,553)	2,231	(63)
Other	(1,884)	(26,217)	24,333	(93)
Net interest income	**7,609,116**	**6,516,166**	**1,092,950**	**17**

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

21. Net interest income (cont.)

The increase in interest income of PLN 1,622,447 thousand (i.e. 16%) in 2011 was caused mainly by interest income on loans and advances to customers and income on hedging instruments which were higher than in 2010 (an increase of PLN 1,250,267 thousand, i.e. 15% and PLN 165,159 thousand, i.e. 25%) respectively. The increase in interest income on loans and advances to customers was caused mainly by an increase in the loan portfolio (a gross increase of PLN 11,767,948 thousand, i.e. 9% (Note 6)) and an increase in reference rates (the average annual WIBOR 1M rate in 2011 amounted to 4.37% compared with 3.62% in 2010).

The dynamics of interest expense were similar and amounted to 14%, which translated into an increase in interest expense of PLN 529,497 thousand in 2011. This was mainly the result of higher interest expense on customers and costs of issuing own debt securities (an increase of PLN 385,857 thousand, i.e. 10% and PLN 154,796 thousand, i.e. 125%) respectively. This increase resulted mainly from the increase in the balance of amounts due to customers (an increase of PLN 13,492,682 thousand, i.e. 10% (Note 14)) and securities in issue (an increase of PLN 4,472,912 thousand, i.e. 136% (Note 15)).

As a result, the interest margin calculated as the ratio of the net interest income to interest income did not change compared with 2010 and amounted to 63% in 2011. The interest spread, calculated as the difference between the rate of interest income on interest-bearing assets and the price of borrowings was 4.2% and did not change significantly (an increase of 0.2 pp.) as compared with 2010.

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

22. Net fee and commission income

In 2011, net fee and commission income earned by the Group amounted to PLN 3,101,444 thousand of which PLN 2,730,653 thousand (i.e. 88%) related to the Bank (PLN 2,799,996 thousand, i.e. 89% in 2010) and PLN 263,894 thousand (i.e. 9%) related to PKO Towarzystwo Funduszy Inwestycyjnych SA (PLN 263,399 thousand, i.e. 8% in 2011). Net fee and commission income comprised the following items:

	2011	2010	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Income from fees and commission	**3,837,165**	**3,880,863**	**(43,698)**	**(1)**
Income from payment cards	1,048,720	963,434	85,286	9
Income from maintenance of bank accounts	916,484	922,632	(6,148)	-
Income from loans and advances granted	582,100	528,824	53,276	10
Income from loan insurance	515,499	653,501	(138,002)	(21)
Income from maintenance of investment funds and open pension funds (including management fees)	340,751	338,144	2,607	1
Income from cash transactions	160,451	177,684	(17,233)	(10)
Income from securities transactions	70,344	73,261	(2,917)	(4)
Income from foreign mass transactions	47,966	44,754	3,212	7
Income from distribution of court fee stamps	18,625	26,255	(7,630)	(29)
Income from fiduciary services	2,806	1,659	1,147	69
Other	133,419	150,715	(17,296)	(11)
Fee and commission expense	**(735,721)**	**(738,034)**	**2,313**	**-**
Expenses on payment cards	(320,592)	(293,247)	(27,345)	9
Expenses on acquisition services	(140,216)	(144,252)	4,036	(3)
Expenses on loan insurance	(133,488)	(150,842)	17,354	(12)
Expenses on settlement services	(20,977)	(21,751)	774	(4)
Expenses on asset management	(16,158)	(21,672)	5,514	(25)
Expenses on commission for operating services of other banks	(11,435)	(10,137)	(1,298)	13
Other	(92,855)	(96,133)	3,278	(3)
Net fee and commission income	**3,101,444**	**3,142,829**	**(41,385)**	**(1)**

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

22. Net fee and commission income (cont.)

In 2011, fee and commission income decreased by PLN 43,698 thousand (i.e. 1%). This drop resulted, among other things, from income on loan insurance being PLN 138,002 thousand (i.e. 21%) lower, partly offset by an increase in income from payment cards of PLN 85,286 thousand (i.e. 9%) and income on loans and advances to customers (an increase of PLN 53,276 thousand (i.e. 10%). The drop in income from loan insurance resulted mainly from a decrease in the volume of consumer loans granted (a drop in the volume of consumer loans of PLN 1,306,404 thousand, i.e. 5% (Note 6)) and reimbursing customers with commission in connection with the early repayment of loans or renouncement of insurance. The increase in income from credit cards resulted mainly from an increase in the number of transactions concluded using payment cards in the Bank of 5.7% compared with the prior year.

Fee and commission expense in 2011 dropped by PLN 2,313 thousand compared with 2010. This drop resulted mainly from a drop in commission expense on loan insurance (of PLN 17,354 thousand, i.e. 12%), a drop in costs of asset management (of PLN 5,514 thousand, i.e. 25%) and a decrease in acquisition costs (of PLN 4,036 thousand, i.e. 3%). The drop in the balance was partly offset by an increase in fee and commission expense on payment cards (an increase of PLN 27,345 thousand, i.e. 9%).

23. Net foreign exchange gains

In 2011, net foreign exchange gains amounted to PLN 337,296 thousand (PLN 346,762 thousand in 2010. Net foreign exchange gains include gains and losses on revaluation and transactions in assets and liabilities in foreign currencies and fair value measurement of foreign exchange derivatives (FX forward, FX swap, CIRS and currency options). In 2011, net foreign exchange gains amounted to PLN 337,296 thousand, of which PLN 331,367 thousand (i.e. 98%) related to the Bank (PLN 341,348 thousand, i.e. 98% in 2010). Compared with 2010, net foreign exchange gains dropped by PLN 9,466 thousand (i.e. 3%).

	2011	2010	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Foreign exchange differences on financial instruments at fair value through profit or loss	523,174	(1,026,841)	1,550,015	(151)
Foreign exchange differences on translation	(185,878)	1,373,603	(1,559,481)	(114)
Total	**337,296**	**346,762**	**(9,466)**	**(3)**

Compared with 2010 the result on the components of the balance reversed. In 2011 the Bank realized net foreign exchange gains on instruments at fair value through profit or loss (a net gain of PLN 523,174 thousand compared with the net loss of PLN 1,026,841 thousand in 2010). This result was mainly determined by the measurement of derivative instruments and resulted chiefly from a change in the measurement of CIRS contracts used mainly by the Bank to manage interest rate risk, the measurement of which changed by PLN 560,359 thousand, i.e. 210% (a change from negative net value of PLN 266,938 thousand as at the end of 2010 to a positive net value of PLN 293,421 as at the end of 2011 – Note 4).

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

23. Net foreign exchange gains / (losses) (cont.)

At the same time, the net loss on other foreign exchange differences (including the result on revaluation of loans and advances) amounted to PLN 185,878 thousand (a drop compared with the gain of PLN 1,373,603 thousand in the prior year).

24. Other operating income

In 2011, other operating income amounted to PLN 451,723 thousand (PLN 469,388 thousand in 2010). Centrum Elektronicznych Usług Płatniczych eService SA had the largest share in the balance (PLN 126,833 thousand, i.e. 28%),the Bankowy Fundusz Leasingowy SA Group (PLN 114,284 thousand, i.e. 25%) and the Qualia Development Group (PLN 103,990 thousand, i.e. 23%). The balance comprised:

	2011	**2010**	**Change**	**Change**
	PLN'000	**PLN'000**	**PLN'000**	**(%)**
Net sales of products and services	256,051	323,919	(67,868)	(21)
Sale or scrapping of tangible fixed assets, intangible assets and assets held for sale	76,636	51,255	25,381	50
Sundry income	20,630	20,730	(100)	-
Damages, penalties and fines received	19,219	23,443	(4,224)	(18)
Expired, forgiven and uncollectible receivables recovered	5,336	4,977	359	7
Sales of shares in jointly controlled entities and associates	-	1,426	(1,426)	(100)
Other	73,851	43,638	30,213	69
Total	**451,723**	**469,388**	**(17,665)**	**(4)**

In 2011, net sales of products and services related mostly to income from development activities of the Qualia Development Group (PLN 102,983 thousand, i.e. 40% of the balance and respectively PLN 155,342 thousand i.e. 48% of the balance in 2010) and activities of Centrum Elektronicznych Usług Płatniczych eService (PLN 124,390 thousand, i.e. 49% of the balance and respectively PLN 145,164 thousand, i.e. 45% of the balance in 2010).

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

25. Other operating expenses

In 2011, other operating expenses amounted to PLN 309,186 thousand, of which PLN 98,924 thousand (i.e. 32%) related to Centrum Elektronicznych Usług Płatniczych eService SA (PLN 90,489 thousand, i.e. 31% in 2010), PLN 72,150 thousand (i.e. 23%) related to the Qualia Development Group (PLN 110,923 thousand i.e. 38% in 2010) and PLN 71.983 thousand (i.e. 23%) to the Bankowy Fundusz Leasingowy SA Group (PLN 62,455 thousand, i.e. 21% in 2010). The balance comprised:

	2011 PLN'000	2010 PLN'000	Change PLN'000	Change (%)
Cost of sale of products and services	(171,543)	(200,536)	28,993	(14)
Costs of sale or scrapping of tangible fixed assets, intangible assets and assets held for sale	(69,946)	(48,107)	(21,839)	45
Costs of donations made	(11,571)	(4,296)	(7,275)	169
Sundry costs	(4,696)	(4,378)	(318)	7
Other	(51,430)	(36,419)	(15,011)	41
Total	**(309,186)**	**(293,736)**	**(15,450)**	**5**

In 2011, costs of sales of products and services related mostly to costs of development activities of the Qualia Development Group (PLN 73,370 thousand, i.e. 43% of the balance in 2011 and respectively PLN 110,352 thousand, i.e. 55% of the balance in 2010) and activities of Centrum Elektronicznych Usług Płatniczych eService (PLN 98,742 thousand, i.e. 57% of the balance in 2011 and respectively PLN 89,607 thousand, i.e. 45% of the balance in 2010).

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

26. Net impairment allowance and write-downs

In 2011, the net impairment allowances and write-downs were negative (an excess of allowances set up over those reversed) and amounted to PLN 1,930,447 thousand. The negative result increased by PLN 62,083 thousand as compared with 2010. The Bank represented the largest part of the balance (PLN 1,826,739 thousand, i.e. 95% (PLN 1,673,082 thousand, i.e. 89% in 2010). The remaining part of the balance related mainly to the negative result on impairment allowances in respect of Kredobank SA of PLN 69,755 thousand, i.e. 4% (PLN 122,655 thousand, i.e. 7% in 2010) and the Bankowy Fundusz Leasingowy SA Group of PLN 30,001 thousand, i.e. 2% (PLN 32,720 thousand, i.e. 2% in 2010).

	2011	2010	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Loans and advances to customers	(1,838,805)	(1,746,215)	(92,590)	5
Investments in entities accounted for under the equity accounting method	(28,815)	(55,110)	26,295	(48)
Intangible assets	(2,561)	(37,837)	35,276	(93)
Tangible fixed assets	(4,549)	(28,790)	24,241	(84)
Investment securities - available for sale	1,330	(1,319)	2,649	(201)
Non-current assets held for sale	-	(1,281)	1,281	(100)
Amounts due from banks	68	(738)	806	(109)
Other	(57,115)	2,926	(60,041)	(2,052)
Net impairment allowance charge	**(1,930,447)**	**(1,868,364)**	**(62,083)**	**3**

In 2011 the increase in net impairment allowances was mainly influenced by the increase in impairment allowances on corporate loans impairment allowances of PLN 120,490 thousand (i.e. 19%) and on housing loans – an increase of PLN 123,445 thousand (i.e. 46%), which increase was offset by a drop in net impairment allowances for consumer loans (a drop of PLN 152,756 thousand, i.e. 19%). Detailed information on the quality of the loan portfolio is shown in Note 6.

Impairment allowances for investment in entities accounted for under the equity method resulted mainly from setting up an impairment allowance for shares in the associate Bank Pocztowy SA of PLN 28,807 thousand in 2011 (a net write-down of PLN 55,171 thousand in 2010).

The remaining portion of the balance was the negative amount of PLN 57,115 thousand in 2011 and comprised mainly the negative result on valuation of liabilities and guarantees granted and impairment allowances on other assets.

The cost of risk amounted to 1.3% in 2011 (1.4% in 2010).

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

27. Administrative expenses

Administrative expenses incurred by the Group in 2011 amounted to PLN 4,411,357 thousand and were PLN 162,221 thousand (i.e. 4%) higher than the costs incurred in 2010. The Bank's expenses comprised 90% of the total Group balance (share unchanged compared with 2010).

	2011	2010	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Staff costs	(2,403,744)	(2,374,901)	(28,843)	1
Overheads	(1,276,586)	(1,237,892)	(38,694)	3
Amortization and depreciation	(520,161)	(512,319)	(7,842)	2
Taxes and fees	(74,129)	(70,640)	(3,489)	5
Contribution and payments to the Banking Guarantee Fund	(136,737)	(53,384)	(83,353)	156
Total	**(4,411,357)**	**(4,249,136)**	**(162,221)**	**4**

The increase in administrative expenses in 2011 resulted mainly from an increase in contributions to the Banking Guarantee Fund (an increase of PLN 83,353 thousand, i.e. 156%), overheads (an increase of PLN 38,694 thousand, i.e. 3%) and staff costs (an increase of PLN 28,843 thousand, i.e. 1%).

The Group's effectiveness ratios in the audited year were as follows:

	2011	2010
	PLN'000	PLN'000
Administrative expenses	(4,411,357)	(4,249,136)
Annual average number of full-time employees	29,352	30,439
Administrative expenses per employee	(150)	(140)
Net profit per employee	130	106

The cost to income ratio amounted to 39.6% in the audited year (41.7% in 2010). The improvement in the C/I ratio was mainly caused by an increase in net interest income (Note 21). Administrative expenses per employee increased, mainly as a result of a drop in the number of employees of 1,087 (i.e. 4%). At the same time net profit per employee increased (a 23% increase in the annual average compared with 2010).

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

28. Income tax expense

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

	2011	2010	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Deferred income tax	(18,039)	197,744	(215,783)	(109)
Current income tax expense	(958,076)	(1,064,174)	106,098	(10)
Income tax expense shown in the income statement	**(976,115)**	**(866,430)**	**(109,685)**	**13**
Income tax expense disclosed in other comprehensive income	(27,441)	(20,390)	(7,051)	35
Total	**(1,003,556)**	**(886,820)**	**(116,736)**	**13**

The effective tax rate amounted to 20.4% in 2011 and was 0.8 pp. lower than in the prior year.

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

28. Corporate income tax (cont.)

(a) Deferred income tax

Deferred income tax relates to timing differences between the book values of assets and liabilities and their tax bases. The balance of deferred tax comprises deductible and taxable temporary differences:

	Statement of financial position 2011 PLN'000	Statement of financial position 2010 PLN'000	Income statement PLN'000
Deferred income tax liability			
Interest capitalized on mortgage loans	190,844	211,576	20,732
Interest accrued on receivables	176,076	111,398	(64,678)
Interest on securities	58,187	44,537	(13,650)
Valuation of derivatives, including:	**94,471**	**98,859**	
- recognized in the income statement	9,514	47,741	38,227
- recognized in other comprehensive income	84,957	51,118	-
Valuation of securities, including:	**16,414**	**-**	
- recognized in the income statement	15,443	-	(15,443)
- recognized in other comprehensive income	971	-	-
Difference between tax and accounting depreciation	293,318	256,004	(35,291)
Other temporary taxable differences	**29,363**	**24,786**	
- recognized in the income statement	29,307	24,535	(6,795)
- recognized in other comprehensive income	56	251	-
Deferred income tax liability, gross	**858,673**	**747,160**	
- recognized in the income statement	772,689	695,791	(76,898)
- recognized in other comprehensive income	85,984	51,369	-

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

28. Corporate income tax (cont.)

(a) Deferred income tax (cont.)

	Statement of financial position 2011 PLN'000	Statement of financial position 2010 PLN'000	Income statement PLN'000
Deferred income tax assets			
Interest accrued on liabilities	391,527	406,364	(14,837)
Valuation of securities, including:	**24,550**	**57,394**	-
- recognized in the income statement	11,580	50,640	(39,060)
- recognized in other comprehensive income	12,970	6,754	-
Adjustment to ESP valuation	211,011	218,000	(6,989)
Impairment allowance on loan exposures	414,558	335,477	79,081
Provisions for employee benefits	126,714	118,613	8,101
Valuation of derivative instruments	16,093	19,470	(3,377)
Other temporary deductible differences, including	**188,778**	**151,880**	-
- recognized in the income statement	188,202	152,262	35,940
- recognized in other comprehensive income	576	(382)	-
Deferred tax assets, gross, including:	**1,373,231**	**1,307,198**	-
- recognized in the income statement	1,359,685	1,300,826	58,859
- recognized in other comprehensive income	13,546	6,372	-
Total effect of temporary differences, including:	**514,558**	**560,038**	-
- recognized in the income statement	586,996	605,035	(18,039)
- recognized in other comprehensive income	(72,438)	(44,997)	-
Deferred income tax asset	543,922	582,802	-
Deferred income tax provision	29,364	22,764	-
Net impact of the deferred income tax on the income statement	-	-	**(18,039)**

Due to the fact that the Group recognized net deductible differences as at 31 December 2011, it recognized a deferred tax asset of PLN 543,922 thousand (PLN 582,802 thousand as at the end of 2010). The deferred income tax provision recognized in the statement of financial position amounted to PLN 29,364 thousand (PLN 22,764 thousand as at the end of 2010).

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

28. Corporate income tax (cont.)

(b) Current income tax

	2011	2010	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Profit before tax	**4,780,860**	**4,079,236**	**701,624**	**17**
Current income tax at the statutory rate (19%)	(908,363)	(775,055)	(133,308)	17
Effect of other income tax rates	(2,504)	(340)	(2,164)	636
Permanent differences, including:	**(73,996)**	**(66,154)**	**(7,842)**	**12**
Provisions released and positive revaluation not constituting taxable income	(51.399)	(36,487)	(14,912)	41
Other non-deductible costs	(17,656)	(19,480)	1,824	(9)
Dividend income	17,859	20,501	(2,642)	(13)
Other	(22,800)	(30,688)	7,888	(26)
Other differences, including donations	8,508	(25,064)	33,572	(134)
Settlement of tax loss	240	183	57	31
Total tax charge	**(976,115)**	**(866,430)**	**(109,685)**	**13**
Effective tax rate	20.4%	21.2%	-0.8 pp.	
Temporary difference in deferred tax recognized in the income statement	(18,039)	197,744	(215,783)	(109)
Current income tax expense	**(958,076)**	**(1,064,174)**	**106,098**	**(10)**

In the audited year, corporate income tax for Group companies was calculated at a rate of 19% (for Poland) and 23% (for the Ukraine), based on profit before tax determined on the basis of IFRS regulations as adopted by the EU, adjusted for non-taxable income and non-deductible costs. Corporate income tax for the year constitutes the sum of current income tax calculated by Group entities (including the Bank – PLN 910,115 thousand).

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

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

Reconciliation of the net profits/(losses) of consolidated companies with the consolidated net profit of the Group for the audited year is shown below:

	2011	2010
	PLN'000	PLN'000
Net profit/(loss):		
Powszechna Kasa Oszczędności Bank Polski SA	3,953,622	3,311,209
The Bankowe Towarzystwo Kapitałowe SA Group	(2,806)	(4,440)
The Bankowy Fundusz Leasingowy SA Group	8,412	10,531
Centrum Elektronicznych Usług Płatniczych 'eService' SA	23,710	24,215
Centrum Finansowe Puławska Sp. z o.o. - in liquidation	12,619	11,920
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	81	-
Fort Mokotów Inwestycje Sp. z o.o.	(522)	(261)
Inteligo Financial Services SA	19,898	18,076
Kredobank SA	(93,815)	(40,314)
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	4,714	12,125
PKO BP Finat Sp. z o.o.	970	-
PKO Finance AB	393	28
PKO Towarzystwo Funduszy Inwestycyjnych SA	37,821	48,463
Qualia Development Sp. z o.o. Group	(4,555)	(10,574)
Total net profit of the consolidated entities	**3,960,542**	**3,380,978**
Consolidation adjustments, including:		
- dividends	(87,228)	(104,232)
- impairment allowance	(2,561)	(35,193)
– other	(66,008)	(28,747)
Net profit of the Group	**3,804,745**	**3,212,806**

In 2011 the impairment allowance of PLN 2,561 thousand related to impairment of goodwill of Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów sp.k. (in 2010 respectively to the impairment of goodwill of PKO Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów sp.k. of PLN 28,179 thousand and Sarnia Dolina Sp. z o.o. of PLN 7,014 thousand).

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

30. Off-balance sheet items

The value of off-balance sheet liabilities granted and received as at 31 December 2011 is shown in the table below:

	31.12.2011	31.12.2010	Change	Change
	PLN'000	PLN'000	PLN'000	(%)
Off-balance sheet liabilities granted, including:	**36,890,388**	**36,785,378**	**105,010**	**-**
Financing granted	30,455,658	29,505,024	950,634	3
Guarantees and warranties granted – nominal value	6,434,730	7,280,354	(845,624)	(12)
Off-balance sheet liabilities received, including:	**2,801,398**	**2,632,689**	**168,709**	**6**
Guarantees and warranties received	1,918,281	2,228,815	(310,534)	(14)
Financing received	883,117	403,874	479,243	119

The slight increase in off-balance sheet liabilities granted (of PLN 105,010 thousand) resulted from the increase in off-balance sheet liabilities relating to finance of PLN 950,634 thousand (i.e. 3%) with a simultaneous decrease in the nominal value of guarantees and warranties granted of PLN 845,624 thousand (i.e. 12%).

V. The independent registered auditor's statement

(a) The Management Board of the Parent Company provided all the information, explanations, and representations required by us in the course of the audit and provided us with a representation letter confirming the completeness of the information included in the consolidation documentation and the disclosure of all contingent liabilities and post-balance-sheet events which occurred up to the date on which that letter was signed.

(b) The scope of the audit was not limited.

(c) The accounting policies and disclosures specified by the Parent Company's Management complied with the International Financial Reporting Standards as adopted by the European Union in all material respects. There were no changes in the accounting policies and methods compared with the previous year.

(d) The calculation of goodwill and its recognition in the consolidated financial statements complied with IFRSs as adopted by the European Union in all material respects.

(e) The consolidation of equity items and the determination of non-controlling interest were carried out properly in all material respects.

(f) The elimination of intercompany balances (receivables and payables) and transactions (revenue and costs) of the consolidated entities were carried out in accordance with the IFRSs as adopted by the European Union in all material respects.

(g) Eliminations of gains/losses unrealized by the consolidated entities included in the value of assets and in respect of dividends were conducted in accordance with the IFRSs as adopted by the European Union in all material respects.

(h) The impact of the disposal or partial disposal of shares in subordinated entities was accounted for properly in all material respects.

(i) The consolidation documentation was complete and accurate and it is stored in a manner ensuring its proper safeguarding.

(j) The consolidated financial statements of the Group for the year ended 31 December 2010 were approved by Resolution no. 5/2011 passed by the General Shareholders' Meeting on 30 June 2011, filed with the National Court Register in Warsaw on 14 July 2011 and published in Monitor Polski B no. 2212 on 16 November 2011.

(k) The consolidated financial statements for the previous year were audited by PricewaterhouseCoopers Sp z o.o. The registered auditor issued an unqualified opinion.

(l) The Notes to the consolidated financial statements present all the material information required by the IFRSs as adopted by the European Union.

V. The independent registered auditor's statement

(m) The information in the Group Directors' Report for the year ended 31 December 2011 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).

(n) We determined the materiality levels at the planning stage. Materiality levels specify the limits up to which identified irregularities may be left unadjusted without any detriment to the quality of the financial statements and to the correctness of the underlying books of account, since failing to make such adjustments will not be misleading for the readers of the financial statements. Materiality measures both the quantity and quality of audited items and that is why it varies for different statement of financial position and income statement items. Due to the complexity and quantity of the materiality levels adopted for audit purposes, they are included in the audit documentation.

(o) The total capital requirement, calculated on the consolidated basis, amounted to PLN 11,864,692 thousand as at the balance date. The capital adequacy ratio, calculated on the consolidated basis, as at 31 December 2011 amounted to 12.37%. As at the balance date, the Group complied with the prudence principle in all material respects.

VI. Final information and comments

This report has been prepared in connection with our audit of the consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski SA Group, of which Powszechna Kasa Oszczędności Bank Polski SA is the Parent Company with its registered office at 15 Puławska Street, in Warsaw. The consolidated financial statements were signed by the Management Board of the Parent Company on 23 February 2012.

This report should be read in conjunction with the Independent Registered Auditor's unqualified Opinion to the General Shareholders' Meeting and the Supervisory Board of Powszechna Kasa Oszczędnościowa Bank Polski SA dated 29 February 2012, concerning the said consolidated financial statements. The opinion on the financial statements expresses a general conclusion drawn from the audit. This assessment involves estimating the materiality of individual audit findings rather than being a sum of all the evaluations of individual consolidated financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the consolidated financial statements as a whole.

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

Antoni F. Reczek
President of the Management Board

PricewaterhouseCoopers Sp. z o.o.

Principal Registered Auditor
No. 90011

Warsaw, 29 February 2012