



PKO BANK POLSKI
SPÓŁKA AKCYJNA

Consolidated Financial Statements
of Powszechna Kasa Oszczędności Bank Polski
Spółka Akcyjna Group
for the year ended 31 December 2008

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SELECTED FINANCIAL DATA DERIVED FROM THE CONSOLIDATED FINANCIAL STATEMENTS

Selected financial data presented below constitute a part of notes to the consolidated financial statements of PKO BP SA Group for the year ended 2008.

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	2008	2007	2008	2007
Net interest income	6 127 315	4 646 567	1 734 751	1 230 292
Net fee and commission income	2 411 809	2 331 847	682 826	617 413
Operating profit	3 961 749	3 604 858	1 121 641	954 474
Net profit (including minority interest)	3 139 187	2 941 392	888 759	778 805
Net profit	3 120 674	2 903 632	883 518	768 807
Equity attributable to the parent company	13 951 800	11 920 949	3 343 831	3 328 015
Total equity	13 998 016	11 979 015	3 354 907	3 344 225
Net cash flow from / used in operating activities	3 250 104	(9 085 833)	920 162	(2 405 696)
Net cash flow from / used in investing activities	(3 105 138)	665 615	(879 120)	176 238
Net cash flow from / used in financing activities	(1 107 039)	3 518 328	(313 422)	931 563
Total net cash flows	(962 073)	(4 901 890)	(272 380)	(1 297 895)
Earnings per share for the period - basic	3.12	2.90	0.88	0.77
Earnings per share for the period - diluted	3.12	2.90	0.88	0.77
Tier 1 capital	11 265 718	8 449 415	2 700 057	2 358 854
Tier 2 capital	1 528 517	1 517 988	366 340	423 782
Tier 3 capital	91 048	15 997	21 821	4 466

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

- income statement and cash flow statement items – the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month of 2008 and 2007: EUR 1 = PLN 3.5321 and EUR 1 = PLN 3.7768 respectively;
- balance sheet items – average NBP rate as at balance date 31.12.2008: EUR 1 = PLN 4.1724; 31.12.2007: EUR 1 = PLN 3.5820.

CONSOLIDATED INCOME STATEMENT
for the years ended 31 December 2008 and 31 December 2007

	Notes	2008	2007
Continued operations			
Interest and similar income	4	9 033 781	6 559 333
Interest expense and similar charges	4	(2 906 466)	(1 912 766)
Net interest income		6 127 315	4 646 567
Fee and commission income	5	3 144 760	3 083 416
Fee and commission expense	5	(732 951)	(751 569)
Net fee and commission income		2 411 809	2 331 847
Dividend income	6	21 956	3 293
Net income from financial instruments designated at fair value through profit and loss	7	(201 129)	(73 314)
Gains less losses from investment securities	8	(2 986)	6 543
Net foreign exchange gains	9	739 757	529 779
Other operating income	10	522 425	514 566
Other operating expenses	10	(230 727)	(256 936)
Net other operating income and expense		291 698	257 630
Net impairment allowance	11	(1 130 396)	(56 643)
Administrative expenses	12	(4 296 275)	(4 040 844)
Operating profit		3 961 749	3 604 858
Share of profit (loss) of associates and jointly controlled entities	13	15 594	4 372
Profit before income tax		3 977 343	3 609 230
Income tax expense	14	(838 156)	(667 838)
Net profit (including minority interest)		3 139 187	2 941 392
Net profit attributable to minority shareholders		18 513	37 760
Net profit attributable to the parent company		3 120 674	2 903 632
Earnings per share:	15		
- basic earnings per share (PLN)		3.12	2.90
- diluted earnings per share (PLN)		3.12	2.90
Weighted average of ordinary shares during the period		1 000 000 000	1 000 000 000
Weighted average (diluted) of ordinary shares during the period		1 000 000 000	1 000 000 000

Discontinued operations:

In years 2008 and 2007 the PKO BP SA Group did not carry out discontinued operations

CONSOLIDATED BALANCE SHEET as at 31 December 2008 and 31 December 2007

	Notes	31.12.2008	31.12.2007
ASSETS			
Cash and balances with the central bank	17	5 836 892	4 682 627
Amounts due from banks	18	3 363 599	5 261 236
Trading assets	19	1 496 147	1 202 919
Derivative financial instruments	20	3 597 670	1 556 736
Financial assets designated at fair value through profit or loss	21	4 555 544	8 314 444
Loans and advances to customers	22	101 107 891	76 417 149
Investment securities available for sale	23	8 614 913	5 716 238
Investments in associates and jointly controlled entities	24	247 145	178 584
Inventories	25	622 410	365 304
Intangible assets	26	1 352 778	1 183 491
Tangible fixed assets	27	2 964 659	2 820 103
- including investment properties		24 170	32 767
Current income tax receivables	14	6 649	187 939
Deferred income tax asset	14	239 237	72 154
Other assets	28	630 452	578 676
TOTAL ASSETS		134 635 986	108 537 600
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to the central bank	29	2 816	1 279
Amounts due to other banks	30	6 988 603	4 703 114
Derivative financial instruments	20	6 150 337	1 279 925
Amounts due to customers	32	102 939 281	86 579 510
Debt securities in issue	33	211 573	178 860
Subordinated liabilities	34	1 618 755	1 614 885
Other liabilities	35	1 667 776	1 732 333
Current income tax liabilities	14	472 228	9 932
Deferred income tax liability	14	20 585	4 446
Provisions	36	566 016	454 301
TOTAL LIABILITIES		120 637 970	96 558 585
Equity			
Share capital	37	1 000 000	1 000 000
Other capital	38	9 835 307	8 137 270
Currency translation differences from foreign operations		(57 413)	(47 761)
Retained earnings	38	53 232	(72 192)
Net profit for the period		3 120 674	2 903 632
Capital and reserves attributable to equity holders of the parent company		13 951 800	11 920 949
Minority interest		46 216	58 066
TOTAL EQUITY		13 998 016	11 979 015
TOTAL EQUITY AND LIABILITIES		134 635 986	108 537 600
Capital adequacy ratio	52	11.29	12.02
Book value (TPLN)		13 998 016	11 979 015
Number of shares	1	1 000 000 000	1 000 000 000
Book value per share (PLN)		14.00	11.98
Diluted number of shares		1 000 000 000	1 000 000 000
Diluted book value per share (PLN)		14.00	11.98

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the years ended 31 December 2008 and 31 December 2007

- for the year ended 31 December 2008

for the year ended 31 December 2008	Attributable to equity holders of the parent company						Retained earnings	Net profit	Total	Minority interest	Total equity
	Share capital	Other capital				Currency translation differences from foreign operations					
		Reserve capital	Revaluation reserve	General banking risk fund	Other reserves						
As at 1 January 2008	1 000 000	5 592 311	(43 066)	1 070 000	1 518 025	(47 761)	(72 192)	2 903 632	11 920 949	58 066	11 979 015
Net change in available for sale investments less deferred tax	-	-	9 829	-	-	-	-	-	9 829	-	9 829
Currency translation differences	-	-	-	-	-	(9 652)	-	-	(9 652)	(465)	(10 117)
Total income/expenses recognized directly in equity	-	-	9 829	-	-	(9 652)	-	-	177	(465)	(288)
Net profit for the period	-	-	-	-	-	-	-	3 120 674	3 120 674	18 513	3 139 187
Total profit for the period	-	-	9 829	-	-	(9 652)	-	3 120 674	3 120 851	18 048	3 138 899
Transfer of net profit from previous years	-	-	-	-	-	-	2 903 632	(2 903 632)	-	-	-
Transfer from net profit to reserves	-	1 682 406	-	-	5 802	-	(1 688 208)	-	-	-	-
Transfer from net profit to dividends	-	-	-	-	-	-	(1 090 000)	-	(1 090 000)	(30 750)	(1 120 750)
Other	-	-	-	-	-	-	-	-	-	852	852
As at 31 December 2008	1 000 000	7 274 717	(33 237)	1 070 000	1 523 827	(57 413)	53 232	3 120 674	13 951 800	46 216	13 998 016

Consolidated Financial Statements of
Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group
for the year ended 31 December 2008

(in PLN thousand)

- for the year ended 31 December 2007

for the year ended 31 December 2007	Attributable to equity holders of the parent company						Retained earnings	Net profit	Total	Minority interest	Total equity
	Share capital	Other capital			Currency translation differences from foreign operations						
		Reserve capital	Revaluation reserve	General banking risk fund		Other reserves					
As at 1 January 2007	1 000 000	4 529 920	3 834	1 070 000	1 505 943	(13 672)	(166 771)	2 149 052	10 078 306	102 274	10 180 580
Net change in available for sale investments less deferred tax	-	-	(46 900)	-	-	-	-	-	(46 900)	-	(46 900)
Currency translation differences	-	-	-	-	-	(34 089)	-	-	(34 089)	(1 982)	(36 071)
Total income/expenses recognized directly in equity	-	-	(46 900)	-	-	(34 089)	-	-	(80 989)	(1 982)	(82 971)
Net profit for the period	-	-	-	-	-	-	-	2 903 632	2 903 632	37 760	2 941 392
Total profit for the period	-	-	(46 900)	-	-	(34 089)	-	2 903 632	2 822 643	35 778	2 858 421
Transfer of net profit from previous years	-	-	-	-	-	-	2 149 052	(2 149 052)	-	-	-
Transfer from net profit to reserves	-	1 062 391	-	-	12 082	-	(1 074 473)	-	-	-	-
Transfer from net profit to dividends	-	-	-	-	-	-	(980 000)	-	(980 000)	(45 650)	(1 025 650)
Other	-	-	-	-	-	-	-	-	-	(34 336)	(34 336)
As at 31 December 2007	1 000 000	5 592 311	(43 066)	1 070 000	1 518 025	(47 761)	(72 192)	2 903 632	11 920 949	58 066	11 979 015

CONSOLIDATED CASH FLOW STATEMENT for the years ended 31 December 2008 and 31 December 2007

	Notes	2008	2007
Net cash flow from operating activities			
Net profit		3 120 674	2 903 632
Adjustments:		129 430	(11 989 465)
Profit/loss of minority shareholders		18 513	37 760
Amortisation and depreciation		429 904	382 165
(Gains) losses on disposals of fixed assets	43	45	(72 004)
Interest and dividends	43	(241 794)	(207 290)
Change in amounts due from banks	43	(246 536)	3 181 941
Change in trading assets and other financial assets designated at fair value through profit or loss		3 465 672	2 999 977
Change in derivative financial instruments (asset)		(2 040 934)	(357 582)
Change in loans and advances to customers	43	(25 193 015)	(17 480 950)
Change in deferred income tax asset and income tax receivables		14 207	(38 700)
Change in other assets		(260 145)	(363 910)
Change in amounts due to other banks	43	1 976 155	(2 297 830)
Change in derivative financial instruments (liability)		4 870 412	182 119
Change in amounts due to customers	43	16 392 289	2 810 667
Change in debt securities in issue		32 713	135 138
Change in impairment allowances and provisions	43	655 951	(12 189)
Change in other liabilities	43	136 644	(447 308)
Income tax paid		(539 539)	(878 148)
Current tax expense		1 001 835	717 120
Other adjustments	43	(342 947)	(280 441)
Net cash from / used in operating activities		3 250 104	(9 085 833)
Net cash flow from investing activities			
Inflows from investing activities			
Proceeds from sale of shares in associates		9 425	6 410
Proceeds from sale of investment securities		5 738 733	6 513 022
Proceeds from sale of intangible assets and tangible fixed assets		20 355	85 296
Other investing inflows		21 905	6 267
Outflows from investing activities		(8 895 556)	(5 945 380)
Purchase of a subsidiary, net of cash acquired		(93 128)	(175 177)
Purchase of shares in associates		-	(5 000)
Purchase of investment securities		(7 905 280)	(5 025 179)
Purchase of intangible assets and tangible fixed assets		(897 148)	(740 024)
Net cash from / used in investing activities		(3 105 138)	665 615
Net cash flow from financing activities			
Proceeds from debt securities in issue		-	1 597 374
Redemption of debt securities in issue		(111 152)	-
Dividends paid to the shareholders of the parent company		(1 090 000)	(980 000)
Dividends paid to minority shareholders		(30 750)	(16 250)
Long-term borrowings		1 141 846	3 440 121
Repayment of long term loans		(1 016 983)	(522 917)
Net cash generated from financing activities		(1 107 039)	3 518 328
Net cash inflow/ (outflow)		(962 073)	(4 901 890)
Cash and cash equivalents at the beginning of the period		9 232 316	14 134 206
Cash and cash equivalents at the end of the period	43	8 270 243	9 232 316
of which restricted	40	7 966	8 120

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2008

1. General information

The consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group ("the PKO BP SA Group", "the Group") have been prepared for the year ended 31 December 2008 and include comparative data for the year ended 31 December 2007. Data has been presented in PLN thousand.

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

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

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

The Bank's shareholding structure is as follows:

Shareholder	Number of shares	Number of votes %	Nominal value of the share	% shareholding
<i>As at 31 December 2008</i>				
The State Treasury	512 435 409	51.24	PLN 1	51.24
Other shareholders	487 564 591	48.76	PLN 1	48.76
Total	1 000 000 000	100.00	---	100.00
<i>As at 31 December 2007</i>				
The State Treasury	514 935 409	51.49	PLN 1	51.49
Other shareholders	485 064 591	48.51	PLN 1	48.51
Total	1 000 000 000	100.00	---	100.00

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

Business activities

PKO BP SA is a universal commercial bank offering services to both domestic and foreign retail, corporate and other clients. PKO BP SA is licensed to perform a full range of foreign exchange services; open and hold bank accounts abroad and to deposit foreign exchange in these accounts.

The Bank operates in the United Kingdom through its Foreign Banking Services Center (Centrum Bankowości Zagranicznej) in Warsaw.

In addition, Group subsidiaries conduct activities relating to leasing, real estate development as well as render other financial services. The scope of activities of each of the Group entities is set out in this note, in the table "Structure of the PKP BP SA Group".

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

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

As at 31 December 2008, the Bank's Management Board consisted of:

- | | |
|-----------------------|--|
| • Jerzy Pruski | President of the Management Board |
| • Bartosz Drabikowski | Vice-President of the Management Board |
| • Krzysztor Dresler | Vice-President of the Management Board |
| • Tomasz Mironczuk | Vice-President of the Management Board |
| • Jarosław Myjak | Vice-President of the Management Board |
| • Wojciech Papierak | Vice-President of the Management Board |
| • Mariusz Zarzycki | Vice-President of the Management Board |

During the year ended 31 December 2008, the following changes took place in the composition of the Management Board of the Bank:

- On 11 April 2008 the Supervisory Board of PKO BP SA appointed Jerzy Pruski to the position of acting President of the Management Board with effect from 20 May 2008 for a joint term of the Management Board, beginning that day. Supervisory Board appointed Jerzy Pruski to perform a function of the President of the Management Board of the Bank until the date of the approval of his appointment as President by the Financial Supervision Authority.
- On 17 June 2008 the Financial Supervision Authority agreed to the appointment of Jerzy Pruski as the President of the Management Board of PKO BP SA.
- On 20 May 2008 the Supervisory Board appointed:
 - Bartosz Drabikowski as Vice-President of the Management Board of the Bank as of 20 May 2008,
 - Mariusz Klimczak as Vice-President of the Management Board of the Bank as of 20 May 2008,
 - Tomasz Mironczuk as Vice-President of the Management Board of the Bank as of 20 May 2008,
 - Krzysztof Dresler as Vice-President of the Management Board of the Bank as of 1 July 2008,
 - Wojciech Papierak as Vice-President of the Management Board of the Bank as of 1 July 2008,
 - Mariusz Zarzycki as Vice-President of the Management Board of the Bank as of 1 September 2008.

The above named persons were authorized by appropriate resolutions of the Supervisory Board to constitute the Management Board from 20 May 2008.

- On 21 August 2008 Mariusz Klimczak submitted his resignation as Vice-President of the Management Board of PKO BP SA effective from 30 September 2008.
- On 9 December 2008, the Supervisory Board passed a resolution appointing Jarosław Myjak as Vice-President of the Management Board of PKO BP SA, effective as of 15 December 2008. According to the passed resolution Jarosław Myjak has been appointed to

hold a function in PKO BP SA for a joint term of the Management Board beginning on 20 May 2008.

As at 31 December 2008, the Bank's Supervisory Board consisted of:

- | | |
|----------------------------|--|
| • Marzena Piszczek | Chairman of the Supervisory Board |
| • Eligiusz Jerzy Krześniak | Vice-Chairman of the Supervisory Board |
| • Jan Bossak | Member of the Supervisory Board |
| • Jerzy Osiatyński | Member of the Supervisory Board |
| • Urszula Pałaszek | Member of the Supervisory Board |
| • Roman Sobiecki | Member of the Supervisory Board |
| • Ryszard Wierzba | Member of the Supervisory Board |

During the year ended 31 December 2008, the following changes took place in the composition of the Bank's Supervisory Board:

- On 25 February 2008 Urszula Pałaszek resigned from the post of Vice-President of the Supervisory Board of the Bank.
- On 26 February 2008, the following members of the Supervisory Board resigned from the post of Members of the Supervisory Board of the Bank:
 - Marek Głuchowski,
 - Agnieszka Winnik-Kalemba,
 - Tomasz Siemiątkowski,
 - Jerzy Michałowski.
- On 26 February 2008 the Extraordinary General Meeting of PKO BP SA removed Maciej Czapiewski with immediate effect from the post of Member of the Supervisory Board of PKO BP SA.
- On 26 February 2008 the Extraordinary General Meeting of PKO BP SA appointed the following persons to the Supervisory Board of the Bank:
 - Jan Bossak,
 - Eligiusz Jerzy Krześniak,
 - Roman Sobiecki,
 - Ryszard Wierzba,
 - Marzena Piszczek,
 - Jerzy Osiatyński.

In accordance with the appropriate resolutions, the above - named were appointed to constitute the Supervisory Board from 26 February 2008 until the end of the current term of office and for the subsequent term, with the exception of Urszula Pałaszek, who was appointed for the subsequent term only.

Structure of the Group

The PKO BP SA Group consists of the following entities:

No.	Entity name	Registered office	Activity	Share capital held by the Group (%)	
				31.12.2008	31.12.2007
PKO BP SA Group					
Parent company					
1	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna				
Direct subsidiaries					
2	Powszechnie Towarzystwo Emerytalne BANKOWY SA	Warsaw	Pension fund management	100.00	100.00
3	Centrum Finansowe Puławska Sp. z o.o.	Warsaw	Management and use of Centrum Finansowe Pulawska	100.00	100.00
4	PKO Inwestycje Sp. z o.o.	Warsaw	Real estate development	100.00	100.00
5	Inteligo Financial Services SA	Warsaw	Technical servicing of Internet banking	100.00	100.00
6	Centrum Elektronicznych Usług Płatniczych "eService" SA	Warsaw	Servicing and settlement of card transactions	100.00	100.00
7	Bankowy Fundusz Leasingowy SA	Łódź	Leasing services	100.00	100.00
8	Bankowe Towarzystwo Kapitałowe SA	Warsaw	Services, including financial services	100.00	100.00
9	PKO Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	Investment fund management	75.00	75.00
10	KREDOBANK SA	Lviv, Ukraine	Financial services	98.56	98.18
11	PKO Finance AB	Stockholm, Sweden	Financial services	100.00	-
Indirect subsidiaries					
Subsidiaries of Inteligo Financial Services SA					
12	Finanse Agent Transferowy Sp. z o.o. ¹	Warsaw	Intemediary financial services	80.33	-
Subsidiaries of PKO Inwestycje Sp. z o.o.					
13	Wilanów Investments Sp. z o.o.	Warsaw	Real estate development	100.00	100.00
14	POMERANKA Sp. z o.o.	Warsaw	Real estate development	100.00	100.00
15	PKO Inwestycje – Międzyzdroje Sp. z o.o. (former ARKADIA Inwestycje Sp. z o.o.)	Międzyzdroje	Real estate development	100.00	100.00
16	UKRPOLINWESTYCJE Sp. z o.o.	Kiev, Ukraine	Real estate development	55.00	55.00
17	Fort Mokotów Sp. z o.o.	Warsaw	Real estate development	51.00	51.00
18	WISŁOK Inwestycje Sp. z o.o.	Rzeszów	Real estate development	80.00	-
19	Baltic Dom 2 Sp. z o.o.	Warsaw	Real estate development	56.00	-
Subsidiaries of Bankowy Fundusz Leasingowy SA					
20	Bankowy Leasing Sp. z o.o.	Łódź	Leasing services	100.00	100.00
21	BFL Nieruchomości Sp. z o.o.	Łódź	Leasing services	100.00	100.00

¹ till 10 December 2008 Finanse Agent Transferowy Sp. z o.o. was a subsidiary of PTE BANKOWY SA; as at 31 December 2008 the share of PTE BANKOWY SA in the share capital of the company amounted to 19.67%

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

Jointly controlled entities:

No.	Name of Entity	Registered office	Activity	% Share capital held by the Group	
				31.12.2008	31.12.2007
Direct jointly controlled entities					
1	CENTRUM HAFFNERA Sp. z o.o.	Sopot	Real estate development	49.43	49.43
2	Centrum Obsługi Biznesu Sp. z o.o.	Poznań	Construction and maintenance of a hotel	41.44	41.44
Indirect jointly controlled entities					
Subsidiaries of CENTRUM HAFFNERA Sp. z o.o. (indirect jointly controlled by PKO BP SA)					
3	Centrum Majkowskiego Sp. z o.o.	Sopot	Real estate development	100.00	100.00
4	Kamienica Morska Sp. z o.o.	Sopot	Real estate development	100.00	100.00
5	Sopot Zdrój Sp. z o.o.	Sopot	Real estate development	100.00	100.00
6	Promenada Sopocka Sp. z o.o.	Sopot	Real estate development	100.00	100.00

Associated entities:

No.	Name of Entity	Registered office	Activity	% Share capital held by the Group	
				31.12.2008	31.12.2007
Direct associates					
1	Bank Pocztowy SA	Bydgoszcz	Financial services	25.0001	25.0001
2	Kolej Gondolowa Jaworzyna Krynicka SA	Krynica Górská	Construction and operation of cable railway	37.53	37.53
3	Ekogips SA – in liquidation	Warsaw	Production of construction elements	60.26	60.26
4	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Poznań	Provision of sureties and guarantees	33.33	33.33
5	Agencja Inwestycyjna CORP SA	Warsaw	Office real estate management	22.31	22.31
Indirect associates					
Associates of Bankowe Towarzystwo Kapitałowe SA					
6	FINDER SA	Warsaw	Car location and fleet management services	-	46.43

Information about changes in the parent's participation in the share capital of the subsidiaries is set out in Note 47 "Business combinations".

Approval of financial statements

These consolidated financial statements have been approved for issue by the Management Board on 3 April 2009.

2. Summary of significant accounting policies

2.1. Compliance with accounting standards

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards endorsed by the EU (IFRS) as at 31 December 2008, and in the areas not regulated by these standards, in accordance with the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2002, no. 76, item 694 with subsequent amendments) and the respective secondary legislation issued on its basis, as well as the requirements relating to issuers of securities registered or applying for registration on an official quotations market.

Taking into consideration the scope of the Group's activities, the IFRS as adopted by the EU that are used by the Group do not differ from IFRS standards not adopted by the EU.

The subsidiaries of PKO BP SA in Poland maintain their books of account for the year ended 31 December 2008 in accordance with the International Financial Reporting Standards, except for Fort Mokotów Sp. z o.o., which maintains its books of account in accordance with accounting principles specified in the Accounting Act of 29 September 1994 with subsequent amendments ("the Accounting Act") and with regulations issued based on that Act ("Polish Accounting Standards"). Foreign entities of the Group keep their books of account in accordance with the relevant local regulations. The consolidated financial statements include adjustments in the respect of these entities which are not included in the books of account of the Group's companies; but which have been made in financial statements in order to ensure their compliance with IFRS.

2.2. Going concern

The consolidated financial statements of the PKO BP SA Group have been prepared on the basis that the Bank and the entities from the PKO BP SA Group will be a going concern during a period of at least 12 months from the balance date of 31 December 2008.

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

2.3. Basis of preparation of the financial statements

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

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

2.4. Basis of consolidation

2.4.1. Subsidiaries

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

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

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

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

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

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

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

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

2.4.2. Purchase method

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

2.4.3. Associates and jointly controlled entities

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

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

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

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

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

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

2.5. Foreign currencies

2.5.1. Functional and presentation currency

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

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

2.5.2. Transactions and items denominated in foreign currency

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

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

Gains and losses on settlements of these transactions and the balance sheet valuation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Foreign exchange differences on non-monetary financial assets such as equity instruments designated at fair value through profit or loss are recognized in the income statement. Foreign exchange differences on non-monetary financial assets such as carrying amount of equity instruments classified as financial assets available for sale are recognized in the revaluation reserve.

UAH	2008	2007
Rate prevailing on the last day of the period	0.3730	0.4814
Rate representing the arithmetical mean of the rates prevailing on the last day of each month of the period	0.4525	0.5456
The highest rate in the period	0.6102	0.6018*
The lowest rate in the period	0.3009	0.4797*

* change of presentation – the highest and the lowest exchange rate from average exchange rates announced by the National Bank of Poland during the year ended 31 December 2007

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

2.6. Financial assets and liabilities

2.6.1. Classification:

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

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

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

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

2.6.1.2. Financial assets available for sale

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

2.6.1.3. Loans and receivables

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

- 1) those that the Group intends to sell immediately or in the near term, which are classified as held for trading, and those that the Group upon initial recognition designates as designated at fair value through profit or loss;
- 2) those that the Group upon initial recognition designates as available for sale; or

- 3) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

2.6.1.4. Financial assets held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity other than: a) those that the Group upon initial recognition designates as designated at fair value through profit or loss; b) those that the Group designates as available for sale; and c) those that meet the definition of loans and receivables.

2.6.1.5. Other financial liabilities

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

2.6.2. Accounting for transactions

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

2.6.3. Derecognition of financial instruments

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

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

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

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

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

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

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

2.6.4. Valuation

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

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

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

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

2.6.4.2. Financial assets available for sale

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

2.6.4.3. Loans and advances and investments held to maturity

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

2.6.4.4. Other financial liabilities

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

Debt instruments issued by the Group are recognized as liabilities and stated at amortized cost in consideration of the effective interest rate.

2.6.4.5. Method of establishing fair value and amortized cost

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

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

- 1) equity instruments designated at fair value through profit or loss and available for sale:
 - price of the last transaction concluded on the market, unless in the period between the date of the transaction and the balance date there were significant changes in market conditions which might affect the price,

- at valuation performed by a specialized external entity providing services of this kind;
- 2) debt instruments designated at fair value through profit or loss:
 - a. the reference asset value method,
 - b. discounted cash flow method based on market interest rates,
 - c. the price of the last transaction concluded on the market, unless in the period between the date of the transaction and the balance date there were significant changes in market conditions which might affect the price;
- 3) debt instruments available for sale - according to one of the following methods: a) reference asset value method, b) discounted cash flow method based on market interest rates, adjusted for risk margin equal to the margin determined in the terms of the issue. Significant change of market interest rates is reflected in the change of fair value of these instruments.

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

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

2.6.5. Derivative instruments

2.6.5.1. Recognition and measurement

Derivative financial instruments are recognized at fair value from the trade date. A derivative instrument becomes an asset if its fair value is positive and it becomes a liability if its fair value is negative. The fair value of instruments that are actively traded on the market is their market price. In other cases, fair value is derived with the use of valuation models which use market observable data. Valuation techniques are based on discounted cash flow models, option models and yield curves.

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

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

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

2.6.5.2. Embedded derivative instruments

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

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

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

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

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

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

2.6.6. Offsetting of financial instruments

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

2.7. Transactions with a commitment to sell or buy back

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

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

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

Repo and reverse-repo transactions and sell-buy back, buy-sell back transactions are measured at amortised cost, whereas securities which are an element of a repo transaction are not derecognized in the balance sheet and are measured at the terms and conditions specified for particular securities portfolios. The difference between the sale price and the repurchase price is recognized as

interest expense/income, as appropriate, and it is amortized over the term of the contract using the effective interest rate.

2.8. Impairment of financial assets

2.8.1. Assets measured at amortized cost

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

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

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

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

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

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

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

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

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

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

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

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

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

2.8.2. Assets available for sale

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

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

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

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

If there is objective evidence of impairment on financial assets classified as debt securities available for sale not issued by the State Treasury, an impairment allowance is calculated as the difference between the asset's carrying amount and the present fair value estimated as value of future cash flows discounted using the zero coupon curve based on yield curves for Treasury bonds.

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

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

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

2.9. Leasing

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

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

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

2.9.1. The Group as a lessor

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

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

2.9.2. The Group as a lessee

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

2.10. Tangible fixed assets and intangible assets

2.10.1. Intangible assets

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

2.10.1.1. Goodwill arising

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

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

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

2.10.1.2. Software

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

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

2.10.1.3. Other intangible assets

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

2.10.1.4. Development costs

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

2.10.2. Tangible fixed assets

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

2.10.3. Depreciation/amortisation

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

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

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

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

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

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

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

2.10.4. Impairment losses of non-financial assets

At each balance date, the Group makes an assessment of whether there are any indicators of impairment of any of its non-financial assets (or cash-generating units). If any such indicators exist, the Group estimates the recoverable amount, being the higher of the fair value less costs to sell and the value in use of a non-current asset (or a cash-generating unit); if the carrying amount of a non-current asset exceeds its recoverable amount, the Group recognizes an impairment loss in the income statement. The projection for the value in use requires making assumptions, e.g. about the expected future cash flows that may be received from the continued use or disposal of the non-current asset (or a cash-generating unit). The adoption of different assumptions with reference to the projected cash flows could affect the carrying amount of certain non-current assets.

If the carrying amount of an asset exceeds its recoverable amount, impairment is recognized.

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

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

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

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

the book value – less depreciation – which would be determined should the impairment write-down not have been recorded.

2.11. Other balance sheet items

2.11.1. Fixed assets held for sale and discontinued operations

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

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

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

2.11.2. Inventories

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

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

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

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

2.11.3. Accruals and deferred income

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

Accruals include accruals for the cost of services performed for the Group by counterparties, which will be recognized in following periods, and accruals for amounts due to employees (e.g. bonuses, rewards and

unused holiday payments). Accruals and deferred income are shown in the balance sheet under "Other liabilities".

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

2.12. Provisions

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

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

2.13. Restructuring provision

A restructuring provision is set up when general criteria for recognizing provisions are met and detailed criteria relating to the obligation to set up provisions for restructuring costs specified in IAS 37. Specifically, the constructive restructuring obligation arises only when the Group has a detailed, official restructuring plan and has raised justified expectations of the parties to which the plan relates that it will carry out restructuring by starting to implement the plan or by announcing the key elements of the plan to the said parties. A detailed restructuring plan specifies at least the operation or part of the operation to which the plan relates, the basic locations covered by the plan, the place of employment, functions and estimated number of employees who would have to be compensated due to their voluntary job contract termination, the amount of expenditure which is to be incurred and the date when the plan will be implemented. The restructuring provision covers only such direct expenditures arising as a result of the restructuring which at the same time

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

The restructuring provision does not cover future operating expenses.

2.14. Employee benefits

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

The provision for retirement and pension benefits and anniversary bonuses is created individually for each employee on the basis of an actuarial valuation performed at the balance date by an independent actuary. The basis for calculation of these provisions are internal regulations, and especially the Collective Labour Agreement ("Zakładowy Układ Zbiorowy Pracy") being in force at the Bank. Valuation of the employee benefit provisions is performed using actuarial techniques and assumptions. The calculation of the provision includes all bonuses and retirement benefits expected to be paid in the future. The provision was created on the basis of a list including all the necessary details of employees, in particular the length of their service, age and gender. The provisions calculated amount to discounted future payments, taking into account staff turnover, and relate to the service period ending on the balance date. Gains or losses resulting from actuarial calculations are recognized in the income statement.

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

2.15. Contingent liabilities and commitments

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

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

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

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

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

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

2.16. Shareholders' equity

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

2.16.1. Share capital

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

2.16.2. Reserve capital

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

2.16.3. Revaluation reserve

Revaluation reserve comprises the effects of remeasurement of financial assets available for sale and the amount of the related deferred tax. In the balance sheet, the revaluation reserve is presented in the net amount.

2.16.4. General banking risk fund

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

2.16.5. Other reserves

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

2.16.6. Currency transaction differences from foreign operations

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

Shareholders' equity also includes:

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

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

2.17. Financial result

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

2.17.1. Interest income and expense

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

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

Interest income/expense in respect of derivative financial instruments classified as held for trading are recognized in "Net income from financial instruments designated at fair value through profit or loss".

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

2.17.2. Fee and commission income and expense

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

2.17.3. Dividend income

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

2.17.4. Net income from financial instruments designated at fair value through profit or loss

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

2.17.5. Gains less losses from investment securities

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

2.17.6. Foreign exchange gains

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

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

2.17.7. Other operating income and expense

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

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

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

2.18. Income tax

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

2.18.1. Current income tax

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

In calculating taxable income, the Bank took into account the Decree of the Minister of Finance dated 28 March 2003. The Decree extends deadlines for advances and payments of corporate income tax. Such extensions are granted to banks that participate in a programme of construction and development loans with the use of funds from the Mortgage Fund (Journal of Laws No. 58, item 511).

2.18.2. Deferred income tax

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

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

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

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

Deferred tax assets are offset with deferred tax liabilities only when there exists enforceable legal

entitlement to offset current tax receivables with current tax liabilities and deferred tax is related to the same tax payer and the same tax authority.

2.19. Critical estimates

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

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

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

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

2.19.1. Impairment of loans and advances

An impairment loss is incurred when there is objective evidence of impairment due to events that occurred after the initial recognition of the asset ("a loss event"), when the loss has a reliably measurable impact on the expected future cash flows from the financial asset or group of financial assets. Future cash flows are assessed by the Group on the basis of estimates based on historical parameters. The adopted methodology used for estimating impairment allowances will be developed in line with the further accumulations of historic impairment data from the existing information systems and applications. As a consequence, new data obtained by the Group could affect the level of impairment allowances in the future. The methodology and assumptions used in the estimates are reviewed on a regular basis to minimize the differences between the estimated and actual loss amounts. In the case of a $\pm 10\%$ change in the present value of estimated cash flows for the loan portfolio individually determined to be impaired, the impairment allowance will increase by PLN 221 million or decrease by PLN 97 million respectively. This estimate was made for the loan portfolio assessed for impairment on an individual basis, i.e. on the basis of individual analysis of future cash flows arising both from own payments and realisation of the collateral ('Receivables valued using the individual method').

2.19.2. Impairment of investments in associates and jointly controlled entities

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

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

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

The valuation techniques used by the Group for non-option derivative instruments are based on yield curve based on available market data (deposit margins on interbank market, IRS quotations). The Group conducted a simulation to assess the potential influence of change of the yield curve on the transaction valuation. Upwards move of yield curve by 50 bp. would result in increase of non-option derivative instruments valuation by PLN 29 724 thousand. Analogous move downwards would result in valuation decrease by PLN 30 645 thousand.

Debt securities available for sale neither listed on a regulated market nor issued by the State Treasury are measured at fair value using valuation models. The variables and assumptions used in valuation are reviewed periodically with reference to market bid and purchase prices of these instruments in transactions concluded by the Bank with not related parties.

As at the end of 2008, the Bank made a one-off fair value revaluation of the portfolio of debt securities available for sale neither listed on a regulated market nor issued by the State Treasury. This resulted from significant profitability increase (margin above the reference rate) of all debt securities not issued by the State Treasury traded in the Polish financial market, observed by the Bank in the period.

As assessed by the Bank, the profitability increase as at the end of the period derives from change in the overall conditions in the financial markets, mainly with reference to liquidity. A separate analysis conducted by the Bank does not indicate on the increased level of credit risk of debt securities not issued by the State Treasury in the Bank's portfolio.

Estimation of profitability increase level for debt securities available for sale neither listed on a regulated market nor issued by the State Treasury was conducted separately for debt securities issued by local government bodies and corporate entities.

In the case of a significant and long-term margin increase for debt securities available for sale, the estimated amount of fair value adjustment for this securities portfolio would amount to PLN 21.9 million in case of a 50% lower than expected increase and PLN 65.7 million in case of a 50% higher than expected increase.

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

The calculation of the provision includes all jubilee bonuses and retirement benefits expected to be paid in the future. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period ending on the balance date. An important factor affecting the amount of the provision is the adopted discount rate. Change in the discount rate of $\pm 0,75$ pp. will contribute to an increase/decrease of the amount of the provision for retirement and pension benefits and jubilee bonuses of approx. PLN 20 million.

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

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

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

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

2.20. Changes in accounting policies

Set out below are the new or revised IFRSs regulations and the new interpretation of the International Financial Reporting Interpretations Committee (IFRIC). In the year ended 31 December 2008, the Group did not opt for early adoption of any of these standards and interpretations.

New standards and interpretations, which have been published and are currently effective as of 1 January 2008

Standard/ interpretation	Introduction date	Application date	Approved by the European Union	Description of potential changes
IFRIC 11 - Group and Treasury Share Transactions	November 2006	financial year starting on or after 1 March 2007	Yes	The interpretation relates to share issue within a Group and share-based payments.
IFRIC 12 - Service Concession Arrangements	November 2006	financial year starting on or after 1 January 2008	No	This interpretation includes guidance on implementation of existing standards by operators for public-to-private service concession arrangements. IFRIC 12 applies to the arrangements, where the grantor controls or regulates what services the operator must provide within the infrastructure, to whom it must provide them, and at what price.
IFRIC 14 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	July 2007	financial year starting on or after 1 January 2008	Yes	This interpretation includes basic guidance on how to determine (in accordance with IAS 19) the limit of surplus of the asset fair value over the current value of defined benefit liability, which can be recognized as an asset. Moreover, IFRIC 14 describes how statutory or contractual minimum funding requirements can affect the measurement of the defined benefit asset or liability.

The above-mentioned interpretations do not have a material effect on the financial statements of the Group.

Amendments to published standards and interpretations effective as of 1 July 2008

Standard/ interpretation	Introduction date	Application date	Approved by the European Union	Description of potential changes
Amendments to IAS 39 - Financial Instruments: Recognition and Measurement and IFRS 7 - Financial Instruments: Disclosures	July 2008	1 July 2008	No	The amendments specify the date, when reclassification of financial instruments from 'designated at fair value through profit or loss' to 'available for sale' categories is permitted in limited circumstances described in amendments to IAS 39 published in 2008. The above-mentioned amendments are applicable from 1 July 2008 and any reclassification should not be applied retrospectively. Any reclassification of a financial asset made in periods beginning on or after 1 November 2008 will take effect only from the date when the reclassification is made and should not be applied retrospectively.

The Group will not take advantage of possibility of reclassification of financial instruments to other categories on the basis of amendments to IAS 39 and IFRS 7 effective as of 1 July 2008.

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

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

Standard/ interpretation	Introduction date	Application date	Approved by the European Union	Description of potential changes
IFRS 1 – First-time Adoption of International Financial Reporting Standards and IAS 27 - Consolidated and Separate Financial Statements	May 2008	financial year starting on or after 1 January 2009 Earlier application possible	Yes	The amendments allow to use a deemed cost option for determining the cost of an investment in a subsidiary, jointly controlled entity or associate either as fair value at the entity's date of transition to IFRSs or the previous GAAP carrying amount at that date. Moreover, the definition of the cost method was removed and replaced by cost method in accounting for post acquisition dividends from investments in subsidiaries, jointly controlled entities and associates in the separate financial statements.
IFRS 2 - Share-based Payment	January 2008	financial year starting on or after 1 January 2009	Yes	The amendment refers to two aspects: it explains that vesting conditions are service condition and performance condition only. Other features of a share-based payment are not vesting conditions. The standard explains that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.
IFRS 3 (R) - Business Combinations IAS 27 - Consolidated and Separate Financial Statements	January 2008	financial year starting on or after 1 July 2009	No	Amendments to IFRS 3 relate to the scope of the standard, the measurement model (fair value measurement model), acquisition method (additional application guidelines), new terminology and additional disclosures. The amendments to IAS 27 relate to the aspects of changes in shareholdings in a subsidiary, allocating losses of a subsidiary, loss of control over a subsidiary.
IFRS 8 – Operating Segments	November 2006	financial year starting on or after 1 January 2009	Yes	IFRS 8 replaces IAS 14 Segment Reporting. IFRS 8 introduces new requirements concerning disclosures on segment reporting as well as products and services, geographical areas in which the entity operates and major customers. IFRS 8 requires management approach to reporting on financial results about operating segments.

Standard/ interpretation	Introduction date	Application date	Approved by the European Union	Description of potential changes
IAS 1 - Presentation of Financial Statements	September 2007	financial year starting on or after 1 January 2009	Yes	The main amendments relate to the statement of changes in equity including only transactions with the owners, whereas transactions with other parties are presented as total comprehensive income. Moreover, the standard introduces changes in the names of financial statement components.
IAS 23 - Borrowing Costs	March 2007	financial year starting on or after 1 January 2009	Yes	The amendment relates to borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that take a substantial period of time to get ready for use or sale. Within the amendment the option of immediately recognising borrowing costs as an expense in the period in which they were incurred was removed. According to the amendment these costs should be capitalized.
IAS 32 - Financial Instruments: Presentation and IAS 01 - Presentation of Financial Statements	February 2008	financial year starting on or after 1 January 2009	Yes	The amendments relate to selected financial instruments, which are similar to equity instruments, but classified as financial liabilities. According to new requirement, financial instruments, such as puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, after meeting given conditions are classified as equity.
IAS 39 - Financial Instruments: Recognition and Measurement - Criteria for Hedge Accounting	July 2008	financial year starting on or after 1 July 2009	No	The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item for a financial instrument should be applied in particular situations. The amendment clarifies that an entity may not designate an inflation component of issued or acquired fixed-rate debt in a fair value hedge. Amendments do not permit also to include the time value of a one-sided risk when options are designated as a hedging instrument.
IFRS 7 - Financial Instruments: Disclosures	March 2009	financial year starting on or after 1 January 2009	No	The amendments establish a three-level hierarchy for disclosing fair value measurements and a requirement of additional disclosures of relative credibility of fair value valuation. Moreover, the amendments clarify and widen the existing requirements on disclosures about liquidity risk.

Standard/ interpretation	Introduction date	Application date	Approved by the European Union	Description of potential changes
IFRIC 13 - Customer Loyalty Programmes	June 2007	financial year starting on or after 1 July 2008	Yes	The interpretation determines accounting for loyalty programmes by the entities which offer them.
IFRIC 15 - Agreements for the construction of real estate	July 2008	financial year starting on or after 1 January 2009	No	IFRIC 15 provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue and, accordingly, when revenue from the construction should be recognized. Moreover, IFRIC 15 indicates the timing of revenue recognition from construction contracts.
IFRIC 16 - Hedges of a net investment in a foreign operation	July 2008	financial year starting on or after 1 October 2009	No	The interpretation provides guidance on whether risk arises from the foreign currency exposure to the functional currencies of the foreign operation and the parent entity, and the presentation currency of the parent entity's consolidated financial statements.
IFRIC 17 - Distributions of Non-cash Assets to Owners	November 2008	financial year starting on or after 1 July 2009	No	The interpretation provides guidance on when a dividend payable should be recognized, how an entity should measure the dividend payable and how it should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation.
IFRIC 18 Transfers of Assets from Customers	January 2009	financial year starting on or after 1 July 2009	No	The interpretation provides guidance on transfers of assets from customers, namely the circumstances in which the definition of an asset is met, the identification of the separately identifiable services (one or more services in exchange for the transferred asset), the recognition of revenue and the accounting for transfers of cash from customers.
IFRS improvements: Amendments to 20 standards			Yes	The amendments include changes in presentation, recognition and valuation as well as terminology and edition changes. Most of the amendments will apply to annual periods starting on 1 January 2009.

The Management Board does not expect the introduction of the above-mentioned standards and interpretations to have a significant effect on the accounting policies applied by the Group. The Group intends to apply them in the periods indicated in the relevant standards and interpretations (without early adoption).

3. Segment reporting

The primary basis of the PKO BP SA Group reporting scheme is business segments. A business segment comprises activities of providing products and services that are characterized by the similar risk and rewards – different from other business segments. As an additional reporting scheme, the Group uses geographical business segmentation, which provides information about products and services rendered in a specified business area. Such area is subject to separate analysis taking into account risks and returns which are different than in other business areas.

The PKO BP SA Group typically settles inter-segment transactions as if they were concluded between unrelated parties, using internal settlement rates. Internal fund transfer between the Bank's parties is based on transfer rates (based on market interest rates). The transactions between business segments are conducted on arm's length.

Disclosed values of assets, liabilities, income and expenses of a particular segment are based on internal management information. Certain assets and liabilities and their related income and expenses have been assigned to each segment.

Business segments

Business segments have been determined using customer groups and product criteria. Such an allocation is congruent with the way the business is managed by the Group. Segmentation by business is as follows:

- **The retail segment** comprises transactions of the parent entity with retail clients, small and medium-sized enterprises and mortgage market clients, as well as activities of the following subsidiaries: KREDOBANK SA, the Powszechne Towarzystwo Emerytalne BANKOWY SA, PKO Towarzystwo Funduszy Inwestycyjnych SA, Inteligo Financial Services SA, Centrum Elektronicznych Usług Płatniczych eService SA, and the PKO Inwestycje Sp. z o.o. Group. This segment comprises, among others, the following products and services: current and saving accounts, deposits, private banking services, investment products, credit and debit cards, consumer and mortgage loans, corporate loans for small and medium-sized enterprises and housing market customers.
- **The corporate segment** includes transactions of the parent entity with large corporate clients, as well as activities of the Bankowy Fundusz Leasingowy SA Group. This segment comprises, among others, the following products and services: current and saving accounts, deposits, depositary services, currency and derivative products, sell buy back and buy sell back transactions, investment loans and leases. Within the segment, the Bank also enters, individually or in consortium with other banks, into loan agreements financing large investment projects.
- **The investment segment** comprises investing and brokerage activities, inter-bank transactions, derivative instruments and debt securities transactions, as well as activities of BTK SA.
- **Other activity** comprises items not allocated to any of the other segments, as well as activities of Centrum Finansowe Puławska Sp. z o.o.

Assets and liabilities of a given segment represent assets and liabilities used by the segment in its operating activities. Administrative expenses of a particular business segment comprise expenses which can be directly attributed to the segment, as well as expenses which can be attributed to the segment on the basis of rational criteria.

The tables below present data relating to results of individual business segments of the PKO BP SA Group for the periods ended 31 December 2008 and 31 December 2007, and selected assets and liabilities as at 31 December 2008 and 31 December 2007.

Beginning from January 2008, the PKO BP SA Group changed the method of business segment result calculation. It also changed the manner and scope of business segment categorization in a way that each segment is now determined by the group of customers. As a result, the housing segment (comprising mainly mortgage loans) presented so far, is currently a part of the retail segment. The financial data for the year 2007 was restated for comparability purposes.

For the year ended 31 December 2008	Continued activity				
	Retail segment	Corporate segment	Investment segment	Total activity of the Group	
Net interest income	5 563 243	419 247	144 825	6 127 315	
Net fee and commission income	2 119 328	198 448	94 033	2 411 809	
Other net income	781 871	171 797	(104 372)	849 296	
Result from financial operations	697	15 589	(220 401)	(204 115)	
Foreign exchange result	501 719	146 729	91 309	739 757	
Dividend income	-	-	21 956	21 956	
Net other operating income	253 455	35 479	2 764	291 698	
Income/expenses relating to internal customers	26 000	(26 000)	-	-	
Net impairment allowance allocated to segments	(811 929)	(311 444)	(15 944)	(1 139 317)	
Net impairment allowance not allocated to segments				8 921	
Administrative expenses, of which:	(3 906 530)	(283 317)	(106 428)	(4 296 275)	
Amortization and depreciation	(387 302)	(34 417)	(8 185)	(429 904)	
Share in profit of associates and jointly controlled entities	-	-		15 594	
Segment gross profit	3 745 983	194 731	12 114	3 977 343	
Income tax expense	-	-	-	(838 156)	
Profit attributable to minority shareholders	-	-	-	18 513	
Net profit (loss) attributable to the parent entity	3 745 983	194 731	12 114	3 120 674	
	31.12.2008	Retail segment	Corporate segment	Investment segment	Total activity of the Group
Impairment allowances recognised during the period	(1 516 289)	(478 246)	(77 512)	(2 072 047)	
Impairment allowances reversed during the period	704 360	166 802	61 568	932 730	
Net impairment allowance at the end of the period allocated to segments	(811 929)	(311 444)	(15 944)	(1 139 317)	
Impairment allowances recognised during the period	-	-	-	(86 136)	
Impairment allowances reversed during the period	-	-	-	95 057	
Net impairment allowance at the end of the period not allocated to segments	-	-	-	8 921	

As at 31 December 2008	Continued activity			Total activity of the Group
	Retail segment	Corporate segment	Investment segment	
ASSETS	87 212 981	32 366 023	15 056 982	134 635 986
investments in associates and jointly controlled entities	-	-	-	247 145
capital expenditure	778 794	91 104	19 464	889 362
LIABILITIES	89 980 263	21 918 299	8 739 408	120 637 970

For the year ended 31 December 2007	Continued activity			Total activity of the Group
	Retail segment	Corporate segment	Investment segment	
Net interest income	4 131 418	258 111	257 038	4 646 567
Net fee and commission income	2 075 309	139 541	116 997	2 331 847
Other net income	571 193	71 309	81 429	723 931
Result from financial operations	3 933	6 220	(76 924)	(66 771)
Foreign exchange result	305 597	72 595	151 587	529 779
Dividend income	-	-	3 293	3 293
Net other operating income	238 798	15 359	3 473	257 630
Income/expenses relating to internal customers	22 865	(22 865)	-	-
Net impairment allowance allocated to segments	(189 383)	82 386	292	(106 705)
Net impairment allowance not allocated to segments	-	-	-	50 062
Administrative expenses, of which:	(3 793 769)	(186 426)	(60 649)	(4 040 844)
Amortization and depreciation	(356 468)	(21 587)	(4 110)	(382 165)
Share in profit of associates and jointly controlled entities	-	-	-	4 372
Segment gross profit	2 794 768	364 921	395 107	3 609 230
Income tax expense	-	-	-	(667 838)
Minority interest	-	-	-	37 760
Net profit (loss) attributable to the parent entity	2 794 768	364 921	395 107	2 903 632

31.12.2007	Retail segment	Corporate segment	Investment segment	Total activity of the Group
Impairment allowances recognised during the period	(652 117)	(580 486)	(5 908)	(1 238 511)
Impairment allowances reversed during the period	462 734	662 872	6 200	1 131 806
Net impairment allowance at the end of the period allocated to segments	(189 383)	82 386	292	(106 705)
Impairment allowances recognised during the period	-	-	-	(57 166)
Impairment allowances reversed during the period	-	-	-	107 228
Net impairment allowance at the end of the period not allocated to segments	-	-	-	50 062

As at 31 December 2007	Continued activity			
	Retail segment	Corporate segment	Investment segment	Total activity of the Group
ASSETS	66 046 631	22 357 809	20 133 160	108 537 600
investments in associates and jointly controlled entities	-	-	-	178 584
capital expenditure	579 001	193 371	10 354	782 726
LIABILITIES	75 280 739	15 061 339	6 216 507	96 558 585

Geographical segments

The PKO BP SA Group activity is also conducted in Ukraine – via KREDOBANK SA and Ukrpolinwestycje Sp. z o.o.

For the year ended 31 December 2008	Poland	Ukraine	Total activity of the PKO BP SA Group
Net interest income	5 983 870	143 445	6 127 315
Net fee and commission income	2 368 449	43 360	2 411 809
Other net income	852 750	(3 454)	849 296
Administrative expenses	(4 153 602)	(142 673)	(4 296 275)
Net impairment allowance	(866 457)	(263 939)	(1 130 396)
Share in profit of associates and jointly controlled entities	-	-	15 594
Segment gross profit	4 185 010	(223 261)	3 977 343
Net profit attributable to the parent entity	3 277 342	(172 262)	3 120 674

As at 31 December 2008	Poland	Ukraine	Total activity of the PKO BP SA Group
Assets of the segment	132 777 717	1 858 269	134 635 986
Liabilities of the segment	119 220 032	1 417 938	120 637 970

For the year ended 31 December 2007	Poland	Ukraine	Total activity of the PKO BP SA Group
Net interest income	4 529 874	116 693	4 646 567
Net fee and commission income	2 293 859	37 988	2 331 847
Other net income	738 769	(14 838)	723 931
Administrative expenses	(3 941 768)	(99 076)	(4 040 844)
Net impairment allowance	(39 613)	(17 030)	(56 643)
Share in profit of associates and jointly controlled entities	-	-	4 372
Segment gross profit	3 581 121	23 737	3 609 230
Net profit attributable to the parent entity	2 881 351	17 909	2 903 632

As at 31 December 2007	Poland	Ukraine	Total activity of the PKO BP SA Group
Assets of the segment	106 566 506	1 971 094	108 537 600
Liabilities of the segment	94 808 497	1 750 088	96 558 585

4. Interest income and expense

Interest and similar income

	2008	2007
Income from loans and advances to customers ¹⁾	7 776 107	5 231 586
Income from securities designated at fair value through profit or loss	444 426	561 346
Income from placements with other banks ¹⁾	388 768	491 078
Income from investment securities ¹⁾	345 130	245 352
Income from trading securities	64 046	24 527
Other ¹⁾	15 304	5 444
Total	9 033 781	6 559 333

Interest expense and similar charges

	2008	2007
Interest expense on customers ²⁾	(2 655 044)	(1 697 116)
Interest expense on debt securities in issue ²⁾	(131 721)	(28 711)
Interest expense on deposits from other banks ²⁾	(49 465)	(106 678)
Other	(70 236)	(80 261)
Total	(2 906 466)	(1 912 766)

In the year ended 31 December 2008 the total amount of interest and similar income, calculated using the effective interest rate method and arising from financial assets not valued at fair value through profit or loss, amounted ¹⁾ to PLN 8 525 309 thousand (in the year ended 31 December 2007: PLN 5 973 460 thousand). In the year ended 31 December 2008, interest expense, calculated using the effective interest rate method and arising from financial liabilities which are not valued at fair value through profit or loss, amounted ²⁾ to PLN (2 836 425) thousand. In the year ended 31 December 2007 interest expense amounted to PLN (1 833 504) thousand.

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

	2008	2007
Net gains and losses from financial assets and liabilities measured at amortized cost	7 457 576	5 865 284
Interest income from loans and advances to customers	7 776 107	5 231 586
Interest income from placements with other banks	388 768	491 078
Fee and commission income from loans and advances to customers	315 641	267 169
Net impairment allowance on loans and advances to customers and amounts due from other banks	(1 018 075)	(127 954)
Net impairment allowance on finance lease receivables	(4 865)	3 405
Losses from financial liabilities valued at amortized cost	(2 836 230)	(1 832 505)
Interest expense on amounts due to customers	(2 655 044)	(1 697 116)
Interest expense on amounts due to banks	(49 465)	(106 678)
Interest expense on debt securities in issue	(131 721)	(28 711)
Net result	4 621 346	4 032 779

¹⁾ the total amount of the items marked with ¹⁾

²⁾ the total amount of the items marked with ²⁾, increased by the premium of debt securities available for sale, presented in "Other" line, amounted to PLN (195) thousand as at 31 December 2008 and PLN (999) thousand as at 31 December 2007.

5. Fee and commission income and expense

Fee and commission income

	2008	2007
Income from financial assets, which are not valued through profit or loss, of which:	315 641	267 169
Income from loans and advances	315 641	267 169
Other fee and commissions	2 828 063	2 815 040
Income from payment cards	851 370	703 023
Income from maintenance of bank accounts	805 449	770 642
Income from portfolio and other management fees	448 071	630 190
Income from loan insurance intermediary and other services	225 063	202 260
Income from cash transactions	188 345	204 077
Income from securities transactions	43 845	87 742
Income from foreign mass transactions servicing	41 181	36 878
Income from sale and distribution of marks of value	21 738	28 523
Other*	203 001	151 705
Income from trust servicing	1 056	1 207
Total	3 144 760	3 083 416

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

Fee and commission expense

	2008	2007
Expenses on payment cards	(309 766)	(254 078)
Expenses on acquisition services	(134 773)	(129 005)
Expenses on loan insurance intermediary and other services	(94 140)	(152 205)
Expenses on portfolio and other management fees	(73 719)	(126 606)
Expenses on fee and commissions for operating services granted by other banks	(8 118)	(9 264)
Expenses on fee and commissions paid to PPUP	(5 240)	(5 735)
Other*	(107 195)	(74 676)
Total	(732 951)	(751 569)

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

6. Dividend income

	2008	2007
Dividend income from the issuers of:		
Securities classified as available for sale	21 905	3 272
Securities classified as held for trading	51	21
Total	21 956	3 293

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

	2008	2007
Derivative instruments	(159 232)	261 210
Debt securities	(36 254)	(337 105)
Equity instruments	(5 716)	2 589
Other	73	(8)
Total	(201 129)	(73 314)

	2008	Gains	Losses	Net result
Trading assets		11 968 527	(12 132 884)	(164.357)
Financial assets designated upon initial recognition at fair value through profit or loss		162 863	(199 635)	(36.772)
Total		12.131.390	(12 332 519)	(201.129)
	2007	Gains	Losses	Net result
Trading assets		5 963 271	(5 710 748)	252 523
Financial assets designated upon initial recognition at fair value through profit or loss		125 065	(450 902)	(325 837)
Total		6 088 336	(6 161 650)	(73 314)

The total change in fair values of financial instruments designated at fair value through profit or loss determined with use of valuation models (where no quotations from active market were available) in the year ended 31 December 2008 amounted to PLN (159 159) thousand (in the year ended 31 December 2007: PLN 261 202 thousand).

Fair value changes in hedge accounting

During the year ended 31 December 2008 and 31 December 2007, the PKO BP SA Group did not apply hedge accounting.

8. Gains less losses from investment securities

Financial assets available for sale	2008	2007
Gains recognised directly to equity	12 049	-
Losses recognised directly to equity	-	(69 212)
Total amount recognised directly to equity	12 049	(69 212)
Gains recognised from equity	2 836	7 579
Losses recognised from equity	(5 822)	(1 036)
Total amount recognised from equity	(2 986)	6 543
Total	9 063	(62 669)

9. Net foreign exchange gains

	2008	2007
Foreign exchange differences resulting from financial instruments designated at fair value through profit or loss	(2 206 584)	255 445
Foreign exchange differences	2 946 341	274 334
Total	739 757	529 779

10. Other operating income and expense

	2008	2007
Other operating income		
Net income from sale of goods, commodities and materials	213 073	324 824
Recovery of expired and written-off receivables	31 150	19 469
Sundry income	25 162	25 257
Sales and disposal of tangible fixed assets, intangible assets, and assets held for sale	15 065	24 702
Damages, penalties and fines received	14 228	20 122
Sale of shares in subordinates	13 171	1 101
Other*	210 576	99 091
Total	522 425	514 566

* Included in "Other" are: reversal of accruals (e.g. for costs of servicing computer hardware and software), costs of consulting and advisory services, refund of costs of debt collection proceedings.

	2008	2007
Other operating expenses		
Costs of sale of goods, commodities and materials	(81 114)	(123 602)
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(28 321)	(23 636)
Sundry expenses	(5 570)	(4 224)
Donations	(5 245)	(8 348)
Costs of tangible fixed assets construction and intangible assets development - not capitalized	(426)	(4 013)
Other*	(110 051)	(93 113)
Total	(230 727)	(256 936)

* Included in "Other" are: legal costs and bailiffs advances,.

11. Net impairment allowance

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

* the value of PLN 28 067 thousand refers to impairment allowances on a foreign bank receivable. The impairment allowance was recognised in other positions of the income statement: "Net income from financial instruments designated at fair value through profit or loss" and "Net foreign exchange gains".

Consolidated Financial Statements of
Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group
for the year ended 31 December 2008

(in PLN thousand)

For the year ended 31 December 2007	Increases				Decreases				Impairment allowances made at the end of period	Net impairment allowances
	Impairment allowances at the beginning of the period	Impairment allowances made during the period	Foreign exchange differences	Other	Decrease in impairment allowances due to derecognition of assets, not impacting the income statement	Impairment allowances reversed during the period	Foreign exchange differences	Other		
Financial assets available for sale, including:	30 051	6 024	-	-	-	8 503	6	717	26 849	2 479
carried at fair value through equity (not listed on stock exchange)	14 937	5 992	-	-	-	2 303	6	-	18 620	(3 689)
valued at cost (unquoted equity instruments and related derivative instruments)	15 114	32	-	-	-	6 200	-	717	8 229	6 168
Loans and advances to customers and amounts due from other banks valued at amortised cost	2 447 351	1 211 765	-	-	143 006	1 087 216	13 015	-	2 415 879	(124 549)
Non-financial sector	2 325 650	1 182 121	-	-	140 517	1 058 820	12 114	-	2 296 320	(123 301)
consumer loans	504 697	457 714	-	-	83 603	223 893	587	-	654 328	(233 821)
mortgage loans	531 772	186 285	-	-	-	223 997	535	-	493 525	37 712
corporate loans	1 289 181	538 122	-	-	56 914	610 930	10 992	-	1 148 467	72 808
Financial sector	43 439	14 756	-	-	2 489	4 225	901	-	50 580	(10 531)
amounts due from banks	329	-	-	-	-	53	-	-	276	53
corporate loans	43 110	14 756	-	-	2 489	4 172	901	-	50 304	(10 584)
Budget sector	35 062	14 888	-	-	-	20 766	-	-	29 184	5 878
corporate loans	35 062	14 888	-	-	-	20 766	-	-	29 184	5 878
Finance lease receivables	43 200	-	-	-	-	3 405	-	-	39 795	3 405
Tangible fixed assets	51 219	1 574	-	80	-	49 820	-	-	3 053	48 246
Intangible assets	31 681	-	-	-	-	16 308	-	-	15 373	16 308
Investments in entities valued using equity method	62 186	5 876	-	-	410	-	-	2 838	64 814	(5 876)
Other	150 937	70 438	16	269	3 424	77 187	2 188	-	138 861	6 749
Total	2 773 425	1 295 677	16	349	146 840	1 239 034	15 209	3 555	2 664 829	(56 643)

12. Administrative expenses

	2008	2007
Staff costs	(2 429 394)	(2 288 712)
Overheads	(1 356 437)	(1 288 548)
Depreciation and amortisation expense	(429 904)	(382 165)
Taxes and other charges	(63 803)	(67 737)
Contribution and payments to Banking Guarantee Fund	(16 737)	(13 682)
Total	(4 296 275)	(4 040 844)

Wages and salaries / Employee benefits

	2008	2007
Wages and salaries	(2 023 863)	(1 841 549)
Insurance	(304 878)	(375 679)
Other employee benefits	(100 653)	(71 484)
Total	(2 429 394)	(2 288 712)

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

Entity	2008	2007
Jointly controlled entities		
Centrum Obsługi Biznesu Sp. z o.o.	414	(3 678)
Grupa Kapitałowa Centrum Haffnera Sp. z o.o.	(4)	1 963
Associates		
Bank Pocztowy SA	11 327	5 875
Kolej Gondolowa Jaworzyna Krynicka SA	3 827	-
Agencja Inwestycyjna „CORP” SA	41	150
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	(11)	28
Subsidiaries of Bankowe Towarzystwo Kapitałowe SA		
FINDER SA*	-	34
Total	15 594	4 372

* shares of the entity were sold on 15 September 2008

Additional information on jointly controlled entities and associates is presented in Note 1 “General Information” and Note 47 “Business combinations”.

14. Income tax expense

	2008	2007
Consolidated income statement		
Current income tax expense	(1 001 835)	(716 704)
Deferred income tax related to temporary differences	163 679	48 866
Tax expense disclosed in the consolidated income statement	(838 156)	(667 838)
Tax expense disclosed in the consolidated equity	(12 735)	11 001
Total	(850 891)	(656 837)

	2008	2007
Profit before income tax	3 977 343	3 609 230
Corporate income tax calculated using the enacted tax rate 19% (2007: 19%)	(755 695)	(685 753)
Effect of other tax rates of foreign entities*	(2 338)	(1 424)
Permanent differences between accounting gross profit and taxable profit, of which:	(84 280)	21 065
Recognition of an impairment loss not constituting taxable income (KREDOBANK SA)	(67 659)	-
Reversed provisions and positive revaluation not constituting taxable income	(56 084)	31 051
Other non-tax-deductible expenses	33 164	(23 431)
Dividend income	21 140	9 711
Other non-taxable income	2 330	3 363
Other	(17 171)	371
Other differences between gross financial result and taxable income, including donations	(1 196)	(7 573)
Tax loss settlement	5 353	5 847
Income tax disclosed in the consolidated income statement	(838 156)	(667 838)
Effective tax rate	21.07%	18.50%
Temporary difference due to the deferred tax presented in the consolidated income statement	163 679	48 866
Current income tax expense disclosed in the consolidated income statement, of which:	(1 001 835)	(716 704)
Corporate income tax calculated using the enacted tax rate 19% (2007: 19%)	(1 001 824)	(714 881)
Effect of other tax rates of foreign entities	(11)	(1 823)

* Current income tax charge of KREDOBANK SA as at 31 December 2008 amounted to an equivalent of PLN 0 (as at 31 December 2007: PLN 7 597 thousand).

Current income tax liabilities/ receivables

	31.12.2008	31.12.2007
Current income tax receivables	6 649	187 939
Current income tax liability	472 228	9 932

The Group entities are subject to corporate income tax. The amount of current tax liability is transferred to the appropriate tax authorities. The final settlement of the corporate income tax liabilities of the Group entities for the year 2008 was made within the statutory deadline of 31 March 2009.

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

Deferred tax asset/liability

	Consolidated balance sheet		Consolidated income statement	
	31.12.2008	31.12.2007	2008	2007
Deferred tax liability				
Interest accrued on receivables (loans)	100 892	99 944	948	4 314
Capitalised interest on mortgage loans	258 759	277 827	(19 068)	(16 633)
Interest on securities	44 113	28 126	15 987	(7 895)
Valuation of securities, of which:	11 486	1 901	-	-
transferred to income statement	6 365	705	5 660	(2 535)
transferred to equity	5 121	1 196	-	-
Difference between book value and tax value of tangible assets	196 000	133 926	62 074	61 133
Other taxable temporary positive differences	34 612	7 250	-	-
transferred to income statement	23 662	7 382	16 280	(9 714)
transferred to equity	10 950	(132)	-	-
Gross deferred tax liability	645 862	548 974	-	-
transferred to income statement	629 791	547 910	81 881	28 670
transferred to equity	16 071	1 064	-	-
Deferred tax assets				
Interest accrued on liabilities	223 004	138 252	84 752	(5 097)
Valuation of securities, of which:	27 825	33 217	-	-
transferred to income statement	14 759	22 065	(7 306)	3 008
transferred to equity	13 066	11 152	-	-
Valuation of derivative instruments	77 734	62 331	15 403	18 300
Provision for anniversary bonuses and retirement benefits	110 037	88 874	21 163	5 219
Impairment allowances on credit exposure	159 789	79 193	80 596	32 646
Adjustment to valuation at amortized cost	166 449	149 499	16 950	16 620
Other temporary negative differences, of which:	99 676	65 316	-	-
transferred to income statement	99 318	65 316	34 002	6 837
transferred to equity	358	-	-	-
Gross deferred income tax asset, of which:	864 514	616 682	-	-
transferred to income statement	851 090	605 530	245 560	77 533
transferred to equity	13 424	11 152	-	-
Deferred tax impact on the income statement	(218 652)	(67 708)	-	-
transferred to income statement	(221 299)	(57 620)	-	-
transferred to equity	2 647	(10 088)	-	-
Deferred income tax asset (presented in the balance sheet)	239 237	72 154	-	-
Deferred tax liability (presented in the balance sheet)	20 585	4 446	-	-
Net deferred tax impact on the income statement	-	-	(163 679)	(48 866)

As at 31 December 2008, the unsettled tax loss of the Group entities amounted to PLN 18 451 thousand. This loss may be utilized by the end of 2013.

Out of the above-mentioned amounts of tax losses none was recognized as a deferred tax asset as at 31 December 2008.

15. Earnings per share

Basic earnings per share

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

Earnings per share

	2008	2007
Profit per ordinary shareholder (PLN thousand)	3 120 674	2 903 632
Weighted average number of shares during the period (thousand)	1 000 000	1 000 000
Profit per share (PLN per share)	3.12	2.90

Earnings per share from discontinued operations

In the years ended 31 December 2008 and 31 December 2007, the Group did not report any material income or expenses from discontinued operations.

Diluted earnings per share

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

There were no dilutive instruments in the Bank in the year ended 31 December 2008 nor in the year ended 31 December 2007.

Diluted earnings per share from discontinued operations

In the years ended 31 December 2008 and 31 December 2007 the Bank did not report any material income or expenses from discontinued operations.

16. Dividends paid and declared

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

In the resolution of as 1 December 2008 the Management Board of the Bank declared to come forward to General Shareholders' Meeting with a proposal to freeze dividend payout for 2008.

On 29 April 2008 by way of Resolution No. 3 the Annual General Meeting of PKO Towarzystwo Funduszy Inwestycyjnych SA declared a dividend of PLN 92 250 thousand and 30 750 thousand respectively to PKO BP SA and minority interests.

On 17 June 2008, the Annual General Shareholders' Meeting of Centrum Finansowe Puławska Sp. z o.o. adopted Resolution no. 4 on earmarking the Company's profit for 2007 of PLN 7 942 thousand to the payment of dividend to PKO BP SA, and Resolution no. 5 on earmarking the Company's profit for 2006 of PLN 8 685 thousand to the payment of dividend to PKO BP SA.

17. Cash and balances with the central bank

	31.12.2008	31.12.2007
Current account with the central bank	3 419 832	2 972 067
Cash	2 415 016	1 708 906
Other funds	2 044	1 654
Total	5 836 892	4 682 627

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

Funds on the obligatory reserve account bear interest of 0.9 of the rediscount rate for bills of exchange. As at 31 December 2008, this interest rate was 4.73%.

As at 31 December 2008 and 31 December 2007, there were no further restrictions as regards the use of these funds.

18. Amounts due from banks

	31.12.2008	31.12.2007
Deposits with other banks	2 106 309	4 676 670
Receivables due from repurchase agreements	603 200	14 397
Current accounts	383 847	183 784
Loans and advances	290 475	372 282
Cash in transit	7 879	14 379
Total	3 391 710	5 261 512
Impairment allowances, of which:	(28 111)	(276)
- Impairment allowances on exposure to foreign bank	(28 111)	-
Net total	3 363 599	5 261 236

As at 31 December 2008, the nominal value of placements with other banks with a fixed interest rate amounted to PLN 725 086 thousand (as at 31 December 2007: PLN 4 596 601 thousand). The majority of those placements were short-term placements. The nominal value of placements with other banks with a floating interest rate amounted to PLN 1 377 925 thousand as at 31 December 2008 (PLN 200 thousand as at 31 December 2007). As at 31 December 2008, the total value of accrued interests of placements with other banks amounted to PLN 3 298 thousand (as at 31 December 2007: PLN 79 869 thousand).

Details on risk related to amounts due from banks was presented in Note 52 "Objectives and principles of risk management related to financial instruments".

19. Trading assets

	31.12.2008	31.12.2007
Debt securities	1 491 524	1 193 255
issued by the State Treasury	1 491 398	1 193 129
issued by local government bodies	126	126
Shares in other entities - listed on stock exchange	4 623	9 664
Total trading assets	1 496 147	1 202 919

Trading assets (carrying amount) by maturity as at 31 December 2008 and as at 31 December 2007 (nominal values at the contract maturity date, interest, premium, discount up to 1 month):

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

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

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

As at 31 December 2007	up to 1 month	1 month - 3 months	3 months - 1 year	1 year - 5 years	over 5 years	Total
Debt securities	55 507	65 310	206 577	516 795	349 066	1 193 255
issued by the State Treasury	55 507	65 310	206 451	516 795	349 066	1 193 129
issued by local government bodies	-	-	126	-	-	126
Shares in other entities - listed on stock exchange	9 664	-	-	-	-	9 664
Total	65 171	65 310	206 577	516 795	349 066	1 202 919

The average yield on debt securities issued by the State Treasury as at 31 December 2007 amounted to 5.97% for PLN, 4.38% for EUR. The portfolio of debt securities held for trading as at 31 December 2007 comprised the following securities carried at their nominal values:

- Treasury bills 61 780
- Treasury bonds 1 108 839
- Bonds denominated in EUR 7 164
- Municipal bonds 123

20. Derivative financial instruments

Derivative instruments used by the Group

The Bank and other entities within the Group use various types of derivatives in order to manage risk involved in its business activities. As at 31 December 2008 and 31 December 2007, the Group held the following derivative instruments:

Type of contract	31.12.2008		31.12.2007	
	Assets	Liabilities	Assets	Liabilities
IRS	2 599 375	2 554 343	882 368	814 180
FRA	128 673	124 489	146 575	144 704
FX Swap	22 350	359 114	73 193	67 132
CIRS	56 289	2 391 272	410 927	200 717
Forward	204 356	135 645	28 109	36 375
Options	574 434	585 414	15 528	16 424
Other	12 193	60	36	393
Total	3 597 670	6 150 337	1 556 736	1 279 925

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

Derivative financial instruments as at 31 December 2008

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

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

Derivative financial instruments as at 31 December 2007

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

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
FX swap	2 729 270	643 248	845 554	-	-	4 218 072	67 132	73 193
Purchase	1 356 838	324 984	432 144	-	-	2 113 966	-	-
Sale	1 372 432	318 264	413 410	-	-	2 104 106	-	-
FX forward	966 764	1 004 944	906 335	71 852	-	2 949 895	36 375	28 145
Purchase	486 809	499 958	448 069	35 229	-	1 470 065	-	-
Sale	479 955	504 986	458 266	36 623	-	1 479 830	-	-
Options	195 247	445 795	614 253	135 922	-	1 391 217	16 424	15 324
Purchase	95 177	152 629	338 580	71 110	-	657 496	-	-
Sale	100 070	293 166	275 673	64 812	-	733 721	-	-
Cross Currency IRS	-	1 095 785	1 397 535	10 545 309	8 866 607	21 905 236	200 717	410 927
Purchase	-	555 435	705 155	5 317 678	4 471 031	11 049 299	-	-
Sale	-	540 350	692 380	5 227 631	4 395 576	10 855 937	-	-
Interest rate transactions								
Interest Rate Swap (IRS)	10 336 000	12 814 000	78 651 500	132 577 610	15 266 352	249 645 462	814 180	882 368
Purchase	5 168 000	6 407 000	39 325 750	66 288 805	7 633 176	124 822 731	-	-
Sale	5 168 000	6 407 000	39 325 750	66 288 805	7 633 176	124 822 731	-	-
Forward Rate Agreement (FRA)	18 709 142	32 714 000	68 050 000	16 950 000	-	136 423 142	144 704	146 575
Purchase	9 600 000	16 710 000	37 400 000	10 150 000	-	73 860 000	-	-
Sale	9 109 142	16 004 000	30 650 000	6 800 000	-	62 563 142	-	-
Other transactions								
Bond forward	10 856	9 636	5 310	2 686	-	28 488	-	-
Purchase	5 428	4 818	2 531	1 343	-	14 120	-	-
Sale	5 428	4 818	2 779	1 343	-	14 368	-	-
Credit Default Swaps (CDS)	-	-	-	109 575	121 750	231 325	376	-
Purchase	-	-	-	109 575	121 750	231 325	-	-
Other (stock market index derivatives)	281	8 002	1 940	-	-	10 223	17	204
Purchase	281	2 034	-	-	-	2 315	-	-
Sale	-	5 968	1 940	-	-	7 908	-	-
Total derivative instruments	32 947 560	48 735 410	150 472 427	160 392 954	24 254 709	416 803 060	1 279 925	1 556 736

21. Financial assets designated at fair value through profit or loss

	31.12.2008	31.12.2007
Debt securities	4 555 544	8 292 362
- issued by the State Treasury	4 373 621	7 353 033
- issued by other banks	172 876	764 018
- issued by other financial entities	-	129 142
- issued by non-financial entities	9 047	46 169
Shares in other entities	-	22 082
not listed on stock exchange	-	22 082
Total	4 555 544	8 314 444

As at 31 December 2008 and 31 December 2007, the portfolio of securities designated at fair value through profit or loss comprised of the following:

According to nominal amount	31.12.2008		31.12.2007	Currency
In the parent company:				
Treasury bills	2 100 000	PLN thousand	-	PLN thousand
Treasury bonds	2 255 500	PLN thousand	6 271 400	PLN thousand
USD bonds	118 472	PLN thousand	587 424	PLN thousand
including issued by banks	118 472	PLN thousand	234 349	PLN thousand
EUR bonds	95 965	PLN thousand	1 271 610	PLN thousand
including issued by banks	96 965	PLN thousand	555 210	PLN thousand
In subsidiaries:				
Treasury bonds	-		100 587	UAH thousand
investment certificates	-		10 000	UAH thousand
bonds of other entities	33 589	UAH thousand	95 833	UAH thousand
Treasury bonds	-		79 250	UAH thousand
Treasury bills	-		2 290	UAH thousand
equity instruments	-		20 409	UAH thousand

As at 31 December 2008, the average yield on debt securities issued by the State Treasury and included in the portfolio of other financial instruments designated at fair value through profit or loss was 5.65% for PLN. As at 31 December 2007, the average yield on such securities was as follows: 5.96% for PLN, 5.52% for EUR, 4.57% for USD.

Financial assets designated at fair value through profit or loss (carrying amount), by maturity (nominal values at the contract maturity date, interest, premium, discount up to 1 month, impairment – from 1 to 3 months) :

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

As at 31 December 2007	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Debt securities	370	118	2 044 138	4 449 588	1 798 148	8 292 362
issued by the State Treasury	355	-	2 039 128	3 835 108	1 478 442	7 353 033
issued by other banks	-	-	-	505 390	258 628	764 018
issued by other financial institutions	15	-	-	72 118	57 009	129 142
issued by non-financial entities	-	118	5 010	36 972	4 069	46 169
Shares in other entities - listed and not listed on stock exchanges	-	-	-	-	22 082	22 082
Total	370	118	2 044 138	4 449 588	1 820 230	8 314 444

22. Loans and advances to customers

	31.12.2008	31.12.2007
Loans and advances		
Receivables valued using the collective method (IBNR)	97 203 517	74 158 998
Receivables valued using the individual method	2 220 283	1 403 662
Receivables valued using the portfolio method	2 205 414	1 619 194
Finance lease receivables	2 396 553	1 650 898
Loans and advances - gross	104 025 767	78 832 752
Allowance for impairment on exposures with portfolio impairment	(1 398 065)	(1 363 864)
Allowance for impairment on exposures with individual impairment	(758 070)	(536 271)
Allowance for impairment on exposures with collective impairment (IBNR)	(717 081)	(475 673)
Allowance for impairment on finance lease receivables	(44 660)	(39 795)
Total impairment allowances	(2 917 876)	(2 415 603)
Loans and advances - net	101 107 891	76 417 149

Details on risk related to loans and advances to customers was presented in Note 52 "Objectives and principles of risk management related to financial instruments".

Finance and operating lease agreements

Finance lease - lessor

The Group conducts lease activities through the subsidiary, Bankowy Fundusz Leasingowy SA.

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

As at 31 December 2008

Finance lease receivables	Gross lease investment	Present value of the minimal lease payments	Unearned interest
Gross lease investment value and minimal lease payments			
Gross lease receivables:			
up to 1 year	923 231	762 597	160 634
from 1 to 5 years	1 650 145	1 425 035	225 110
over 5 years	265 728	208 921	56 807
Total	2 839 104	2 396 553	442 551
Impairment allowances	(44 660)	(44 660)	-
Total, including impairment allowances	2 794 444	2 351 893	442 551
Net lease investment			
Present value of the minimal lease payments, of which:			2 396 553
non guaranteed final amounts due to the lessor			2 341

As at 31 December 2007

Finance lease receivables	Gross lease investment	Present value of the minimal lease payments	Unearned interest
Gross lease investment value and minimal lease payments			
Gross lease receivables:			
up to 1 year	619 742	517 024	102 718
from 1 to 5 years	1 174 457	1 031 024	143 433
over 5 years	124 481	102 850	21 631
Total	1 918 680	1 650 898	267 782
Impairment allowances	(39 795)	(39 795)	-
Total, including impairment allowances	1 878 885	1 611 103	267 782

Net lease investment

Present value of the minimal lease payments, of which	1 650 898
non guaranteed final amounts due to the lessor	24 501

Operating lease - lessee

Operating lease agreements, under which the lessor retains substantially the risk and rewards incidental to the ownership of an asset, are classified as operating lease agreements. Lease payments under operating leases are recognized as expenses in the income statement, on a straight-line basis over the lease term.

Rental and tenancy agreements concluded by the Group in the course of its normal operating activities meet the criteria of operating leases. All agreements are concluded at arm's length.

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

Total value of future lease payments under non-cancellable operating lease	31.12.2008	31.12.2007
For period:		
up to 1 year	91 899	80 108
from 1 year to 5 years	149 484	132 277
above 5 years	49 496	24 104
Total	290 879	236 489

Lease and sub-lease payments recognized as an expense in the period from 1 January 2008 to 31 December 2008 amounted to PLN 108 595 thousand (in the period from 1 January 2007 to 31 December 2007: PLN 72 520 thousand).

Operating lease - lessor

As at the balance date the total value of future lease payments under operating lease are as follows:

Total value of future lease payments under non-cancellable operating lease	31.12.2008	31.12.2007
For period:		
up to 1 year	1 967	7 613
from 1 year to 5 years	4 239	23 253
above 5 years	20 838	14 663
Total	27 044	45 529

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

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

Means of transport	2008	2007
Gross value as at the beginning of the period	21 088	19 269
Changes in the period	(814)	1 819
Gross value at the end of the period	20 274	21 088
Accumulated depreciation as at the beginning of the period	(6 497)	(2 726)
Depreciation for the period	(3 508)	(4 504)
Other changes in depreciation	3 901	733
Accumulated depreciation at the end of the period	(6 104)	(6 497)
Impairment allowances as at the beginning of the period	(33)	(2)
Impairment allowances recognized during the period	-	(31)
Reversal of impairment allowances	33	-
Impairment allowances at the end of the period	-	(33)
Net book value	14 170	14 558

23. Investment securities available for sale

	31.12.2008	31.12.2007
Debt securities available for sale	8 544 543	5 650 578
- issued by the central bank	2 673 729	2 633 505
- issued by other banks	46 756	-
- issued by other financial institutions	74 427	33
- issued by non-financial institutions	815 210	639 863
- issued by the State Treasury	3 516 322	1 201 129
- issued by local government bodies	1 418 099	1 176 048
Allowance for impairment on debt securities available for sale	(19 932)	(18 620)
Total debt securities available for sale	8 524 611	5 631 958
Equity securities - available for sale	96 061	92 509
Allowance for impairment on equity securities available for sale	(5 759)	(8 229)
Total net equity securities - available for sale	90 302	84 280
Total net investment securities	8 614 913	5 716 238

Change in investment securities:

	2008	2007
Investment securities available for sale		
Balance at the beginning of the period	5 716 238	6 763 188
Foreign exchange differences	42 269	(1 626)
Increases	8 661 642	3 397 449
<i>of which: change in impairment allowance</i>	1 158	3 202
Decreases (redemption)	(5 814 299)	(4 380 104)
Change in the fair value	9 063	(62 669)
Balance at the end of the period	8 614 913	5 716 238

Details on risk related to investment securities available for sale was presented in Note 52 "Objectives and principles of risk management related to financial instruments".

Investment securities available for sale (nominal values presented at contractual dates; interests, premium, discount presented in one month bracket; impairment allowance presented in one to three month bracket):

As at 31 December 2008	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Investment securities available for sale						
issued by the central bank	-	-	-	2 673 729	-	2 673 729
issued by other banks	49 933	-	-	46 756	-	96 689
issued by other financial institutions	424	-	74 426	19 468	11	94 329
issued by non-financial institutions	359 826	108 290	43 097	295 109	9 423	815 745
issued by the State Treasury	-	7 351	20 215	2 957 352	531 404	3 516 322
issued by local government bodies	-	8 361	95 239	652 493	662 006	1 418 099
Total	410 183	124 002	232 977	6 644 907	1 202 844	8 614 913

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

In the parent company:

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

In subsidiaries:

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

*UAH

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(in PLN thousand)

As at 31 December 2007	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Investment securities available for sale						
issued by the central bank	-	-	-	2 633 505	-	2 633 505
issued by other banks	-	-	-	55 377	-	55 377
issued by other financial institutions	-	-	-	-	437	437
issued by non-financial institutions	136 030	107 292	6 546	394 154	5 720	649 742
issued by the State Treasury	156	-	69 600	650 695	480 678	1 201 129
issued by local government bodies	2 617	5 501	124 669	556 492	486 769	1 176 048
Total	138 803	112 793	200 815	4 290 223	973 604	5 716 238

The average yield of available-for-sale securities as at 31 December 2007 amounted to 6.05%.

As at 31 December 2007, the portfolio of debt securities available for sale, at nominal values comprised the following:

In the parent company:

• bills of exchange	2 150
• corporate bonds in PLN	596 668
• corporate bonds in EUR	24 723
• municipal bonds	1 171 442
• Treasury bonds	1 125 000
• bonds issued by the central bank, NBP	2 551 112

in subsidiaries:

• Treasury bonds	111 740
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As at 31 December 2008 and 31 December 2007, the PKO BP SA Group did not have any securities in the held-to-maturity portfolio.

24. Investments in associates and jointly controlled entities

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

Entity name	31.12.2008	31.12.2007
Centrum Obsługi Biznesu Sp. z o.o	10 934	10 519
Grupa Kapitałowa Centrum Haffnera Sp. z o.o.	45 748	45 752
Total	56 682	56 271

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

Entity name	31.12.2008	31.12.2007
Bank Pocztowy SA	175 871	113 000
Kolej Gondolowa Jaworzyna Krynicka SA	13 851	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	463	1 626
Agencja Inwestycyjna CORP SA	278	301
FINDER SA	-	7 386
Total	190 463	122 313

Selected data on associated entities accounted for using the equity method

Entity name	Total assets	Total liabilities	Total revenues	Net profit (loss)	% share
31.12.2008					
Bank Pocztowy SA	2 697 837	2 414 068	248 485	27 014	25.0001%
Kolej Gondolowa Jaworzyna Krynicka SA	44 648	7 794	13 408	3 714	37.53%
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	15 614	18	379	10 017	33.33%
Agencja Inwestycyjna CORP SA	3 899	2 290	13 128	451	22.31%
Total	2 761 998	2 424 170	275 400	41 647	X
31.12.2007					
Bank Pocztowy SA	3 100 593	2 851 637	253 816	30 431	25.0001%
Kolej Gondolowa Jaworzyna Krynicka SA	36 860	2 792	11 726	1 602	37.53%
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	14 653	9 575	312	42	33.33%
Agencja Inwestycyjna CORP SA	4 027	2 486	14 471	315	22.31%
Total	3 156 133	2 866 490	280 325	32 390	X

The financial information presented above is derived from the Group entities' financial statements prepared in accordance with Polish Accounting Standards. According to the Group's estimates, differences between the above-mentioned financial statements and the statements prepared in accordance with IFRS are not significant from the perspective of the consolidated financial statements of the Group. The 2007 figures are derived from audited financial statements.

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

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

Entity name	Total assets	Total liabilities	Total revenues	Net profit (loss)	% share
31.12.2008					
Centrum Obsługi Biznesu Sp. z o.o.	138 954	107 083	23 151	2 758	41.44%
Grupa Centrum Haffnera Sp. z o.o.	265 732	172 191	11 966	(92)	49.43%
Total	404 686	279 274	35 117	2 666	X
31.12.2007					
Centrum Obsługi Biznesu Sp. z o.o.	124 103	93 224	20 903	(4 401)	41.44%
Grupa Centrum Haffnera Sp. z o.o.	176 952	83 896	2 729	1 961	49.43%
Total	301 055	177 120	23 632	(2 440)	X

The information presented in the above table for Centrum Obsługi Biznesu Sp. z o.o. is derived from financial statements prepared in accordance with the Polish Accounting Standards, and the information for Centrum Haffnera Sp. z o.o. is derived from consolidated financial statements prepared in accordance with Polish Accounting Standards. According to the Group's estimates, differences between the above-mentioned financial statements and the statements prepared in accordance with IFRS are not significant from the perspective of the consolidated financial statements of the Group. The information for the both companies for the year 2007 is derived from audited financial statements.

In the consolidated financial statements for the year ended 31 December 2008, all associates and jointly controlled entities are accounted for using the equity method.

	2008	2007
Investments in associates at the beginning of the period	122 313	122 176
Share of profit	15 184	6 087
Dividends paid	(64)	(74)
Share in changes in equity	(7 386)	-
sale of FINDER SA shares	(7 386)	-
acquisition of P.L.ENERGIA SA shares	-	4 999
sale of P.L.ENERGIA SA shares	-	(4 999)
Change in impairment allowances of investment	60 416	(5 876)
Investment in associates at the end of the period	190 463	122 313

In the year of 2008 the Group has reversed some allowances for impairment on investments in associates, valued under the equity method: on Bank Pocztowy SA in the amount of PLN 51 544 thousand and on Kolej Gondolowa Jaworzyna Krynicka SA in the amount of PLN 10 024 thousand, as a result of the reversal of loss events. Such reversal of loss events enabled the Bank to recognize its share in the associates' profits: 11 327 PLN thousand from Bank Pocztowy SA and PLN 3 827 thousand from Kolej Gondolowa Jaworzyna Krynicka SA.

	2008	2007
Investments in jointly controlled entities at the beginning of the period	56 271	57 986
Share of profit (loss)	411	(1 715)
Investments in jointly controlled entities at the end of the period	56 682	56 271

As at 31 December 2008 and 31 December 2007, the parent company had no share in contingent liabilities and commitments of associates acquired jointly with other investors.

In the year ended 31 December 2008, PKO BP SA did not make any direct investments in jointly controlled entities or associates.

25. Inventories

Carrying amount of inventories	31.12.2008	31.12.2007
Work-in-progress*	403 175	344 378
Finished goods	100 270	10 551
Supplies	113 533	9 910
Materials	5 432	465
Total	622 410	365 304

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

At 31 December 2008, the short-term portion of inventories amounted to PLN 479 181 thousand, whereas the long-term portion amounted to PLN 143 229 thousand (at 31 December 2007, PLN 113 717 thousand and PLN 251 587 thousand, respectively).

In the years ended 31 December 2008 and 31 December 2007, the Group did not record any allowances for impairment of inventories, and none of the inventories were pledged as collateral.

26. Intangible assets

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

The most significant item of capital expenditure of the Group relates to outlays on the Integrated Information System (ZSI). The cumulative capital expenditures incurred for the ZSI system during the years 2003 – 2008 amounted to PLN 864 500 thousand (during the years 2003 – 2007, they amounted to PLN 704 010 thousand). As at 31 December 2008, the carrying amount of outlays on the Integrated Information System (ZSI) amounted to PLN 577 925 thousand.

The expected useful life of the ZSI system is 10 years. At 31 December 2008, the remaining useful life is 8 years.

For the year ended 31 December 2007	Development costs	Software	Goodwill acquired as a result of entities' business combinations (including subsidiaries' goodwill)	Other, including capitalised expenses	Total
Net carrying amount as at 1 January 2008	-	623 278	205 655	115 095	944 028
Purchase of shares of subsidiaries	-	-	28 408	-	28 408
Purchases	-	9 813	-	296 124	305 937
Sales and disposals	-	(33)	-	(2)	(35)
Impairment allowances	-	16 308	-	-	16 308
Foreign exchange differences on revaluation of foreign entities' operations results into the presentation currency	-	(999)	-	-	(999)
Transfers	-	292 754	-	(292 754)	-
Amortisation	-	(111 469)	-	(2 526)	(113 995)
Other value changes	2 539	(706)	3	2 003	3 839
Net carrying amount	2 539	828 946	234 066	117 940	1 183 491
<i>As at 1 January 2007</i>					
Purchase price (gross carrying amount)	-	1 340 482	205 655	129 593	1 675 730
Accumulated amortisation and impairment allowances	-	(717 204)	-	(14 498)	(731 702)
Net carrying amount	-	623 278	205 655	115 095	944 028
<i>As at 31 December 2007</i>					
Purchase price (gross carrying amount)	2 539	1 634 511	234 066	132 271	2 003 387
Accumulated amortisation and impairment allowances	-	(805 565)	-	(14 331)	(819 896)
Net carrying amount	2 539	828 946	234 066	117 940	1 183 491

The Group does not produce any software internally. In the period from 1 January 2008 to 31 December 2008, the PKO BP SA incurred capital expenditures for the purchase of tangible fixed assets and intangible assets in the amount of PLN 889 362 thousand (in the period from 1 January 2007 to 31 December 2007: PLN 782 726 thousand).

The table below presents data concerning goodwill included in the Group's financial statements as at 31 December 2008 and 31 December 2007.

Net goodwill	31.12.2008	31.12.2007
Powszechne Towarzystwo Emerytalne BANKOWY SA	51 158	51 158
Centrum Finansowe Puławska Sp. z o.o	7 785	7 785
KREDOBANK SA	-	76 360
Wilanów Investment Sp. z o.o.	49 412	49 412
PKO Towarzystwo Funduszy Inwestycyjnych SA	49 351	49 351
Baltic Dom 2 Sp. z o.o.	7 014	-
Total net goodwill	164 720	234 066

Additional information on goodwill arising on the acquisition of subsidiaries in the year of 2008 is presented in Note 47 "Business Combinations".

As at 31 December 2008, the Group conducted mandatory goodwill impairment tests in accordance with the model developed on the basis of the guidelines included in IAS 36 taking into consideration the specific nature of operations of particular entities. Test models (with the exception of PTE BANKOWY SA) are based on discounted cash flows and on the assumptions that the shares will be held in the future. The forecasts related to cash flows are developed on the basis of financial plans of entities covering a period of 3 to 5 years, using differentiated discount rates tailored to the specific nature of operations of the particular entities. The goodwill impairment testing model of PTE BANKOWY SA was developed using the *embedded value* method, according to which the value in use of the Bank's share in the value of the company was determined.

Global financial crisis contributed to fierce economic slowdown in Ukraine. High correlation between economic growth in Ukraine, including banking sector, and foreign capital inflow deepened the crisis in Ukraine. In November 2008, the International Monetary Fund granted Ukraine stabilizing funds provided the flexibility improvements are implemented to the currency system. In the last months of 2008, constraining of central

bank interventions, along with the deepening process of foreign capital outflow as well as currency purchase by domestic entities caused fierce depreciation of the Ukrainian hryvna.

Banking crisis in Ukraine and the following decrease of trust to the banks resulted in withdrawal of bank deposits in the last months of 2008; higher increase rate of loans than deposits resulted in aggravating liquidity difficulties.

The above-mentioned negative factors led to increase in share of non-performing loans in the banks' loan portfolios. Due to high inflation rate, depreciation of collaterals established by the Bank was recognized. The deterioration of the bank loan portfolios was also affected by defaults of some of the borrowers.¹

Activities of KREDOBANK SA were also affected by difficult economic situation in the Ukrainian banking sector. For the twelve-month period of 2008 KREDOBANK SA recognized net loss in the amount of PLN 196 293 thousand. This loss resulted mainly from impairment losses recognized on the loan portfolio during the period.

As at the balance date, the Bank carried out a goodwill impairment test on goodwill of subsidiary company KREDOBANK SA. As a result of the test, the Bank estimated the recoverable goodwill as the higher of the fair value less costs to sell and the value in use.

The Bank made the valuation using the comparative method, using market quotations of other comparative entities on East European Stock Exchanges.

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

As a result of the test, both fair value and recoverable value was estimated as approx. nil as at the balance date. As a consequence, the Bank decided to recognise a 100% write-down on goodwill arising from KREDOBANK SA in the amount of PLN 76 360 thousand as at 31 December 2008.

¹ Detailed information on macroeconomic situation in Ukraine was described in the PKO BP SA Group Directors' Report for the year 2008.

27. Tangible fixed assets

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

As at 31 December 2008, the carrying value of machinery and equipment used under finance lease agreements and operating leases with purchase options contracts amounted to PLN 3 623 thousand (as at 31 December 2007: PLN 13 310 thousand). In the years ended 31 December 2008 and 31 December 2007, respectively, there were no restrictions on the Group's right to use its tangible fixed assets as a result of pledges.

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(in PLN thousand)

For the year ended 31 December 2007	Land and buildings	Machinery and equipment	Means of transport	Assets under construction	Investment properties	Other	Total
Gross value of tangible assets as at the beginning of the period	2 294 280	2 621 780	60 553	294 632	41 135	384 774	5 697 154
Increases, of which:	22 410	34 474	32 943	1 561 105	-	16 179	1 667 111
Purchases and other changes	22 410	34 474	32 943	1 561 105	-	16 179	1 667 111
Decreases, of which:	(46 417)	(259 357)	(18 042)	(1 230 105)	(2 123)	(28 316)	(1 584 360)
Disposals and sales	(23 574)	(247 129)	(15 823)	(47 333)	(1 509)	(21 739)	(357 107)
Transfer of tangible assets to lease	-	-	-	(1 120 639)	-	-	(1 120 639)
Foreign exchange differences	(11 751)	(8 983)	(1 010)	(8 084)	-	(4 970)	(34 798)
Other	(11 092)	(3 245)	(1 209)	(54 049)	(614)	(1 607)	(71 816)
Transfers from assets under construction to tangible fixed assets	41 507	200 427	1 054	(284 171)		41 183	-
Gross value of fixed assets at the end of the period	2 311 780	2 597 324	76 508	341 461	39 012	413 820	5 779 905
Accumulated depreciation as at the beginning of the period	(495 454)	(2 137 360)	(31 743)	-	(4 649)	(321 688)	(2 990 894)
Increases, of which:	(73 777)	(162 927)	(10 306)	-	(1 596)	(21 503)	(270 109)
Depreciation for the period	(73 092)	(161 880)	(10 226)	-	(1 596)	(21 376)	(268 170)
Other	(685)	(1 047)	(80)	-	-	(127)	(1 939)
Decreases, of which:	11 635	252 025	15 432	-	-	25 162	304 254
Disposals and sales	9 218	246 006	14 332	-	-	21 483	291 039
Foreign exchange differences	1 419	2 941	464	-	-	1 909	6 733
Other	998	3 078	636	-	-	1 770	6 482
Accumulated depreciation at the end of the period	(557 596)	(2 048 262)	(26 617)	-	(6 245)	(318 029)	(2 956 749)
Impairment allowances							
Opening balance	(50 405)	(79)	-	(700)	-	(35)	(51 219)
Increases	-	(126)	-	(970)	-	-	(1 096)
Decreases	49 148	79	-	-	-	35	49 262
Closing balance	(1 257)	(126)	-	(1 670)	-	-	(3 053)
Net book value	1 752 927	548 936	49 891	339 791	32 767	95 791	2 820 103
Opening balance	1 748 421	484 341	28 810	293 932	36 486	63 051	2 655 041
Closing balance	1 752 927	548 936	49 891	339 791	32 767	95 791	2 820 103

In the years 2008 and 2007, the Group did not recognise in the income statement any significant compensation from third parties due to impairment or loss of tangible fixed assets.

The tangible assets item "Land and buildings, including investment properties" includes land which is not subject to depreciation. In the group of tangible assets "Investment properties", the largest item is the perpetual usufruct right to a plot of land in Warsaw with the carrying amount of PLN 24 047 thousand, whose fair value estimated by an independent expert (on 16 October 2008) exceeded its carrying amount by approximately PLN 114 500 thousand. There are no restrictions on the Bank's rights to sell these properties, nor any contractual liabilities relating to these assets.

The amounts of income/expenses connected with investment properties of the Group are presented below:

	2008	2007
Direct operating costs concerning the investment properties (including maintenance and repair costs) that in the given period did not bring rental income	1 500	1 439
Total	1 500	1 439

28. Other assets

	31.12.2008	31.12.2007
Trade receivables	218 234	225 762
Settlements of payment cards transactions	123 732	149 114
Accruals and prepayments	115 454	31 117
Receivables relating to foreign exchange activities	8 628	15 892
Receivables from the state budget due to distribution of marks of value	8 883	8 373
Settlements of investment securities turnover	7 255	6 614
Fixed assets held for trade and discontinued operations	-	5 716
Receivables from other banks	-	3 753
Other*	148 266	132 335
Total	630 452	578 676

* Included in "Other" are mainly interbank and inter-branch settlements, receivables arising from internal operations, receivables arising from other transactions with financial, non-financial and public entities.

Tangible assets held for sale

Tangible assets held for sale, by kind of asset	31.12.2008	31.12.2007
Assets held for sale	-	5 059
Lease objects	-	657
Other	-	-
Total	-	5 716

29. Amounts due to the central bank

	31.12.2008	31.12.2007
Up to 1 month	2 816	1 279
Total amount due to the central bank	2 816	1 279

30. Amounts due to other banks

	31.12.2008	31.12.2007
Other bank deposits	2 835 727	1 436 694
Loans and advances	3 943 895	3 128 706
Current accounts	93 810	94 212
Other money market deposits	115 171	43 502
Total amounts due to other banks	6 988 603	4 703 114

31. Other financial liabilities designated at fair value through profit or loss

As at 31 December 2008 and 31 December 2007 the PKO BP SA Group had no other financial liabilities valued at fair value through profit or loss.

32. Amounts due to customers

	31.12.2008	31.12.2007
Amounts due to corporate entities	19 332 897	15 639 541
Current accounts and overnight deposits	7 215 707	6 798 584
Term deposits	11 582 684	8 267 334
Loans and advances	378 009	413 770
Other	156 497	159 853
Amounts due to state budget entities	7 283 578	4 691 218
Current accounts and overnight deposits	3 873 868	3 549 004
Term deposits	3 360 986	1 035 165
Other	48 724	107 049
Amounts due to retail clients	76 322 806	66 248 751
Current accounts and overnight deposits	29 247 846	29 012 938
Term deposits	46 778 479	37 113 090
Other	296 481	122 723
Total amounts due to customers	102 939 281	86 579 510

33. Debt securities in issue

As at 31 December 2008 and 31 December 2007, the Group had the following liabilities from debt securities in issue:

	31.12.2008	31.12.2007
Debt securities in issue		
Bonds issued by:		
BFL SA	183 594	166 823
KREDOBANK SA	27 979	12 037
Total	211 573	178 860

	31.12.2008	31.12.2007
Debt securities in issue by maturity:		
Up to 1 month	79 404	53 427
From 1 month to 3 months	74 721	102 198
From 3 months to 1 year	29 469	11 198
From 1 year to 5 years	27 979	12 037
Total	211 573	178 860

As at 31 December 2008, the average interest rate of securities issued by KREDOBANK was 13.07% and of securities issued by BFL – 7.23%. As at 31 December 2007, the average interest rate of securities issued by KREDOBANK and BFL amounted to 13.75% and 5.65%, respectively.

34. Subordinated liabilities

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

As at 31 December 2008

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

As at 31 December 2007

Subordinated liabilities	Nominal value	Currency	Interest rate (%)	Maturity date	Balance
Subordinated bonds	1 600 700	PLN	6.35%	30.10.2017	1 614 885

Change in subordinated liabilities

	2008	2007
As at the beginning of the period	1 614 885	-
Increases, of which:	115 022	1 618 211
issue of subordinated bonds	-	1 600 700
accrued interest	115 022	17 511
Decreases, of which:	(111 152)	(3 326)
repayment of interest	(111 152)	-
commission paid	-	(3 326)
Subordinated liabilities as at the end of the period	1 618 755	1 614 885

35. Other liabilities

	31.12.2008	31.12.2007
Accounts payables	237 520	220 330
Deferred income	262 867	321 273
Other liabilities relating to:	1 167 389	1 190 730
inter-bank and inter-branch settlements	241 922	124 650
liabilities relating to settlements of security transactions	205 896	323 286
liabilities due to suppliers	146 745	136 426
liabilities due to legal settlements	123 448	137 888
liabilities arising from foreign currency activities	76 854	64 176
liabilities relating to investment activities and internal operations	52 059	34 266
liabilities arising from repayment obligation of advances from borrowers related with debt forgiveness from the State Treasury	39 226	33 341
settlement of acquisition of machines, materials, works and services regarding construction of tangible assets	35 862	58 328
liabilities due to UOKiK (the Competition and Consumer Protection Office)	22 310	16 597
liabilities arising from transactions with non-financial institutions	14 534	83 642
liabilities arising from other settlements	8 271	32 782
liabilities relating to payment cards	1 663	38 348
liabilities relating to payments of benefits	-	9 225
other*	198 599	97 775
Total	1 667 776	1 732 333

* Item "other" includes: liabilities from sale of Treasury stamps, liabilities arising from bank transfers and other payment orders, balances arising from services provided by Poczta Polska, payables to insurance companies and balances arising from settlement of funds allocated by customers for the purchase of investment fund units.

As at 31 December 2008 and 31 December 2007, none of the Group entities had overdue contractual liabilities.

36. Provisions

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

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

For the year ended 31 December 2007	Provision for legal claims	Provisions for anniversary bonuses and retirement benefits	Provisions for liabilities and guarantees granted	Other provisions*	Total
As at 1 January 2007, including	7 680	317 560	18 650	84 310	428 200
short term portion	7 680	54 441	18 650	84 310	165 081
long term portion	-	263 119	-	-	263 119
Increase/reassessment	2 688	3 368	50 285	69 761	126 102
Use	(2 064)	-	-	(435)	(2 499)
Release	(756)	-	(41 073)	(55 813)	(97 642)
Foreign exchange differences	-	-	(72)	-	(72)
Other changes and reclassifications	10	(71)	273	-	212
As at 31 December 2007, including:	7 558	320 857	28 063	97 823	454 301
short term portion	7 558	40 987	28 063	97 823	174 431
long term portion	-	279 870	-	-	279 870

* Included in "Other provisions" is: restructuring provision amounting to PLN 79 129 thousand and provision for potential claims on receivables sold amounting PLN 9 894 thousand

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

37. Share capital

In the years ended 31 December 2008 and 31 December 2007 there were no changes in the amount of the share capital of the parent company.

As at 31 December 2008, the share capital of PKO BP SA amounted to PLN 1 000 000 thousand and consisted of 1 000 000 thousand ordinary shares with nominal value of PLN 1 each (the same as at 31 December 2007). All issued shares of PKO BP SA are common shares.

The structure of the Bank's share capital:

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

On 10 November 2004, based on a Resolution dated 30 August 1996 on commercialization and privatization (Journal of Laws 2002, No. 171, item 1397 with subsequent amendments) and Par. 14.1, Resolution of the Ministry of the State Treasury dated 29 January 2003 on specific rules for

categorization of employees into groups, setting a number of shares to be allocated on each of such groups, and procedures for acquiring shares by authorized employees (Journal of Laws No. 35, item 303), the parent company of the Group has issued its shares to its employees. As a result, the parent company's employees received 105 000 000 shares, which constitute 10.5% of the share capital of the parent company.

As at 31 December 2008, 487 565 thousand shares were subject to public trading (as at 31 December 2007: 485 065 thousand shares).

As at 31 December 2008 and 31 December 2007, the subsidiaries, jointly controlled entities and associates of the Bank did not hold shares of PKO BP SA.

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

38. Other capital and retained earnings

	31.12.2008	31.12.2007
Reserve capital	7 274 717	5 592 311
Revaluation reserve	(33 237)	(43 066)
General banking risk fund	1 070 000	1 070 000
Other reserves	1 523 827	1 518 025
Total other capital	9 835 307	8 137 270
Retained earnings	53 232	(72 192)
Total	9 888 539	8 065 078

39. Transferred financial assets which do not qualify for derecognition

As at 31 December 2008 and 31 December 2007, the Group did not hold any significant transferred financial assets in such a way that part or all of the financial assets would not qualify for derecognition.

40. Pledged assets

The PKO BP SA Group had the following pledged assets:

Liabilities from sell-buy-back transactions (SBB)

	31.12.2008	31.12.2007
Treasury bonds:		
nominal value	135 565	158 911
carrying amount	140 748	160 943
Treasury bills:		
nominal value	14 990	2 360
carrying amount	14 717	2 281

Bank deposit guarantee fund

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

	31.12.2008	31.12.2007
Deposits guarantee fund as contributed by the Bank	238 273	202 824
Nominal value of the pledge	240 000	201 000
Type of the pledge	NBP bonds	Treasury bonds
Maturity of the pledge	01.03.2012	24.06.2008
Carrying value of the pledged asset	251 535	206 872

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

Stock exchange guarantee fund

Cash pledged as collateral for securities' transactions conducted by DOM MAKLERSKI PKO BP SA are deposited in the National Depository for Securities (KDPW), as part of the Stock exchange guarantee fund.

	31.12.2008	31.12.2007
Stock exchange guarantee fund	7 966	8 120

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

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

	31.12.2008	31.12.2007
Cash pledged as collateral for loans from foreign financial institutions		
UAH thousand	-	149 837
PLN thousand	-	72 132
Cash pledged as collateral for loans from other Ukrainian banks	160 160	-
UAH thousand	59 740	-
PLN thousand		
Bonds issued by the Ukraine Ministry of Finance, pledged as collateral for loans received from other financial institutions		
UAH thousand	-	60 000
PLN thousand	-	28 884

41. Contingent liabilities

Underwriting programs

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

Issuer of securities underwritten	Type of underwritten securities	Amount to which the Bank committed in case of realisation of underwriting agreement	Contract period	Sub-issue type
Company A	corporate bonds	498 400	2009-12-31	Bonds Issue Agreement*
Company B	commercial bills	300 000	2009-12-31	Commercial Bill Issue Agreement PKO BP SA
Company C	corporate bonds	200 000	2012-01-02	Bonds Issue Agreement*
Company D	corporate bonds	50 000	2018-12-31	Bonds Issue Agreement*
Total		1 048 400		

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

As at 31 December 2007, the Bank's underwriting agreements covered the following securities:

Issuer of securities underwritten	Type of underwritten securities	Amount to which the Bank committed in case of realisation of underwriting agreement	Contract period	Sub-issue type
Company A	corporate bonds	725 517	2009-12-31	Bonds Issue Agreement*
Company B	commercial bills	299 529	2009-12-31	Commercial Bill Issue Agreement PKO BP SA
Entity A	municipal bonds	213 000	2011-12-31	Bonds Issue Agreement*
Company D	corporate bonds	94 534	2011-11-30	Bonds Issue Agreement*
Company E**	corporate bonds	17 792	2009-12-30	Bonds Issue Agreement*
Total of others, whose separate values do not exceed PLN 15 million each	municipal bonds	49 839		Bonds Issue Agreement*
Total		1 400 211		

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

** Debt securities denominated in EUR after translation into PLN

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

Contractual commitments

As at 31 December 2008 amount of contractual commitments, concerning intangible assets amounted to PLN 84 284 thousands.

Loan commitments

	31.12.2008	31.12.2007
Total loan commitments to:	26 141 444	24 346 666
financial sector	635 344	564 551
non-financial sector	25 084 434	23 551 708
public sector	421 666	230 407
of which: irrevocable loan commitments	7 712 824	8 860 369

Guarantees issued

Guarantees	31.12.2008	31.12.2007
Financial sector	4 871	8 520
Non-financial sector	4 093 755	3 614 258
Public sector	204 073	262 494
Total	4 302 699	3 885 272

In the years ended 31 December 2008 and 31 December 2007, the Group did not issue any guarantees in respect of loans or advances and did not issue any guarantees to a single entity or a subsidiary thereof with a total value accounting for 10% of the Bank's equity.

Information on provisions for contingent guarantees and financial liabilities is included in Note 36 "Provisions".

Contingent liabilities by maturity as at 31 December 2008

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

Contingent liabilities by maturity as at 31 December 2007

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
Financial liabilities	5 996 907	846 343	7 967 694	7 405 452	2 130 270	24 346 666
Guarantee liabilities issued	724 128	98 931	977 951	1 960 497	123 765	3 885 272
Total	6 721 035	945 274	8 945 645	9 365 949	2 254 035	28 231 938

Contingent assets

	31.12.2008	31.12.2007
Received	4 928 425	5 063 779
1. financial	753 118	899 453
2. guarantees	4 175 307	4 164 326

Assets pledged as collateral for contingent liabilities

As at 31 December 2008 and 31 December 2007 the Group had no assets pledged as collateral for contingent liabilities.

Right to sell or pledge collateral established for the Group

As at 31 December 2008 and 31 December 2007, there was no collateral established for the Group which the Group was entitled to sell or encumber with another pledge in the event of fulfilment of all obligations by the owner of the collateral.

42. Legal claims

As 31 December 2008, the total value of court proceedings in which the Bank is a defendant was PLN 319 543 thousand (as at 31 December 2007: PLN 177 916 thousand), while the total value of court proceedings in which the Bank is the plaintiff was PLN 74 981 thousand (as at 31 December 2007: PLN 73 891 thousand).

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

a) Unfair competition proceedings

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

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

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

As at the date of these financial statements, four administrative proceedings are pending to invalidate decisions issued by public administration authorities with respect to properties held by the Bank. These proceedings, in the event of an unfavourable outcome for the Bank, may result in re-privatization claims being raised against the Bank. Given the current status of these proceedings, it is not possible to assess their potential negative financial effects for the Bank. Moreover, with respect to two properties claims were submitted by their former owners (court proceedings are pending), and with respect to the third property, the Bank is in the process of negotiations in order to settle the legal

status. Until 31 December 2008 there had been no further developments with respect to this issue. The financial statements for the year ended 31 December 2008 do not contain any provisions in respect of the potential liabilities resulting from re-privatization claims.

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

43. Supplementary information to the cash flow statement

Cash and cash equivalents

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

	31.12.2008	31.12.2007
Cash and balances with the central bank	5 836 892	4 682 627
Current receivables from other financial institutions	2 433 351	4 549 689
Total	8 270 243	9 232 316

Cash flow from interests and dividends, both received and paid

Interest income - received	2008	2007
Income from loans and advances	6 979 839	6 917 465
Income from securities designated at fair value through profit or loss	441 731	441 161
Income from placements with other banks	325 136	326 340
Income from investment securities	272 155	282 313
Income from trading securities	62 151	62 151
Other	1 081 671	1 083 013
Total	9 162 683	9 112 443

Dividend income - received	2008	2007
Dividend income from subsidiaries, associates and jointly controlled entities	108 940	48 825
Dividend income from other entities	21 956	3 288
Total	130 896	52 113

Interest expense – paid	2008	2007
Interest expense on deposits	(1 625 085)	(1 630 732)
Interest expense on loans and advances	(184 920)	(122 129)
Interest expense on debt securities in issue	(114 326)	(112 427)
Other interest expense (mainly premium from debt securities, interest expense on cash collaterals liabilities, interest expense on current account of special purpose funds)	(892 533)	(893 147)
Total	(2 816 864)	(2 758 435)

Dividend expense - paid	2008	2007
Dividend paid to shareholders of the parent company	(1 090 000)	(980 000)
Dividend paid to minority shareholders	(30 750)	(16 250)
Total	(1 120 750)	(996 250)

Cash flow from operating activities - other adjustments

	2008	2007
Interest accrued, discount, premium – on available for sale debt securities decreased by deferred tax	(433 088)	(296 021)
Disposal and impairment allowances for tangible fixed assets and intangible assets	133 001	(59 959)
Valuation, impairment allowances for investments in jointly controlled entities and associates	(33 208)	109 628
Currency translation differences from foreign operations	(9 652)	(34 089)
Total	(342 947)	(280 441)

Reconciliation of differences between the balance sheet changes and the cash flow statement changes of items presented under operating activities in the cash flow statement

Gains (losses) on disposal of fixed assets	2008	2007
Income from sale and disposal of tangible fixed assets and intangible assets	(6 226)	(83 684)
Costs of sale and disposal of tangible fixed assets and intangible assets	6 271	11 680
Gains (losses) on disposal of fixed assets - total	45	(72 004)

Interests and dividends	2008	2007
Interest from investment securities of the available for sale portfolio, presented in the investing activities	(283 330)	(202 603)
Dividends received, presented in the investing activities	(21 905)	(6 267)
Interest paid from loans granted, presented in financing activities	63 441	1 580
Total interests and dividends	(241 794)	(207 290)

Change in amounts due from banks	2008	2007
Change in the balance sheet's amount	1 897 637	8 138 271
Change in impairment allowances on amounts due from banks	(27 835)	53
Exclusion of the change in the balance of cash and cash equivalents	(2 116 338)	(4 956 383)
Total change	(246 536)	3 181 941

Change in loans and advances to customers	2008	2007
Change in the balance sheet's amount	(24 690 742)	(17 510 542)
Change in the impairment allowances on amounts due from customers	(502 273)	29 592
Total change	(25 193 015)	(17 480 950)

Change in other assets	2008	2007
Change in the balance sheet's amount	(308 882)	(363 910)
Transfer of prepayment	48 737	-
Total change	(260 145)	(363 910)
Change in amounts due to other banks	2008	2007
Change in the balance sheet's amount	2 287 026	351 398
Transfer of loans and advances received from other banks/repayment of these loans and advances - to financing activities	(310 871)	(2 649 228)
Total change	1 976 155	(2 297 830)
Change in amounts due to customers	2008	2007
Change in the balance sheet's amount	16 359 771	3 103 418
Transfer of loans and advances received from non-financial entities/repayment of these loans and advances - to financing activities	32 518	(292 751)
Total change	16 392 289	2 810 667
Change in allowances and provisions	2008	2007
Change in the balance sheet's amount	127 854	6 625
Change in impairment allowances on amounts due from banks	27 835	(53)
Change in impairment allowances on loans and advances to customers	502 273	(29 592)
Change in the balance of deferred tax provisions related to valuation of the available-for-sale portfolio included in deferred income tax	(2 011)	10 831
Total change	655 951	(12 189)
Change in other liabilities	2008	2007
Change in the balance sheet's amount	(64 557)	(488 014)
Transfer of repayment of interest on loans and advances to non-financial entities, presented in financing activities	90 049	23 195
Interest on subordinated liabilities	111 152	17 511
Total change	136 644	(447 308)

44. Transactions with the State Treasury and related entities

Receivables, securities and liabilities arising from transactions conducted with the State Treasury and other state budgetary agencies are disclosed in the Group's balance sheet. All of the above are arm's length transactions.

In accordance with the 30 November 1995 Act in relation to State support in the repayment of certain housing loans (Journal of Laws, 2003; No. 119, item 1115 with subsequent amendments) PKO BP SA receives payments from the State budget in respect of interest receivable on those loans.

	2008	2007
Income due to temporary redemption by the State budget of interest on housing loans from the "old" portfolio recognized for this period	93 754	122 183
Income due to temporary redemption by the State budget of interest on housing loans from the "old" portfolio received in cash	152 024	107 348
Difference between income recognized for this period and income received in cash – "Loans and advances to customers"	58 270	14 835

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

	2008	2007
Fee and commission income	4 527	5 168

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

As of 1 January 1996 the Bank became the general distributor of duty stamps. The amount received in this respect from the State Treasury was recognized in full by the Bank under “Fee and commission income”.

	2008	2007
Fee and commission income	21 738	28 523

In the year ended 31 December 2008, the Bank also recognized fee and commission income of PLN 36 thousand (in the year ended 31 December 2007: PLN 74 thousand) in respect of its fees for servicing compensation payments made to pensioners who lost, in 1991, certain supplements to their pensions working conditions hardship and to public sector employees whose salaries were not revised in the second half of 1991 and in the first half of 1992.

	2008	2007
Fee and commission income	36	74

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

	2008	2007
Fee and commission income	63 168	33 604

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

The transactions were concluded at arm's length.

Entity	31.12.2008						31.12.2007				
	Total receivables	Total liabilities	Contingent liabilities and commitments	Interest income*	Fee and commission income*	Other income*	Interest expenses*	Other expenses*	Total receivables	Total liabilities	Contingent liabilities and commitments
Entity 1	655 219	-	393 730	5 899	253	-	(356)	-	305 456	-	484 204
Entity 2	30 983	-	208 517	220	3	-	(134)	-	110	-	575 038
Entity 3	208 237	-	222 355	6 891	408	-	(1 854)	-	128 395	133 387	316 550
Entity 4	126 667	-	438 578	168	125	-	(568)	-	-	-	577 300
Entity 5	98 693	-	80 000	5 276	4	-	(1 125)	-	109 345	-	92 219
Entity 6	90 575	12 432	-	3 322	2	-	(968)	-	102 651	13 240	40 597
Entity 7	72 817	68 522	-	4 766	2	-	(5 831)	-	91 021	-	-
Entity 8	70 000	50 141	180 000	1 897	9	-	(1 072)	(1 050)	-	-	-
Entity 9	69 593	75 456	12 402	1 302	27	-	(3 777)	-	-	76 653	80 123
Entity 10	51 945	-	-	1 997	1	-	(37)	-	60 912	-	-
Entity 11	41 724	-	-	1 470	4	626	(5)	(625)	35 820	-	-
Entity 12	27 408	-	-	2 256	6	471	(159)	(291)	36 062	2 490	-
Entity 13	24 999	5 872	30 714	910	45	-	(41)	-	11 912	-	39 587
Entity 14	24 769	-	231	-	-	-	-	-	-	-	-
Entity 15	21 787	-	5 497	1 171	1 730	-	(24)	-	9 373	-	29 777
Other entities' significant exposures	163 083	1 149 491	288 088	3 507	803	64	(34 920)	-	1 042 601	1 808 455	1 046 255
Total	1 778 499	1 361 914	1 860 112	41 052	3 422	1 161	(50 871)	(1 967)	1 933 658	2 034 225	3 281 650

* lack of 2007 comparable figures

In 2008 no impairment charges were recognised for the above-mentioned receivables.

45. Related party transactions

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

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

31 December 2008

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

31 December 2007

Entity	Net receivables	including gross loans	Liabilities	Total revenues	including interest and fee and commission income	Total costs	including interest and fee and commission costs	Contingent liabilities and commitments
Sopot Zdrój Sp. z o.o.	49 400	48 696	1 033	678	678	10	10	131 833
Centrum Majkowskiego Sp. z o.o.	-	-	15 834	475	475	6	6	-
Kamienica Morska Sp. z o.o.	-	-	782	45	45	9	9	3 224
Promenada Sopocka Sp. z o.o.	15 204	15 013	1 066	285	285	15	15	27 617
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	10 155	1	1	223	223	-
Agencja Inwestycyjna „CORP” SA	468	-	10	1 255	-	2 340	-	-
CENTRUM HAFFNERA Sp. z o.o.	-	-	4 842	18	18	325	325	3 582
Centrum Obsługi Biznesu Sp z o.o.	30 057	29 891	544	1 292	1 292	76	38	1 001
Bank Pocztowy SA	2	-	3 539	41	30	710	326	1 834
Kolej Gondolowa Jaworzyna Krynicka SA	996	-	4	91	91	35	-	508
Total	96 127	93 600	37 809	4 181	2 915	3 749	952	169 599

46. Remuneration – parent company key management

a) Short-term employee benefits

Remuneration received from PKO BP SA:

	2008	2007
The Management Board of the Bank		
Short-term employee benefits	2 491	1 655
The Supervisory Board of the Bank		
Short-term employee benefits	253	272
Total	2 744	1 927

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

	2008	2007
The Management Board of the Bank		
Short-term employee benefits	1 096	833
The Supervisory Board of the Bank		
Short-term employee benefits	91	287
Total	1 187	1 120

b) Post-employment benefits

In the years ended 31 December 2008 and 31 December 2007 no post-employment benefits were paid.

c) Other long-term benefits

In the years ended 31 December 2008 and 31 December 2007 no "other long-term benefits" were paid.

d) Benefits due to termination of employment

In the years ended 31 December 2008 and 31 December 2007 no benefits were paid due to termination of employment.

e) Share-based payments

In the years ended 31 December 2008 and 31 December 2007 no benefits were paid in the form of share-based payments.

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

	2008	2007
Employees	1 217 814	850 624
The Management Board members	150	5 036
The Supervisory Board members	71	513
Total	1 218 035	856 173

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

Remuneration received by members of the Management Boards and the Supervisory Boards of the Group's subsidiaries:

	2008	2007
The Management Board		
Short-term employee benefits	11 643	9 091
The Supervisory Board		
Short-term employee benefits	3 616	1 294
Total	15 259	10 385

47. Business combinations

The information below concerns share purchase transactions with subsidiaries, which were concluded within the year of 2008.

a) concerning KREDOBANK SA

On 31 December 2008, PKO BP SA acquired 13 044 501 852 shares within the capital increase of KREDOBANK SA with total nominal value of UAH 130 445 thousand. The price of acquired shares, including additional costs amounted to PLN 48 737 thousand.

As a result of above-mentioned acquisition PKO BP SA increased its share in share capital and voting rights on General Shareholders' Meeting from 98.1815% to 98.5619%.

In connection with the obligation to inform the Financial Supervision Authority (KNF) about the change in the exposure of PKO BP SA to KREDOBANK SA shares, the above-mentioned shares, which are treated as a structural item for the purposes of the calculation of capital requirement with respect to foreign exchange risk and are excluded from the balance of foreign currency items as at 31 December 2008, have been disclosed in the balance sheet of PKO BP SA as "Other assets".

Due to the deterioration of the financial situation in Ukraine the Bank carried out an impairment test for the capital investment in KREDOBANK SA. As a result of the test conducted as at 31 December 2008, the Bank recognized impairment loss for the exposure in the subsidiary company KREDOBANK SA in the amount of PLN (356 101) thousand, i.e. PLN 307 364 thousand for capital investment and PLN 48 737 thousand for capital contribution to KREDOBANK SA due to the XVIII share issue, presented in the balance sheet as at 31 December 2008 as "Other assets".

b) concerning PKO Finance AB

According to the contract signed by PKO BP SA and Svenska Standardbolag AB (Sweden) on 27 June 2008, the Bank acquired 5 000 shares of Aktiebolaget Grundstenen 108756 (Sweden) with a nominal value of SEK 500 000 (PLN 170 000).

The acquired shares constituted 100% of the share capital and 100% of voting rights. The acquisition price with all additional costs amounted to SEK 505 thousand (PLN 172 thousand).

On 17 July 2008, the Swedish Registry Office (Bolagsverket) registered the change of the name from Aktiebolaget Grundstenen 108756 to PKO Finance AB.

The Company's activity is to raise funds for PKO BP SA deriving from issue of eurobonds.

As at 31 December 2008, PKO Finance AB was consolidated in the consolidated financial statements of the PKO BP SA Group using the full method.

c) concerning Bankowy Fundusz Leasingowy SA

On 30 September 2008, an increase of share capital of Bankowy Fundusz Leasingowy SA of PLN 30 000 thousand was registered with the National Court Register (KRS).

All additional shares were acquired by PKO BP SA. Following the above-mentioned issue, PKO BP SA holds 100% of the share capital and 100% of votes on the General Shareholders' Meeting.

As at 31 December 2008 and as at 31 December 2007, Bankowy Fundusz Leasingowy SA was consolidated in the consolidated financial statements of the PKO BP SA Group using the full method.

d) relating to the PKO Inwestycje Sp. z o.o. Group

On 18 January 2008, PKO Inwestycje Sp. z o.o. made a capital contribution to ARKADIA Inwestycje Sp. z o.o. in the amount of PLN 4 075 thousand .

On 3 July 2008, a change of the name from ARKADIA Inwestycje Sp. z o.o. to PKO Inwestycje – Międzyzdroje Sp. z o.o. was registered with the National Court Register (KRS).

On 22 August 2008, an increase of the share capital of PKO Inwestycje – Międzyzdroje Sp. z o.o. (former ARKADIA Inwestycje Sp. z o.o.) of PLN 1 500 thousand was registered with the National Court Register (KRS). All additional shares were acquired by PKO Inwestycje Sp. z o.o. Following the above-mentioned issue, PKO Inwestycje Sp. z o.o. held 100% of the share capital and 100% of the voting rights on Shareholders' Meeting.

On 24 January 2008, WISŁOK Inwestycje Sp. z o.o. with its seat in Rzeszów was registered in the National Court Register. The entity share capital amounts to PLN 500 thousand and consists of 5 000 shares, each of PLN 100 par value.

The entity's shareholders are PKO Inwestycje Sp. z o.o., which acquired 4 000 shares with a total value of PLN 400 thousand and Jedyńka SA, which took up 1 000 shares with a total value of PLN 100 thousand. The shares acquired by PKO Inwestycje Sp. z o.o. represent 80% of the Company's share capital and carry 80% of voting rights at the Shareholders' Meeting.

In 2008 (on 4 July 2008, 13 August and 18 December 2008) PKO Inwestycje Sp. z o.o. made a capital injection into WISŁOK Inwestycje Sp. z o.o. in the amount of PLN 2 400 thousand.

WISŁOK Inwestycje Sp. z o.o. was formed in order to execute a housing project in Rzeszów called "Osiedle Wisłok".

On 28 January 2008, PKO Inwestycje Sp. z o.o. concluded 2 transactions in which it purchased a total of 50 shares in Baltic Dom 2 Sp. z o.o. with a total nominal value of PLN 25 thousand, representing 50% of the entity's share capital and entitling to 50% of votes at the Shareholders' Meeting. The price for the acquired shares including additional fees was PLN 6 009 thousand .

On 27 August 2008, PKO Inwestycje Sp. z o.o. purchased 6 shares of Baltic Dom 2 Sp. z o.o., with a nominal value of PLN 3 000. The purchase price including additional costs amounted to PLN 610 thousand .

As a result of the above-mentioned transaction, PKO Inwestycje held shares constituting 56% of the share capital and 56% of votes on Shareholders' Meeting.

The entity carries out works related to the execution of a housing project "Sarnia Dolina" in Jankowo near Gdańsk.

The information below concerns goodwill arising as a result of acquiring shares in Baltic Dom 2 Sp. z o.o.

Baltic Dom 2 Sp. z o.o.

Acquisition date	28.01.2008	27.08.2008	Total as at 31.12.2008
Share in the entity's capital	50.00%	6.00%	56.00%
Purchase value	6 009	610	
Book value of the entity's net assets on the acquisition date	(670)	(995)	
PKO Inwestycje Sp. z o.o. share in fair value of the entity's net assets on acquisition date	(335)	(60)	
Entity's goodwill on the acquisition date	6 344	670	7 014

On 30 June 2008, PKO Inwestycje Sp. z o.o. returned to PKO BP SA a capital contribution received for an execution of investment projects of PLN 5 500 thousand.

On 3 July 2008, a change of the name from ARKADIA Inwestycje Sp. z o.o. to PKO Inwestycje – Międzyzdroje Sp. z o.o. was registered with the National Court Register (KRS).

As at 31 December 2008 and 31 December 2007, PKO Inwestycje was consolidated in the consolidated financial statements of the PKO BP SA Group, using the full method. As at 31 December 2008, new subsidiaries of PKO Inwestycje Sp. z o.o. were consolidated using the entity accounting method in the consolidated financial statements of the PKO BP SA Group.

e) relating to Finanse Agent Transferowy Sp. z o.o.

On 14 February 2008, Powszechne Towarzystwo Emerytalne BANKOWY SA – a subsidiary of PKO BP SA – made a capital contribution to Finanse Agent Transferowy Sp. z o.o. ("Finat") of PLN 1 500 thousand.

On 11 December 2008, an increase of share capital of Finanse Agent Transferowy Sp. z o.o. of PLN 7 600 thousand was registered with the National Court Register (KRS).

All shares were acquired by Inteligo Financial Services SA – the PKO BP SA subsidiary at nominal value of shares.

As a result of increase of share capital the shareholders of Finanse Agent Transferowy Sp. z o.o. are PKO BP SA's subsidiaries, including:

- Inteligo Financial Services SA, which holds 80.33% of share capital and 80.33% of voting rights on General Shareholders' Meeting,
- Powszechne Towarzystwo Emerytalne BANKOWY SA, which holds 19.67% of share capital and 19.67% of voting rights on General Shareholders' Meeting.

As at 31 December 2008 and 31 December 2007, Powszechne Towarzystwo Emerytalne BANKOWY SA and Finanse Agent Transferowy Sp. z o.o. were consolidated using the full method in the consolidated financial statements of the PKO BP SA Group.

f) relating to Bankowe Towarzystwo Kapitałowe SA

On 15 September 2008, Bankowe Towarzystwo Kapitałowe SA (a PKO BP SA's subsidiary) sold 285 125 shares of FINDER SA with a total value of PLN 1 140 thousand. According to the sale agreement, the price of one share varied in each month from August 2008 to March 2009, depending on the date of cash inflow onto the entity's account. As at 31 December 2008 the value of the shares sold was PLN 9 425 thousand.

All of the shares under the sale agreement constituted 46.42% of the share capital and gave 46.42% of votes on Shareholders' Meeting of FINDER SA. Following the sale, BTK SA has no longer any shares of FINDER SA.

As at 31 December 2008 and 31 December 2007, Bankowe Towarzystwo Kapitałowe SA was consolidated in the consolidated financial statements of the PKO BP SA Group using the full method.

As at 31 December 2007 FINDER SA was consolidated in the consolidated financial statements of the PKO BP SA Group using the equity method.

48. Fair value of financial assets and financial liabilities

The Group holds certain financial instruments which are not stated at fair value in the balance sheet.

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

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

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

- loans and advances to customers: loans with a maturity of up to 1 year, a portion of the housing loans portfolio (the so-called "old portfolio"), loans with no specified repayment schedule, which are due at the moment of valuation and for which the fair value equals their carrying amount,
- amounts due to clients: liabilities with no specified payment schedule, negotiable deposits with interest rates based on market reference rates, other specific products for which no active market exists, such as housing plan passbooks and bills of savings.
- deposits and interbank placements with maturity date up to 7 days or with a variable interest rate,
- loans and advances granted and taken at a variable interest rate (change of interest rate maximum on a three month basis),
- cash and balances with the central bank and amounts due to the central bank,
- other financial assets and liabilities,
- debt securities in issue (at variable interest rate), issued by KREDOBANK SA and BFL.

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

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

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

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

The fair value of finance lease liabilities has been estimated based on expected cash flows discounted using internal rate of return for lease transactions of the same kind, concluded by the Group in the period directly preceding the balance date.

The table below shows a summary of the carrying amounts and fair values for the individual groups of financial instruments which have not been presented at fair value in the Group's balance sheets as at 31 December 2008 and 31 December 2007:

	31.12.2008		31.12.2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and balances with the central bank	5 836 892	5 836 892	4 682 627	5 836 892
Amounts due from banks	3 363 599	3 363 674	5 261 236	5 256 436
Loans and advances to customers (including finance lease receivables)	101 107 891	100 820 797	76 417 149	76 816 457
<i>consumer loans</i>	20 203 045	20 251 908	17 842 564	17 854 497
<i>mortgage loans</i>	45 401 651	45 289 143	32 886 600	33 215 145
<i>corporate loans</i>	35 503 195	35 279 746	25 687 985	25 746 815
Other financial assets	366 732	366 732	415 224	415 224
Amounts due to the central bank	2 816	2 816	1 279	1 279
Amounts due to other banks	6 988 603	6 989 408	4 703 114	4 702 821
Amounts due to clients	102 939 281	102 920 807	86 579 510	86 585 091
<i>due to corporate entities</i>	19 332 897	19 333 054	15 639 541	15 639 595
<i>due to state budget entities</i>	7 283 578	7 283 590	4 691 218	4 691 253
<i>due to retail clients</i>	76 322 806	76 304 163	66 248 751	66 254 243
Debt securities in issue	211 573	211 573	178 860	178 860
Subordinated liabilities	1 618 755	1 629 537	1 614 885	1 619 115
Other financial liabilities	1 667 776	1 667 776	1 732 333	1 732 333

49. Trustee activities

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

50. Sale of impaired loan portfolios

The Bank did not enter any securitization transactions, although:

- in 2008, three transactions of sale of balance sheet and off balance sheet receivables classified as lost were concluded. One of these transactions was concluded with a securitization fund, and two were concluded with

loan collection companies. Approx. 140 thousand receivables with a total value of PLN 1.22 billion were sold.

- during the years 2005 – 2006, the Bank sold a number of receivables classified as default (both balance sheet and off-balance sheet receivables) which were due to the Bank from corporate entities and retail clients. About 137 000 receivables were sold in total, with a total value of approximately PLN 2 billion. Due to the fact that the buyers are allowed to raise claims with regard to the receivables sold to them within the deadlines set out in the respective debt sale agreements, the Bank recognized provisions for potential claims. In 2007 the Bank did not sell any portfolios of receivables.
- the total carrying amount of securitization provisions created in connection with sale transactions as at 31 December 2008 was PLN 25 350 thousand (as at 31 December 2007: PLN 9 894 thousand).

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

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

INCOME STATEMENT OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP

Title (in relation to changed positions)	2007 presented previously	2007 comparative data	Difference	
Interest and similar income	6 582 391	6 559 333	(23 058)	1), 5)
Interest expense and similar charges	(1 938 663)	(1 912 766)	25 897	1)
Fee and commission income	3 022 036	3 083 416	61 380	1), 6)
Fee and commission expense	(686 837)	(751 569)	(64 732)	1), 3), 6)
Net income from financial instruments designated at fair value through profit or loss	(74 269)	(73 314)	955	1), 2)
Gains less losses from investment securities	9 382	6 543	(2 839)	5)
Other operating income	657 245	514 566	(142 679)	1), 2), 4), 6)
Other operating expenses	(360 284)	(256 936)	103 348	1), 2), 4), 6), 7)
Administrative expenses	(4 082 572)	(4 040 844)	41 728	3), 7)

- 1) Change in the presentation of chosen revenues and expenses of the brokerage house, Dom Maklerski PKO BP SA.
- 2) Change in the presentation of chosen revenues and expenses from financing activities.
- 3) Change in the presentation of expenses from KIR, BIK, SWIFT services.
- 4) Change in the presentation resulting from netting off change of products in developer companies.
- 5) Change in the presentation of income on investment securities.
- 6) Change in the presentation of revenues and costs in respect of managing the Open Pension Fund (OFE).
- 7) Change in the presentation of non planned amortisation and depreciation.

BALANCE SHEET OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP

Item (relates to restated items)	31.12.2007 presented previously	31.12.2007 comparative data	Difference	
Amounts due from banks	5 292 319	5 261 236	(31 083)	8)
Amounts due to customers	86 610 593	86 579 510	(31 083)	8)

- 8) Change in presentation due to netting off selected balance sheet items of the Bank's units

CASH FLOW STATEMENT OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP

Item (relates to restated items)	31.12.2007 presented previously	31.12.2007 comparative data	Difference	
Cash at the end of the period	9 263 399	9 232 316	(31 083)	8)

- 8) Change in presentation due to netting off selected balance sheet items of the Bank's units

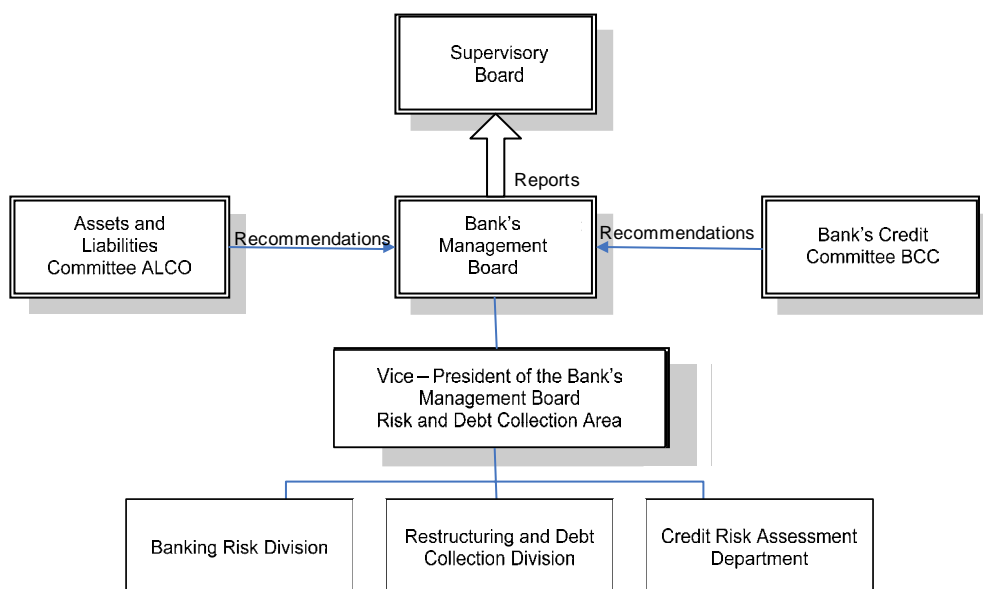
52. Objectives and principles of risk management

Banking activity is exposed to a number of risks, including credit risk, market risk, operational risk and business risk. Controlling the impact of these risks on the operations of the PKO BP SA Group is one of the most important objectives in the management of both the Bank and the Group. The level of the risks plays an important role in the planning process.

Risk management in the Bank is based on the following principles:

- full organisational independence of the risk and debt collection function from the business function,
- risk management is integrated with planning and controlling processes,
- the risk and debt collection function provides an ongoing support for meeting business objectives while keeping risk at an acceptable level,
- level of risk is controlled on an ongoing basis,
- the risk management model is adjusted on a ongoing basis to reflect new risk factors and risk sources.

Organisational risk management model



Banking risk management process in the Group consists of the following actions:

- identification of the risk – determination of both the actual and the potential risk factors, resulting from current and planned activity of the Bank,
- measuring of the risk,
- making decisions about acceptable level of risk, planning of activities, giving recommendations and instructions, building procedures and supporting tools,
- monitoring of the risk – full-time supervision at the risk level based on accepted methods of measuring the risk,
- reporting to management on a cyclical basis – about exposure to risk and steps taken to mitigate that risk.

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

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

Tasks of the Banking Risk Division include development and implementation of comprehensive solutions in the area of management of credit risk, operational risk, compliance risk, market and strategic risk, as well as capital adequacy management.

The task of the Restructuring and Debt Collection Division is to ensure an effective and efficient debt collection and restructuring of doubtful and defaulted receivables.

The task of the Credit Risk Assessment Department is to assess and review estimated credit risk arising from individual loan exposures which require particular attention due to their size or their level of risk.

Market risk management and portfolio credit risk management in the Bank are supported by the following two committees, which are chaired by the Vice-President of the Bank's Management Board who is in charge of the Risk and Debt Collection Area:

- Assets & Liabilities Committee (ALCO),
- Credit Committee (CC).

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

CC makes loan decisions with regard to significant individual loan exposures, or issues recommendations in this respect to the Bank's Management Board. There are also other credit committees operating at various levels of the Bank. They are responsible for issuing recommendations with regard to loan decisions which are significant due to the level of the risk involved or the size of the loan exposure.

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

Influence of the global crisis on bank risk management

In the second half of 2008 the financial crisis in the high developed countries (mainly United States and Western Europe countries) began to affect negatively the economic situation in Poland, the level of exchange rates and interest rates as well as the condition of the Polish financial sector and mutual trust of entities operating on the interbank market.

In order to counteract the negative influence of these factors on the financial standing of PKO BP SA, the Bank modified its risk management policy. The priority of the Bank became to hold a strong capital position and a stable deposit base, which determine the increase of the Bank's loan portfolio.

As a consequence, in the 4th quarter, the Bank:

- undertook intensive actions aimed at gaining new deposits from retail clients,
- issued a recommendation to retain the whole net profit for the year 2008 in the Bank,
- reflected the economic conditions deriving from the financial crisis in the banking risk measurement methods (among others in respect of stress test scenarios, liquidity contingency plans, interest rate and currency risk measures, implementation of Early Warning System),

- expanded scope and frequency of management reports in respect of risk presented for the Management Board
- adjusted the credit policy to the amended market conditions (among others, the Bank tightened criteria concerning granting loans denominated in foreign currency to retail customers, increased the amount of the required client's own contribution with respect to mortgage loans, introduced restrictions on crediting clients with high credit risk and increased credit risk margins for new corporate and consumer loans).

Moreover, in order to react on the dynamically changing situation in the financial markets, the Bank appointed a special working group, which reports to Management Board members on a cyclical basis.

Apart from the above-mentioned actions resulting from the financial crisis, the Bank conducted standard cyclical banking risk monitoring and, in accordance with the prior assumptions, developed the adopted risk measurement methods.

The undertaken action resulted in holding a safe level of risk borne by the Bank, which was reflected in, among others, no necessity to take advantage of supervisory instruments supporting the liquidity of the banking sector (lombard loan, financing operations in foreign currencies).

Credit risk

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

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

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

The above-mentioned policies are executed by the Bank through the use of advanced credit risk management methods, both on the level of individual exposures and on the level of the whole credit portfolio of the Bank. These methods are verified and developed to ensure compliance with the internal ratings based requirements.

Rating and scoring methods

The Bank assesses the risk of individual credit transactions with the use of scoring and rating methods, which are created, developed and supervised by the Banking Risk Division. The assessment methods are supported by specialist central application software.

The Bank assesses the credit risk of retail clients on two levels: the client's borrowing capacity and his creditworthiness. The assessment of borrowing capacity involves an examination of the client's financial situation, whereas the creditworthiness assessment involves scoring and evaluating the client's credit history obtained from external sources and internal records of the Bank. In 2008, the

Bank continued developing such credit risk assessment methods relating to retail clients. Among other things, it extended the behavioural scoring system by adding more revolving facilities offered by the Bank to retail clients, such as credit cards and Inteligo revolving loans. In this period, the Bank also updated the minimum values of the parameters used for assessing the borrowing capacity of retail clients applying for consumer loans, mortgage loans, credit cards, revolving loans. The changes in the parameter values involved increasing, among others, the minimum fixed expenses of a household and its outgoings on consumption.

Credit risk relating to the financing of corporate clients is assessed on two levels: the client and the transaction (excluding corporate clients treated as a part of the retail market, who are assessed in a simplified manner). These assessments are based on the ratings of the client and the transaction. The so-called cumulative rating is a synthetic measure of credit risk for the Bank.

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

Due to the financial crisis, the parent entity carries out additional analyses and stress-tests concerning the potential impact of changes in macroeconomic environment on the quality of the loan portfolio; additional reporting to the Bank's Management was also introduced. Above-mentioned information enables identification and undertaking actions constraining negative effects of the impact on the Bank's result.

At the same time, in 2008, the Bank implemented the Early Warning System, aimed at identification of potential increase of credit risk or risk associated with impairment of the collateral for exposures to corporate clients.

Due to increased volatility in financial markets (mainly on the currency market) and signals generated within the Early Warning System (EWS), the Bank reassessed the level of credit risk of the Bank's credit clients who concluded derivative instruments transactions, both with the Bank and other banks.

As a result of inquiry on derivative instruments exposure aimed at corporate clients (116 customers in total), in some cases deterioration of the client standing has been observed due to concluding hedge transactions for the same currency flows with many banks simultaneously or asymmetric option structures.

Within the verification of the clients' situation as at 31 December 2008 and till today the Bank identified a group of clients, whose financial standing may deteriorate due to concluded treasury transactions and significant negative valuation as well as clients for whom the rating was decreased or who defaulted.

Early Warning System (EWS)

The Early Warning System (EWS) has been in place at the Bank since February 2008. The system is aimed at early identification of potential increases of credit risk or risk associated with impairment of the collateral of loans granted to corporate clients, small and medium enterprises, institutional clients active on the housing market, as well as at taking actions to prevent such risks from materializing or mitigate losses on loans. Early identification of threats makes it possible to update credit risk assessment and assessment of recoverable amounts from collateral on an ongoing basis.

EWS covers the clients who meet the conditions defined by the Bank's Management Board and involves in particular:

- ongoing observation of clients and registration of warning signals at the moment of their identification;
- evaluation of the importance of the warning signals registered and choice of actions to prevent materialization of risk or impairment of collateral;
- prompt execution of the above-mentioned tasks;
- monitoring the performance of the tasks.

Portfolio risk measurement

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

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

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

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

Collateral policy

Group collateral management is meant to secure properly the interests of the Group by way of establishing collateral that will ensure the highest possible level of recovery in the event of realisation of collateral. Group policies regarding legal collateral measures are included in the internal regulations of the Group subsidiaries.

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

With regard to real estate financing products, collateral is required to be established on the property. Until a mortgage is effectively established (depending on the type and amount of loan), a higher credit margin is used or a security is accepted in the form of transfer of receivables resulting from a construction contract, a bill of exchange, a guarantee or insurance of receivables.

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

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

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

- In the case of substantial loans (in terms of value), several types of collateral are established. If possible, personal guarantees are combined with collateral established on assets;

- Liquid types of collateral (i.e. collateral established on liquid assets, which the Bank is likely to dispose of quickly for a price approximating the value of the assets put up as collateral) are preferred;
- Types of collateral which are exposed to a risk of significant adverse fluctuations of value are treated as auxiliary collateral;
- When an asset is accepted as collateral, an assignment of rights from the insurance policy relating to this asset or the insurance policy issued to the Bank are accepted as additional collateral;
- Effective establishment of collateral in compliance with the loan agreement is necessary to make the funds available.

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

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

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

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

Credit risk management tools

Basic credit risk management tools used by the Bank include:

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

Credit risk reporting

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

Credit risk management at the Group subsidiaries

The Group companies, which have significant credit risk levels (KREDOBANK SA, BFL SA) manage their credit risk individually, but the methods used by them for credit risk assessment and measurement are adjusted to the methods used by PKO BP SA, taking into account the specific nature of the activities of these companies.

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

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

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

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

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

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

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

Group's exposure to risk

Amounts due from banks	Exposure	
	31.12.2008	31.12.2007
Amounts due from banks impaired	28 486	276
<i>of which assessed on an individual basis</i>	28 486	276
Amounts due from banks not impaired	3 363 224	5 261 236
<i>neither past due nor impaired</i>	3 361 761	5 261 231
<i>past due but not impaired</i>	1 463	5
Gross total	3 391 710	5 261 512
Impairment allowances	(28 111)	(276)
Net total (carrying amount)	3 363 599	5 261 236

Loans and advances to customers	Exposure	
	31.12.2008	31.12.2007
Loans and advances impaired	3 820 011	2 511 873
<i>of which assessed on an individual basis</i>	1 932 692	969 903
Loans and advances not impaired	100 205 756	76 320 879
<i>neither past due nor impaired</i>	94 476 168	74 503 779
<i>past due but not impaired</i>	5 729 588	1 817 100
Gross total	104 025 767	78 832 752
Impairment allowances	(2 917 876)	(2 415 603)
Net total (carrying amount)	101 107 891	76 417 149

Investment securities available for sale – debt securities	Exposure	
	31.12.2008	31.12.2007
Debt securities impaired	22 245	34 631
<i>of which assessed on an individual basis</i>	22 245	34 631
Debt securities not impaired	8 522 298	5 615 947
<i>not past due</i>	8 522 298	5 615 947
<i>with an external rating</i>	6 252 835	3 834 637
<i>with an internal rating</i>	2 195 036	1 781 310
<i>without rating</i>	74 427	-
Gross total	8 544 543	5 650 578
Impairment allowances	(19 932)	(18 620)
Net total (carrying amount)	8 524 611	5 631 958

Other assets	Exposure	
	31.12.2008	31.12.2007
Other assets impaired	55 955	36 897
Other assets not impaired	366 215	415 208
<i>neither past due nor impaired</i>	352 425	413 023
<i>past due but not impaired</i>	13 790	2 185
Gross total	422 170	452 105
Impairment allowances	(55 438)	(36 881)
Net total (carrying amount)	366 732	415 224

Maximum exposure to credit risk

The table below presents maximum exposure to credit risk of the Group as at 31 December 2008 and as at 31 December 2007.

Balance sheet items	31.12.2008	31.12.2007
Current account with the central bank	3 419 832	2 972 067
Amounts due from banks	3 363 599	5 261 236
Trading assets – debt securities	1 491 524	1 193 255
issued by the State Treasury	1 491 398	1 193 129
issued by local government bodies	126	126
Derivative financial instruments	3 597 670	1 556 736
Other financial instruments designated at fair value through profit or loss - debt securities	4 555 544	8 292 362
issued by the State Treasury	4 373 621	7 353 033
issued by other banks	172 876	764 018
issued by other financial institutions	-	129 142
issued by other non-financial institutions	9 047	46 169
Loans and advances to customers	101 107 891	76 417 149
Financial entities (other than banks)	2 058 724	1 132 850
corporate loans	2 058 724	1 132 850
Non-financial entities	95 857 248	71 634 005
consumer loans	20 203 045	17 842 564
mortgage loans	45 401 651	32 886 600
corporate loans	30 252 552	20 904 841
State budget entities	3 191 919	3 650 294
corporate loans	3 191 919	3 650 294
Investment securities available for sale - debt securities	8 524 611	5 631 958
issued by central banks	2 673 729	2 633 505
issued by other banks	46 756	-
issued by other financial institutions	74 427	-
issued by other non-financial institutions	795 278	621 274
issued by the State Treasury	3 516 322	1 201 132
issued by local government bodies	1 418 099	1 176 047
Other assets - other financial assets	366 732	415 224
Total	126 427 403	101 739 987

Off-balance sheet items	31.12.2008	31.12.2007
Irrevocable liabilities granted	7 712 824	8 860 369
Guarantees granted	3 239 802	1 867 608
Letters of credit granted	241 892	562 155
Guarantees of issue (underwriting)	821 005	1 455 509
Total	12 015 523	12 745 641

Quality of financial assets, neither past due nor impaired

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

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

The following loan portfolios are covered by the rating system:

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

Financial assets neither past due nor impaired	31.12.2008	31.12.2007
Amounts due from banks	3 361 761	5 261 231
of which:		
with rating	2 000 824	4 676 670
without rating	1 360 937	584 561
Loans and advances to customers	94 476 168	74 503 779
with rating	90 537 000	62 198 399
without rating	3 939 168	12 305 380
PKO BP	91 518 783	71 414 932
With rating – financial, nonfinancial and budget sector (corporate loans)	29 794 715	15 187 064
A (first rate)	1 184 628	389 843
B (very good)	2 474 397	2 008 431
C (good)	3 604 643	2 864 276
D (satisfactory)	9 373 219	4 370 414
E (average)	6 811 983	3 699 164
F (acceptable)	6 345 845	1 854 936
With rating – nonfinancial sector (consumer and mortgage loans)	58 560 511	45 718 387
A (first rate)	12 909 565	18 764 198
B (very good)	14 809 811	15 755 337
C (good)	23 649 272	7 629 870
E (average)	4 382 491	2 526 869
F (acceptable)	2 809 372	1 042 113
without rating – non-financial sector clients (other consumer and mortgage loans)	3 163 557	10 509 481
BFL SA Group	2 181 774	1 292 948
A2 (first rate)	29 611	1 591
A3 (very good)	92 934	44 752
A4 (good)	370 121	238 240
A5 (satisfactory)	461 886	339 237
A6 (average)	765 075	322 268
B1 (acceptable)	344 707	254 636
B2 (weak)	82 426	70 990
C (mean)	34 872	12 609
D (bad)	142	8 625
without rating – non-financial and financial sector clients of the Group entities	775 611	1 795 899
Other assets – other financial assets	352 425	413 023
Total	98 190 354	80 178 033

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

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

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

31 December 2008

Rating/ portfolio	held for trading		designated at fair value through profit or loss				available for sale					Interbank deposits
	issued by the State Treasury	issued by local government bodies	issued by the State Treasury	issued by other banks	issued by other financial entities	issued by other non- financial entities	issued by the State Treasury	issued by central banks	issued by other banks	issued by other financial entities	issued by other non- financial entities	
AAA	-	-	-	-	-	-	-	-	-	-	-	-
AA- to AA+	-	-	-	23 943	-	-	-	-	-	-	-	900 319
A- to A+	1 491 398	-	4 373 621	148 933	-	-	3 516 322	2 673 729	12 567	-	-	838 752
BBB- to BBB+	-	-	-	-	-	-	-	-	34 189	-	-	257 658
BB- to BB+	-	-	-	-	-	-	-	-	-	-	-	-
B- to B+	-	-	-	-	-	-	-	-	-	-	-	194
without rating	-	126	-	-	-	-	-	-	-	74 427	-	105 485
financial assets with different ratings in the Group's entities	-	-	-	-	-	9 047	-	-	-	-	16 028	3 901
Total	1 491 398	126	4 373 621	172 876	-	9 047	3 516 322	2 673 729	46 756	74 427	16 028	2 106 309

31 December 2007

Rating/ portfolio	held for trading		designated at fair value through profit or loss				available for sale					Interbank deposits
	issued by the State Treasury	issued by local government bodies	issued by the State Treasury	issued by other banks	issued by other financial entities	issued by other non- financial entities	issued by the State Treasury	issued by central banks	issued by other banks	issued by other financial entities	issued by other non- financial entities	
AAA	-	-	-	-	-	-	-	-	-	-	-	237 300
AA- to AA+	-	-	-	542 259	-	-	-	-	-	-	-	3 099 167
A- to A+	1 193 129	-	7 353 033	221 759	-	-	1 201 132	2 633 505	-	-	-	1 263 508
BBB- to BBB+	-	-	-	-	-	-	-	-	-	-	-	72 603
BB- to BB+	-	-	-	-	-	-	-	-	-	-	-	-
B- to B+	-	-	-	-	-	-	-	-	-	-	-	-
without rating	-	126	-	-	116 299	-	-	-	-	-	-	-
financial assets with different ratings in the Group's entities	-	-	-	-	12 843	46 169	-	-	-	-	-	4 092
Total	1 193 129	126	7 353 033	764 018	129 142	46 169	1 201 132	2 633 505	-	-	-	4 676 670

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

Entities with rating	31.12.2008		31.12.2007	
	carrying amount		carrying amount	
A (first rate)		21 313		97 430
B (very good)		448 931		320 840
C (good)		998 091		417 791
D (satisfactory)		391 905		309 841
E (average)		153 571		530 570
F (acceptable)		181 225		104 838
TOTAL		2 195 036		1 781 310

Concentration of credit risk within the Group

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

- the largest borrowers,
- the largest capital groups,
- industries,
- geographical regions,
- currencies.

Concentration by the biggest business entities

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

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

As at 31 December 2008 and 31 December 2007, those concentration limits had not been exceeded.

As at 31 December 2008, the level of concentration risk of the Group with respect to individual exposures was low – the biggest exposure to a single entity was equal to 5.11% of the consolidated own funds.

The 20 largest borrowers of the Group include only clients of PKO BP SA.

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

31.12.2008			31.12.2007		
No.	Exposure*	Share in the loan portfolio**	No.	Exposure*	Share in the loan portfolio**
1.	656 139	0.62%	1.	522 063	0.66%
2.	592 759	0.56%	2.	411 531	0.52%
3.	457 525	0.44%	3.	307 286	0.39%
4.	412 857	0.39%	4.	304 498	0.38%
5.	334 019	0.32%	5.	291 115	0.37%
6.	305 746	0.29%	6.	273 340	0.34%
7.	292 682	0.28%	7.	268 399	0.34%
8.	243 106	0.23%	8.	264 861	0.33%
9.	242 046	0.23%	9.	259 316	0.33%
10.	235 382	0.22%	10.	255 336	0.32%
11.	235 221	0.22%	11.	204 178	0.26%
12.	233 201	0.22%	12.	201 004	0.25%
13.	231 369	0.22%	13.	190 227	0.24%
14.	230 981	0.22%	14.	179 210	0.23%
15.	218 941	0.21%	15.	176 649	0.22%
16.	218 030	0.21%	16.	175 053	0.22%
17.	217 275	0.21%	17.	170 245	0.21%
18.	215 637	0.21%	18.	169 608	0.21%
19.	201 442	0.19%	19.	162 951	0.20%
20.	197 176	0.19%	20.	152 094	0.19%
Total	5 971 534	5.68%	Total	4 938 964	6.21%

*Total exposure includes loans, advances, purchased debts, discounts on bills of exchange, realized guarantees and interest receivable.

**The value of the loan portfolio does not include off-balance sheet and capital exposures.

Concentration of credit risk by the largest groups

The greatest exposure of the PKO BP SA Group towards a group of borrowers amounted to 1.58% of portfolio value and was due to a consolidation process of companies from the power supply industry. The 5 biggest groups include only clients of PKO BP SA.

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

31.12.2008			31.12.2007		
No.	Exposure*	Share in the loan portfolio**	No.	Exposure*	Share in the loan portfolio**
1	1 654 951	1.58%	1	2 119 387	2.67%
2	1 402 841	1.34%	2	1 426 492	1.79%
3	1 315 589	1.25%	3	1 116 920	1.40%
4	1 283 533	1.22%	4	1 095 926	1.38%
5	792 757	0.75%	5	787 510	0.99%
Total	6 449 671	6.14%	Total	6 546 235	8.23%

*Total exposure includes loans, advances, purchased debts, discounts on bills of exchange, realized guarantees, interest receivable, debt securities, off-balance sheet and capital exposures.

**The value of the loan portfolio does not include off-balance sheet and capital exposures.

As at 31 December 2008, concentration of credit risk by the largest capital groups was low - the greatest exposure of the Bank towards a capital group amounted to 12.9% of the Group's own funds and was due to a consolidation process of companies from the power supply industry.

Concentration of credit risk by industry

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

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

Section	Description	31.12.2008		31.12.2007	
		Exposure	Number of entities	Exposure	Number of entities
D	Industrial processing	26.73%	13.86%	24.70%	15.67%
G	Wholesale and retail trade. repair of motor vehicles and personal and household goods	18.61%	30.70%	17.52%	31.68%
K	Property management. lease and services related to the running of business activities	12.81%	10.70%	10.50%	9.09%
L	Public administration and national defense. obligatory social security and public health insurance	8.01%	0.55%	12.92%	0.58%
F	Construction	6.29%	12.41%	4.98%	10.18%
E	Electricity. gas and water production and supply	3.16%	0.23%	4.20%	0.29%
Other exposure		24.38%	31.55%	25.18%	32.51%
Total		100.00%	100.00%	100.00%	100.00%

The Group's exposure increased compared with 31 December 2007 with respect to all sectors by PLN 11 billion. Combined exposure towards three largest sectors: "Industrial processing", "Wholesale and retail trade" and "Property management, lease and services related to the running of business activities" constitutes 58.2% of the total portfolio of loans granted to business entities.

Concentration of credit risk by geographical regions

Region	31.12.2008	31.12.2007
Poland		
mazowiecki	18.17%	17.65%
śląsko-opolski	12.40%	13.24%
wielkopolski	10.06%	10.52%
małopolsko-świętokrzyski	9.12%	8.93%
dolnośląski	7.56%	8.00%
lubelsko-podkarpacki	6.50%	6.91%
zachodnio-pomorski	7.05%	7.01%
łódzki	6.12%	6.67%
pomorski	6.97%	6.46%
kujawsko-pomorski	5.13%	5.61%
warmińsko-mazurski	3.47%	3.69%
podlaski	3.08%	3.19%
other	2.48%	0.06%
Ukraine	1.89%	2.06%
Total	100.00%	100.00%

The Bank's loan portfolio is diversified by geographical location.

The Bank has the biggest loan portfolio concentration in the mazowiecki region. More than half of the Bank's loan portfolio is concentrated in four regions: mazowiecki, śląsko-opolski, wielkopolski and małopolsko-świętokrzyski. A significant proportion of the population and economy of Poland is also concentrated in these regions.

Concentration of credit risk by currency

As at 31 December 2008, the share of currency exposures, other than PLN, in the total credit portfolio of the Group amounted to 29%. The greatest parts of currency exposures are those in CHF and they relate to the credit portfolio of the Bank. In case of particular Group entities, the case is different, i.e. for BFL SA, the greatest currency exposures are those in EUR (63.5% of currency credit portfolio), and for KREDOBANK SA – in USD (USD denominated loans account for nearly 80.5% of the currency credit portfolio and 53.5% of the total credit portfolio of the bank).

Concentration of credit risk by currency (%)

Currency	31.12.2008	31.12.2007
PLN	70.96%	78.41%
Foreign currencies, of which:	29.04%	21.59%
CHF	21.42%	15.08%
EUR	4.47%	3.88%
USD	2.51%	1.64%
UAH	0.63%	0.99%
GBP	0.01%	0.00%
Total	100.00%	100.00%

Share increase of loans denominated in foreign currencies in 2008 results from increased sales of mortgage loans denominated in foreign currencies as well as increase in foreign exchange rates in the second half of 2008.

Other types of concentration

In accordance with the Recommendation S of the Banking Supervision Authority, the Bank implemented internal limits with regard to loans granted to individual clients for purchase of properties. In 2008 these limits had not been exceeded.

Renegotiated receivables

The purpose of the restructuring activity of the Group is to maximize the effectiveness of non-performing loans management. The aim is to receive the highest possible recoveries and, at the same

time, incur the minimal possible costs relating to these recoveries which, in the case of debt collection activities, are very high.

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

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

As a result of signing a restructuring agreement the loan being restructured is reset from overdue to current.

Evaluation of the ability of a debtor to fulfil the restructuring agreement conditions (debt repayment according to the agreed schedule) constitutes an element of the restructuring process. Active restructuring agreements are monitored by the Bank on an on-going basis.

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

Financial assets	Carrying amount	
	31.12.2008	31.12.2007
Loans and advances to customers (gross)	104 025 767	78 832 752
of which renegotiated	112 883	231 541
Financial entities (other than banks)	-	90
corporate loans	-	90
Non-financial entities	110 868	229 508
consumer loans	19 579	25 043
mortgage loans	20 169	53 341
corporate loans	71 120	151 124
State budget entities	2 015	1 943
corporate loans	2 015	1 943

Past due financial assets

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

Financial assets	31.12.2008			31.12.2007		
	up to 3 months	over 3 months	Total	up to 3 months	over 3 months	Total
Financial assets designated at fair value through profit or loss	-	-	-	40	-	40
Loans and advances to customers:	5 666 692	62 896	5 729 588	1 781 469	35 631	1 817 100
<i>financial sector</i>	1 273	-	1 273	426	-	426
<i>public sector</i>	478 318	-	478 318	109 653	-	109 653
<i>non-financial sector</i>	5 187 101	62 896	5 249 997	1 671 390	35 631	1 707 021
Other assets - other financial assets	13 790	-	13 790	2 185	-	2 185
Total	5 680 482	62 896	5 743 378	1 783 694	35 631	1 819 325

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

Individually determined to be impaired financial assets (gross)

	31.12.2008	31.12.2007
Amounts due from banks	28 486	276
Loans and advances to customers	1 932 692	969 903
Financial entities	42 735	49 128
corporate loans	42 735	49 128
Non-financial entities	1 880 418	911 146
consumer loans	18 525	6 850
mortgage loans	311 097	131 862
corporate loans	1 550 796	772 434
State budget entities	9 539	9 629
corporate loans	9 539	9 629
Financial assets available for sale	23 862	42 056
issued by financial entities	2 599	2 674
issued by non-financial entities	21 263	39 382
Total	1 985 040	1 012 235

As at 31 December 2008, financial assets individually determined to be impaired were secured by the following collaterals established for the Group:

- for loans and advances to customers: ceiling mortgages and ordinary mortgages, registered pledges, promissory notes, transfers of receivables and rights to cash - with a total amount of PLN 1 250 019 thousand,
- for financial assets available for sale: blank promissory notes, registered pledges on the bank account and on debtor's shares with a total nil value.

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

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

Credit risk of financial institutions

As at 31 December 2008, the greatest exposures of PKO BP SA on the interbank market were as follows:

Counterparty	Inter-bank portfolio*				Total
	Instrument type				
	Deposits	Securities	Credit Default Swap	Other derivatives	
Counterparty 1	228 059	-	-	-	228 059
Counterparty 2	222 135	-	-	-	222 135
Counterparty 3	196 098	-	-	-	196 098
Counterparty 4	168 084	-	-	2 480	170 564
Counterparty 5	159 803	-	-	8 700	168 503
Counterparty 6	154 077	-	-	(17 350)	154 077
Counterparty 7	-	-	118 472	(193 941)	118 472
Counterparty 8	114 029	-	-	-	114 029
Counterparty 9	100 000	-	-	(3 401)	100 000
Counterparty 10	-	-	88 854	(78 015)	88 854
Counterparty 11	-	83 448	-	-	83 448
Counterparty 12	-	-	-	70 308	70 308
Counterparty 13	63 856	-	-	-	63 856
Counterparty 14	-	-	-	61 528	61 528
Counterparty 15	26 656	-	-	33 994	60 650
Counterparty 16	-	-	-	54 085	54 085
Counterparty 17	50 000	-	-	-	50 000
Counterparty 18	-	41 724	-	(104)	41 724
Counterparty 19	-	20 862	-	-	20 862
Counterparty 20	9 655	-	-	(40 332)	9 655

* Excluding exposure to the State Treasury and the National Bank of Poland

The table below presents the greatest exposures of the PKO BP SA Group on the interbank market as at 31 December 2007:

Counterparty**	Interbank portfolio*				Total
	Instrument type				
	Deposit	Securities	Credit Default Swap	Other derivatives	
Counterparty 21	379 100	-	-	14 974	394 074
Counterparty 22	335 965	-	-	-	335 965
Counterparty 23	300 000	-	-	5 890	305 890
Counterparty 24	293 280	-	-	-	293 280
Counterparty 25	276 889	-	-	3	276 892
Counterparty 26	232 386	-	-	15 464	247 850
Counterparty 19	219 040	17 910	-	-	236 950
Counterparty 27	-	-	158 275	46 333	204 608
Counterparty 15	204 155	-	-	(5 664)	204 155
Counterparty 4	179 100	-	-	(331)	179 100
Counterparty 28	100 000	-	-	65 231	165 231
Counterparty 29	150 000	-	-	12 373	162 373
Counterparty 30	150 000	-	-	(496)	150 000
Counterparty 31	-	150 451	(24 350)	-	126 101
Counterparty 32	100 000	-	-	25 792	125 792
Counterparty 14	100 000	-	-	25 307	125 307
Counterparty 33	108 746	-	-	5 286	114 032
Counterparty 7	-	-	73 050	34 790	107 840
Counterparty 34	100 000	-	-	-	100 000
Counterparty 35	100 000	-	-	-	100 000

* Excluding exposure to the State Treasury and the National Bank of Poland

** Counterparty names (expressed as numbers) presented in the above table are consistent with counterparty names presented in the table "the greatest exposures of the PKO BP SA Group on the interbank market" as at 31 December 2008.

For the purpose of determining exposures, placements and securities issued by the counterparties as well as the CDS transactions are stated at nominal values, while the other derivative instruments are stated at market values (recent bid price). Total exposure to each counterparty ("Total") is the sum of exposures arising from placements and securities, increased (in case of counterparties from whom the Bank purchased a loan protection for issuers of securities in the Bank portfolio) or decreased (if the credit risk of the given entity has been transferred under the CDS transaction to another entity) by the exposure arising from CDS transactions and exposure arising from other derivative instruments if it is positive (otherwise the exposure arising from other derivatives is not included in total exposure). Exposure arising from instrument is calculated from the moment of entering into transaction.

All of the 12 counterparties listed in the table above as at 31 December 2008, with whom the Bank carried out derivative instrument transactions, signed master agreements with the Bank. Master agreements allow for offsetting of mutual liabilities in the event of bankruptcy of any of the parties to the transaction. As at 31 December 2008 PKO BP SA had 23 master agreements signed with domestic banks and 31 with foreign banks and lending institutions. In addition to this, the Bank was a party to 17 CSA (Credit Support Annex) agreements which enable it to hedge its exposure from derivative instruments and 2 ISMA (International Securities Market Association) agreements which allow for an offsetting of liabilities arising from REPO and BSB/SBB transactions.

5 out of the 20 counterparties generating the largest exposures for the Group as at 31 December 2007 were also included in the population of the largest exposures as at 31 December 2008.

Geographical localization of counterparties

The counterparties generating the 20 largest exposures on the interbank market as at 31 December 2008 and 31 December 2007 come from the following countries (classified by location of registered office):

No.	Country	Counterparty
1.	Austria	Counterparty 4, Counterparty 30, Counterparty 32, Counterparty 34
2.	Belgium	Counterparty 25
3.	Denmark	Counterparty 33
4.	France	Counterparty 26, Counterparty 29
5.	Spain	Counterparty 19
6.	Ireland	Counterparty 22
7.	Holland	Counterparty 27
8.	Germany	Counterparty 21, Counterparty 23, Counterparty 28, Counterparty 35
9.	Poland	Counterparty 3, Counterparty 6, Counterparty 9, Counterparty 11, Counterparty 12, Counterparty 14, Counterparty 15, Counterparty 16, Counterparty 17
10.	Portugal	Counterparty 2, Counterparty 24
11.	USA	Counterparty 31
12.	Switzerland	Counterparty 5
13.	Ukraine	Counterparty 1, Counterparty 8, Counterparty 13
14.	Hungary	Counterparty 18
15.	United Kingdom	Counterparty 7, Counterparty 10, Counterparty 20

Counterparty structure by rating

Counterparty structure by rating is presented in the table below. The ratings were determined based on external ratings granted by Moody's, Standard&Poor's and Fitch (when a rating was granted by two agencies, the lower rating was applied, whereas when a rating was granted by three agencies, the middle rating was applied).

Rating	Counterparty
AA	Counterparty 7, Counterparty 10, Counterparty 20, Counterparty 22, Counterparty 25, Counterparty 26, Counterparty 27, Counterparty 28, Counterparty 29, Counterparty 31, Counterparty 33, Counterparty 34
A	Counterparty 2, Counterparty 4, Counterparty 5, Counterparty 6, Counterparty 14, Counterparty 15, Counterparty 16, Counterparty 19, Counterparty 21, Counterparty 23, Counterparty 24, Counterparty 30, Counterparty 32, Counterparty 35
BBB	Counterparty 17, Counterparty 18
B	Counterparty 1, Counterparty 8, Counterparty 13
Without rating	Counterparty 3, Counterparty 9, Counterparty 11, Counterparty 12

Management of foreclosed collateral

Foreclosed collateral as a result of restructuring or debt collection activities is either used by the Group for internal purposes or designated for sale. Details of the foreclosed assets are analyzed in order to determine whether they can be used by the parent company for internal purposes. All of the assets taken over as a result of restructuring and debt collection activities in the years ended 31 December 2008 and 31 December 2007, respectively, were designated for sale.

Activities undertaken by the Group are aimed at selling foreclosed assets as soon as possible. In individual cases, assets may be withheld from sale. This occurs only if circumstances, which are beyond the control of the Group, indicate that the sale of the assets at a later date is likely to generate greater financial benefits. The primary procedure for a sale of assets is open auction. Other procedures are acceptable in cases where they provide a better chance of finding a buyer and generate higher proceeds for the Group.

The Group takes steps to broadly disseminate to the public the information about assets being sold by publishing it on the Group's website; placing announcements in the national press; using internet portals (e.g. to carry out internet auctions), sending offers directly to potentially interested entities from a given type of industry. In addition, PKO BP SA cooperates with external firms operating all over Poland in respect of collection, transportation, storage and intermediation in the sale of assets taken over by the Group as a result of restructuring and debt collection activities. The Group has also entered into cooperation agreements with external companies, which perform valuations of the movable and immovable properties that the Group has foreclosed or would like to foreclose in the course of realization of collateral.

The carrying amounts of assets taken over in exchange for debts as at 31 December 2008 and 31 December 2007 are presented in Note 28, "Other assets", in line item "Non-current assets held for sale".

Market risk

Market risk is understood as a risk of incurring a loss due to adverse changes in market parameters, such as interest rates and foreign exchange rates or volatility of these parameters, as well as liquidity risk. Market risk includes: interest rate risk, currency risk, derivatives risk and liquidity risk.

Interest rate risk

The objective of interest rate risk management is to identify areas of interest rate risk and to shape the structure of the balance sheet and contingent liabilities and commitments in a way to maximise the value of net assets and interest income within the adopted interest rate risk profile.

In the process of interest rate risk management, the Bank uses the Value at Risk (VaR) model, stress testing and interest income sensitivity measures.

Value at Risk (VaR) is defined as the potential loss resulting from a change in the present value of the future cash flows from a financial instrument, while keeping an assumed level of confidence

and holding period. The Bank adopts a variance-covariance method with a confidence level of 99% for the purpose of determining VaR. In its interest rate risk management the Bank uses, among others, VaR determined for particular financial instruments and for the Bank's portfolios.

Stress-tests are used to estimate potential losses arising from an interest rate position under market conditions that cannot be described in a standard manner using statistical measures. Two types of scenarios are used by the Bank:

- 1) hypothetical scenarios – which are based on arbitrary interest rate fluctuations: a parallel move in interest rate curves for the following currencies: PLN, EUR, USD, CHF and GBP by ± 50 basis points and by ± 200 basis points,
- 2) historical scenarios – in which interest rate fluctuations are adopted based on the behaviour of interest rates in the past, including: the highest historical change, a bend of a profit curve along with portfolio positions, a bend of profit curve of peak and twist types.

The main tools used in interest rate risk management include:

- 1) written procedures for interest rate risk management,
- 2) limits and thresholds for interest rate risk,
- 3) defining allowable transactions for interest rates.

The Bank has set limits and thresholds for interest rate risk including: price sensitivity, interest income sensitivity, loss limits and limits for instruments sensitive to changes in interest rates. These limits were set in consideration of the Bank's particular portfolios.

Methods of interest rate risk management in the other Group entities are defined by internal regulations implemented by those Group entities which are characterized by significant values of interest rate risk measure outcomes. These regulations are developed after consultation with the Bank and take into account recommendations issued by the Bank for Group entities.

The Group uses the following measures in the process of interest rate risk management:

- 1) measures of interest rate risk set for the individual Group entities and for the Bank,
- 2) measures of interest rate gap and price sensitivity (BPV), set for the Group,
- 3) crash tests assuming parallel moves in interest rates for the following currencies: PLN, EUR, USD, CHF and GBP by ± 200 basis points.

Measures of interest rate gap and price sensitivity are determined for particular Group entities using similar methods to those used for determining the interest rate gap and price sensitivity for the Bank itself, taking into account the specific nature of the entities.

Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
PLN (PLN thousand)								
31.12.2008								
The Group periodic gap	(5 137 382)	6 674 699	11 206 058	1 378 098	(7 154 984)	(769 779)	38 592	6 235 301
The Group cumulative gap	(5 137 382)	1 537 317	12 743 375	14 121 472	6 966 488	6 196 709	6 235 301	-
PLN (PLN thousand)								
31.12.2007								
The Group periodic gap	(14 351 137)	28 907 893	3 872 802	(8 663 100)	(1 277 801)	(269 576)	175 471	8 394 552
The Group cumulative gap	(14 351 137)	14 556 756	18 429 558	9 766 458	8 488 657	8 219 081	8 394 552	-

USD (USD thousand)								31.12.2008
The Group periodic gap	(1 378)	(237 592)	(87 697)	(3 281)	18 347	79 262	126 272	(106 067)
The Group cumulative gap	(1 378)	(238 970)	(326 667)	(329 948)	(311 601)	(232 338)	(106 067)	-
USD (USD thousand)								31.12.2007
The Group periodic gap	(316 854)	148 960	(63 449)	(79 846)	22 940	64 645	45 389	(178 215)
The Group cumulative gap	(316 854)	(167 894)	(231 343)	(311 189)	(288 249)	(223 604)	(178 215)	-
EUR (EUR thousand)								31.12.2008
The Group periodic gap	(340 028)	(18 827)	33 410	36 954	(5 625)	63 539	(13 035)	(243 612)
The Group cumulative gap	(340 028)	(358 855)	(325 445)	(288 491)	(294 116)	(230 577)	(243 612)	-
EUR (EUR thousand)								31.12.2007
The Group periodic gap	205 583	41 711	(24 425)	(27 655)	15 250	20 184	(45 832)	184 816
The Group cumulative gap	205 583	247 294	222 869	195 214	210 464	230 648	184 816	-
CHF (CHF thousand)								31.12.2008
The Group periodic gap	4 970 312	(4 895 972)	1 292	(1 577)	(97)	-	3 092	77 049
The Group cumulative gap	4 970 312	74 340	75 632	74 054	73 958	73 958	77 049	-
CHF (CHF thousand)								31.12.2007
The Group periodic gap	3 152 465	(3 155 375)	(1 091)	(2 374)	-	(330)	3 005	(3 700)
The Group cumulative gap	3 152 465	(2 910)	(4 001)	(6 375)	(6 375)	(6 705)	(3 700)	-

The repricing gap presents the difference between the current value of an asset and liabilities exposed to interest rate risk, which are subject to repricing in a given time period, whereas assets and liabilities are recognized on the day of the transaction.

At the end of 2008 and at the end of 2007, the exposure of the PKO BP SA Group to the interest rate risk mainly comprised of the exposure of the Bank. Interest rate risk generated by the other Group entities with regard to PLN, EUR and CHF did not have a significant effect on the interest rate risk of the entire Group and therefore did not significantly affect its risk profile. Interest rate risk with regard to USD was significantly changed by exposure of the Group, in which the biggest part has the exposure of KREDOBANK SA.

Exposure of the Group to interest rate risk was within accepted limits.

VaR of the Bank and stress testing analysis of the Group's exposure to the interest rate risk are presented in the following table:

Name of sensitivity measure	31.12.2008	31.12.2007
VaR for a 10-day time horizon (PLN thousand)*	72 337	36 300**
Parallel move of interest rate curves by +200 base points (PLN thousand)	589 954	155 877

* Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk (BFL and KREDOBANK SA) as well as a the specific nature of the market in which they operate, the Bank does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. KREDOBANK SA uses the 10-day interest rate VaR for the main currencies, which amounted to PLN 17 788 thousand as of 31 December 2008 and PLN 3 459 thousand as of 31 December 2007, respectively.

** VaR calculated as at 31.12.2007 reflects the changes in the VaR methodology introduced in 2008. VaR calculated according to the methodology used on 31.12.2007 amounted to PLN 10 521 thousand.

As at 31 December 2008, the interest rate VaR for the holding period of 10 days (10-day VaR) amounted to PLN 72 337 thousand, which accounted for approximately 0.60% of the value of the Bank's own funds². As at 31 December 2007, VaR for the Bank amounted to PLN 36 300 thousand, which accounted to approximately 0.33% of the Bank's own funds. The interest rate risk was generated mainly by the risk of a mismatch between the repricing dates of assets and liabilities and basis risk.

Due to the aggravating crisis in the financial market, the Bank took steps aimed at increased monitoring of risk types constituting the interest rate risk, which normally might have been assessed as immaterial. As a result of the conducted review, the special emphasis was placed on monitoring of basis risk, along with a simultaneous modification of VaR methodology in this respect and implementation of additional stress test scenarios.

Currency risk

The objective of currency risk management is to identify the areas of currency risk and to take measures to reduce the currency risk to acceptable levels.

The Bank measures currency risk using the Value at Risk model and stress tests.

Currency risk of the Bank is monitored and reported on daily basis. The currency positions, generated in basic banking activity are transferred to the dealing activity of the Bank, where they are managed within limits and threshold values for this activity.

The Bank adopts a variance-covariance method with a confidence level of 99% for the purpose of determining VaR. In its currency risk management the Bank determines VaR by type of activity.

Stress-testing and worst case scenarios are used to estimate potential losses arising from currency position under extraordinary market conditions that cannot be described in a standard manner using statistical measures. Two types of scenarios are used by the Bank:

- 1) hypothetical scenarios – which assume a hypothetical appreciation or depreciation of currency rates (by 15% and 50%),
- 2) historical scenarios – based on the behaviour of currency rates observed in the past.

The main tools used in currency risk management include:

- 1) written procedures for currency risk management,
- 2) limits and thresholds for currency risk,

² Own funds calculated in accordance with regulations governing calculation of the capital adequacy ratio.

- 3) defining allowable transactions in foreign currencies and the exchange rates used in such transactions.

The Bank sets limits and threshold values for the following items: currency positions, Value at Risk calculated for a 10-day time horizon and daily loss from transactions on currency market.

Methods of currency risk management in the particular Group entities are defined by internal regulations implemented by these entities. The regulations are developed by the Group entities, which are characterized by high level of currency risk measure outcomes. The regulations are issued after consultation with the Bank and take into account recommendations issued by the Bank to the Group entities.

In the process of currency risk management, the Group uses the following measures:

- 1) measures of currency risk set for the Bank,
- 2) measures of currency risk set for the individual Group entities by the Bank,
- 3) stress tests assuming 15% appreciation or depreciation of currency rates set for the Group.

Measures of currency position are determined for the particular Group entities using similar methods to those used for determining the currency position for the Bank itself, taking into account the specific nature of the business conducted by the Group entities.

VaR of the Bank and stress-testing of the Group financial assets exposed to currency risk are stated cumulatively in the table below:

Name of sensitivity measure	31.12.2008	31.12.2007
VaR for a 10-day time horizon (PLN thousand)*	11 297**	1 646
Change of PLN +15% (PLN thousands)***	13 222	10 679

* Due to the nature of the activities carried out by the other Group entities generating significant currency risk (BFL and KREDOBANK SA) as well as a the specific nature of the market in which they operate, the Bank does not calculate consolidated VaR. These companies apply their own risk measures in the currency risk management. KREDOBANK SA uses the 10-day interest rate VaR which amounted to PLN 809 thousand as of 31.12.2008 and PLN 183 thousand as of 31.12.2007.

**VaR as at 31 December 2008 resulted mainly from USD position due to the acquisition of KREDOBANK SA shares, registered on 31 December 2008.

***In 2008, stress-test analyses were changed by replacing the 10% PLN appreciation or depreciation scenario with the 15% PLN appreciation or depreciation scenario. The data for 2007 was brought to comparability.

The level of the currency risk was low both in 2008 and 2007.

The Group's currency positions are presented in the table below:

	31.12.2008	31.12.2007
	Currency position (PLN thousand)	Currency position (PLN thousand)
USD	(128 288)	(46 614)
EUR	17 728	(29 759)
CHF	(14 865)	38 944
GBP	(1 459)	(3 166)
Other (Global Net)	38 661	18 494

The volume of currency positions is a key factor determining the level of currency risk on which the Bank is exposed (except for volatility of foreign exchange rates). The level of currency positions is determined by all foreign currency transactions, which are concluded by the Bank, both balance sheet (such as loans) and off-balance sheet (such as derivatives, CIRS transactions in particular). In accordance with the currency risk management principles at the Bank, the daily currency position opened by the Bank within the banking book (such as disbursement of loans denominated in foreign currency in PLN, repayment of loans denominated in foreign currency by the clients, exposure currency conversion) is closed every day, also using derivative instruments. This means that the currency position of the Bank at the end of the day may constitute only of generated new position in banking book on this day and currency position in trading book within the limits, which results in a low exposure of the Bank to currency risk (with reference to own funds, VaR for a 10-day time horizon for the Bank's currency position amounted to approx. 0.09%).

Currency structure

In the 2008 and 2007, the level of currency risk was low. The tables below present currency exposure by the specific types of assets, liabilities and contingent liabilities and commitments.

	Currency translated to PLN – 31.12.2008				
	PLN	EUR	CHF	Other	Total
ASSETS, of which:					
Cash and balances with the central bank	5 440 804	170 503	17 720	207 865	5 836 892
Amounts due from banks	1 091 618	1 540 624	82 160	677 308	3 391 710
Loans and advances to customers	74 473 200	4 414 600	22 509 669	2 628 298	104 025 767
Securities	14 071 879	384 793	-	235 623	14 692 295
Tangible assets	8 281 546	-	-	193 348	8 474 894
Other assets and derivatives	4 983 045	114 017	393	101 108	5 198 563
TOTAL ASSETS (GROSS)	108 342 092	6 624 537	22 609 942	4 043 550	141 620 121
DEPRECIATION / AMORTISATION / IMPAIRMENT	(6 529 624)	(125 160)	(32 485)	(296 866)	(6 984 135)
TOTAL ASSETS (NET)	101 812 468	6 499 377	22 577 457	3 746 684	134 635 986
EQUITY AND LIABILITIES, of which					
Amounts due to the central bank	2 816	-	-	-	2 816
Amounts due to other banks	3 327 901	318 137	2 808 188	534 377	6 988 603
Amounts due to customers	95 807 697	3 689 313	111 145	3 331 126	102 939 281
Debt securities in issue	183 594	-	-	27 979	211 573
Provisions	565 549	305	-	162	566 016
Subordinated liabilities	1 509 178	-	-	109 577	1 618 755
Other liabilities and derivatives and deferred tax liabilities	7 939 345	271 776	7 409	92 396	8 310 926
Equity	13 998 016	-	-	-	13 998 016
TOTAL EQUITY AND LIABILITIES	123 334 096	4 279 531	2 926 742	4 095 617	134 635 986
CONTINGENT LIABILITIES GRANTED	25 464 318	3 077 170	1 121 951	780 704	30 444 143

	Currency translated to PLN – 31.12.2007				
	PLN	EUR	CHF	Other	Total
ASSETS, of which:					
Cash and balances with the central bank	4 376 155	129 366	7 665	169 441	4 682 627
Amounts due from banks	2 449 511	2 204 206	158 323	449 472	5 261 512
Loans and advances to customers	62 160 389	2 705 382	11 982 981	1 984 000	78 832 752
Investment securities	13 276 311	1 272 759	-	711 380	15 260 450
Tangible assets	7 763 830	-	-	211 321	7 975 151
Other assets and derivatives	2 587 877	152 322	1 717	98 826	2 840 742
TOTAL ASSETS (GROSS)	92 614 073	6 464 035	12 150 686	3 624 440	114 853 234
DEPRECIATION / AMORTISATION / IMPAIRMENT	(6 164 341)	(16 482)	(20 990)	(113 821)	(6 315 634)
TOTAL ASSETS (NET)	86 449 732	6 447 553	12 129 696	3 510 619	108 537 600
EQUITY AND LIABILITIES, of which:					
Amounts due to the central bank	1 279	-	-	-	1 279
Amounts due to other banks	1 305 400	984 161	2 129 743	283 810	4 703 114
Amounts due to customers	78 692 455	1 100 716	28 752	6 757 587	86 579 510
Debt securities in issue	166 823	-	-	12 037	178 860
Provisions	453 333	750	-	218	454 301
Subordinated liabilities	1 614 885	-	-	-	1 614 885
Other liabilities, derivatives and deferred tax liabilities	2 812 512	85 468	10 654	118 002	3 026 636
Equity	11 979 015	-	-	-	11 979 015
TOTAL EQUITY AND LIABILITIES	97 025 702	2 171 095	2 169 149	7 171 654	108 537 600
CONTINGENT LIABILITIES GRANTED	24 433 087	2 666 719	640 513	491 619	28 231 938

Currency risk of the Bank is monitored and reported on daily basis. The currency positions, generated in basic banking activity are transferred to the dealing activity of the Bank, where they are managed within limits and threshold values for this activity. Individual currency positions of significant values in all currencies are systematically closed within limits for dealing activity of the Bank.

Derivative instrument risk

The objective of derivative risk management is to monitor the use of derivative instruments and to keep derivative risk within the range defined by the general risk profile of the Bank. Derivative risk management in the Bank is fully integrated with the management of other risks, such as: interest rate, currency, liquidity and credit risk. The principles of derivative risk management define the risks related to derivative transactions and the tasks for individual organizational units in the process of derivative risk management.

The Bank measures the derivative instrument risk using, among others, the Value at Risk (VaR) model described in the section on interest rate risk or currency risk, depending on the risk factor which affects the value of the instrument.

The main tools used in derivative risk management are as follows:

- 1) written procedures for derivative risk management,
- 2) limits and thresholds set for the risk related to derivative instruments,
- 3) master agreements (ISDA – International Swaps and Derivatives Association, ZBP – Polish Bank Association) specifying, among others, settlement mechanisms.

Risk management is carried out by imposing limits on the individual derivative instruments included in the Bank's trading and banking portfolios, monitoring limits, observation and reporting risk level.

Master agreements concluded by the Bank with the major business partners based on the standards developed by the Polish Bank Association (domestic banks) and ISDA (foreign banks and credit institutions), which allow offsetting of mutual liabilities, both due (mitigation of settlement risk) and not yet due (mitigation of pre-settlement risk), are particularly important for mitigating the risk associated with derivative instruments. Additional collateral for exposures, resulting from derivative instruments are collateral deposits escrowed by counterparties as a part of CSA agreement (Credit Support Annex).

Methods of derivative risk management in the other Group entities are defined by internal regulations implemented by these entities which take positions in derivative instruments or plan to take positions in such instruments. These regulations are developed after consultation with the Bank and take into account the recommendations issued by the Bank for the Group entities.

The Group uses the following measures in the process of derivative risk management:

- 1) measures of derivative risk set for the individual Group entities and for the Bank,
- 2) positions taken by the Group entities in particular derivative instruments, defined by the Bank.

Positions taken by the other Group entities in particular derivative instruments are determined using similar methods to those used for positions taken by the Bank in such instruments, taking into account the specific nature of the business conducted by the Group entities.

In the current year, the Group's sole company (apart from the Bank) which used derivative financial instruments to manage market risk was Bankowy Fundusz Leasingowy.

Liquidity risk

The objective of liquidity risk management is to shape the structure of the Bank's balance sheet and contingent liabilities and commitments to ensure the continuous liquidity of the Bank, taking into account the nature of its activities and requirements which may occur due to changes in market environment.

The Bank's policy concerning liquidity is based on keeping a portfolio of liquid securities and stable deposits. In its liquidity risk management policy, the Bank also uses money market instruments, including NBP open market operations.

The Bank makes use of the following liquidity risk measures:

- 1) the contractual liquidity gap and the liquidity gap in real terms,
- 2) the surplus liquidity,
- 3) analysis of stability of deposit and loan portfolios,
- 4) stress testing.

The main tools for liquidity risk management in the PKO BP SA Group are as follows:

- 1) written procedures for liquidity risk management,
- 2) limits and thresholds mitigating liquidity risk,
- 3) deposit, investment and derivative transactions, including structural currency transactions and transactions for sale or purchase of securities,
- 4) transactions ensuring long-term financing of lending activities.

To ensure an adequate liquidity level, the Bank and the other Group entities accepted limits and thresholds for liquidity risk. The limits and thresholds were set for both current liquidity measures and medium and long-term liquidity measures.

Methods of liquidity risk management in the other Group entities are defined by internal regulations implemented by those Group entities which are characterized by high levels of liquidity risk measure outcomes. These regulations are developed after consultation with the Bank and take into account recommendations issued by the Bank.

The Group uses the following measures in the process of liquidity risk management:

- 1) measures of liquidity risk set for the individual Group entities and for the Bank,
- 2) measure of the contractual liquidity gap, determined for the Group.

Measure of the liquidity gap is determined for the Group as the sum of the of the Bank's gap in real terms and contractual liquidity gaps of the remaining entities of the Group using similar methods to those used for determining the contractual liquidity gap for the Bank itself, taking into account the specific nature of the Group entities.

Liquidity gaps presented below include: adjustments to real terms concerning permanent balances on deposits from non-financial institutions and their maturity, adjustments to real terms concerning permanent balance on loans in current account of non-financial subjects and their maturity, liquid securities and their maturity.

	a'vista	0 – 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 36 months	36 - 60 months	over 60 months
31.12.2008								
The Group adjusted gap	4 610 491	5 668 033	(3 379 392)	(1 983 388)	2 146 647	3 864 988	2 630 081	(13 557 460)
The Group - cumulative adjusted gap	4 610 491	10 278 524	6 899 132	4 915 744	7 062 391	10 927 379	13 557 460	-
31.12.2007*								
The Group - adjusted gap	3 256 014	14 189 249	3 110 063	2 956 860	5 672 326	8 740 459	2 518 933	(40 443 905)
The Group - cumulative adjusted gap	3 256 014	17 445 264	20 555 327	23 512 187	29 184 513	37 924 972	40 443 905	-

* The amounts have been brought to comparability in accordance with the methodology of liquidity gap realignment in force as at 31 December 2008.

In all time horizons, the Group's cumulative³ liquidity gap as at 31 December 2008 and 31 December 2007 was positive. This means a surplus of assets receivable over liabilities payable.

The table below presents liquidity reserve as at 31 December 2008 and 31 December 2007.

	31.12.2008	31.12.2007
Liquidity reserve to 1 month* (PLN million)	6 666	9 248

*Liquidity reserve equals the gap between the most liquid assets and expected and potential liabilities which mature in a given period of time. Due to differences in methodologies in measuring liquidity risk in particular Group companies, the Bank did not consolidate the particular liquidity provisions.

On 15 December 2008 the Bank introduced new deposit products. As at 10 January 2009 liquidity reserve to 1 month amounted to PLN 8 390 million.

As at 31 December 2008, the approx. level of permanent balances on deposits from non-financial entities constituted approximately 94% of all deposits of the Bank's non-financial clients, while as at 31 December 2007 the level of permanent balances on deposits constituted approximately 96% of all deposits of the Bank's non-financial clients.

Financial crisis observed in the market significantly affected the environment in which the banks operate, which refers also to Polish banks. The main problem related to the crisis constituted limited trust in the interbank market, which resulted in limited liquidity of this market. This contributed to the necessity of gaining deposits by the banks from non-financial clients, which inevitably led to the increase of the offered interest rates paid.

Due to the aggravating crisis, the Bank's Management Board took steps to mitigate the possible risks to materialize. The parent company appointed a special working group, whose objective was to assess the current situation in the financial market, to report to the Bank's Management Board members on a daily basis and to discuss the situation during the Bank's Management Board meetings on a weekly basis.

In the crisis situation in financial markets the parent company took actions aimed at effective liquidity risk management, which may be confirmed by the following facts:

- no limits for supervisory liquidity measures of the Bank were exceeded,

³ The Group's liquidity gap in real terms has been determined as the sum of the Bank's gap in real terms and contractual liquidity gaps of the remaining entities of the Group.

- the parent company did not have any difficulties with holding the obligatory funds to cover the obligatory reserve at the National Bank of Poland (NBP) without the need of taking a lombard loan,
- the parent company did not take advantage of the supporting operations and financing operations in foreign currencies offered by the National Bank of Poland (NBP).

The above-mentioned extraordinary actions were accompanied by standard risk monitoring as well as development of risk measurement methods, along with their adjustment to the observed market conditions, such as modification of structure of limits and thresholds for liquidity risk with reference to the minimal liquidity reserve held by the Bank.

In order to reduce the risk within the Group and due to the deeper crisis in the Ukrainian market, the Bank granted financial support to its subsidiary company KREDOBANK SA.

Market risk reporting

The market risk reporting system is based on the following reports:

- 1) daily and weekly - prepared for operational purposes,
- 2) monthly - considered during the meetings of the Assets & Liabilities Committee,
- 3) quarterly - considered during the Management Board meetings,
- 4) half-yearly - considered during the Supervisory Board meetings.

The above mentioned reports relate to market risk which can affect the Bank. Additionally, a special report on the market risk in the PKO BP SA Group is attached to the monthly and quarterly reports at the end of each quarter.

Other entities in the PKO BP SA Group which, due to the nature of their activities, are characterized by a significant level of market risk have their own internal regulations (submitted to the Bank for consultation) for management of the risk. These regulations define, among others, a procedure for market risk reporting to the Management of these entities.

Non-current and current assets and liabilities of the Group as at 31 December 2008

	Short term	Long term	Impairment allowances	Total carrying amount
Assets				
Cash and balances with the central bank	5 836 892	-	-	5 836 892
Amounts due from banks	3 191 876	199 834	(28 111)	3 363 599
Trading assets	1 340 931	155 216	-	1 496 147
Derivative financial instruments	3 597 670	-	-	3 597 670
Other financial instruments designated at fair value through profit or loss	3 521 974	1 033 570	-	4 555 544
Loans and advances to customers	21 784 191	82 241 576	(2 917 876)	101 107 891
Investment securities available for sale	772 921	7 847 751	(5 759)	8 614 913
Inventories	479 181	143 229	-	622 410
Other assets	3 407 883	2 233 311	(200 274)	5 440 920
TOTAL ASSETS	43 933 519	93 854 487	(3 152 020)	134 635 986
Liabilities				
Amounts due to the central bank	2 816	-	-	2 816
Amounts due to other banks	3 127 387	3 861 216	-	6 988 603
Derivative financial instruments	6 150 337	-	-	6 150 337
Amounts due to customers	91 457 004	11 482 277	-	102 939 281
Debt securities in issue	183 594	27 979	-	211 573
Subordinated liabilities	-	1 618 755	-	1 618 755
Other liabilities	2 228 722	497 883	-	2 726 605
TOTAL LIABILITIES	103 149 860	17 488 110	-	120 637 970
EQUITY	-	13 998 016	-	13 998 016
TOTAL LIABILITIES AND EQUITY	103 149 860	31 486 126	-	134 635 986

Non-current and current assets and liabilities of the Group as at 31 December 2007

	Short term	Long term	Impairment allowances	Total carrying amount
Assets				
Cash and balances with the central bank	4 682 627	-	-	4 682 627
Amounts due from banks	5 225 409	36 103	(276)	5 261 236
Trading assets	337 058	865 861	-	1 202 919
Derivative financial instruments	1 556 736	-	-	1 556 736
Other financial instruments designated at fair value through profit or loss	2 044 626	6 269 818	-	8 314 444
Loans and advances to customers	22 371 094	56 461 658	(2 415 603)	76 417 149
Investment securities available for sale	479 260	5 263 827	(26 849)	5 716 238
Inventories	113 717	251 587	-	365 304
Other assets	2 438 501	2 745 624	(163 178)	5 020 947
TOTAL ASSETS	39 249 028	71 894 478	(2 605 906)	108 537 600
Liabilities				
Amounts due to the central bank	1 279	-	-	1 279
Amounts due to other banks	1 785 723	2 917 391	-	4 703 114
Derivative financial instruments	1 279 925	-	-	1 279 925
Amounts due to customers	85 085 358	1 494 152	-	86 579 510
Debt securities in issue	166 823	12 037	-	178 860
Subordinated liabilities	-	1 614 885	-	1 614 885
Other liabilities	1 734 988	466 024	-	2 201 012
TOTAL LIABILITIES	90 054 096	6 504 489	-	96 558 585
EQUITY	-	11 979 015	-	11 979 015
TOTAL LIABILITIES AND EQUITY	90 054 096	18 483 504	-	108 537 600

Consolidated Financial Statements of
Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group
for the year ended 31 December 2008



(in PLN thousand)

Outstanding contractual maturities of the Group as at 31 December 2008

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value	Carrying amount
Liabilities:							
Amounts due to the central bank	2 816	-	-	-	-	2 816	2 816
Amounts due to other banks	2 465 018	707 941	303 961	3 658 612	173 577	7 309 111	6 988 603
Amounts due to customers	61 955 089	17 672 964	11 820 792	12 536 123	376 525	104 361 493	102 939 281
Debt securities in issue	79 851	75 710	30 905	39 703	-	226 170	211 573
Subordinated liabilities	-	-	126 135	506 893	2 121 604	2 754 632	1 618 755
Other liabilities	564 141	260 184	794 266	32 196	16 989	1 667 776	1 667 776
Derivative financial instruments	6 476 728	5 399 820	7 228 909	21 651 941	5 876 889	46 634 287	6 150 337
Off-balance sheet liabilities – financial liabilities granted	13 720 195	157 146	3 512 534	4 231 245	4 520 324	26 141 444	
Off-balance sheet liabilities – guarantee liabilities issued	1 436 768	169 003	1 086 418	1 489 656	120 854	4 302 699	

Outstanding contractual maturities of the Group as at 31 December 2007

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value	Carrying amount
Liabilities:							
Amounts due to the central bank	1 279	-	-	-	-	1 279	1 279
Amounts due to other banks	1 049 449	650 638	165 126	3 143 266	41 436	5 049 915	4 703 114
Amounts due to customers	61 885 041	9 882 068	13 414 008	1 440 699	334 031	86 955 847	86 579 510
Debt securities in issue	53 827	103 256	11 651	17 027	-	185 762	178 860
Subordinated liabilities	-	-	102 244	408 138	2 130 822	2 641 204	1 614 885
Other liabilities	975 236	657 996	52 719	20 878	25 504	1 732 333	1 732 333
Derivative financial instruments	3 224 597	2 105 843	6 298 003	14 551 912	6 236 867	32 417 222	1 279 925
Off-balance sheet liabilities – financial liabilities granted	5 996 907	846 343	7 967 694	7 405 452	2 130 270	24 346 666	
Off-balance sheet liabilities – guarantee liabilities issued	724 128	98 931	977 951	1 960 497	123 765	3 885 272	

Operational risk and compliance risk

Operational risk management objectives and policies

Operational risk is defined as the risk of occurrence of a loss due to non-compliance or unreliability of internal processes, people and systems or external events. The purpose of operational risk management is to optimize operational efficiency by reducing operating losses, costs streamlining and improving the timing and adequacy of the response of the Group to events which are beyond its control.

The Bank's internal regulations determine unambiguously the segregation of competencies in the area of operational risk management. According to these regulations, the entirety of issues connected to operational risk management is supervised by the Management Board, which:

- sets goals of operational risk management,
- establishes operational risk policy,
- approves operational risk reports.

Operational risk management is performed through systemic solutions as well as regular ongoing management of the risk.

Systemic management of operational risk includes building internal regulations and using other tools related to operational risk, in the scope of:

- human resources,
- organization of the Bank,
- accounting,
- communication and IT technologies,
- security,
- internal processes,
- customer service processes,
- outsourcing of banking activities.

Systemic operational risk management is centralised at the Bank's head office level. Each business and support line has a designated unit which is responsible for identification and monitoring of operational threats and taking adequate steps to ensure an acceptable level of operational risk.

The ongoing operational risk management consists of:

- prevention of operational threats arising at a stage of product development - both in internal processes and systems,
- undertaking steps aimed at limiting the number and scale of occurring threats ('operational events'),
- eliminating negative effects of operational events,
- registering data on operational events.

The ongoing operational risk management is conducted by every organizational unit of the Bank.

A vital role in the process of operational risk management is fulfilled by the Banking Risk Division, which coordinates identification, measurement, reporting and monitoring of operational risk in the PKO BP SA Group.

In order to limit exposure to operational risk, the Bank applies solutions of various kinds, such as:

- control solutions,

- human resources management (proper staff selection, enhancement of professional qualification of employees, motivation packages),
- setting threshold values of Key Risk Indicators (KRI),
- contingency plans,
- insurances,
- outsourcing.

The selection of instruments, which are used to limit operational risk, is made in consideration with:

- availability and adequacy of the instruments,
- nature of an activity or a process, in which operational risk was identified,
- importance of risk,
- cost of instrument's implementation.

In addition, internal regulations prevent the Bank from engaging in excessively risky activities. If such activity is already in place, the regulations call for abandonment of it, or for limitation of its scope. The level of operational risk is regarded as excessive if potential benefits are lower than potential operational losses for a given type of activity.

Measurement of operational risk is conducted with the use of:

- accumulation of data on operational events,
- results of internal audit,
- results of functional internal control,
- results of self-assessment of operational risk,
- Key Risk Indicators (KRI).

The Bank continuously monitors the level of KRI and operating events which exceed threshold values for operational risk.

Reporting on operational risk of the Bank and the Group is conducted on a half-yearly basis. The Management Board and the Supervisory Board of the Bank receive the reports. Reports include the following information:

- operational risk profile of the Bank, resulting from identification and assessment of threats,
- results of measurement and monitoring of operational risk,
- operational events and their financial effects,
- the most important projects and ventures undertaken in the scope of operational risk management.

The parent company – PKO BP SA has a decisive impact on operational risk profile. The other Group entities generate only a fraction of operational risk, due to their smaller scale of activity. They manage operational risk according to principles of managing the risk in PKO BP SA, considering their specific nature and scale of activity.

In the second half of 2008 the Group entities commenced work in the area of implementation of key operational risk indicators (KRI).

Compliance risk management objectives and policies

Compliance risk is defined as the risk of legal sanctions, incurring financial losses or losing reputation or reliability due to failure of the Bank, its employees or entities acting on its behalf to comply with the provisions of the law, internal regulations, standards adopted by the Bank, including ethical standards.

The objective of compliance risk management is to strengthen the image of the PKO BP SA Group as of entities that are reliable, fair, honest and compliant with law and adopted standards. This is achieved through mitigating compliance risk, reputation risk and legal sanction risk.

Compliance risk management involves in particular:

- preventing involvement of the Bank in illegal activities;
- ensuring data protection;
- development of ethical standards and monitoring of their application;
- conflict of interest management;
- preventing situations where the Bank's employees could be perceived as pursuing their own interest in the professional context;
- professional, fair and transparent formulation of offers of products, advertising and marketing messages;
- prompt, fair and professional consideration of complaints, requests and quality claims of clients.

Compliance risk management tasks are executed at the PKO BP SA Group by the Operating and Compliance Risk Department.

In the second half of 2008 in all of the Group entities principles of compliance risk management were implemented, consistent with principles being in force at the Bank.

Capital adequacy

Capital adequacy is the maintenance of a level of capital by the PKO BP SA Group which is sufficient to meet regulatory capital requirements (the so-called Pillar 1) and internal capital requirements (the so-called Pillar 2). The objective of capital adequacy management is to maintain capital on a level that is adequate to the risk scale and profile of the Group's activities.

The process of managing the Group's capital adequacy comprises:

- 1) identifying and monitoring of all of significant risks;
- 2) assessing internal capital to cover the individual risk types and total internal capital;
- 3) monitoring, reporting, forecasting and limiting of capital adequacy;
- 4) performing internal capital allocations to business segments, client segments and entities in the Group in connection with profitability analyses;
- 5) using tools affecting the capital adequacy level (including: tools affecting the level of equity, the scale of equity item reductions and the level of the loan portfolio).

The main measures of capital adequacy are:

- the capital adequacy ratio whose minimum level in accordance with the Banking Act is 8%;
- the ratio of equity to internal capital whose acceptable minimum level in accordance with the Banking Act is 1.0.

The capital adequacy level of the Bank in 2008 remained on a safe level and was significantly above the statutory limits.

Compared with 31 December 2007, the Group's capital adequacy level dropped by 0.73 pp., which was mainly due to high dynamics in the growth of the loan portfolio and the negative effect of implementing Basel II on the capital requirement level.

Due to the recent significant change of foreign exchange rates and the related revaluation of the Bank's loan portfolio within the period September – December 2008, the volume of loan portfolio increased, which resulted in an additional increase in the capital requirement in respect of credit risk.

Own funds

Own funds comprise basic funds, supplementary funds and short-term capital.

Basic funds are comprised of the following items:

- 1) principal funds comprising: share capital, reserve capital, other reserve capital,
- 2) general banking risk fund,
- 3) retained earnings,
- 4) net profit prior to approval and net profit for the current reporting period, calculated based on appropriate accounting standards, decreased by any expected charges and dividends, in amounts not exceeding amounts audited by certified public accountants, in accordance with the Banking Act, Article 127, Point 2c.

Basic funds are reduced by deducting the following items:

- 1) intangible assets stated at carrying amount,
- 2) the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies – in the amount of 50% of the value of such exposures,
- 3) unrealised losses on debt and equity instruments classified as available for sale.

Supplementary funds are comprised of the following items:

- 1) subordinated liabilities,
- 2) unrealised gains on debt and equity instruments classified as available for sale – in the amount of 60% of their pre-tax value.

Moreover, the supplementary funds are reduced by 50% of the value of the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies. If the amount of reduction would result in supplementary funds failing below nil, the amount is subtracted from the basic funds.

The own funds of the Group include also short-term capital:

- as at 31 December 2007, the own funds of the Group include short-term capital for the six-month period ended 31 December 2007, due to including a part of approved profit for the first six-month period ended 30 June 2007 in the calculation of the funds,
- as at 31 December 2008, the own funds of the Group include short-term capital for the six-month period ended 31 December 2008, due to including a part of approved profit for the first six-month period ended 30 June 2008 in the calculation of the funds.

In addition, the following items are included in the calculation of consolidated own funds:

- 1) goodwill of subsidiaries (which decreases the value of own funds),
- 2) negative goodwill of subsidiaries (which increases the value of own funds),
- 3) minority interests in equity (which increase the value of own funds),
- 4) currency translation differences from foreign operations (negative differences decrease own funds, whereas positive differences increase own funds).

In 2008, the value of own funds of the Group increased by PLN 2 901 883 thousand, which was mainly due to contribution of approximately 60% of the net profit for 2007.

Own funds include also the audited profit for the first half of 2008 on the assumption that no dividends will be paid out (the whole profit would be retained by the Bank).

The structure of the Group's own funds is presented in the table below:

GROUP'S OWN FUNDS	31.12.2008	31.12.2007
Basic funds (Tier 1 capital)	11 265 718	8 449 415
Share capital	1 000 000	1 000 000
Reserve capital	7 274 717	5 592 311
Other reserves	1 523 827	1 518 025
General banking risk fund	1 070 000	1 070 000
Net profit for the current period in the part verified by a certified auditor after deduction of forecasted charges	1 824 745	653 720
Retained earnings	53 232	(72 192)
Unrealised losses on debt and equity instruments classified as available for sale	(43 346)	(55 228)
Intangible assets, of which:	(1 352 778)	(1 183 491)
Goodwill of subsidiaries	(164 720)	(234 066)
Equity exposures	(73 482)	(84 035)
Currency translation differences from foreign operations	(57 413)	(47 761)
Minority interest	46 216	58 066
Supplementary funds (Tier 2 capital)	1 528 517	1 517 988
Subordinated liabilities classified as supplementary funds	1 600 700	1 600 700
Unrealised profits on debt and equity instruments classified as available for sale (up to 60% of their values before tax)	1 298	1 323
Equity exposures	(73 481)	(84 035)
Short-term equity (Tier 3 capital)	91 048	15 997
TOTAL EQUITY	12 885 283	9 983 400

Capital requirements (Pillar 1)

From January 2008, the Group calculates capital requirements in accordance with Resolution No. 1/2007 of the Banking Supervision Authority dated 13 March 2007 (Basel II): in respect of credit risk – using the standardized approach; in respect of operational risk – using the basic indicator approach, and in respect of market risk – using the basic approach.

The scale of the Bank's and the Group's trading activities is significant, therefore the total capital requirements constitute sum of the capital requirements for:

- 1) credit risk – including credit risk of the banking book and counterparty credit risk,
- 2) market risk – including foreign exchange risk, commodities risk, equity securities risk, specific risk of debt instruments, general risk of interest rates,
- 3) operational risk,
- 4) other types of capital requirements in respect of:
 - settlement/delivery risk,
 - the risk of exceeding the exposure concentration limit and the large exposure limit,
 - the risk of exceeding the capital concentration threshold.

Implementation of Basel II as of the beginning of 2008 resulted in an increase in the total capital requirement for the Bank of approximately PLN 0.5 billion, which was mainly due to introducing a new capital requirement for operational risk (+ PLN 1.0 billion), accompanied by a decrease in the capital requirement in respect of credit risk (- PLN 0.5 billion). An increase in the capital requirement in respect of credit risk resulted from a significant increase in the volume of loan portfolio (32%) in 2008.

Except for increase in sales of loans, growth of loan portfolio volume was determined by foreign exchange rates increase in the second half of 2008.

The tables below show the Group's exposure to credit risk and other types of risk. The amounts as at 31 December 2008 have been calculated in accordance with the so-called Basel II requirements, and as at 31 December 2007 – in accordance with Basel I.

Capital requirements	31.12.2008	31.12.2007
Credit risk	7 676 474	6 425 531
credit risk (banking book)	7 514 510	6 401 283
counterparty risk (trading book)	161 964	24 248
Market risk	202 677	220 143
foreign exchange risk	-	-
commodities risk	-	-
equity securities risk	1 069	1 187
specific risk of debt instruments	167 505	166 634
general risk of interest rates	34 103	52 322
Operational risk	1 247 584	-
Other kinds of risk*	-	-
Total capital requirements	9 126 735	6 645 674
Capital adequacy ratio	11.29	12.02**

* Includes capital requirements in regards to the settlement and delivery risks, the risk of exceeding the exposure concentration limit and the large exposure limit, and the risk of exceeding the capital concentration threshold.

** Lack of comparability in terms of capital requirements (at 31 December 2008, capital requirements have been calculated in accordance with the New Basel Accord, where the basic difference between this and the calculation at 31 December 2007 are a new methodology for calculation of credit and operational risk requirements).

The Group calculates capital requirements on account of credit risk, according to the following formula:

- in case of balance sheet items – a product of a carrying amount, a risk weight and 8% (considering collateral),
- in case of contingent liabilities and commitments – a product of nominal value of liability, a risk weight and 8% (considering collateral),
- in case of off-balance sheet transactions (derivative instruments) – product of risk weight, balance sheet equivalent of off-balance sheet transaction and 8 %; the value of the balance sheet equivalent is calculated in accordance with the mark-to-market method.

The structure of the capital requirement for credit risk and a risk-weighted value on account of specific risk of instruments from the trading portfolio of the Bank as at 31 December 2008 is as follows:

Instrument type	Carrying amount	Risk - weighted value
Cash	2 415 015	-
Receivables	106 806 924	80 154 171
Debt securities	11 487 024	256 573
Other securities, shares	317 980	177 806
Non-current assets	4 317 437	2 964 659
Other	5 188 225	1 338 112
Total banking book	130 532 605	84 891 321
Debt securities	4 098 758	1 061 876
Equity securities held for trading in the trading book	4 623	4 623
Total trading book	4 103 381	1 066 499
Total	134 635 986	85 957 820

Instrument type	Nominal value*	Balance sheet equivalent	Risk - weighted value
Derivatives			
<i>Interest rate instruments:</i>	208 829 485	3 441 889	1 288 302
FRA	67 390 000	140 173	50 638
IRS	141 439 485	3 301 716	1 237 664
<i>Foreign currency instruments:</i>	29 771 815	1 875 854	1 145 380
Currency forwards (including embedded instruments)	3 011 644	234 941	230 036
SWAP (including current transaction)	7 421 298	46 486	9 589
CIRS	16 413 843	910 273	279 371
Options (delta equivalents - purchase of options)	2 925 030	684 154	626 384
<i>Other instruments:</i>	461 126	226 210	27 661
CDS	207 326	32 356	6 471
Others (options and futures on stock indices, repo)	253 800	193 854	21 190
Total derivatives	239 062 426	5 543 953	2 461 343

of which:

banking book	44 127 146	1 616 891	436 796
trading book	194 935 280	3 927 062	2 024 547

*the above nominal value for SBB and repo transactions constitutes a difference between fair values of underlying assets, operations and amounts received or granted.

Instrument type	Nominal value	Balance sheet equivalent	Risk - weighted value
Line-of-credit contingent liabilities and other financial liabilities	26 141 444	8 005 754	6 734 985
Guarantees granted	3 239 802	1 558 627	1 592 396
Letters of credit granted	241 892	275 878	275 878
Total banking book	29 623 138	9 840 259	8 603 259
Guarantees of issue	821 005	821 005	658 148
Total trading book	821 005	821 005	658 148

The structure of the capital requirement for credit risk and a risk weighted value on account of specific risk of instruments from the trading portfolio of the Bank as at 31 December 2007 is as follows:

Instrument type	Carrying amount	Risk - weighted value
Cash	1 708 936	-
Receivables	81 938 477	67 893 370
Debt securities	11 951 685	152 804
Other securities, investments	460 261	345 760
Non-current assets	4 003 594	2 820 103
Other	5 474 406	3 481 430
Total banking book	105 537 359	74 693 467
Debt securities	2 990 576	1 089 407
Equity securities held for trading in the trading portfolio of the Bank	9 665	9 665
Total trading book	3 000 241	1 099 072
Total	108 537 600	75 792 539

Instrument type	Nominal value	Balance sheet equivalent	Risk - weighted value
Derivatives			
<i>Interest rate instruments:</i>	<i>198 682 731</i>	<i>1 570 408</i>	<i>314 081</i>
FRA	73 860 000	243 636	48 727
IRS	124 822 731	1 326 772	265 354
<i>Foreign currency instruments:</i>	<i>14 823 154</i>	<i>887 744</i>	<i>178 302</i>
Currency forwards	1 469 872	16 274	3 255
SWAP	2 268 825	22 688	4 538
CIRS	11 049 300	845 774	169 155
Options (delta equivalents - purchase of options)	35 157	3 008	1 354
<i>Other instruments:</i>	<i>303 726</i>	<i>29 460</i>	<i>6 327</i>
CDS	231 325	27 993	5 597
Others (options and futures on stock indices)	72 401	1 467	730
Total derivatives	213 809 611	2 487 612	498 710
of which:			
banking book	38 235 646	1 150 782	230 591
trading book	175 573 965	1 336 830	268 119

Instrument type	Nominal value	Balance sheet equivalent	Risk - weighted value
Line-of-credit contingent liabilities and other financial liabilities	24 346 666	3 274 110	3 246 162
Guarantees granted	1 867 608	1 284 250	1 280 724
Letters of credit granted	562 155	280 758	280 487
Other	1 193 065	325 458	278 389
Total banking book	27 969 494	5 164 575	5 085 761
Underwriting guarantees	9 107	-	-
Guarantees of issue	1 455 509	1 455 509	1 248 269
Total trading book	1 464 616	1 455 509	1 248 269

Internal capital (Pillar 2)

As of the beginning of 2008, internal capital is designated in accordance with Resolution No 4/2007 of the Banking Supervision Authority of 13 March 2007 on detailed principles for functioning of risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing

the process of estimating and maintaining internal capital (NBP Journal of 2007, No. 3, item 6).

Internal capital is the amount of capital estimated by the Bank that is necessary to cover all of the significant risks characteristic of the Bank's activities and the effect of changes in the business environment, taking account of the anticipated risk level.

The internal capital in the PKO BP SA Group is intended to cover each of the significant risk types:

- 1) credit risk, including default risk;
- 2) market risk (including currency risk, interest rate risk and liquidity risk);
- 3) operational risk;
- 4) business risk (including strategy risk and reputation risk).

The total internal capital of each of the Group's entities is the sum of internal capital amount necessary to cover all of the significant risks for each of the entities.

The total internal capital of the Group is the sum of internal capital of the Bank and internal capitals of all of the Group's entities.

The correlation coefficient for different types of risk and different companies of the Group used in the internal capital calculation is equal to 1.

The Bank regularly monitors the significance of the individual risk types relating to the Bank's activities and activities of Group's entities.

Disclosures (Pillar 3)

In accordance with § 6 of Resolution 6/2007 of the Banking Supervision Authority of 13 March 2007, on the detailed principles and methods for banks to disclose qualitative and quantitative information concerning capital adequacy and the scope of the information to be announced, the Powszechna Kasa Oszczędności Bank Polski SA, which is the holding company within the meaning of §3 of the resolution, publishes information about capital adequacy in a separate document on an annual basis, not later than within 30 days of the date of authorization of the annual financial statements by the Annual General Shareholders' Meeting.

Details of the scope of capital adequacy information disclosed, the method of its verification and publication are presented in the PKO BP SA Capital Adequacy Information Policies, which are available on the Bank's website (www.pkobp.pl).

53. Influence of the global crisis on the Group's results

The Group's financial results of 2008 were considerably affected by deterioration of economic condition both in Poland and in Ukraine, which originated from a serious economic collapse of the United States and the Euro zone, as well as overall crisis on financial markets. The crisis led to industrial activity slowdown, inter-bank market liquidity deterioration,

investments decline, shrinking labour market and downturn on stock exchanges.

A depreciation of the Polish currency contributed to an increase in the exposure of long-term loans denominated in foreign currencies granted by the Group and to higher costs of derivatives' settlement by the clients which resulted in higher risk of default of corporate clients which had open FX derivative transactions with the Group. Due to the sustained negative influence of the valuation increase on financial results and liquidity of the counterparties in the first months of 2009, to fairly reflect the influence of this event on the financial result of the year 2008 with reference to negative information gathered after 31 December 2008 but before the date of preparing the financial statements, the parent entity conducted a recoverability analysis of exposures and recognised the analysis results in derivative financial instruments with non-financial corporate clients valuation as at 31 December 2008. Additionally, the Group took into consideration the negative impact of the crisis for valuation of derivative contracts settled with foreign financial institutions.

Exposures of non-financial corporate entities due to the negative (for clients) valuation of derivative instruments in the banking sector (including PKO BP SA) also negatively affected the valuation of loan exposures granted to those clients by the parent entity. Taking into account information gathered after 31 December 2008 but before the date of preparing the financial statements, the parent entity conducted a recoverability analysis of loan exposures and reflected the analysis's results in the valuation as at 31 December 2008.

Additionally the parent company applied current credit spreads in valuation of commercial bonds, taking into account negative impact of the change in macroeconomic situation.

Due to the impact of the global crisis the Group adjusted the credit policy to the changing market conditions. Taking into account the crisis impact on the corporate entities' and retail clients' standing affecting on the increase of the credit risk, the Group (applying very conservative risk appetite) recognised the impairment allowances both for the credit and capital exposures. The range and structure appropriately reflects impact of the crisis on the financial statements.

Additionally, the Group's deposits policy was affected by the crisis of trust and higher price of money in the global interbank market resulting in the increase of cost of financing and the demand for stable base of financing (including term deposit).

Regardless of the aforementioned events, in 2008 the Group has recorded the high financial result, including net interest income and net fee and commission income, while its market share has become unchanged and the Group has gained the leading position in the the banking sector as regards the total assets in the result of loans and deposits volume increase.

54. Post balance sheet events

On 6 January 2009 Bankowy Faktoring SA was registered with the National Court Register. The company's share capital amounts to PLN 1 million and consists of 1000 registered shares, each of PLN 1 000 per value.

All the shares in the share capital, in the amount of PLN 1 330 thousand, were acquired by Bankowe Towarzystwo Kapitałowe SA – subsidiary of PKO BP SA.

With reference to the Extraordinary Shareholders' Meeting of KREDOBANK SA's resolution on the increase in share capital of KREDOBANK SA, on 16 February 2009 the Management Board of the PKO BP SA approved acquisition of new issued shares of KREDOBANK up to the amount of USD 133 million along with a premature repayment of all subordinated loans in the amount of USD 38 million granted by PKO BP SA to KREDOBANK SA.

The Management Board of PKO BP SA has convened the Extraordinary General Shareholders' Meeting as at 6 April 2009. In accordance with the agenda, the Extraordinary General Shareholders' Meeting will adopt resolutions on changes in the Bank's Supervisory Board.

Signatures of all Members of the Bank's Management Board

03.04.2009	Jerzy Pruski	President of the Board (signature)
03.04.2009	Bartosz Drabikowski	Vice-President of the Board (signature)
03.04.2009	Krzysztof Dresler	Vice-President of the Board (signature)
03.04.2009	Tomasz Mironczuk	Vice-President of the Board (signature)
03.04.2009	Jarosław Myjak	Vice-President of the Board (signature)
03.04.2009	Wojciech Papierak	Vice-President of the Board (signature)
03.04.2009	Mariusz Zarzycki	Vice-President of the Board (signature)

Signature of person responsible for maintaining the books of account

03.04.2009

Danuta Szymańska

Director of the Bank
(signature)