PKO BANK POLSKI
SPÓŁKA AKCYJNA

THE PKO BANK POLSKI SA GROUP
DIRECTORS' REPORT
FOR THE YEAR 2009

WARSAW, MARCH 2010

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1. INTRODUCTION

1.1 General information

The PKO Bank Polski SA Group is among the largest financial institutions in Poland in terms of consolidated total assets and shareholders' funds. PKO Bank Polski SA (the parent company) is the largest commercial bank in Poland and a leading bank on the Polish market in terms of total assets, equity, loans, deposits, number of clients and the size of the sales network. It is also among the oldest, operating financial institutions in the country. In 2009, the Bank celebrated the 90th anniversary of its establishment (Pocztowa Kasa Oszczędności (PKO) was established on 8 February 1919). Since its establishment, the Bank had been consistently developing the prestige of its brand and providing services to many generations of Poles. The long tradition and clients' confidence are the source of an obligation to the Bank. Therefore, The PKO Bank Polski SA Group consistently takes measures in order to consolidate its perception as an institution:

- secure, strong and competitive;
- modern and innovative, client-friendly and efficiently managed;
- socially responsible, concerned about the development of the cultural awareness of the society.

Thanks to the accumulation of earnings and, first and foremost, the largest new issue of shares in the Polish financial sector so far, its equity increased by over 46% to PLN 20.4 billion as at the end of the year. This enabled the PKO Bank Polski SA Group to achieve a capital adequacy ratio of 14.66% (above the average in the banking sector) and ensured an even greater degree of security for its operations. The thus consolidated clients' trust translated into a nearly 22% increase in total deposits which reached PLN 125.1 billion, and the Bank's share in the sector's deposits increased to 19%.

Despite the keen market competition, the PKO Bank Polski SA Group effectively develops its operations not only in its traditional area of operations – serving retail clients. It became the biggest bank for SME and corporate clients in Poland – especially with regard to financing their operations. It is a leader in the market for financial services offered to communes (gminas), districts (poviats) and voivodeships and budget sector It is also the most important organizer of issues of municipal bonds. The high client selection standards and effective credit risk assessment procedures enabled the the PKO Bank Polski SA Group to increase its gross loan portfolio by 15.0% to PLN 120.5 billion in 2009. . With regard to corporate loans, thanks to the almost 19% increase of the loan portfolio the Bank reached a 15% market share.

Despite the difficult market conditions and performance pressure, which manifested itself, amongst others, in taking good care of the effectiveness of the expenditure and costs incurred, the Group selectively developed its distribution network. As at the end of 2009, the largest network of branches in Poland comprised 1 228 outlets and 2 175 agencies. Its clients can use the e-banking services offered under the iPKO brand, the range of which is expanded regularly. They also have ATMs at their disposal, whose number is continually increasing – as at the end of 2009, there were 2 388 ATM machines.

The PKO Bank Polski SA Group is one of the largest employers in Poland. As at the end of 2009, the PKO Bank Polski SA Group employed 31 098 people. The comprehensive learning and education offer addressed to the employees is aimed at building loyal and competent staff, able to operate in a difficult economic environment, adapting easily and quickly to changes in the economic environment, providing an increasingly better standard of services and achieving high performance.

Apart from the strictly banking operations, the PKO Bank Polski SA Group provides specialist financial services relating to leasing, factoring, investment funds, pension funds, internet banking and electronic payment services. Moreover, the PKO Bank Polski SA Group conducts investment and development operations in the real estate sector.

1.2 Key financial indicators of the PKO Bank Polski SA Group

The parent company of the PKO Bank Polski SA Group is Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('the Bank'), whose total assets amount to 98.2% of the total assets of the PKO Bank Polski SA Group and whose results determine the results of the whole Group.

NET PROFIT	PLN 2 305.5 million	- 26.1% (y/y)	a decrease in net profit results from interest margin pressure followed by a decrease in net interest income and higher costs of allowances on receivables, partially offset by an increase in fee and commission income, net foreign exchange gains and income from financial operations along with lower administrative costs
RESULTS ON BUSINESS *ACTIVITIES	PLN 8 867.8 million	- 5.5% (y/y)	as a result of a decrease in net interest income, offset by an increse in fee and commission income (by 7.1% y/y), net foreign exchange gains (by 29.6% y/y) and result on business operations (+ PLN 223.9 million y/y)
NET INTEREST INCOME	PLN 5 051.2 million	- 17.6% (y/y)	mainly as a result of decreasing deposit margins and a fall in market interest rates along with the growth in deposits and strong dynamics of loan portfolio
FEE AND COMMISSION INCOME	PLN 2 583.0 million	+ 7.1% (y/y)	mainly due to an increase in fee and commission income related to loans and loans insurance, maintaining bank accounts and payment cards offset by decrease in fee and commission income related to investment funds
NET IMPAIRMENT ALLOWANCE	PLN (1 681.1) million	+ 48.7% (y/y)	an increse reflects the conservative approach to credit risk valuation; net impariment allowances in 2009 were worse then of corresponding period last year mainly due to the increas in allowances for impaired client receivables
COSTS	PLN (4 243.8) million	- 1.2% (y/y)	as a result of a 5.0% (y/y) decrease in staff costs and an increase in overheads, other costs and amortization and depreciation cost.
ROE net	13.4%	- 10.6 bp.	as a result of a decrease in net profit and, at the same time, an increase in equity of 46.0% (y/y).
ROA net	1.6%	- 1.0 bp.	as a result of a decrease in net profit and a 16.2% (y/y) increase in total assets.

** result on business activities ('income items') defined as operating profit before administrative expenses, net impairment allowance and tax.*

In 2009 net profit of the Group amounted to PLN 2 305.5 million, which equals to a decline by 26.1% (PLN 815.1 million) compared to the previous year. Earned net profit was determined by the following factors:

⇒ high result on business activities of the PKO Bank Polski SA Group, which amounted to PLN 8 867.8 million (-5.5% y/y),

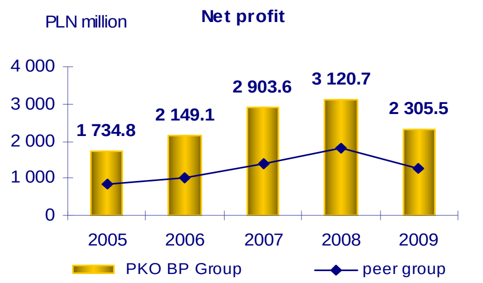
⇒ increase in the negative result on the net impairment allowances,

⇒ efficiency enhancement in cost management, which decreased by 1.2% (y/y), along with negative growth rate of income of PKO Bank Polski SA Group, the C/I ratio increased just slightly by 2.1 p.p. to 47.9% (y/y) and was still the lowest among major entities of the Polish banking sector,

⇒ significant increase in the Group's assets by PLN 21.8 billion (y/y) to PLN 156.5 billion resulting from intensive growth of the sales of loans financed by the increase in amounts due to customers and equity,

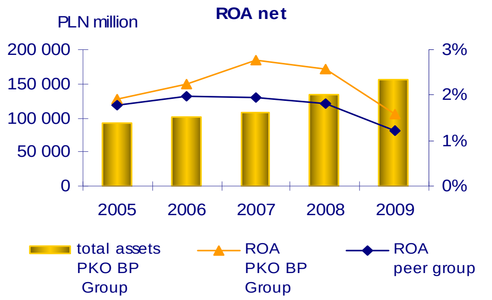
⇒ secure and effective structure of the statement of financial position – significant increase in deposits of PKO Bank Polski SA Group by PLN 22.1 billion and additional issue of shares enabled a dynamic growth of business activities; as at the end of 2009, the ratio of loans to deposits of PKO Bank Polski SA Group amounted to 93.2%, remaining at a much lower level than the average for the banking sector.

1.3 The PKO Bank Polski SA Group in comparison to the peer group[1]



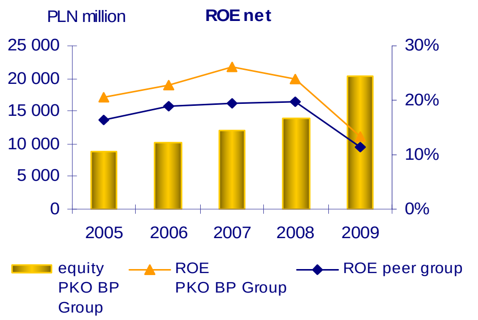
The relatively less favorable (compared to 2008) macroeconomic developments in the Polish economy, the decrease in interest rates and the continuing 'deposit war', as well as high costs of credit risk, contributed to a decrease in the profits recorded by banks in 2009.

In 2009 PKO Bank Polski SA Group achieved, however, good financial results, significantly better than the average for its peers.



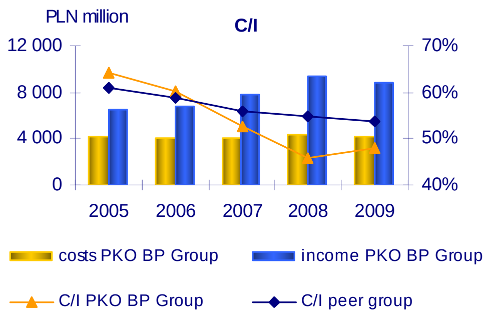
Lower effectiveness of lending activity and high costs of external financing,, as well as growing allowances on credit risk (more than twice as high as at the end of 2008) negatively affected the profits of the banking sector.

At the same time, active policy of PKO Bank Polski SA Group contributed to a significant increase in its total assets, accompanied by high return on assets (Group's ROA net amounted to 1.6% as at the end of 2009)



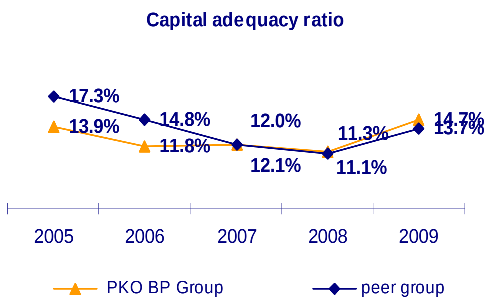
The scale of the fall in the net profit level of the entire banking sector in 2009 compared with that achieved in 2008 (-36%), accompanied by an increase in equity, resulted in a steep fall in return on equity.

In 2009, the PKO Bank Polski SA Group maintained its profitability at a high level – 13.4% (considerably above the average level of the peer group), despite an increase in equity by 46.0%.



The deterioration in operating results forced the banks to take restrictive steps to reduce operating expenses. Banks reduced the number of employees, salary increases, costs of advertising and marketing. There was also a deceleration in the development of the branch network and more intensive growth of e-banking.

In 2009, PKO Bank Polski SA Group maintained the relation of costs to income at a low level: 47.9% with a selective approach to cost cutting in order not to weaken its competitive position in the long run.



Irrespective of the strong deterioration in profitability and prevailing risks, the capital situation of the banking sector remained stable, as a result of profit accumulation. As a result of the above and low growth of loans, the solvency ratio improved significantly in the entire sector.

The level of capital adequacy ratio in PKO Bank Polski SA Group remained above the peer group level, mostly due to the profit accumulation and, additionally, as a result of share issuance conducted in the 4th quarter of 2009, accompanied by a strong increase in credit activity.

[1] Peer group includes: Pekao SA, BRE Bank SA, ING Bank Śląski SA, BZ WBK SA. Ratios calculations are based on the data available in consolidated financial statements issued by the banks constituting peer group (except for ING Bank Śląski SA – data published after the IV quarter of 2009). Data are weighted by total assets.

2. EXTERNAL ENVIRONMENT

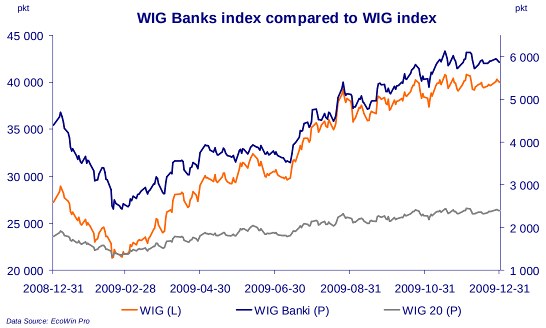
2.1 Macroeconomic envirnonment

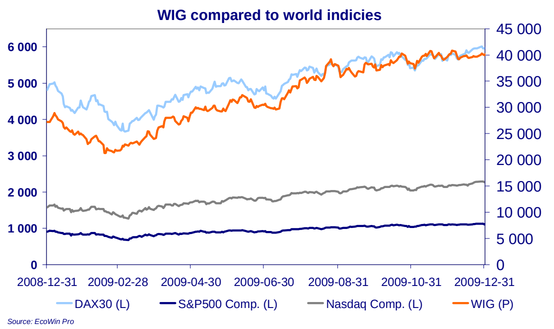
In 2009, the economic growth in Poland slowed down significantly, following a dramatic decrease in the economic growth in the USA and the euro area as a result of the crisis in the international financial markets. In 2009, the GDP growth in Poland was 1.7% y/y, compared with 5.0% in 2008. The reduction in the level of inventories by businesses and the decrease in capital expenditure projects and the dampening of the growth in private consumption were factors that contributed most significantly to the dampening in GDP growth. Despite the sudden fall in exports, the adjustments on the import side were even stronger and, as a result, the net foreign trade balance strongly stimulated the GDP growth. In 2009, Poland was the only country in Europe which recorded a positive growth in GDP, while the countries in Central and Eastern and South-Eastern Europe experienced a very strong recession.
The weakening of the economic growth in 2009 resulted in a deterioration in the labour market conditions. In 2009, the registered unemployment rate increased by 2.4 p.p. to 11.9% in December 2009, and employment in the corporate sector decreased by 1.2% annually. In 2009, the annual increase in remuneration in the national economy slowed down significantly to 5.4% compared with 9.4% in 2008. The annual rate of growth in pensions and disability allowances was 8.7% in 2009 compared with 9.2% in 2008.
In 2009, the average annual inflation rate measured by reference to the consumer price index decreased to 3.5%, from 4.2% in 2008. The persistently elevated level of inflation (at the upper limit of permitted deviation for the inflationary target of the NBP), in spite of the strong decrease in inflation observed globally, was due to the sharp increases in regulated prices (including energy), an increase in food prices and the dramatic depreciation of the Polish złoty at the beginning of the year (resulting in an increase in prices of imported goods). The annual average core inflation rate (net) in 2009 increased to 2.7% from 2.4% in 2008. The relatively high level of core inflation was mainly due to the strong depreciation of the Polish złoty.
In accordance with the 'Monetary Policy Guidelines for 2009', the monetary policy objective was to maintain inflation at 2.5%, with a symmetrical tolerance range for deviations of +/- 1 percentage point. The dramatic dampening of economic growth, in particular at the beginning of the year, and the further loosening of the monetary policy globally, persuaded the Monetary Policy Council to continue the cycle of loosening the monetary policy (started towards the end of 2008). As a result, by June interest rates were decreased by 150 basis points to 3.50% for the NBP's reference rate.
In the first months of the year, there was a dramatic depreciation of the Polish złoty, in the environment of a historically high volatility of exchange rates in the global market in the context of the crisis in the global financial markets. The stabilization of the global situation (and the positive effects of extraordinary policy measures implemented worldwide) resulted in a reversal of the trend in the market for the Polish złoty starting from the 2nd quarter of 2009. As a result, towards the end of the year the Polish złoty strengthened by 1.5% against the euro, by 3.8% against the US dollar and by ca. 1.3% against the Swiss franc compared with the end of 2008.
In 2009, the NBP supported the Polish banking sector in order to counteract the effects of the global financial crisis to the Polish interbank market. Throughout the year, the NBP continued providing liquidity in the national currency to commercial banks in repo transactions. In spite of this fact, the interbank market remain liquid only in he shortest maturities – mainly within 1 months. In such circumstances, the quotations of WIBOR 1M rate remained at a level close to the NBP reference rate, and WIBOR rates for longer maturities reached the level of 4.50% for WIBOR 12M.

2.2 Situation on stock exchange

In 2009, the situation on the Warsaw Stock Exchange (WSE) was affected by the actions undertaken by investors on foreign stock markets, expectations for an improvement in the economic situation in Poland and improvement in the financial position of companies listed on the WSE. As a result, a noticeable growing trend started in the second half of February was observed on the stock market. In 2009, all main indices of the WSE increased at two-digit rates. The basic WIG index grew by 46.9%, the index of the companies with the highest capitalization – WIG20 – by 33.5% and WIG Banki (banks) – by 33.7%. The strongest growth rates were recorded by indices grouping small and medium companies (sWIG80 - 61.9%, mWIG40 - 55.2%). As at the end of 2009, WIG reached the level of 39 986 points, and WIG Banks – 5 869, thus returning to the levels from September 2008 when the share market experienced a falling trend.

In 2009, 13 IPOs took place on the main market of the WSE (compared with 33 in 2008), including two large share issues: of PKO Bank Polski SA and PGE, completed in the 4th quarter of 2009.





The good situation on the stock market resulted in a significant increase in the market value of companies listed on the official market. As at the end of 2009, the capitalization of companies listed on the WSE increased by 53.9% y/y to PLN 715.8 billion.

2.3 Situation in the Polish banking sector

in 2009, the situation of the Polish banking sector was shaped by the deteriorating macroeconomic environment which dampened the business activities of banks. The banks focused on adjusting their operations to difficult external conditions. In the environment of an increased credit risk and limited availability of financing, banks pursued restrictive credit policies which, in the context of a decreasing demand for loans, contributed to a significant decrease in lending. As a result, a decrease in income on lending activity and high costs of external financing, as well as growing charges against credit risk (more than twice as high compared with the end of 2008) negatively affected the profits of the banking sector. The net profit for the entire sector amounted to PLN 8.7 billion and was 36% lower than in 2008. Despite the strong deterioration in profitability, the situation of the banking sector remained stable, mainly due to a significant increase (of 27% y/y) in the capital base of the banks and a significant improvement in the solvency ratio (13.3%).

The deterioration of the financial position of the clients negatively affected the quality of the loan portfolios of banks. Irregular amounts due from non-financial entities increased by ca. 80% y/y (i.e. by PLN 21 billion), and their share in total receivables amounted to 7.6% compared with 4.5% in 2008.

Exchange rate fluctuations significantly contributed to changes in the volumes of loans and deposits in the banking sector. As a result, the developments in the volume of loans and deposits are based on the estimates of deposits and loans adjusted for changes in exchange rates.
In 2009, the growth rate of the volume of loans decreased significantly. The value of the total loan portfolio, after eliminating changes in exchange rates, increased by ca. 8% y/y. The growth rate was more than three times lower than in 2008. This related mainly to loans for households whose value increased by ca. 13% y/y. The growth in housing loans was faster (14.2% y/y) than in consumer loans (13% y/y). However, these growth rates were significantly lower (more than twice) than in the prior year. In housing loans, as much as 73% of the portfolio's increase was attributed to loans in PLN; in 2008, loans denominated in foreign currency accounted for 90% of the increase. A lower increase in consumer loans was due to tightening credit policies of the banks in response to a growing share of irregular loans which reached a level of 10.8% compared with 6.6% in 2008.

The situation in the market of corporate loans deteriorated dramatically – the lending activity practically stopped. The continuing low demand for loans and tightened lending policies for corporate loans resulted in a decrease in the value of corporate loans of 4% y/y in 2009.

The slowdown also occurred in the deposit market. The deposit base of the banking sector, after eliminating changes in exchange rates, increased by ca. 11% y/y compared with 18% in the prior year. This was mainly due to deterioration in the financial condition of the clients, the weakening of the 'deposit war' and lower interest rates on deposits, as well as the increased competitiveness of alternative forms of saving. Deposits placed by households had the largest share in the growth and increased by more than 15% y/y/ Deposits placed by companies, as a result of improving corporate profits, increased by 11.3% y/y.

The deterioration in operating results forced the banks to undertake steps to reduce operating expenses. Banks reduced the number of employees, salary increases, costs of advertising and marketing. There was also a deceleration in the development of the branch network and a more intensive growth of e-banking.

2.4 Key risks and anti-crisis measures in the Polish market

Liquidity risk

The situation of the banks in the area of obtaining financing has stabilized. The increase in the gap between the levels of loans and deposits was stopped, mainly due to a higher rate of growth in the deposit base than the rate of growth of lending activity, and the appreciation of the Polish złoty subsequent to its sudden depreciation at the turn of 2008/2009.
Deposits from non-financial entities were the main source of financing the lending activity; the interbank market remained liquid only in the case of loans for the shortest periods. Obtaining long-term sources of financing in the context of limited access to foreign financing presented a challenge for the banks.

Capital

A significant strengthening of the capital base was recorded, due to the fact that the banks retained the majority of their profits for 2008, and due to a new share issue of PKO Bank Polski SA which contributed to improving the solvency ratio of the banking sector.

Credit risk

The weakening of the economic growth adversely affected the situation of retail and corporate clients, thus increasing the credit risk. The quality of the loan portfolio deteriorated (particularly in the corporate loan segment). The growth trend of irregular loans strengthened, resulting in an increase in the irregular loans indicators in all customer segments. The balance of specific provisions and impairment allowances increased.
Banks tightened the criteria for granting and conditions of loans, including the criteria for assessing the borrowing capacity, margins and collateral required, and in the 4th quarter of 2009 the trend towards the tightening of the credit policies weakened.

Currency risk

Foreign exchange risk remained at a low level. The appreciation of the Polish currency which continued starting from the 2nd quarter of 2009 contributed to a decrease in the volume of loans in foreign currencies and an increase in the value of the collateral, following the reversal of the opposite trend which persisted from 2008.
The exposure of the banks to foreign exchange risk arising on changes in the prices of derivatives was low.

Anti-crisis activities

The anti-crisis activities undertaken by the Government and the NBP in 2009 were aimed at restoring confidence in the financial market, improving the liquidity of banks and stimulating additional growth in lending. They were the result of implementing the governmental Stability and Development Plan of November 2008 and the Confidence Package of the NBP of October 2008, modified in 2009.

The system of guarantees and warranties set out in amendments to the Act on guarantees and warrantees granted by the State Treasury and certain legal persons, the Act on BGK and certain other legal acts, which came into force on 31 May 2009, was aimed at supporting the bank's lending activities.

The NBP supported the Polish banking sector as follows:
- by providing liquidity to commercial banks, in Polish currency, through repo transactions up to 6 months;
- by introducing currency swaps for the combinations of EUR/PLN, USD/PLN and CHF/PLN, enabling the banks to secure open forex positions from the risk of changes in the exchange rate of the Polish złoty (in October 2009, given a falling demand from the banking sector, the NBP ceased to provide liquidity in CHF).

Other steps undertaken by the NBP included:
- redemption of NBP bonds maturing in March 2012 already in January 2009;
- decreases in key interest rates;
- decreasing the mandatory reserve ratio to 3.0% starting from 30 June 2009.

2.5 Regulatory environment

The following new regulatory solutions, among other, affected the financial and organizational situation of the PKO Bank Polski SA Group in 2009:
- Resolution no. 382/2008 of the Polish Financial Supervision Authority (KNF), which introduced the obligation to apply concentration limits to interbank exposures effective as of 1 January 2009,

- Resolution no. 386/2008 of the Polish Financial Supervision Authority (KNF) introducing, as of 1 January 2009, changes in the standards relating to liquidity risk materially affecting the financing strategies of banks,
- Amendment of the Act of 8 September 2006 on the financial support for families in acquiring own housing (Journal of Laws of 2008, No. 223, item 1465) effective as of 2 January 2009 (the 'Family Owning Its Home' Programme). The Act introduced solutions which, combined with the decrease in market prices on the housing market, were positively affecting the demand for mortgage loans,
- The act amending the Civil Code and the Foreign Exchange Law (Journal of Laws of 2008, No. 228 item 1506), effective as of 24 January 2009 that allowed settlement of domestic transactions in foreign currencies, as a result of which the banks' income from foreign exchange operations will decrease,
- Amendment of the Act of 6 December 1996 on registered pledges and the register of pledges (Journal of Laws of 2008, No. 180, item 1113) effective as of 11 January 2009 which introduced changes in how registered pledges are used to secure receivables of the banks,
- Resolution No. 1/1/OK/2009 of the NBP Management Board on early redemption by NBP of 10-year bonds whose original maturity was set for the year 2012 (NBP Official Journal of 2009, No. 1, item 1). The Resolution set the bond redemption date for 22 January 2009,
- The Decree of the Minister of Finance of 19 February 2009 on current and periodical information to be provided by issuers of securities (Journal of Laws of 2009, No. 33, item 259), amending the deadlines and terms of reporting by companies listed on the WSE from 15 March 2009,
- the decision of the Monetary Policy Council of 27 May 2009 introducing a decrease in the rate of mandatory reserve from 3.5% to 3.0% as of 30 June 2009, aimed at improving the liquidity position of the banks;
- recommendation of the Financial Supervisory Authority regarding actions aimed at increasing the banks' own funds by injecting the entire profit from 2008 into own funds,
- recommendation S II of the Financial Supervisory Authority dated 17 December 2008, introducing as of 1 April new information requirements in respect of providing information to clients (including the currency *spread*), and as of 1 July 2009 an obligation to allow their clients to repay loan installments in the indexation currency (in the case of loans indexed with foreign exchange rate).
- the amendment of the Act on trading in financial instruments dated 4 September 2008, (Journal of Laws No. 165, item 1316), effective from 21 October 2009, which introduced, inter alia, new principles for the classification of clients and imposed new information requirements on banks and investment firms, in order to protect investors and to promote competition in the financial services sector (harmonization with the MIFID Directive);
- Decree of the Minister of Finance dated 3 April 2009 on the procedures to be followed by entities providing agency services with respect to sale and purchase of participation units and participation titles (Journal of Laws No. 62, item 507), imposing on financial intermediaries (including investment fund companies (TFI) and brokerage houses) as of 13 July 2009 new information requirements in respect of providing information to clients and evaluation of clients (adaptation to MIFiD).
- the Resolution of the Polish Financial Supervision Authority of 14 October 2009 on other items included in Tier 1 capital of the banks, their amount, scope and conditions for their inclusion in the original own funds (the so-called 'capital resolution') enabling the banks to increase own funds by issuing convertible bonds and long-term bonds;
- amendment to the Act on money laundering prevention of 25 June 2009 (Journal of Laws No. 166, item 1317) which entered into force on 23 October 2009 and expanded the list of participants in financial trading obliged to participate in the prevention of money laundering and their duties;
- the decree of the Minister of Finance dated 1 September 2009 (Journal of Laws No. 156, item 1235) imposing new information requirements of investment funds management companies and investment funds;
- the decision of the Polish Financial Supervision Authority on refraining from colleting charges for the costs of financial supervision for the 4th quarter of 2009 from banks and investment firms.

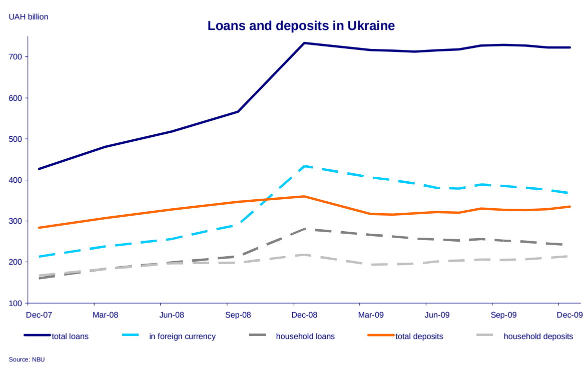
In addition, in 2009 a number of amendments to the international accounting standards entered into force, affecting, inter alia, the presentation of results by listed companies. The new standards move away from recognizing the costs of external financing in the income statement, and their capitalization should be in line with the degree of utilization of a loan. The initiatives undertaken within the framework of the Confidence Package developed by the NBP in order to improve the liquidity in the banking sector and the governmental initiatives undertaken under the Stability and Development Plan also affected the situation of the banks.

The following regulatory changes in the Ukraine affected the PKO Bank Polski Group's situation, including:

- the regulations of the National Bank of Ukraine (NBU) on the current management of the money and credit market during the financial crisis, which specifies, inter alia, the procedure for refinancing commercial banks in order to maintain liquidity and the procedure for performing currency interventions in the interbank market;
- Resolution No. 406 of NBU on changes in the rules and regulations for creating special provisions on loans denominated in foreign currencies granted to private individuals as of December 2008.
- recording and utilizing provisions for possible losses on banks' lending operations, which changed the principles of creating special provisions as of 28 December 2008,
- Resolution No. 49 of NBU on certain issues relating to the banks' operations, which allows including unregistered share capital contributions in the regulatory capital as of 5 February 2009,
- the Decision of the National Bank of Ukraine (NBU) of April 2009 introducing restrictions in forex transactions on the interbank market,
- the Decision of the NBU of May 2009 removing the ban on withdrawals of deposits before their contractual maturity introduced in December 2008, which should increase confidence in banks,
- the decision of the Parliament of Ukraine of June 2009 to restrict lending in foreign currencies to private individuals by banks and to repay loans early to foreign entities.
- Resolution of the National Bank of Ukraine ('NBU') Management Board No. 421 dated 22 July 2009, in accordance with which NBU will not punish banks for recognizing losses resulting from creating write-offs for loans granted after 1 October 2008 and restructured loans.
- Resolution of the NBU Management Board No. 466 dated 6 August 2009, which defined additional actions to protect the hryvna and the banking system, including limiting the margin between the buying and selling rate to 2 p.p. and introducing new currency market instruments, including forward transactions.
- Resolution of the NBU Management Board No. 468 dated 10 August 2009, decreasing the NBU interest rate from 11.0% to 10.25% as of 12 August 2009.
- Resolution No. 538 of the Management Board of NBU, effective from 20 November 2009, which specified the new requirements for banks in the area of foreign exchange cash operations and introduced a limit on the sale of foreign currencies to private individuals of UAH 80 thousand per person on an operating day,
- Act No. 1533-VI on overcoming the adverse effects of the financial crisis, which, in order to ensure the stability of the banking sector restricted, effective from 24 November 2009, the ability to grant loans and advances in foreign currencies to private individuals and extended the memorandum relating to taxation of interest income until 2013.

2.6 Ukrainian market

In 2009, the banking activities in the Ukraine slowed down dramatically. This was due to a strong weakening of economic activities, the marked depreciation of the Ukrainian currency, high inflation and a decrease in real income, as well as the uncertainty as to the future economic outlook. 24 banks whose assets account for 12% of the total assets of the entire banking sector, were under the temporary administration of the government and the central bank



According to the data of the National Bank of Ukraine, in 2009 total assets of the banking sector decreased by UAH 45.8 billion y/y (4.9%), with the falling trend being stronger in the first half of 2009.

In 2009, the value of deposits decreased by UAH 24.8 billion y/y (6.9%). The strong outflow of retail deposits (of -3.8% y/y) was due to a drop in confidence in the banking sector resulting from restrictions in withdrawals of savings, including the decision of the National Bank of Ukraine of December 2008 banning withdrawals of deposits before their contractual maturity date.

In 2009, the value of loans decreased by UAH 10.7 billion y/y (1.5%). Given the fact that foreign currency loans represented over 50% of the loan portfolio, the decrease was even higher after eliminating the effects of the depreciation of the Ukrainian currency. The highest decrease in the volume of loans occurred in loans for households (-14% y/y). The quality of the loan portfolio deteriorated significantly.

The value of bad debts increased fourfold (UAH 70 billion compared with UAH 18 billion as at the end of 2008). As a result of the losses incurred by the banks, at the end of 2009 the return on equity of the entire banking sector was negative and amounted to -32.5%, and the return on assets was -4.4%.

Foreign capital which accounts for 47% of the total assets of the banking sector (as at the end of the 3rd quarter of 2009) played a stabilizing role in the development of the banking sector. The support from parent companies reduced the costs of stabilizing the situation in the sector for the state.

3. FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP [2]

PKO Bank Polski SA or the other entities of the PKO Bank Polski SA Group did not published any forecasts regarding financial results for the year 2009.

3.1 Factors influencing results of the PKO Bank Polski SA Group

In 2009, the situation of the Polish banking sector was driven by an unstable macroeconomic environment. Irrespective of the difficult market conditions, the steps undertaken by PKO Bank Polski SA Group allowed it to generate the net profit for 2009 in the amount of PLN 2 305.5 million.

Net interest income of PKO Bank Polski SA Group decreased by 17.6% y/y, in the context of a strong increase in deposits and dynamic growth in lending. In 2009, the trend in the evolution of interest expense which started in the 4th quarter of 2008 continued. It is the result of introducing a more attractive deposit offer to the clients of PKO Bank Polski SA and the continuing (mainly in the first half of 2009) the 'deposit war'.

PKO Bank Polski SA Group maintained its high effectiveness – the ROE ratio amounted to 13.4% as at the end of 2009 and was significantly higher than the average for the entire banking sector. At the same time, negative developments which started in the 4th quarter of 2008 resulted in a lower profitability than in 2008.

A high level of equity of PKO Bank Polski SA Group, which is the effect of the profit accumulation and the share issue, with ease covered the growing, in line with increasing lending, demand for capital and enabled further sustainable growth of the business. As at the end of 2009, the solvency ratio was 14.66%, against the minimum of 8% required by the Banking Law.

3.2 Consolidated income statement

In 2009, the consolidated net profit of the PKO Bank Polski SA Group amounted to PLN 2 305.5 million and was PLN 815.1 million lower than in 2008.

Table 1. Income statement of the PKO Bank Polski SA Group (PLN million)

INCOME STATEMENT
OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP

	2009	2008	Change PLN	Change %
Interest and similar income	9 031.3	9 033.8	(2.5)	-0.03%
Interest expense and similar charges	(3 980.1)	(2 906.5)	(1 073.7)	36.9%
Net interest income	**5 051.2**	**6 127.3**	**(1 076.1)**	**-17.6%**
Fee and commission income	3 335.3	3 144.8	190.6	6.1%
Fee and commission expense	(752.3)	(733.0)	(19.4)	2.6%
Net fee and commission income	**2 583.0**	**2 411.8**	**171.2**	**7.1%**
Dividend income	5.4	22.0	(16.6)	-75.5%
Net income from financial instruments at fair value through profit and loss	60.9	(162.7)	223.6	x
Losses less gains from investment securities	(2.6)	(3.0)	0.4	-12.2%
Net foreign exchange gains	909.1	701.3	207.8	29.6%
Other operating income	578.9	522.4	56.5	10.8%
Other operating expenses	(318.1)	(230.7)	(87.4)	37.9%
Net other operating income and expense	**260.9**	**291.7**	**(30.8)**	**-10.6%**
Net impairment allowance	(1 681.1)	(1 130.4)	(550.7)	48.7%
Administrative expenses	(4 243.8)	(4 296.3)	52.4	-1.2%
Operating profit	**2 942.9**	**3 961.7**	**(1 018.8)**	**-25.7%**
Share of profit (loss) of associates and jointly controlled entities	0.3	15.6	(15.3)	-97.8%
Profit before income tax	**2 943.3**	**3 977.3**	**(1 034.1)**	**-26.0%**
Income tax	(631.5)	(838.2)	206.7	-24.7%
Net profit (including minority interest)	2 311.8	3 139.2	(827.4)	-26.4%
Net profit attributable to minority shareholders	6.2	18.5	(12.3)	-66.3%
Net profit	**2 305.5**	**3 120.7**	**(815.1)**	**-26.1%**

[2] In this section of the Report, any differences in total balances, percentages and growth rates result from rounding the amounts to PLN million and rounding percentages to one decimal place.

In the statement of comprehensive income of PKO Bank Polski SA Group for the year 2009 the sum of income items amounted to PLN 8 867.8 million and was PLN 520.6 million lower than in 2008 (decrease by 5.5% y/y).

Table 2. The main items of the PKO Bank Polski SA Group income statement (PLN million)

Item	2009	2008	Change (%)	Comment
Net interest income	5 051.2	6 127.3	-17.6%	Decrease, mainly as a result of decreasing deposit margins and a fall in market interest rates along with the growth in deposits and strong dynamics of loan portfolio
Net fee and commission income	2 583.0	2 411.8	7.1%	Increase, mainly as a result of growth in income related to loans and loans insurance, bank account and bank card management, offset by decrease in fee and commission income related to investment funds.
Other income	1 233.7	849.3	45.3%	As a result of an increase in result on business operations by PLN 223.9 million (y/y), an increase in the net foreign exchange gains by PLN 207.8 million (29.6% y/y) - the effect of higher spreads between PLN interest rates and foreign interests rates.
Administrative expenses	(4 243.8)	(4 296.3)	-1.2%	A decrease as a result of a fall in staff costs (5.0% y/y) and employment reduction in the PKO Bank Polski SA Group by 1 713 full-time equivalents, along with an increase in overheads and other costs (mainly taxes and contributions to BGF) and an increase in depreciation and amortisation cost (9.1% y/y), due to continious investment in Bank's IT systems. C/I ration still remains at a low level of 47.9%
Net impairment allowance	(1 681.1)	(1 130.4)	48.7%	An increase reflects conservative approach to credit risk valuation; in 2009 net impariment allowances were worse in comparison to 2008 maily due to increase in impairment allowances for consumer and corporate loans.
*Interest related income**	*5 606.9*	*6 444.7*	*-13.0%*	*Decrease, mainly as a result of a fall in deposit margins (due to decrease of market interest rates), offset by growth of deposits and dynamic increase in the sales of loans.*

* including net gains on CIRS and FX SWAP transactions

Net interest income

In 2009, net interest income was PLN 1 076.1 million lower than in 2008. It was mainly the result of the increase in interest costs by PLN 1 073.7 million.

The decrease in interest income was due to, inter alia, a significant increase in the deposit portfolio of PKO Bank Polski SA Group (+21.5% y/y) and the shrinking of deposit margins in an environment of decreasing interest rates for the major part of 2009.

In 2009, interest income amounted to PLN 9 031.3 million and decreased by only 0.03% compared with 2008, mainly as a result of the decrease in:

- income on bank and other loans granted to customers (-) 2.7% y/y – mainly as a result of a decrease in market interest rates and a strong growth in the loan portfolio (+15.3% y/y);
- income on placements with other banks (-) 59.0% y/y;

combined with

- positive dynamics of the income on investment securities and trading securities (+19.9% y/y) resulting from a significant increase in the securities portfolio (+53.6% y/y),
- the application of hedge accounting in PKO Bank Polski SA since the 2nd quarter of 2009 (income from hedging financial instruments in the amount of PLN 403.9m in 2009).

Interest expense grew by 36.9% y/y mainly as a result of an increase in expenses on amounts due to customers (+40.5% y/y) , which in turn increased as a consequence of PKO Bank Polski SA introducing in 2009 a comprehensive range of deposit products characterized with high profitability available to the client. It also contributed to an increase in the deposit portfolio by 21.5% y/y.

In 2009, the average interest on loans of PKO Bank Polski SA amounted to 6.7% and average interest on deposits amounted to 3.2%.

Table 3. Interest income and expenses of the PKO Bank Polski SA Group (PLN million)

NET INTEREST INCOME
OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP

Note	2009	Structure 2009	2008	Structure 2008	Change 2009/2008
Interest income, of which:	**9 031.3**	**100.0%**	**9 033.8**	**100.0%**	**-0.03%**
Loans and advances to customers	7 562.3	83.7%	7 776.1	86.1%	-2.7%
Income from derivative hedging instruments	403.9	4.5%	-	0.0%	x
Financial assets designated at fair value through profit or loss	403.1	4.5%	444.4	4.9%	-9.3%
Investment securities	393.5	4.4%	345.1	3.8%	14.0%
Placements with other banks	159.3	1.8%	388.8	4.3%	-59.0%
Trading securities	97.2	1.1%	64.0	0.7%	51.8%
Other	12.0	0.1%	15.3	0.2%	-21.7%
Interest expenses, of which:	**(3 980.1)**	**100.0%**	**(2 906.5)**	**100.0%**	**36.9%**
Amounts due to customers	(3 730.2)	93.7%	(2 655.0)	91.3%	40.5%
Debt securities in issue	(119.3)	3.0%	(131.7)	4.5%	-9.4%
Deposits from other banks	(47.5)	1.2%	(49.5)	1.7%	-4.0%
Other	(83.2)	2.1%	(70.2)	2.4%	18.5%
Wynik z tytułu odsetek	**5 051.2**	**x**	**6 127.3**	**x**	**-17.6%**

Net fee and commission income

Net fee and commission income in 2009 was PLN 171.2 million higher than in the corresponding period of the previous year, whereas income increased by PLN 190.6 million and expense increased by PLN 19.4 million.

An increase in net fee and commission income of (+) 7.1% y/y resulted from, i.e.:

- an increase in credit related fees and commission (+16.6% y/y) and income on loan insurance (+45.4% y/y), mainly as a result of increasing sales of loans,
- an increase in income on payment cards (+9.5% y/y), mainly as a result of increase in the number of card transactions,
- increase in commission income on servicing bank accounts (+8.3% y/y);

offset by

- a decrease in income from portfolio and other management fees by 30.7% y/y as a result of deteriorating situation on the capital market, which resulted in client's limited interest in this form of saving.

Fee and commission expenses growth rate was determined by expenses on payment cards whose growth was a result of a dynamic increase in transactions and acquisition services, combined with a decrease in commission expense on managing assets.

Table 4. Fee and commission income and expenses of PKO Bank Polski SA Group (PLN milion)

FEE AND COMMISSION INCOME
OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP

Note	2009	Structure 2009	2008	Structure 2008	Change 2009/2008
Fee and commission income, related to:	**3 335.3**	**100.0%**	**3 144.8**	**100.0%**	**6.1%**
Payment cards	932.3	28.0%	851.4	27.1%	9.5%
Bank accounts maintenance	872.5	26.2%	805.4	25.6%	8.3%
Maintenance of investment funds and OFE (including management income)	310.4	9.3%	448.1	14.2%	-30.7%
Loan and advances granted	368.0	11.0%	315.6	10.0%	16.6%
Loan insurance	327.3	9.8%	225.1	7.2%	45.4%
Cash transactions	189.2	5.7%	188.3	6.0%	0.5%
Securities operations	53.3	1.6%	43.8	1.4%	21.6%
Foreign mass transactions servicing	41.5	1.2%	41.2	1.3%	0.8%
Sale and distribution of marks of value	21.7	0.6%	21.7	0.7%	-0.3%
Trust servicing	1.7	0.0%	1.1	0.0%	56.6%
Other*	217.5	6.5%	203.0	6.5%	7.1%
Fee and commissions expenses, related to:	**(752.3)**	**100.0%**	**(733.0)**	**100.0%**	**2.6%**
Payment cards	(334.4)	44.4%	(309.8)	42.3%	8.0%
Acquisition services	(152.4)	20.3%	(144.8)	19.8%	5.2%
Loan insurance	(92.9)	12.4%	(94.1)	12.8%	-1.3%
Portfolio and other management fees	(48.7)	6.5%	(63.6)	8.7%	-23.6%
Operating services granted by other banks	(6.7)	0.9%	(8.1)	1.1%	-17.0%
Fee and commissions paid to PPUP	(4.4)	0.6%	(5.2)	0.7%	-16.0%
Other**	(112.8)	15.0%	(107.2)	14.6%	5.2%
Fee and commissions income	**2 583.0**	**x**	**2 411.8**	**x**	**7.1%**

** 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.*

*** 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*

Administrative expenses

Decrease in administrative expenses in 2009 by PLN 52.4 million, which is 1.2% y/y was determined mainly by:

- decrease in staff costs by PLN 121.9 million (-5.0% y/y), which was mainly caused by decrease of wages and salaries cost by PLN 80.6 million (-4.0% y/y),

offset by

- the increase in non-labour related overheads of PLN 30.2 million (+2.1% y/y), mainly due to an increase in the contributions and payments to the Banking Guarantee Fund;
- an increase in depreciation and amortization costs of 9.1% y/y, as a result of capital expenditure on the IT systems of PKO Bank Polski SA.

Table 5. Administrative expenses of PKO Bank Polski SA Group (PLN million)

ADMINISTRATIVE EXPENES
OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP

Note	2009	Structure 2009	2008	Structure 2008	Change 2009/2008
Staff costs	(2 307.5)	54.4%	(2 429.4)	56.5%	-5.0%
Overheads and other costs	(1 467.2)	34.6%	(1 437.0)	33.4%	2.1%
Depreciation and amortisation	(469.2)	11.1%	(429.9)	10.0%	9.1%
TOTAL	**(4 243.8)**	**100.0%**	**(4 296.3)**	**100.0%**	**-1.2%**

A decrease in administrative expenses, combined with a simultaneous decrease in the income of PKO Bank Polski SA Group of 5.5% compared with 2008, resulted in maintaining a still high operating effectiveness of PKO Bank Polski SA Group, measured with reference to the C/I ratio, which amounted to 47.9% (+2.1 p.p. compared with 2008).

Net impairment allowances

Net impairment allowance reflects a conservative approach of PKO Bank Polski SA to credit risk, which is believed to translate into stable financial results in the coming years. The increase in the net impairment allowance charge (+48.7% y/y) was due to the deterioration in the quality of the loan portfolio, mainly the consumer loan portfolio and corporate portfolio.

Table 6. Net impairmet allowances of PKO Bank Polski SA Group (PLN million)

NET IMPAIRMENT ALLOWANCES OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP

	31.12.2009	Structure 2009	31.12.2008	Structure 2008	Changes 2009/2008
Allowances, of which:					
Loans and advances to customers and amounts due from other banks measured at amortised cost	(1 583.4)	94.2%	(1 022.9)	90.5%	54.8%
Non-financial sector	(1 562.5)	92.9%	(1 014.6)	89.8%	54.0%
consumer loans	(819.0)	48.7%	(423.4)	37.5%	93.4%
mortgage loans	(250.6)	14.9%	(99.9)	8.8%	150.9%
corporate loans	(492.9)	29.3%	(491.3)	43.5%	0.3%
Financial sector	6.2	-0.4%	(9.2)	0.8%	x
Budget sector	2.0	-0.1%	5.7	-0.5%	-65.4%
Receivables from financial leasing	(29.1)	1.7%	(4.9)	0.4%	498.2%
Intangible assets	(3.4)	0.2%	(76.4)	6.8%	-95.5%
Investments in subsidiaries, jointly controlled entities and associates	(3.9)	0.2%	60.4	-5.3%	x
Other	(90.4)	5.4%	(91.5)	8.1%	-1.2%
Allowances - total	**(1 681.1)**	**100%**	**(1 130.4)**	**100%**	**48.7%**

Key financial indicators

The summary of results, achieved by PKO Bank Polski SA Group in 2009, is represented by the following main financial efficiency indicators, which are shown in the table below.

Table 7. Key financial indicators of the PKO Bank Polski SA Group

Ratios

Items	31.12.2009	31.12.2008	Change 2009/2008
ROA net (net profit / average total assets)	1.6%	2.6%	-1 p.p.
ROE net (net profit / average total equity)	13.4%	24.0%	-10.6 p.p.
C/I (cost to income ratio)	47.9%	45.8%	2.1 p.p.
Interest margin (net interest result / average interest-earning assets)Marża odsetkowa)	3.9%	5.7%	-1.8 p.p.
Share of loans valued using individual and portfolio method	8.1%	4.4%	3.7 p.p.

3.3 Consolidated statement of financial position

Main items of the statement of financial position

The statement of financial position of the parent company has the biggest influence on the statement of financial position of the PKO Bank Polski SA Group. It determines the structure of the statement of financial position as well as both total assets and total liabilities.

As at 31 December 2009, total assets of the PKO Bank Polski SA Group amounted to PLN 156.5 billion, which represents an increase of 16.2% y/y. As a result, PKO Bank Polski SA Group strengthened its position of the largest institution in the Polish banking sector.

The biggest impact on growth of the PKO Bank Polski SA Group's total assets had the increase in loans and advances to customers by 15.3% y/y along with their decreased share in PKO Bank Polski SA Group's total assets by 0.6 pp. y/y. Amounts due from banks dropped by 39.9 y/y.

The increase in total assets was financed mainly by an increase in amounts due to customers (+21.5% y/y) and an additional share issue of PLN 5.1 billion which resulted in an increase in the Bank's equity.

Table 8. Main items of the statement of financial position of the PKO Bank Polski SA Group (PLN million)

STATEMENT OF FINANCIAL POSITION OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP

Items	As at 31.12.2009	Structure 2009	As at 31.12.2008	Structure 2008	Change 2009/2008
Cash and balances with the central bank	7 094.4	4.5%	5 836.9	4.3%	21.5%
Amounts due from banks	2 023.1	1.3%	3 363.6	2.5%	-39.9%
Loans and advances to customers	116 572.6	74.5%	101 107.9	75.1%	15.3%
Securities	22 527.9	14.4%	14 666.6	10.9%	53.6%
Other assets	8 260.8	5.3%	9 661.0	7.2%	-14.5%
TOTAL ASSETS	**156 478.7**	**100.0%**	**134 636.0**	**100.0%**	**16.2%**
Amount due to other banks	5 152.6	3.3%	6 991.4	5.2%	-26.3%
Amounts due to customers	125 072.9	79.9%	102 939.3	76.5%	21.5%
Debt securities in issue and subordinated liabilities	1 901.5	1.2%	1 830.3	1.4%	3.9%
Other liabilities	3 915.7	2.5%	8 876.9	6.6%	-55.9%
Total libilities	**136 042.8**	**86.9%**	**120 638.0**	**89.6%**	**12.8%**
Total equity	**20 435.9**	**13.1%**	**13 998.0**	**10.4%**	**46.0%**
TOTAL LIABILITIES AND EQUITY	**156 478.7**	**100.0%**	**134 636.0**	**100.0%**	**16.2%**

Non-current fixed assets

Non-current fixed assets account for 1.8% of the total assets of PKO Bank Polski SA Group and decreased by 6.3% compared with 2008. Land and buildings with a net book value of approx. PLN 1.7 billion are the largest item of property, plant and equipment (63% of the balance).

Table 9. Non-current fixed assets of the PKO Bank Polski SA Group (PLN million)

NON-CURRENT FIXED ASSETS OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP

Term structure	As at 31.12.2009	Structure 2009	As at 31.12.2008	Structure 2008	Change 2009/2008
Gross value of tangible assets:	**5 608.8**	**100.0%**	**5 832.9**	**100.0%**	**-3.8%**
land and buildings	2 444.0	43.6%	2 346.2	40.2%	4.2%
machinery and equipment	2 430.4	43.3%	2 382.5	40.8%	2.0%
środków transportu	72.1	1.3%	81.9	1.4%	-11.9%
assets under construction	207.3	3.7%	560.3	9.6%	-63.0%
investment properties	0.7	0.0%	32.0	0.5%	-97.7%
other	454.3	8.1%	430.0	7.4%	5.6%
Accumulated amortization	**(2 829.2)**	**x**	**(2 866.2)**	**x**	**-1.3%**
Impairment allowances	**(1.9)**	**x**	**(2.0)**	**x**	**-8.8%**
Net value of tangible assets	**2 777.7**	**x**	**2 964.7**	**x**	**-6.3%**

The fall in the gross book value of property, plant and equipment resulted mainly from machinery and equipment being scrapped and sold, with reclassification of assets under construction to fixed assets - PLN 305.6 million was reclassified to 'plant and machinery', whereas PLN 132.4 million was reclassified to 'land and buildings'.

Loans and advances to customers

Gross loans portfolio maturity structure is dominated by long term loans (above 1 year). They constitute 77.9% of the total portfolio, with a 14.2% increase (y/y). The high growth rate of the gross loan portfolio of the PKO Bank Polski SA Group (+15.8% y/y) was due to both high sales of loans with long maturities (mainly mortgage loans) and an increase in the balance and share of loans and advances with shorter maturities (up to 1 year).

Table 10. Loans and advances to customers of the PKO Bank Polski SA Group– by contractual terms (PLN million)

LOANS AND ADVANCES TO CUSTOMERS
OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP

Term structure	As at 31.12.2009	Structure 2009	As at 31.12.2008	Structure 2008	Changes 2009/2008
Loans and advances to customers (gross)	**120 509.7**	**100.0%**	**104 025.8**	**100.0%**	**15.8%**
Short term	26 618.6	22.1%	21 784.2	20.9%	22.2%
Long term	93 891.1	77.9%	82 241.6	79.1%	14.2%
Impairment allowances	**(3 937.1)**	**x**	**(2 917.9)**	**x**	**34.9%**
Carrying amount of loans and advances to customers	**116 572.6**	**x**	**101 107.9**	**x**	**15.3%**

Loans and advances to the non-financial sector (+13.9% y/y) are the main item in the structure of the net loan portfolio by type of loan. Their share decreased by 1.1 p.p. y/y, mainly due to a decrease in the share of consumer loans (-0.9 p.p. y/y). Mortgage loans (+14.4% y/y) were the largest item of loans and advances to the non-financial sector. Their share in the net value of loans and advances amounted to 44.6% (as at the end of 2009). Share of loans and advances to public sector increased by 1.1 p.p. (y/y).

Table 11. Loans and advances to customers of the PKO Bank Polski SA Group – structure by types (PLN million)

LOANS AND ADVANCES TO CUSTOMERS
OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP

Structure	As at 31.12.2009	Structure 2009	As at 31.12.2008	Structure 2008	Changes 2009/2008
Loans and advances to customers (net)	**116 572.6**	**100.0%**	**101 107.9**	**100.0%**	**15.3%**
financial sector (without banks)	2 442.0	2.1%	2 058.7	2.0%	18.6%
non-financial sector	109 184.4	93.7%	95 857.2	94.8%	13.9%
consumer loans	*22 295.7*	*19.1%*	*20 203.0*	*20.0%*	*10.4%*
mortgages	*51 938.4*	*44.6%*	*45 401.7*	*44.9%*	*14.4%*
corporate loans	*34 950.2*	*30.0%*	*30 252.6*	*29.9%*	*15.5%*
budget sector	4 946.2	4.2%	3 191.9	3.2%	55.0%

Amounts due to customers

In 2009, the maturity structure of amounts due to customers changed. The share of amounts due maturing over a period of 3 months to 1 year increased by 12.1 p.p. (y/y), mainly at an expense of amounts due maturing over a period of 1 year to 5 years (by -9.4 p.p. y/y). This was caused mainly by introducing by the Bank an attractive deposit offer.

Table 12. Amounts due to clients of PKO Bank Polski SA – structure by contractual terms (PLN million)

AMOUNTS DUE TO CLIENTS
OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP

Term structure	As at 31.12.2009	Structure 2009	As at 31.12.2008	Structure 2008	Changes 2009/2008
Contract value of liabilities with maturity:	**126 347.6**	**100.0%**	**104 361.5**	**100.0%**	**21.1%**
up to 1 month	72 246.1	57.2%	61 955.1	59.4%	16.6%
from 1 to 3 months	20 462.1	16.2%	17 673.0	16.9%	15.8%
from 3 months to 1 year	29 552.9	23.4%	11 820.8	11.3%	2.5x
from 1 year to 5 years	3 358.2	2.7%	12 536.1	12.0%	-73.2%
above 5 years	728.2	0.6%	376.5	0.4%	93.4%
Value adjustmens and interests	**(1 274.6)**	**x**	**(1 422.2)**	**x**	**-10.4%**
Carrying amount of liabilities	**125 072.9**	**x**	**102 939.3**	**x**	**21.5%**

The structure of amounts due to customers by type consisted mainly of amounts due to retail clients (+14.7% y/y), whose share dropped by 4.1 p.p. (y/y), offset by an increase in amounts due to corporate entities by 3.5 p.p. (y/y).

Table 13. Amounts due to clients of the PKO Bank Polski SA Group – structure by type (PLN million)

AMOUNTS DUE TO CLIENTS
OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP

Structure	As at 31.12.2009	Structure 2009	As at 31.12.2008	Structure 2008	Changes 2009/2008
Amounts due to corporate entities	27 834.5	22.3%	19 332.9	18.8%	44.0%
Amounts due to state budget entities	9 681.0	7.7%	7 283.6	7.1%	32.9%
Amounts due to retail clients	87 557.4	70.0%	76 322.8	74.1%	14.7%
Total amounts due to customers	**125 072.9**	**100.0%**	**102 939.3**	**100.0%**	**21.5%**

Equity and capital adequacy ratio

In 2009 equity increased by 46.0% compared with the prior year and accounted for 13.1% of total liabilities and equity of PKO Bank Polski SA as at the end of 2009. The share of equity in the structure of liabilities and equity increased by 2.7 p.p. mainly as a result of the share issue which took place in the 4th quarter of 2009 (detailed information on shares issue is presented in chapter 7 of the Report).

The solvency ratio of the PKO Bank Polski SA Group was 14.66% as at the end of 2009. This level significantly exceeds the minimum level of this ratio specified in the Banking Law. Capital adequacy measured with reference to the solvency ratio was maintained at a high level, mainly due to an increase in equity (issue of own shares), at the same time, accompanied by a strong increase in the loan portfolio of PKO Bank Polski SA.

Table 14. Own funds and capital adequacy ratio of the PKO Bank Polski SA Group (PLN million)

EQUITY
OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP

Note	As at 31.12.2009	Structure 2009	As at 31.12.2008	Structure 2008	Change 2009/2008
Equity, of which:	**20 435.9**	**100.0%**	**13 998.0**	**100.0%**	**46.0%**
Share capital	1 250.0	6.1%	1 000.0	7.1%	25.0%
Reserve capital	12 149.7	59.5%	7 274.7	52.0%	67.0%
General banking risk fund	1 070.0	5.2%	1 070.0	7.6%	0.0%
Other reserves	3 405.1	16.7%	1 523.8	10.9%	2.2x
Financial assets available for sale	(11.76)	-0.1%	(33.2)	-0.2%	-64.6%
Currency translation differences from foreign operations	(108.8)	-0.5%	(57.4)	-0.4%	89.5%
Retained earnings	248.8	1.2%	53.2	0.4%	4.7x
Net profit for the period	2 305.5	11.3%	3 120.7	22.3%	-26.1%
Minority interest	7.3	0.0%	46.2	0.3%	-84.1%
Own funds	**17 859.3**	**x**	**12 885.3**	**x**	**38.6%**
Capital adequacy (%)	**14.66**	**x**	**11.29**	**x**	**3.37 p.p.**

4. STRUCTURE OF THE PKO BANK POLSKI SA GROUP AND ITS DEVELOPMENT STRATEGY

As at 31 December the PKO Bank Polski SA Group consists of PKO Bank Polski SA (the parent company) and 22 direct and indirect subsidiaries.

4.1 Entities included in financial statements

Included in the consolidated financial statements are the Bank – the parent company of the PKO Bank Polski SA Group and its subsidiaries as defined in IAS 27 'Consolidated and separate financial statements'.

Table 15. Entities comprising the PKO Babk Polski SA Group

No.	Entity name	The value of exposure at acquisition cost (PLN thousand)	The share in the share capital (%)	Consolidation method
Parent company				
1	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna			
Direct subsidiaries				
2	KREDOBANK SA	786 746	99.4948	full method
3	PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	205 786	100	full method
4	PKO Towarzystwo Funduszy Inwestycyjnych SA	186 989	100	full method
5	Centrum Finansowe Puławska Sp. z o.o.	128 288	100	full method
6	PKO BP Inwestycje Sp. z o.o.*	117 813	100	full method
7	Bankowy Fundusz Leasingowy SA	70 000	100	full method
8	Inteligo Financial Services SA	59 602	100	full method
9	Centrum Elektronicznych Usług Płatniczych eService SA	55 500	100	full method
10	Fort Mokotów Inwestycje Sp. z o.o. *	51 599	99.9885	full method
11	Bankowe Towarzystwo Kapitałowe SA	18 566	100	full method
12	PKO Finance AB	172	100	full method
Subsidiaries of PKO BP Inwestycje Sp. z o.o.				
13	Wilanów Investments Sp. z o.o.* [1]	82 980	99.9750	full method
14	POMERANKA Sp. z o.o. * [1]	19 000	99.9975	full method
15	PKO Inwestycje - Międzyzdroje Sp. z o.o.*	7 575	100	full method
16	Baltic Dom 2 Sp. z o.o. *	7 739	56	full method
17	WISŁOK Inwestycje Sp. z o.o.*	3 920	80	full method
18	Fort Mokotów Sp. z o.o. *	2 040	51	full method
19	UKRPOLINWESTYCJE Sp. z o.o.	519	55	full method
Subsidiaries of Bankowege Towarzystwo Kapitałowe SA				
20	PKO BP Faktoring SA [1]	8 329	99.9846	full method
Subsidiaries of Inteligo Financial Services SA				
21	PKO BP Finat Sp. z o.o. [2]	7 600	80.3287	full method
Subsidiaries of Bankowy Fundusz Leasingowy SA				
22	Bankowy Leasing Sp. z o.o. [1]	16 309	99.9969	full method
23	BFL Nieruchomości Sp. z o.o. [1]	7 109	99.9930	full method

** value of shares at acquisition cost, inclusive of specific capital injections.*

1 – PKO Bank Polski SA acquired directly 1 share in the entity

2 - Remaining shares of PKO BP Finat Sp.z o.o in hold of PKO BP BANKOWY PTE (19.6702%) and PKO Bank Polski SA (1share)

Table 16. Other subordinated entities included in the consolidated financial statements

No.	Entity name	The value of exposure at acquisition cost (PLN thousand)	The share in the share capital (%)	Consolidation method
Jointly controlled entities				
1	CENTRUM HAFFNERA Sp. z o.o.	44 371	49.43	equity method
2	Centrum Obsługi Biznesu Sp. z o.o.	17 498	41.44	equity method
Subsidiaries of CENTRUM HAFFNERA Sp. z o.o.				
3	Sopot Zdrój Sp. z o.o.*	67 126	100	equity method
4	Promenada Sopocka Sp. z o.o.	10 058	100	equity method
5	Centrum Majkowskiego Sp. z o.o.	6 609	100	equity method
6	Kamienica Morska Sp. z o.o.	976	100	equity method
Associates				
7	Bank Pocztowy SA	146 500	25.0001	equity method
8	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	33.33	equity method
9	Agencja Inwestycyjna CORP SA	29	22.31	equity method

** value of shares at acquisition cost, inclusive of specific capital injections.*

In addition, PKO Bank Polski SA holds shares in an associate Kolej Gondolowa Jaworzyna Krynicka SA (37.53% interest in the Company's share capital), disclosed as non-current assets held for sale.

4.2 Changes in organization of subordinated entities

In 2009, the structure of the PKO Bank Polski SA Group was affected by the following factors:

1. Establishment of PKO BP Factoring SA

The company Bankowy Faktoring SA (which changed its name to PKO BP Faktoring SA at 23 July 2009) was entered in the National Court Register on 6 January 2009. The Company's share capital amounts to PLN 1 000 thousand and consists of 1 000 registered shares, each of PLN 1 000 nominal value.
All shares in the Company's capital were acquired by Bankowe Towarzystwo Kapitałowe SA, a subsidiary of PKO Bank Polski SA, for PLN 1 330 thousand.
In 2009, an increase in the share capital of PKO BP Faktoring SA of PLN 5 500 thousand was registered, including an increase of PLN 2 000 thousand on 2 June 2009, an increase of PLN 2 500 thousand as at 23 July 2009 and an increase of PLN 1 000 thousand as at 17 December 2009.
All shares in the increased capital were acquired by Bankowe Towarzystwo Kapitałowe SA, a subsidiary of PKO Bank Polski SA, for a total of PLN 7 000 thousand.
As at 31 December 2009, the Company's share capital amounted to PLN 6 500 thosuand and comprised 6 500 shares with a nominal value of PLN 1 000 each.
Following the registration of the said share issue, Bankowe Towarzystwo Kapitałowe SA holds 99.9846% of the Company's share capital and 99.9846% of the voting rights at the Company's General Shareholders' Meeting.
The Company's business is factoring.

2. Establishment of Fort Mokotów Inwestycje Sp. z o.o.

On 7 April 2009, Fort Mokotów Inwestycje Sp. z o.o. was registered with the National Court Register. The Company's share capital amounts to PLN 43 551 thousand, consisting of 43 551 shares of PLN 1 000 nominal value each.
Shares in the Company with a nominal value of PLN 43 546 thousand (constituting 99.9885% of the Company's share capital entitling to 99.9885% voting rights at the General Shareholders' Meeting) were taken up by PKO Bank Polski SA, which covered them with a contribution in kind in the form of the rights to perpetual usufruct of land at Racławicka Street in Warsaw. The other shareholder of the Company is PKO Inwestycje Sp. z o.o.– a subsidiary of PKO Bank Polski SA.
On 1 December 2009, PKO Bank Polski SA made an additional contribution to the equity of Fort Mokotów Inwestycje Sp. z o.o. in the amount of PLN 8 053.08 thousand.
The Company's business is development activities.

3. Taking up shares in the increased share capital of Kredobank SA

On 10 June 2009, PKO Bank Polski SA took up 102 384 202 391 shares in the increased share capital of Kredobank SA in the total nominal value of UAH 1 023 842.02 thousand. The price for the purchased shares, including the additional costs, amounted to PLN 430 644 768.47. As a result of taking up the said shares, the interest of PKO Bank Polski SA in the share capital of KREDOBANK SA and in the voting rights at the Company's General Shareholders' Meeting increased from 98.5619% to 99.4948%.

4. Taking up shares in the increased share capital of Bankowy Leasing Sp. z o.o.

On 10 June 2009, the increase in the share capital of Bankowy Leasing Sp. z o.o. in the total amount of PLN 15 million was registered with the National Court Register. As at 31 December 2009, the Company's share capital amounted to PLN 16 300 thousand and consisted of 32 600 shares of PLN 500 nominal value each.
All the shares in the increased share capital were taken up by Bankowy Fundusz Leasingowy SA – subsidiary of PKO Bank Polski SA - for a price equal to the nominal value of the shares taken up.
After the above mentioned issue was registered, Bankowy Fundusz Leasingowy SA held a total of 99.9969% of the Company's share capital which authorized it to 99.9969% voting rights at the Company's General Shareholders' Meeting.

5. Acquisition of shares in the increased share capital of BFL Nieruchomości Sp. z o.o.

On 10 July 2009, the increase in the share capital of BFL Nieruchomości Sp. z o.o. in the total amount of PLN 6 000 thousand was registered with the National Court Register. As at 31 December 2009, the Company's share capital amounted to PLN 7 100 thousand and comprised 14 200 shares with a nominal value of PLN 500 each.
All the shares in the increased share capital were taken up by Bankowy Fundusz Leasingowy SA – a subsidiary of PKO Bank Polski SA - at a price equal to the nominal value of the shares taken up. After the said issue was registered, the Bankowy Fundusz Leasingowy SA's share in the share capital of the Company and the voting rights at the Company's General Shareholders' Meeting increased from 99.9545% to 99.9930%.

6. Purchase of 25% of PKO Towarzystwo Funduszy Inwestycyjnych SA shares

On 15 September 2009, PKO Bank Polski SA signed an agreement with Credit Suisse Asset Management (Luxembourg) SA for the purchase of 25% of the shares of PKO Towarzystwo Funduszy Inwestycyjnych SA. The concluding of the transaction including the acquisition of shares was performed at 1 October 2009. The purchase price (gross of additional costs) was PLN 117 934.25 thousand.
As a result of the said transaction, the PKO Bank Polski SA's share in the share capital of the Company and the voting rights at the Company's General Shareholders' Meeting increased from 75% to 100%.

7. Change in the names of certain PKO Bank Polski SA Group companies

As part of the process of unification of the names and symbols of the PKO Bank Polski SA Group companies, the following companies changed their names in 2009:

- the company Bankowy Faktoring SA changed its name to PKO BP Faktoring SA; the change was registered in the National Court Register on 23 July 2009;
- the company PKO Inwestycje Sp. z o.o. changed its name to PKO BP Inwestycje Sp. z o.o.; the change was registered in the National Court Register on 28 July 2009;
- the company Finanse – Agent Transferowy Sp. z o.o. changed its name to PKO BP Finat Sp. z o.o.; the change was registered in the National Court Register on 8 September 2009.
- Powszechne Towarzystwo Emerytalne BANKOWY SA changed its name to PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA; the change was registered in the National Court Register on 17 December 2009.

8. Acquisition by PKO Bank Polski SA of 1 share in selected indirect subsidiaries

In 2009, PKO Bank Polski SA, in order to increase its control over the activities of indirect subsidiaries, acquired 1 share in each of the following companies: Wilanów Investments Sp. z o.o., POMERANKA Sp. z o.o., Bankowy Leasing Sp. z o.o., BFL Nieruchomości Sp. z o.o., PKO BP Finat Sp.z o.o. and PKO BP Faktoring SA.

9. Additional contributions to the PKO BP Inwestycje Sp. z o.o. Group companies

In 2009, PKO BP Inwestycje Sp. z o.o. - a subsidiary of PKO Bank Polski SA – contributed the following amounts to its subsidiaries:

- on 14 January 2009, a contribution to Wisłok Inwestycje Sp. z o.o. of PLN 800 thousand,
- on 24 April 2009, 30 October 2009, 30 November 2009 and 28 December 2009, a total contribution to Baltic Dom 2 Sp. z o.o. of PLN 1 120 thousand.
- on 25 September 2009, a contribution to Wisłok Inwestycje Sp. z o.o. of PLN 320 thousand

and factors affecting the structure of other subsidiaries:

10. Reclassification of the company Kolej Gondolowa Jaworzyna Krynicka SA to assets held for sale

In January 2009, PKO Bank Polski SA, taking into consideration the status of the work related to the sale of shares in Kolej Gondolowa Jaworzyna Krynicka SA, reclassified all the shares held in the

abovementioned company to held-for-sale assets (in accordance with IFRS 5).
Untill now, the company, as the Bank's associate, was consolidated under the equity method.

11. Making additional contributions to the equity of Sopot Zdrój Sp. z o.o.

In 2009 (29 September, 23 December and 30 December) CENTRUM HAFFNERA Sp. z o.o., a PKO Bank Polski SA's jointly controlled entity, made additional contributions to the equity of Sopot Zdrój Sp. z o.o. in the total amount of PLN 8 203 thousand.

12. Derecognizing the Ekogips SA shares

On 30 September 2009, the shares of Ekogips SA were derecognized from the PKO Bank Polski SA's books of account due to the fact that they no longer satisfied the definition of assets, which was inter alia due to the Company's bankruptcy procedure being completed.
Until then Ekogips SA was the PKO Bank Polski SA 's associated entity.

4.3 Main capital investments

The list of main capital investments of PKO Bank Polski SA and its subsidiaries concerning the transactions of acquiring and selling shares in subordinated entities was presented in Note 4.2 of the report.

4.4 Related party transactions

In 2009, PKO Bank Polski SA provided the following services to its related parties (subordinated entities): keeping bank accounts, accepting deposits, extending loans and advances, issuing debt securities, providing guarantees and conducing spot foreign exchange transactions.

The list of significant transaction between PKO Bank Polski SA and its subordinates, including loans and advances to the said companies as at 31 December 2009, was presented in financial statements of PKO Bank Polski SA for the year 2009.

5. ACTIVITIES OF THE PKO BANK POLSKI SA GROUP [3]

The PKO Bank Polski SA Group consists of PKO Bank Polski SA and its subsidiaries which – supplementing its product offer – at the same time pursue their own business goals. Particular companies provide specialist financial services in respect of leases, investment funds, pension funds or electronic payment services in respect of banking cards.

The potential of every entity conduce to building the synergy effects of the whole PKO Bank Polski SA Group.

The key events which had an impact on the operations and results of the PKO Bank Polski SA Group in 2009 were related to the business activities conducted by the Group companies and the results achieved by particular Group entities, and are described in other Notes to this report.

5.1 Directions of development of the PKO Bank Polski SA Group

In 2009, PKO Bank Polski SA focused on expanding its cooperation with its existing retail and corporate clients, as well as on attracting new clients by enabling them to use the available resources of the PKO Bank Polski SA Group. To this end, PKO Bank Polski SA – the parent company of the PKO Bank Polski Group used a wide range of products, an extensive distribution network, a well recognizable brand, and the high quality of its services. The Bank took initiatives in order to develop its distribution network and to increase the quality of its services. The Bank invested in its employees by expanding their knowledge of its products and services in order to increase the quality of its client service. Initiatives leading to the optimization of the expenses incurred and to the improvement of business effectiveness were taken. In 2009, PKO Bank Polski SA attached a lot of weight to the development of its subsidiaries which expanded the product mix of PKO Bank Polski SA, including, in particular, lease activities and factoring services.

PKO Bank Polski SA carries out its mission in accordance with which PKO Bank Polski SA is and will remain a universal bank with a Polish character, in which the client comes first. By consolidating its strong position in retail banking and its leading role in the mortgage loan market, the Bank also stimulates activities in the corporate segment. As an entity which has a significant impact on the condition of the Polish financial system, the Bank attaches a lot of weight to modernizing and expanding its product mix, continuing to improve its service standards, responding quickly to the dynamic market changes and changes in clients' expectations, controlling the level of the risk incurred in its operations while ensuring effective management of the capital entrusted to it for its shareholders and conditions enabling the satisfactory career development of its employees at the same time.

The strategy of PKO Bank Polski SA for 2010-2012, which was adopted by the Supervisory Board of the Bank on 24 February 2010, will serve the purpose of consolidating the Bank's leading position in all the key market segments. It assumes continuing its sustainable development while maintaining the stable profitability of the operations, corresponding to the shareholders' expectations, and preserving a prudent risk management policy. The sustainable development will be based on the funds obtained from the share issue carried out in the 4th quarter of 2009 and a stable lending policy, and an increase in lending activities will be financed mainly by its own deposit base. The strategy also assumes using the enormous potential of the PKO Bank Polski SA Group.

The strategy for 2010-2012 assumes the implementation of the following assumptions:

- preserving the universal character and consolidating the position of the decided leader in the banking sector;
- orientation towards clients' needs (a clear product mix tailored to the clients' needs and a significantly higher productization of the Bank's clients);
- maintaining a balanced growth;
- strengthening the role of PKO Bank Polski SA as the central entity in an efficient Group, offering a comprehensive product mix for its clients.

[3] *Financial data of the companies of the PKO Bank Polski SA Group is presented in accordance with the companies' financial statements prepared under IAS/IFRS*

PKO Bank Polski SA Group will develop the Bank's pro-client mission contained in the slogan 'PKO Bank Polski Close to You'. It will concentrate its activities on recognizing and satisfying the needs of the clients with whom it intends to build strong, long-term relations. Thanks to an increased operating efficiency it will improve the quality of its client service significantly, both in the retail banking segment and the corporate banking segment. It will enhance its offer for companies within such product groups as structured deposits, leases, factoring, and transaction banking services. In the area of investment banking, the Bank's plans provide for a significant increase in its shares in the markets for Treasury products, brokerage products, custody services, and structural financing. Strengthening the institutional part of Dom Maklerski PKO BP and intensifying cooperation with financial institutions are to serve these objectives.

The PKO Bank Polski SA Group will attain its strategic objectives thanks to its competitive edge which already exists in various areas, as well as in those that are currently under way, such as:

1. Increasing the productization of the Bank's enormous client base.
2. Developing the internet bank and on-line channels.
3. An efficient, centralized support process.
4. Increasing its presence in major cities.
5. A strong capital and deposit base.
6. Provision of comprehensive services within the Group.
7. Local decision-making.

The main business impact of implementing the strategy will be a marked increase in the scale of the Group's operations, manifesting itself in an increase in assets. According to the adopted assumptions, they are to increase by approx. 30%, exceeding PLN 200 billion as at the end of 2012, with the value of the loan portfolio exceeding PLN 160 billion. The sustainable development should translate into high profitability (achieving ROE in excess of 16% and ROA in excess of 2%) which is to be accompanied by strict cost control (the C/I ratio is to remain below 45%) and the capital adequacy ratio maintained at a safe level of more than 12%.

5.2 Market share of the PKO Bank Polski SA[4]

In terms of assets, equity, loans and deposits PKO Bank Polski SA is a leader of the banking sector.

Compared to 2008, PKO Bank Polski SA noted growth in all market shares. Regarding deposits, it is worth to point out the increase of share with respect to corporate entities and high market share with respect of retail customers (as a result of implementation, starting from September 2008, of a competitive and comprehensive offer for the clients).

With reference to loans and advances to customers, PKO Bank Polski SA recognized an increase in the market share with respect to corporate entities (by 2.2 p.p. y/y) and retail customers, especially within mortgage loans (by 0.3 p.p. y/y), which enabled keeping the leader position on the Polish credits' market.

Table 17. Market share of the PKO Bank Polski SA Group (%)

MARKET SHARE
OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA

	As at 31.12.2009	As at 31.12.2008	Change 2009/2008
Loans for:	**17.3**	**16.0**	**1.3 p.p.**
retail clients, of which:	19.4	19.2	0.2 p.p.
consumer loans	*17.4*	*17.2*	*0.2 p.p.*
mortgages	*20.7*	*20.4*	*0.3 p.p.*
corporate loans	15.0	12.8	2.2 p.p.
Deposits for:	**19.0**	**17.3**	**1.7 p.p.**
retail clients	23.8	23.5	0.3 p.p.
corporate clients	13.4	10.6	2.8 p.p.

* Data source: NBP reporting system – WEBIS.

[4] As a result of classification changes of particular loan and deposit positions market shares as of 2008 are slightly different from those presented in the previous report.

5.3 Activities of PKO Bank Polski SA – parent company of the PKO Bank Polski SA Group [5]

As at 31 December 2009 relation of total assets of PKO Bank Polski SA to Group's total assets amounted to 98.2% and share of PKO Bank Polski SA's net profit in Group's consolidated net profit amounted to 105.5%. Bank, as a parent company constitutes the most important component of the consolidated statement of financial position and influences heavily statement of comprehensive income of the PKO Bank Polski SA Group. Consolidated financial results presented in Chapter 3 reflect also the financial results of PKO Bank Polski SA.

PKO Bank Polski SA is a universal commercial bank offering services to both domestic and foreign retail, corporate and other clients. PKO Bank Polski 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.

Retail segment

In 2009, activities undertaken by the Bank within the retail segment were focused on increasing attractiveness and competitiveness of offered products, as well as on reacting in a flexible way to changing market conditions.

In the retail segment, PKO Bank Polski SA focused on providing comprehensive banking services which, on the one hand satisfy the credit needs, and on the other – the deposit and settlements needs of the clients. The Bank made efforts to improve the quality of the service, among other, by improving the standard of providing services to the clients and enhancing the skills of employees (product training courses). The activities aimed at specified groups of products are detailed below.

[5] In this chapter Bank's management information is presented; any differences in total balances, percentages and growth rates result from rounding; gross loans and advances to customers and presented without interest due and interest not due. As a result of classification and presentation changes, the data on the volume of loans and deposits in particular segments is different from the presented in previous reports The main difference results form a change in presentation of housing plan passbooks now presented in retail and private banking deposits (previously in mortgage deposits).

Table 18. Loan products available in retail segment

New products and services	Activity
Cash loan	The attractiveness of the offer is constantly being improved, e.g. in the 1st quarter of 2009 the commission for granting a loan was reduced by 50%. In August 2009, a new offer for a cash loan was introduced, involving several parallel special offers: - attractive nominal interest rate of 6.99% p.a. for loans up to PLN 3 000 repayable within 12 months and insured against the consequences of unforseen events; - 0% commision for granting the loan for loans amounting to PLN 3 000 - PLN 5 000 repayable within 12 months and insured against consequences of unforseen events. Additionally, more central mailing campaigns of credit offers (up-selling and cross-selling) addresed to selected groups of clients and offering special pricing terms were performed.
Aurum Platinium loan	As regards the Aurum/Platinium loan, the most important measures amending the offer include: - the introduction of the insurance of a loan and preferential prices for loans insured or secured with units of PKO TFI; - expanding the list of collateral in the form of liquid assets to include securities traded on the WSE and registered by DM PKO BP; - extending the crediting period; - adjusting the loan to the requirements of Recommendation S (II).
Revolving loan	As regards revolving loans, in February 2009 the Bank decreased the interest on such loans and in April it increased the commission for granting and renewing revolving loans. Starting from September 2009, for newly signed agreements the Bank offers a revolving loan with variable interest rate whose level (11.99%-14.99%) depends on the amount of the debt (declining interest rate). For holders of a ZŁOTE KONTO (Gold Account) the interest rate was reduced by 0.5 p.p. and for holders of a PLATINIUM account – by 1.0 p.p.
SME loan	The most important activities in the area of credit policy for SMEs include: - the ability to grant loans as part of the credit facility of the Council of Europe Development Bank concluded between CEB and PKO Bank Polski SA and amounting to EUR 100,000,000. As part of the CEB credit facility, preferential prices were introduced, namely a reduction in the upper limit for commission by 0.25% on investment loans for holders of Biznes Partner accounts, AUTO Partner loans and SLK in PLN, financed from CEB funds; - launching of loans as part of the credit facility from the European Investment Bank (EBI) intended to finance capital expenditure projects and expenditure in the context of the development of SMEs in agriculture, industry and services. As part of the EBI credit facility, a promotional campaign was started, consisting in reducing by 0.5 p.p. the minimum rate of the Bank's margin which forms the basis of the interest rate on a non-revolving working capital loan; - launch of a new product – a Mortgage Loan for SMEs to which a Generali property insurance against fire and other acts of God was introduced. At the same time, in order to increase the profitability of loans to SMEs, the Bank introduced a number of measures aimed at increasing the profitability of the portfolio.
'NASZ REMONT z premią remontową z BGK' loan	As of 1 July 2009, the loan 'NASZ REMONT z premią remontową z BGK' was added to the offer. This product is a new form of support from the state budget (from the BGK Fund for Thermal Modernization and Building Repairs) for repair works performed by housing co-operatives and condominiums. The advantage of this loan is the opportunity to obtain non-repayable aid from the state budget in the form of building repair bonus amounting to 20% of the utilized amount of the loan (but no more than 15% of the whole costs) designated for the repayment of the loan.

The said changes in the credit offer resulted in a significant increase of 16.1% (y/y), i.e. PLN 12.2 billion, in the volume of loans in the retail segment. The largest increase of PLN 6.2 billion related to mortgage loans. In this area of activity the Bank dynamically changed the price offer for mortgage loans in PLN, adjusting to the changing competitive position. Among important activities relating to mortgage loans, the following should also be mentioned: two promotional campaigns of the WŁASNY KĄT mortgage loans in PLN (in the 2nd and 4th quarter of 2009), two promotional campaigns of the Preferential Loan with interest subsidized by BGK (in March and September 2009), changes in the offer of loans in EUR (an increase in LTV to 80%, and subsequently to 90%, and a decrease in margins).

Table 19. Loans in the retail segment (PLN million)

Items	As at 31.12.2009	As at 31.12.2008	Change %
Gross loans and advances*, of which:			
- retail and private banking	21 566	18 821	14.6%
- small and medium enterprizes	11 993	9 647	24.3%
- mortgage banking	47 541	41 364	14.9%
- housing market (including supported by the State budget)	7 116	6 183	15.1%
Total	**88 216**	**76 015**	**16.1%**

** without interest due and interest not due*

Source: management information of PKO BP

The activities of PKO Bank Polski SA addressed to small and medium enterprises (SME) related to continually increasing the quality of service and competitive position, through inter alia many changes in the range of products offered. The most significant of those include activities relating to SME packages aimed at acquiring new accounts (the Bank introduced a temporary, promotional decrease in fees for product packages), the ability to grant loans as part of the credit facility from Council of Europe Development Bank, a launch of loans as part of the credit facility from the European Investment Bank, a launch of a new product - a cash advance secured with mortgage. Changes in the SME segment enabled the Bank to achieve significant increases in volumes, mostly on the credit side (24.3% y/y).

PKO Bank Polski SA continued activities relating to making the deposit offer more attractive to customers, both in terms of the permanent deposit offer and by introducing new products with high interest rates for its customers. The key activities undertaken in the area of deposit-taking activities are shown below.

Table 20. Deposit products available in retail segment

New products and services	Activity
Term deposit 3M and 6M	3- and 6-monthly term deposit account – available in the Bank's offer from 15 December 2008: a fixed interest rate, as at the date of the introduction of the product it was 7% p.a. for the 3-monthly deposit and a variable rate - 7%- for the 6-monthly deposit, the minimum amount to be deposited – PLN 1,000. The Bank systematically adjusted the interest on deposits to its competitive environment. In July 2009, the 6-monthly deposit was withdrawn from the product offer and replaced by other attractive products.
Fixed-interest term deposit 6M and 12M	Fixed-interest 6- and 12-monthly deposits – available in the Bank's offer from 9 February 2009, as at the date of their introduction the interest rates amounted to 5.50% and 5.00% p.a., respectively. The minimum amount of the deposit – PLN 1,000. Interest rates were adjusted systematically to the competitive environment. In addition, the Bank offered higher interest on a 12-monthly deposit to holders of Max Lokata.
Policy Solidna Stopa and Policy Solidna Stopa 2	Solidna Stopa and Solidna Stopa 2 policies – 6-monthly group life and endowment insurance from PZU Życie SA with annual profit of 4.10%, not subject to capital gains tax (which is the equivalent of a deposit bearing 5.06% interest rate) offered in August-September and November-December of 2009.
Term despoit 3+3 M	The 3+3 M term deposit – offered from 15 September 2009, fixed interest, minimum amount of the deposit – PLN 1,000. A flexible, innovative 6-monthly deposit enabling a withdrawal of funds after 3 months; the interest after 3 months is 4.44% p.a., and after 6 months - 4.55% p.a.
WIG20 Structured Policy	WIG20 Structured Policy – a product in the form of a group life and endowment insurance developed in cooperation with PZU Życie SA, offered in November 2009. The product has a 3-year protective period, and the maximum capital gain, with the principal fully protected, may reach 59.99%.
New Housing Plan Passbook	On 19 January 2009, the Bank introduced the New Housing Plan Passbook. The interest rate depends on the amount of funds deposited and the maturity of the deposit (12M, 24M, 36M). The product encourages customers to save for their housing needs and to use the preferential housing loan from PKO Bank Polski SA – fees and commissions collected by the Bank were reduced by as much as 75%.
Savings account	In the middle of the year, the bank started offering savings accounts in CHF, USD and EUR. In December 2009, a temporary promotion for the savings account in PLN was introduced, consisting of increased interest for funds deposited in excess of PLN 200 thousand (from 4.50% to 4.80%) in the period from 1 December 2009 to 20 February 2010.
Term deposits for SME	The Bank changed the interest on term deposits in foreign currencies and in PLN. In order to increase the attractiveness of deposits for SMEs, starting from December 2009 a new product was introduced, 6-monthly term deposit Biznes Lokata MSP with a progressive interest rate.
SME packages	The activities relating to SME packages were aimed at acquiring new accounts. The Bank introduced temporary, promotional decreases in fees for product packages.
Savings account 'KORZYŚĆ'	In April 2009, the Bank introduced a Savings Account KORZYŚĆ (ADVANTAGE) for housing cooperatives, housing associations, developsers and property administrators. Opening of the account is not dependable on holding a current account with PKO Bank Polski SA. The account combines an attractive interest rate with full discretion in managing deposited funds without losing interest.

These activities contributed to a significant increase in the portfolio of deposits in the retail segment, of 15.3% y/y. The increase related mainly to retail and private banking deposits (+16.5% y/y) as well as to housing market customers' deposits (+19.1% y/y).

Table 21. Deposits in retail segment (PLN million)

Items	As at 31.12.2009	As at 31.12.2008	Change %
Client deposits, of which:			
- retail and private banking	83 214	71 399	16.5%
- small and medium enterprizes	8 331	8 145	2.3%
- housing market clients	4 195	3 522	19.1%
Total deposits	**95 741**	**83 067**	**15.3%**

Corporate segment

2009 was the period of an economic slowdown resulting from the crisis in the financial market. It resulted in an outflow of capital from the market and limited liquidity in the interbank market. The ability of other banks operating in Poland to finance their customers were significantly restricted. At the same time, corporate clients reduced the scale of capital expenditure projects carried out and the burden of financing shifted to working capital loans and overdraft facilities. As a result of the crisis, many banks in Poland started to approach the financing of corporate clients in a very restrictive manner. The corporate segment, having identified the reasons behind the financial crisis in 2009, managed to take full advantage of the Bank's capital and liquidity potential in order to become the leader of corporate financing and services to Polish businesses and self-governments, while at the same time properly controlling the risks.

Despite the difficult situation on the financial market, PKO Bank Polski SA was perceived as an institution with an impeccable market reputation and independent from the financing provided by external investors. The Bank, in the eyes of customers, became the one of the safest institutions in the Polish banking sector, and a reliable partner of corporate and self-government entities. As a result of market changes, PKO Bank Polski SA flexibly adjusted its credit and transactional offer to customers' needs and circumstances. In parallel, the intensified monitoring of the financial and economic position of the borrowers was conducted, with particular emphasis on industries exposed to higher risks.

Cooperation with the existing customers was successfully continued, with the renewal campaign conducted in 2009 and increasing the scope of benefits for the Bank by implementing cross-selling techniques which contributed to the achievement of a significant increase in profit in the corporate segment throughout 2009. In 2009, the Bank focused its activities on the further strengthening of its market position and creating the image of PKO Bank Polski SA as a financial institution actively operating in the corporate market. In 2009, the corporate segment comprised businesses with a turnover of more than PLN 5 million annually, as well as local government and public administration entities (public sector entities).

Despite the crisis and the economic slow-down in 2009, the Bank's corporate segment developed dynamically and reached historically high results, significantly exceeding the rates of growth in corporate entities market. The Bank increased its shares in both the loan and deposit markets. The loan portfolio increased by 16.7% y/y and reached a growth rate 4 times higher than the market average (3.6% y/y). At the same time, the growth in the deposit portfolio amounted to 45.8% (y/y) which ensured a growth that was 9 times faster than the market average (5.2% y/y).

Table 22. Gross loans and advances to customers and deposits in the corporate segment (PLN million)

Item	As at 31.12.2009	As at 31.12.2008	Change [%]
Gross corporate loans	29 475	25 268	16.7%
Corporate deposits	26 133	17 923	45.8%

When developing the corporate banking segment, PKO Bank Polski SA complied with the credit risk management policies and structured its transactions in such a way as to minimize the costs of risks and ensure the optimum effectiveness of the capital employed. Within the framework of its credit policy, in 2009 PKO Bank Polski SA focused on the following priorities in the corporate segment:

- attracting customers whose annual sales are between PLN 10 million and PLN 200 million, i.e. the segment attractive from the perspective of effective cooperation and diversification of the credit risk and ensuring a stable customer base.
- financing public sector customers, mainly local governments, as the sector characterized by a low level of credit risk;

- maintaining the leading position in servicing projects co-financed by EU structural funds, particularly in terms of bridge financing.

As part of implementing the deposit policy in 2009, the Bank focused on attracting negotiated deposits from corporate customers, in accordance with the assumptions of the Bank's liquidity policy.

Investment segment

The year 2009 was characterized by a high volatility of prices of financial instruments. In the 1st quarter, the crisis trends which started after the fall of Lehman Brothers in the autumn of 2008 strengthened. The crisis in the credit markets forced many foreign investors to withdraw from the Polish market and there were concerns that the banking sector would be unable to refinance mortgage loans in foreign currencies; in addition, significant losses of corporate customers on currency options materialized. In the middle of the 1st quarter of 2009, in the period of coinciding negative factors, a strong depreciation of the Polish złoty in relation to key currencies occurred and a significant increase in the yields on Treasury securities. The EUR/PLN exchange rate reached a level of 4.92, and the profitability of Treasury securities – particularly in short maturities - temporarily increased by as much as 100 basis points.

The end of the 1st quarter brought about an improvement in the situation and a gradual decrease in risk aversion. Positive rates of the economic growth and favourable assessments of rating agencies which maintained their stable ratings resulted in a perception of Poland as an attractive market, in particular against the background of other EU countries. The interest of the foreign investors was visible in all segments of the financial market. In December 2009, the Polish złoty strengthened in relation to the euro to the level of 4.11; all stock exchange indices increased the yields on Treasury securities decreased across the whole length of the profitability curve.

A detailed description of the activities of PKO Bank Polski SA - the parent company of the PKO Bank Polski SA Group, including its business activity and financial performance for the year 2009, has been presented in the PKO Bank Polski SA Directors' Report for the year 2009, which is an integral part of the annual report of PKO Bank Polski SA.

5.4 Activities of other entities of the PKO Bank Polski SA Group

The PKO Bank Polski SA Group, apart from the strictly banking operations provided by the parent company of the Group, provides via its subsidiaries specialist financial services relating to leasing, factoring, investment funds, pension funds, internet banking and electronic payment services. Moreover, the PKO Bank Polski SA Group conducts investment and development operations in the real estate sector.

SUBSIDIARY	SCOPE OF ACTIVITIES	ACTIVITIES OF OTHER GROUP COMPANIES
KREDOBANK SA	KREDOBANK SA with headquaters in Lviv conducts banking activities in Ukraine	1. As at 31 December 2009, the equity of the Management Company amounted to PLN 232 124 thousand (UAH 652 401 thousand). 2. As at the end of December 2009, KREDOBANK SA reported a net loss of PLN 190 192 thousand (UAH 488 048 thousand). In 2008, KREDOBANK SA reported a net loss of PLN 196 293 thousand (UAH 433 796 thousand). An increase in the net impairment allowance charge was the main factor which contributed to the net profit/loss of KREDOBANK SA. and reflected the difficult economic situation in the Ukraine and a deterioration in the financial position of the bank's customers. 3. In 2009, the Company's loan portfolio (gross) decreased by PLN 213 million (UAH 342 million) i.e. by 10.8% and amounted to PLN 1,756 million (UAH 4,937 million) as at the end of 2009. 4. In 2009, term deposits from customers increased by UAH 75 million i.e. by 2.79% (the value of the deposits expressed in PLN decreased by PLN 19.5 million i.e. by 1.95% due to exchange rate movements). As at the end of 2009 the value of clients' term deposits amounted to PLN 983 million (UAH 2 762 million). 5. In June 2009 KREDOBANK SA repayed subordinated loans granted by PKO Bank Polski SA in a total amount of PLN 38 million. In November 2009 PKO Bank Polski SA granted to the Company a subordinated loan in the amount of USD 20 million. 6 In 2009, KREDOBANK SA. made a partial repayment (USD 65 million) of a loan granted by PKO Bank Polski SA. 7. In 2009, KREDOBANK SA. redeemed its bonds with a total nominal value of UAH 75.45 million in the Ukrainian market, thus decreasing its total liabilities from bond issue to UAH 0.31 million. 8. On 18 December 2009, the General Shareholders' Meeting of KREDOBANK SA passed a resolution on an increase in the share capital of UAH 368 million by way of an additional share issue planned for the first half of 2010. PKO Bank Polski SA intends to acquire shares in the new issue to which it is entitled. 9. At 31 December 2009, KREDOBANK SA had 20 branches and 142 local offices in 22 (out of 24) Ukrainian districts and the Independent Republic of the Crime (at the end of 2008 the network of KREDOBANK SA amounted to 27 branches and 149 local offices. *Balance sheet items relating to KREDOBANK SA at the end of 2009 were translated using the average NBP rate as at 31December 2009 (1 UAH = 0.3558 PLN), while those at the end of 2008 were translated using the average NBP rate as at 31December 2008 (1 UAH = 0.3730 PLN).* *Income statement items relating to KREDOBANK SA were translated using the average of NBP exchange rates prevailing as at the last day of each month of 2009 and 2008 (0.3897 PLN/UAH and 0.4525 PLN/UAH respectively).*
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	Management of an open - end pension fund.	1. As at 31 December 2009, the equity of PKO BP BANKOWY PTE SA amounted to PLN 225 483 thousand. 2. In 2009, PKO BP BANKOWY PTE SA earned a net profit of PLN 23 619 thousand (in 2008 the net profit of the Company amounted to PLN 25 036 thousand). 3. As at the end of 2009, the net assets value of PKO BP Bankowy OFE amounted to PLN 4 912 million, i.e. it increased by PLN 882 million (21.9%) compared with the end of 2008. 4. As at 31 December 2009, the number of accounts maintained for participants of PKO BP Bankowy OFE was 453 821. 5. According to the Company's estimates, in 2009 PKO BP Bankowy OFE earned a return on investment of 14.75%, which placed it in 3rd place in the pension fund market. 6. As at the end of 2009, PKO BP Bankowy OFE was the 10th pension fund on the market in terms of assets value, and the 10th in terms of the number of accounts maintained (in 2008: 9th place in terms of assets value, and 10th in terms of number of accounts maintained)*. *Source: www.knf.gov.*pl*
Centrum Finansowe Puławska Sp. z o.o.	The Company manages the building "Centrum Finansowe Puławska" located at 15 Puławska Street in Warsaw.	1. The value of company's equity at the end of 2009 amounted to PLN 210 881 thousand. 2. In 2009 the Company earned net profit of PLN 12 491 thousand (in 2008 the Company noted net profit in the amount of PLN 7 376 thousand). 3. The occupancy rate of office and commercial space in the CFP building was relatively stable and amounted to 97% as at the end of 2009 (100% as at the end of 2008). 4. As at 31 December 2009, 89.49% of the office and commercial space in the CFP building was rented to PKO Bank Polski SA Group entities. 5. In 2009, the Company paid a dividend in the total gross amount of PLN 7.4 million to PKO Bank Polski SA (from the profit for 2008).
PKO BP Inwestycje Sp. z o.o.	Construction and development activities. PKO Inwestycje Sp. z o.o. specializes in management of big development projects.	1. The value of equity of the PKO BP Inwestycje Sp. z o. o. Group (PKO BP Inwestycje Sp. z o. o. and its subsidiaries) at the end of 2009 amounted to PLN 179 623 thousand. 2. The PKO Inwestycje Sp. z o.o. Group closed the year 2009 with a net loss of PLN 1 031 thousand (net loss of PLN 4 531 thousand).* 3. In 2009, the Company's activities were focused on the following development projects: - "Nowy Wilanów" in Warsaw carried out by Wilanów Investments Sp. z o.o., - "Neptun Park" in Gdańsk Jelitkowo carried out by POMERANKA Sp. z o.o., - "Kuźmińska" in Kiev, Ukraine, carried out by UKRPOLINWESTYCJE Sp. z o.o. - "Osiedle Rezydencja Flotylla" in Międzyzdroje carried out by PKO Inwestycje - Międzyzdroje Sp. z o.o. - "Simieńskiego" in Rzeszów, carried out by WISŁOK Inwestycje Sp. z o.o. - "Osiedle Sarnia Dolina" in Jankowo (near Gdańsk) carried out by Baltic Dom 2 Sp. z o.o. 4. Fort Mokotów Sp. z o.o. - subsidiary of PKO Inwestycje Sp. z o.o. - in 2009 continued warranty services for the completed project "Marina Mokotów" and performed actions towards ceasing operations. * presented in net profit attributable to the parent company
Bankowy Fundusz Leasingowy SA	Operating and financial lease services ranging from means of conveyance, machinery, devices, real estate and longterm car rent	1. As at the end of 2009, the BFL SA Group (Bankowy Fundusz Leasingowy SA and its subsidiaries) equity amounted to PLN 89 345 thousand. 2. In 2009, the Group earned a net profit of PLN 4 050 thousand (in 2008 the net profit of the Group amounted to PLN 10 081 thousand). 3. In 2009, the BFL SA Group Companies leased out assets with a total value of PLN 938 million, which represents a decrease of 31.1% compared with the first half of 2008. The decrease in terms of the value of leased assets is due to the market situation, including lower investment demand and deterioration of financial standing of corporate entities. 4. In terms of the value of assets leased, at the end of 2009, the Group ranked 10th (based on preliminary data published in the Rzeczpospolita daily). 5. The total carrying value of the BFL SA Group lease investments as at 31 December 2009 was PLN 2 229 million (as at the end of 2008: PLN 2 317 million). 6. On 30 December 2009, the Extraordinary Shareholders' Meeting of BFL Nieruchomości Sp. z o.o., a subsidiary of BFL SA, passed a resolution on an increase in the Company's share capital of PLN 2,000 thousand. All the shares will be acquired by Bankowy Fundusz Leasingowy SA for a price equal to the non of the shares acquired.

SUBSIDIARY	SCOPE OF ACTIVITIES	ACTIVITIES OF OTHER GROUP COMPANIES
PKO Towarzystwo Funduszy Inwestycyjnych SA	Setting up and management of investment funds	1. As at 31 December 2009, the equity of the Management Company amounted to PLN 86 512 thousand. 2. In 2009, the Management Company earned a net profit of PLN 60 850 thousand (in 2008 the Company noted net profit in the amount of PLN 104 815 thousand). 3. The asset value of the funds managed by the Management Company amounted to PLN 8.4 billion as at 31 December 2009, resulting in the Company having a 9.0%* share in the investment fund market and holding the 5th place among the funds. For comparison purposes: at the end of 2008 the asset value of managed funds amounted to PLN 8.2 billion, resulting in having 11.06% share in the investment fund market and holding the 3rd place. 4. As of 23 February 2009, PKO BP Finat Sp. z o.o., a subsidiary of Inteligo Financial Services SA, became the agent servicing investment funds managed by PKO TFI SA. 5. On 1 December 2009, the name of the funds managed by the Managing Company was changed from "PKO/CREDIT SUISSE" to "PKO". 6. On 31 December 2009, the agreement for the management of investment portfolios with Credit Suisse Asset Management (Polska) SA. was terminated. Since 1 January 2010, the Managing Company has been managing the investment fund portfolios on its own. 7. In 2009, the Company added to its offer two specialized investment programmes: "Program Oszczędnościowy" and "Inwestycja w Fundusz z kredytem". As at 31 December 2009 the Managing Company managed 22 investement funds within the distribution chain of PKO Bank Polski SA. 8. In 2009, the Company paid dividend to the shareholders for 2008 in the amount of PLN 105 million (gross), including PLN 78.75 million to PKO BP SA. ** Source: "Analizy on-line" and Izba Zarządzających Funduszami i Aktywami*
Inteligo Financial Services SA	The provision of services in the area of development and maintenance of IT systems for e-banking, mainly for PKO Bank Polski SA, for finances and e-commerce services; logistics services to customers using the Inteligo platform; intermediation in selling products using interactive distribution channels.	1. As at the end of 2009, the IFS SA Group (Inteligo financial Services SA and it's subsidiary Finanse – Agent Transferowy Sp. z o.o.) equity amounted to PLN 136 072 thousand. 2. In 2009, the IFS SA Group earned a net profit of PLN 13 473 thousand (in 2008 the Company Inteligo Financial Services SA earned a net profit in the amount of PLN 24 985 thousand). 3. In 2009 the value of deposits of PKO Bank Polski SA's customers using Inteligo account increased by PLN 263 million, amounting at the end of December 2009 to PLN 2 540 million. An increase of client's deposits in 2009 was higher than an increase of client's deposits in 2008 by PLN 50 million. 4. At the end of 2009, Inteligo Financial Services SA provided access to electronic banking systems to approximately 3.25 million PKO Bank Polski SA clients using iPKO services, and served more than 617 thousand holders of Inteligo accounts. 5. In 2009, Inteligo Financial Services SA introduced new functionalities, e.g. obtaining an overdraft facility by mobile phone, sending transaction confirmations to a given fax number and making payments and top-ups via text messages. 6. In October 2009, Inteligo Financial Services SA obtained the ISO/IEC 27001:2005 certificate, confirming the implementation and use of the information security management system in the area of IT solutions and software for financial and banking institutions and the provision of financial, IT and logistics services to the Company's customers. 7. PKO BP Finat Sp. z o.o., a subsidiary of Inteligo Financial Services SA, is providing transfer agent services to the companies of the PKO Bank Polski SA Group, PKO TFI SA and PKO BP BANKOWY PTE SA, as well as bookkeeping services for PKO TFI SA and other investment fund managing companies.
Centrum Elektronicznych Usług Płatniczych eService SA	Provision of ebanking services, mainly for PKO BP SA, finance and ecommerce market; providing logistic services for clients using Inteligo platform; intermediary in selling ther banking products using interactive distribution channels	1. The company's equity as at the 31 December 2009 was PLN 90 203 thousand. 2. In 2009 the company recorded a net profit of PLN 31 981 thousand (PLN 27 767 thousand in 2008). The increase in profit results from increse in revenues, including specifically revenues from the rental of terminals, sales of prepaid services and transaction processing. 3. The number of eService terminals was 53 983 as at the end of December 2009, which represents an increse of 2,9% compared with the end of 2008. 4. The company's estimated share in market of bank card acceptance it terms of the number of terminals installed amounted to 27.4% as at the end of 2009 (data source: NBP's reports) 5. In 2009 transactions amounting to PLN 20,9 billion were generated with the use of eService terminals representing an increase of 9.7% compared to 2008. 6. In terms of the value of generated card transactions, the company's market share was 27 (data source: NBP's reports). 7. In 2009, the Company expanded the network of its own ATMs to 43 devices. 8. In April 2009 the company obtained ISO PE-EN ISO 9001:2001 certifying the introduction and using the quality management system with regards to making payments and other services provided through banking card's terminals. 9. In 2009 the company paid a dividend of PLN 9.96 million (grosss) to PKO Bank Polski SA for 2008.
Fort Mokotów Inwestycje Sp. z o.o.	Development activities	1. As at 31 December 2009, the company's equity amounted to PLN 105 889 thousand. 2. The Company recorded a net loss of PLN 583 thousand in 2009. The loss resulted from the fact that the Company only incurred start-up cost in the initial period of its operations. The company is at the stage of obtaining permits relevant to the project. 3. The Company's operations consist in executing a construction project on land located at Raclawicka 107 Street in Warsaw.
Bankowe Towarzystwo Kapitałowe SA	Until 2008 venture capital activity, at present providing services for other entities of the Group, i.a., HR support and maintaining the accounting records	1. As at 31 December 2009 the BTK SA Group's (Bankowe Towarzystwo Kapitałowe SA and its subsidiary PKO BP Faktoring SA) equity amounted to PLN 9 564 thousand. 2. In 2009, the Group recorded a net loss of PLN 4,693 thousand (in 2008, Bankowe Towarzystwo Kapitałowe SA earned the net profit of PLN 1,704 thousand). The net loss for 2009 resulted from the costs incurred by the Group in connection with undertaking new activities by both Bankowe Towarzystwo Kapitałowe SA and PKO BP Faktoring SA. 3. In the second half of 2009, PKO BP Faktoring SA started providing domestic factoring services without the assumption of risk (with recourse) and domestic factoring with the assumption of risk.
PKO Finance AB	The Company's operations comprise raising funds for PKO BP SA through the issue of Eurobonds	1. As at 31 December 2009, the company's equity amounted to PLN 359 thousandł (SEK 897 thousand). 2. In 2009 the company earned a net profit of PLN 63 thousand (SEK 155 thousand). 3. As at 31 December 2009 the company did not start its statutory activity Equity value was translated using the average NBP rate as at 31 December 2009 (1 SEK= 0.4 PLN), *net result was translated using the average NBP rates prevailing as at the last day of each month of 2009 (1 SEK = 0.4095 PLN).*

5.5 Activities taken by PKO Bank Polski SA towards Kredobank SA

In order to counteract the deepening crisis in the international financial markets, including a significant deterioration in the macroeconomic situation in Ukraine, in 2009 the Management Board of PKO Bank Polski SA undertook a series of measures which directly contributed to securing the operations of Kredobank SA and strengthening corporate supervision over its investment in Ukraine.

Effectiveness strengthening of statutory organs of Kredobank SA

In 2009 Management Board of PKO Bank Polski SA undertook decisions to strengthen staff of the statutory organs in Kredobank SA.

The composition of Supervisory Board of Kredobank SA after the implementation of changes is as follows:

1. Krzysztof Dresler – President of the Supervisory Board,
2. Wojciech Papierak – Vice-president of the Supervisory Board,
3. Andrzej Kołatkowski – Secretary of the Supervisory Board,
4. Jan Karwański – Member of the Supervisory Board,
5. Łukasz Dziekoński – Member of the Supervisory Board,
6. Marek Dźwigaj – Member of the Supervisory Board,
7. Robert Badziak – Member of the Supervisory Board.

As a result of the changes implemented in 2009, the composition of the Management Board of Kredobank SA was strengthened by appointing a First Vice-president responsible for the business activities and organization of Kredobank SA and a Vice-president responsible for restructuring and debt collection as well as credit risk.

The compsition of Management Bard of Kredobank SA after the implementation of changes is as follows:

1. Ivan Feskiv – President of the Management Board of Kredobank SA,
2. Adam Grzela – Acting I Vice-president of the Management Board,
3. Danuta Sikora – Vice-president of the Management Board,
4. Przemysław Majka – Vice-president of the Management Board,
5. Taras Choma – Vice-president of the Management Board.

The changes implemented were designed to strengthen:

- control over credit risk at Kredobank SA, including restructuring and debt collection activities;
- servicing Polish entrepreneurs who invest in the Ukraine (Polish-Ukrainian businesses);
- cost management, restructuring processes and HR management.

Enhancing the safety of Kredobank SA operations

<u>Increase in share capital of Kredobank SA</u>

PKO Bank Polski SA participated in the increase in the share capital of Kredobank SA. As part of the 19th share issue, the Bank acquired shares with a nominal value of UAH 1 023 842 023.91, representing 99.97% of the new share issue. The price for the shares acquired, including additional costs, amounted to PLN 430 644 768.47. As a result of acquiring these shares, the interest of PKO Bank Polski SA in the share capital of Kredobank SA and the percentage of voting rights at the Company's GSM increased from 98.5619% to 99.4948%.

On 18 December 2009, the Extraordinary Shareholders' Meeting of Kredobank SA passed a resolution on increasing the share capital of Kredobank SA by UAH 368 million by way of the 20th share issue. PKO Bank Polski SA intends to acquire all shares of the new issue to which it is entitled.

<u>Subordinated loan</u>

On 26 June 2009, having obtained permission from the National Bank of Ukraine, Kredobank SA made an early repayment of subordinated loans amounting to USD 38 million to PKO Bank Polski SA.

In accordance with the Ukrainian legislation, these subordinated loans were not taken into account in the full amount in the calculation of the capital adequacy ratio of Kredobank SA. In order to eliminate the risk that in future subordinated loans will not be fully or partially included in the calculation of the said ratio, the 19th issue of Kredobank SA's shares was increased by the value of subordinated loans granted to Kredobank SA, and the said loans were repaid to PKO Bank Polski SA.

On 10 November 2009, PKO Bank Polski SA granted a subordinated loan of USD 20 million to Kredobank SA. On 20 November 2009, the loan was registered by NBU and increased the regulatory capital of Kredobank SA.

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

The Management Board of PKO Bank Polski SA intensified its cooperation with the National Bank of Ukraine and the Ukrainian government. In 2009, a number of working meetings with representatives of the Ukraine took place. These contacts, in addition to discussing the current financial and economic situation of Kredobank SA, were aimed at improving the image of Kredobank as a subsidiary of a stable and reliable shareholder, PKO Bank Polski SA.

As a result of these meetings, on 16 February 2009 Kredobank SA signed an agreement with the National Bank of Ukraine concerning the improvement of Kredobank SA's performance indicators. These indicators improved partially after the increase in capital as a result of the 19th share issue. However, as a result of the deepening financial crisis in the Ukraine which directly affected the operations of Kredobank SA and the fact that the assumptions adopted in the said agreement became outdated, it was necessary to amend the agreement. The amendment of the agreement was also connected with the NBU's resolution in which it had been concluded that the capital base of Kredobank SA needed strengthening by increasing the Bank's regulatory capital.

On 20 November 2009, Kredobank SA and the National Bank of Ukraine signed an updated agreement. The updated agreement provides for an increase in the regulatory capital by obtaining two subordinated loans totalling USD 35 million and increasing the share capital by UAH 368 million by way of a new share issue.

Restructuring activities at Kredobank SA

<u>The loan portfolio of Kredobank SA</u>

In 2009, the supervisory powers over Kredobank SA were increased: the competencies of the Supervisory Board were strengthened by decreasing the threshold of liabilities which need to be approved by the Supervisory Board before they are incurred.

A Credit Committee of the Supervisory Board was appointed to analyze the process of loan restructuring within the limits set out.

A task force supporting the restructuring of Kredobank SA's loan portfolio was appointed at PKO Bank Polski SA.

As part of supporting the process of restructuring the loan portfolio of Kredobank SA, 3 employees of the Restructuring and Debt Collection Function of PKO Bank Polski SA were temporarily seconded to work for Kredobank SA.

<u>Cost and organizational restructuring and network optimization</u>

In 2009, restructuring activities in the area of branch network optimization and cost and organizational restructuring of Kredobank SA were undertaken.

Continuing an intensified supervision over the investment

In 2009, as part of the intensified supervision over its investment, PKO Bank Polski SA:

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

Developing an investment policy towards Kredobank SA

In connection with the global financial crisis, which was particularly deep in the Ukrainian market, it was necessary to redefine the policy of PKO Bank Polski SA towards its investment in Kredobank SA. On 4 December 2009, the Management Board of PKO Bank Polski SA adopted The investment policy and strategic guidelines of PKO Bank Polski SA towards Kredobank SA for 2010-2014, subsequently presented to the Supervisory Board of PKO Bank Polski SA.

Significant events after the reporting period relating to Kredobank SA.

On 28 January 2010, the Supervisory Board of Kredobank SA approved the Financial Plan for 2010 and the Financial Plan of Kredobank SA for 2011-2015.

On 9 February 2010, PKO Bank Polski SA granted a second subordinated loan of USD 15 million to Kredobank SA. The agreement relating to the said loan was registered with the National Bank of Ukraine.

5.6 Other subordinated entities [6]

SUBSIDIARY	Scope of activities	ACTIVITIES OF OTHER GROUP COMPANIES
CENTRUM HAFFNERA Sp. z o.o.	CENTRUM HAFFNERA Sp. z o.o., together with its subsidiaries, carries out an investment project relating to re-vitalization of Sopot's tourist centre.	1. The value of equity of THE CENTRUM HAFFNERA Sp. z o.o. Group (CENTRUM HAFFNERA Sp. z o.o. and its subsidiaries) at the end of 2009 amounted to PLN 76 711 thousand. 2. The Group closed the year 2009 with a net loss of PLN 2 368 thousand
Centrum Obsługi Biznesu Sp. z o.o.	The Company's supervises the management of the Sheraton Poznań Hotel.	1. The value of company's equity at the end of 2009 amounted to PLN 26 982 thousand 2. The company closed the year 2009 with a net loss of PLN 4 165 thousand
Bank Pocztowy SA	Banking activities	1. The value of company's equity at the end of 2009 amounted to PLN 273 789 thousand. 2. The company closed the year 2009 with a net profit of PLN 11 271 thousand.
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Granting of suretyships and guarantees to secure the repayment of loans and advances granted by financial institutions to small and medium-sized enterprises (SMEs).	1. The value of company's equity at the end of 2009 amounted to PLN 15 086 thousand. 2. The company closed the year 2009 with a net profit of PLN 249 thousand
Agencja Inwestycyjna CORP SA	Management of business premises in Warsaw.	1. The value of company's equity at the end of 2009 amounted to PLN 1 286 thousand. 2. The company closed the year 2009 with a net profit of PLN 479 thousand.
Kolej Gondolowa Jaworzyna Krynicka SA	Set up mainly for the purpose of construction and operation of cable railway from Krynica to Jaworzyna Krynicka and for carrying people on ski lifts.	1. The value of company's equity at the end of 2009 amounted to PLN 38 645 thousand. 2. The company closed the year 2009 with a net profit of PLN 1 864 thousand.

5.7 International co-operation

Co-operation with other foreign institutions

In 2009, PKO Bank Polski:

- concluded the Global Loan 2 agreement with the European Investment Bank based on which the Bank obtained a credit facility of EUR 150 million for financing small and medium enterprises and the development of municipal infrastructure;
- increased the indebtedness in respect of the framework agreement concluded in July 2008 with the Council of Europe Development Bank ('CEB'), based on which CEB granted a loan to the Bank for co-financing of capital expenditure projects aimed at creating new jobs and for the conservation of the existing jobs in the SMEs sector in Poland. As at 31.12.2009, the outstanding debt resulting from this agreement amounted to EUR 100 million.
- in December 2009, PKO Bank Polski SA signed a subscription agreement based on which the Bank is obliged to acquire shares in *The 2020 European Fund for Energy, Climate Change and Infrastructure* (hereinafter 'the Marguerite Fund) up to EUR 100 million. PKO Bank Polski SA is the only bank operating in a new Member State of the European Union invited by the European Investment Bank to participate in this project and granted the status of a founder of the Marguerite Fund ('Core Sponsor') which gives the Bank the ability to influence the investment policy of the said Fund. The Marguerite Fund was established for a period of 20 years, of which during the first 4-6 years of operations the investment portfolio of the Fund will be developed (ca. 35 investment projects). The projects in the energy sector will be the key priority of the Fund, e.g. projects reducing the effects of climate changes and the development of the infrastructure. As at 31 December 2009, the capital involvement of PKO Bank Polski SA in the Marguerite Fund amounted to EUR 500 thousand.

In 2009, Bankowy Fundusz Leasingowy SA financed the development of small and medium enterprises (SMEs) from the funds of the loan obtained from the European Investment Bank in the amount of PLN 56.9 million.

5.8 Activities in the area of promotion and image building of the PKO Bank Polski SA Group

In 2009 PKO Bank Polski SA's activities in the area of promotion focused on actions intended to:

1. strengthen the image of PKO Bank Polski SA among its shareholders and clients as the leader of the Polish banking sektor - a modern institution with an established reputation, a secure and friendly (close) partner in every segment of the market;
2. increasing prestige of PKO Bank Polski SA brand;
3. intensifying promotional activities which support sales of products and services offered by PKO Bank Polski SA.

[6] *Financial results of the Group's subsidiaries are presented in accordance with Polish Accounting Standards.*

As part of promoting the products and services of PKO Bank Polski SA, promotional campaigns of particular products were organized, as well as image-building campaigns and direct marketing activities intended to attract new clients and strengthen relations with the existing business partners. In connection with the 90th anniversary of its establishment, PKO Bank Polski SA prepared a number of image-related activities which present the Bank's history.

In 2009, public relations activities were conducted based on sponsoring and charity activities. PKO Bank Polski SA, as a patron and sponsor, supported the organization of cultural and sport events, social and community projects, in the framework of creative sponsoring programmes.

Sponsorship activities

Sponsoring activities realized by the Bank were aimed at creating the image of PKO Bank Polski SA as a reliable financial institution, open to the needs and expectations of its clients, engaged in the development of the country and local communities.

Table 23. Structure of the main sponsorship areas of PKO Bank Polski SA Group (percentage)

Area	Number of projects	Share in budget %	Share in budget (PLN)
Image sponsorship	472	80%	6 041 832
Sector sponsorship	120	20%	1 510 458
Total:	**592**	**100%**	**7 552 290**

Table 24. Sponsorship activities by amount (PLN)

Sponsoring activities (by amount)	Number of projects
0 – 100 000	586
100 000 – 500 000	4
Above 500 000	2

80% of the budget was dedicated to sponsoring activities which build the desired image and brand of PKO Bank Polski SA. The initiatives supported were aimed at presenting PKO Bank Polski SA as the leader of the financial market, and a dynamic organization in the course of modernization, and at the same time a friendly institution open to the needs of local communities. The majority of the projects sponsored related to education, sports, culture and the protection of the national heritage, as well as so-called social sponsoring.

Among the educational projects, they included support for initiatives undertaken by universities throughout the entire country, including, inter alia, the Warsaw School of Economics in Warsaw, the Economic University in Kraków, the Academy of Fine Arts in Warsaw, the University in Białystok, the Technical University in Gdańsk, the University of Łódź, the Adam Mickiewicz University in Poznań.

The largest projects in the area of sport sponsorship included sponsoring of the Polish male handball representation, and the agreement with the Polish Olympic Committee (concluded in 2007) based on which PKO Bank Polski SA is sponsoring the Polish Olympic movement.

PKO Bank Polski SA sponsored a spectacular event, i.e. the 19th Warsaw Uprising Run and the main event for the cross-country skiing enthusiasts: the 33rd Piast Run, organized by the Association Piast Run.

The main events in the area of culture and national heritage included the sponsoring of the International Musical and Theatre Festival, the International Highland Folklore Festival and exhibitions of modern art, previews, film festivals.

In addition, the Bank realized publication sponsoring projects, e.g. 'Historia grosza i złotego' (the History of the Polish Grosz and Złoty), 'Dziennikarstwo gospodarcze' (Economic Journalism), a book containing interviews with Polish graphic artists from the 1960s and 1970s, the publication of a book by Jerzy Kasprzak 'Tropami powstańczej przesyłki' (Following a Rebel Letter), and an album 'Sztuka Indywidualności' (The Art of Individuality).

The following internal regulations regulate the sponsorship and charity activities:
1. 'Regulations on sponsoring activities in PKO Bank Polski SA',
2. 'Mode of sponsoring activities in PKO Bank Polski SA',
3. 'Regulations on marketing activities in PKO Bank Polski SA',
4. 'Mode of marketing activities in PKO Bank Polski SA'.

In accordance with the above listed regulations, sponsorship activities do not require the acceptation of the Supervisory Board. The Supervisory Board did not assess the sponsorship activities.

PKO Bank Polski SA monitors on an ongoing basis the realization of particular sponsorship projects and orders research concerning sponsorship and image perception (both qualitative and quantitative).

Charity activities

Charity activities play an important role in forming a positive image of PKO Bank Polski SA as an institution noticing the importance of corporate social responsibility. Apart from the image issues, participation in charity activities creates the possibility of contacts with opinion-setting circles and local authorities.

Table 25. Main areas of charity activities

Area	Number of donations	Share in budget %	Amount paid (PLN)
Social aid	213	33.4%	1 643 900
Education and entrepreneurship	135	21.2%	428 450
Sport and leisure	135	21.2%	359 810
Health	112	17.6%	624 835
Culture and national heritage	28	4.4%	251 300
Other	14	2.2%	62 000
Total:	**637**	**100%**	**3 370 295**

Table 26. Charity activities by amount (PLN)

Charity activities (by amount)	Number of donations
0 – 5 000	529
5 001 – 20 000	104
20 001 – 100 000	3
Above 100 000	1

In the area of social aid, the agreement signed towards the end of 2007 with Fundacja Polsko-Niemieckie Pojednanie continued to be realized. PKO Bank Polski SA is subsidizing the program of social and humanitarian help for the former soldiers of Armia Krajowa (the Home Army). This initiative is organized under the auspices of the President of the Republic of Poland.

Once again children and the youth could count on the help with organizing the Holidays, Children's Day and both summer and winter vacations.

At the initiative of the employees in the Kujawsko-Pomorskie Region, an educational corner for sick children was organized in 19 hospitals. The Bank also founded two scholarships for young scientists in the 'Zostańcie z nami!' (Stay with us!) campaign organized by the 'Polityka' weekly.

In the area of the protection of goods, culture and tradition, subsidizing the construction of the monument of Poles Saving Jews, erected in the Survivors' Park in Łódź, was a major project.

The support provided by PKO Bank Polski SA enabled many hospitals and foundations to purchase life-saving medical equipment.

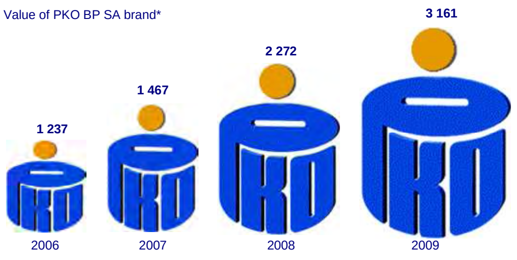
In 2009, promotional activities of the remaining PKO Bank Polski SA Group companies concentrated mainly on:

- securing the advertising support of product sales and building a positive image of Kredobank SA by, among other things, financially supporting the programme for handicapped children and adolescents,
- support in sales of apartments in the housing developments under construction 'Neptun Park' in Gdańsk Jelitkowo and 'Nowy Wilanów' in Warsaw (PKO BP Inwestycje Sp. z o.o. and its subsidiaries),
- building the position of PKO Towarzystwo Funduszy Inwestycyjnych SA on the investment fund market, mainly by: preparing and distributing educational brochures, publications and radio programmes on how to safely invest in investment funds (including a series of inserts in the daily 'Gazeta Prawna' and programmes broadcast by Channel 1 of the Polish Radio).
- actions supporting the sales of services of Bankowy Fundusz Leasingowy SA, including conducting incentive competitions for the salesmen and engaging in advertising campaigns in specialist magazines,
- promotional actions of Centrum Elektronicznych Usług Płatniczych eService SA relating to contactless cards (organized jointly with VISA), relating to proximity cards (organized jointly with MasterCard), and cash back services,
- information, promotion and support of sales of products of Inteligo Financial Services SA, including promotion of the payment service 'Płacę z Inteligo', 'Płacę z iPKO', and the Inteligo Mobile Service.

Prizes and awards granted to entities of the PKO Bank Polski SA Group

In 2009 PKO Bank Polski SA and other entities of the PKO Bank Polski SA Group and have been granted numerous prizes and awards, including:

1. Best Products for Business 2008-2009, granted by the readers of *Gazeta Finansowa* – the Biznes Rozwój package won the 'Bank offer for firms' category.
2. The 'Product of the Year 2008' certificate from Reader's Digest. In accordance with the results of a consumer survey 'Product of the Year 2008' conducted by the Reader's Digest monthly, the Bank's products were awarded the 'Product of the Year 2008' logo in the categories 'finance – mortgages' and 'finance – banking deposit'.
3. A business-friendly bank – 21 branches of PKO Bank Polski SA were among the finalists of the 10th edition of the 'Business-friendly Bank' competition. The platinum award was won by Branch Office No. 1 in Opoczno. The competition is conducted by the Polish Chamber of Commerce and the Polish-American Foundation for Advisory to Small Enterprises.
4. An award for cooperation and support provided in 2008 to the ABCXXI – Cała Polska czyta dzieciom Foundation. In the 7th finals of the social campaign 'Cała Polska czyta dzieciom', PKO Bank Polski SA was awarded the highest award for fruitful cooperation and support in 2008.
5. Employer of the year – price granted by the AIESEC Polska (Association of students of economic schools and faculties), PKO Bank Polski SA ranked fourth on the list and first among finance and banking companies.
6. European Trusted Brands 2009 – PKO Bank Polski SA, being considered a reliable brand, was awarded the Golden Emblem.
7. The 100 most valuable companies in Poland in 2008 – first place in the ranking of the 100 most valuable companies in Poland in 2008 and first place in the ranking of the 100 most valuable companies in Poland in the banking industry. The ranking is prepared by Newsweek and strategic advisory company A.T. Kearney.
8. Firma Dobrze Widziana (A Firm Well Perceived) in the Mazowieckie Voivodship – PKO Bank Polski SA was the prizewinner in the 'Firma Dobrze Widziana' competition in the Mazowieckie Province. The competition is organized by Business Centre Club, the Trade Union Forum and the Association Akademia Rozwoju Filantropii w Polsce (Philanthropy Development Academy).
9. Student Product of the Year 2009 prize awarded by Media Point Group. PKO Bank Polski SA was awarded the prize in the Student Product of the Year 2009 competition, in the category 'The Student's Bank'.
10. Main prize and award in the ranking of the 50 key banks – in the annual ranking of the 'Miesięcznik Finansowy BANK' monthly. PKO Bank Polski SA was awarded the main prize and a distinction.
11. An honourable mention in The Best Annual Report 2008 competition - PKO Bank Polski SA received an honourable mention in the competition which has now been organized by the Accounting and Tax Institute for the last 4 years.
12. The Ranking of the Most Valuable Polish Brands – PKO Bank Polski SA ranked 2nd in the competition organized by the Rzeczpospolita daily. Among the financial sector brands, PKO Bank Polski SA won first position. The brand of our Bank was valued at nearly PLN 3.2 billion, i.e. PLN 0.9 billion higher than in the prior year.



* according to ratings of most valuable Polish brands published by Rzeczpospolita (PLN million)

For the purposes of the ranking, a worldwide used metod 'relief from royalty' was adopted. It is based on hypothetical licensing fees, that the owner of the brand would have to pay, if he did use it basing on the license agreement. Such a fee is settled in relation to net income on sales.

13. The most valuable brand in Poland In the annual ranking of the most valuable banking brands organized by The Banker monthly, PKO Bank Polski SA ranked 129th among 500 institutions from around the world. The value of PKO Bank Polski SA brand was estimated at USD 1 062 million, which represents and increase of USD 424 million compared to the prior year and the advancement of 20 places up in the ranking.
14. The best financial institution in 2008 according to the Rzeczpospolita daily. PKO Bank Polski SA was ranked first in the category 'Banks'. In the category 'Brokerage House', the Brokerage House of PKO

Bank Polski SA took 3rd position and in the category 'Investment Fund Managing Companies', PKO TFI ranked 3rd, too.

15. The most active entity in the NewConnect market – an award from the Warsaw Stock Exchange. The Brokerage House of PKO Bank Polski SA received an award for the greatest activity in market making on the *NewConnect* market in 2009.
16. The Golden Emblem of the Consumers' Laurel for PKO Towarzystwo Funduszy Inwestycyjnych, for taking first place in the daily 'Rzeczpospolita' programme 'Consumers' and Client's Golden Laurel' in the investment fund category.
17. The Financial Order 2009 for Bankowy Fundusz Leasingowy SA awarded by the monthly *Home & Market* for the financial offer Express Sales Package – Leasing.
18. The European Medal for Wilanów Investments Sp. z o.o. awarded by the Office of the European Integration Committee, European Social and Economic Committee in Brussels and *Business Center Club* for products and services whose quality is at a European level.
19. First place for Kredobank SA in the category 'Investor of the year' in the competition organized by the Lviv State Administration and the Lviv Chamber of Industry and Commerce.
20. First place for Kredobank SA in the category 'Bank with a high level of openness and transparency' awarded by the 'Bankier' daily in its First National Competition 'Bank of the Year – 2009'.
21. Three medals awarded to Kredobank SA for banking products as part of the country-wide Ukrainian competition-exhibition 'The Best Domestic Product of 2009'.
22. The title of Vice-leader awarded to the Inteligo account in the category of best Internet accounts in the ranking of banks organized by the '*Newsweek Polska*' weekly.
23. Third place for PKO Towarzystwo Funduszy Inwestycyjnych SA in the ranking 'Best Investment Fund Management Companies in Poland' of the Rzeczpospolita daily.
24. The title of 'The Business Gazelle' awarded to Centrum Elektronicznych Usług Płatniczych eService SA in the ranking organized by the daily 'Puls Biznesu' and the audit company *Coface*.

6. INTERNAL ENVIRONMENT

6.1 Principles of risk management

Risk management is one of the most important internal processes in PKO Bank Polski SA as well as in the other entities comprising the PKO Bank Polski SA Group, especially in KREDOBANK SA and Bankowy Fundusz Leasingowy SA Group (BFL SA). The objectives of risk management are to ensure an adequate level of security and profitability of business operations in the changing legal and economic environment.

Banking activity is exposed to a number of risks, including credit risk, interest rate risk, currency risk, liquidity risk, derivatives risk, operational risk, compliance risk, strategic risk and reputation risk. Controlling the impact of these risks on the operations of PKO Bank Polski SA is one of the most important objectives in the management of the Bank. 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 organizational 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.

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 as well as of the most important activities taken in the area of risk management.

The Management Board is responsible for strategic risk management, 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.

The Bank supervises activities of the individual subsidiaries of the Group PKO Bank Polski 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.

In 2009, the financial crisis continued to affect the situation on the Polish financial market. The progressing economic decline (limitation of the GDP growth, lower supply of loans, slow-down in the market growth dynamics in a number of industries, increased unemployment) and the difficult conditions on the financial market had an adverse effect on the results of the banking sector (continued deterioration of bank loan portfolios, continued setting up of additional provisions against credit risk, a highly restrictive lending policy and high costs of obtaining deposits).

In 2009, the Bank's priority was to sustain strong capital position and stable growth of deposit base that determine the growth of Bank's credit portfolio.

As a result, in 2009 the Bank:

- issued its own shares
- continued intensive actions aimed at gaining new deposits from retail clients
- considered the influence of financial crisis in the methods used to asses relevant risks (eg. in stress-test scenarios).

In 2009 the Bank continued to follow the restricted policy regarding retail credits in foreign currency, by setting higher own contribution requirements in case of mortgages, restricting the credits available for the high-risk clients and increasing the credit margins for the newly granted credits for the corporate and retail clients.

6.1.1 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 objective of credit risk management is to optimize the loan portfolio in terms of its quality and value, which at the same time is characterized by its high profitability and safety understood as minimalizing the risk of loans threatened with impairment.

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 assessment related to loan transactions is measured on the stage of a loan request review and a cyclical basis during the monitoring process, 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 legal collateral, credit margins and appropriate impairment allowances.

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, i.e. advanced credit risk management method, which can be used while calculating capital requirements for credit risk after being approved by the Financial Supervision Authority.

The Bank assesses the credit risk of retail clients on two levels: the client's borrowing capacity and his creditworthiness. In 2009 the Bank continued developing such credit risk assessment methods relating to retail clients, specifically by carrying out validation of dedicated consumer loans scoring models.

Credit risk relating to the financing of corporate clients is assessed on two levels: the client and the transaction (excluding SME clients treated as a part of the retail market, who are assessed based on the scanning approach). 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.

In December 2009, as regards corporate clients concluding derivatives deals, the Bank introduced new methods of risk assessment related to transactions involving derivates and of monitoring limits set on those transactions.

In 2009 PKO Bank Polski SA developed the Early Warning System (EWS) and developed an application dedicated to support EWS. EWS 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 markets and taking actions to prevent such risks from materializing or mitigate losses on loans.

The Group companies whose activities are exposed to credit risk conducted a review of credit risk policies and procedures and made the necessary amendments to their credit risk policies.

*Table 27. The structure of loan portfolio and impairment allowances of the PKO Bank Polski SA Group (PLN million)**

STRUCTURE OF LOAN PORTFOLIO AND IMPAIRMENT ALLOWANCES OF THE POWSZECHNA KASA OSZCZEDNOSCI BANK POLSKI SA GROUP

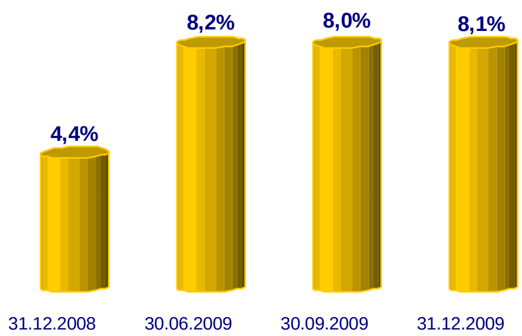
	As at 31.12.2009	As at 31.12.2008
Loans and advances to customers - gross	**120 510**	**104 026**
individual method	6 050	2 310
portfolio method	3 752	2 253
group method (IBNR)	110 708	99 463
Impariment allowances	**(3 937)**	**(2 918)**
individual method	(1 344)	(766)
portfolio method	(1 990)	(1 426)
group method (IBNR)	(603)	(726)
Loans and advances to customers - net	**116 573**	**101 108**

**loans and advances include recivables from financial leasing*

In 2009 the gross value of the Group's loans and advances to customers valued using individualized and portfolio method increased by PLN 3.7 billion and PLN 1.5 billion respectively.

In 2009 the growth of loan portfolio with identified indicators of impairment (individualized and portfolio method) was higher than the growth of entire loan portfolio, resulting in an increase of share of loans with identified indicators of impairment in the loan portfolio from 4.4% in 2008 to 8.1% in 2009.

Chart 1. Share of loans of PKO Bank Polski SA Group valued using portfolio and individualized method



As at 31 December 2009, the coverage ratio[7] for loans valued using individualized and portfolio method, at the the PKO Bank Polski SA Group amounted to 40.2% compared with 63.9% as at 31 December 2008.

As at 31 December 2009, the share of impaired loans in the PKO Bank Polski SA Group's loan portfolio amounted to 7.6%, compared with 3.6% as at 31 December 2008.

As at 31 December 2009, the coverage ratio[8] for loans for which objective evidence of impairment was identified, at the PKO Bank Polski SA, amounted to 43.2% compared with 77.1% as at 31 December 2008.

The main reason for the deterioration in the indicators of the portfolio's quality, as compared to the end of 2008, was the prevailing global, financial crisis. Additionally the change in indicator resulted from modifications in the methodology of the determining the level of impairment allowances for credit exposures and expanding indications of impairment: namely deterioration in the financial and economic position during the crediting period to the G rating and the conclusion of the debt restructuring agreement, as well as the change in the insolvency criterion (a delay in repayment of the principal or interest from 6 to 3 months for private individuals.

The PKO Bank Polski SA Group companies, which have significant credit risk levels (Kredobank SA, the BFL SA Group) manage their credit risk individually, but the methods used by them for credit risk

[7] calculated as: the amount of impairment allowance on loans and advances to customers divided by the total gross amount of oans and advances to customers assessed using individual and portfolio method.
[8] calculated as: the amount of impairment allowance on loans and advances to customers divided by the total gross amount of loans and advances to customers for which objective evidence of impairment was identified

assessment and measurement are adjusted to the methods used by PKO Bank Polski SA, taking into account the specific nature of the activities of these companies.

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

The BFL SA Group and Kredobank SA measure credit risk regularly, and the results of such measurements are submitted to PKO Bank Polski SA.

In 2009 KREDOBANK has centralised the process of the assessment of credit risk and of the management of the corporate loans operations as well as it has centralised the process of the assessment of credit risk related to mortgage loans for retail clients. In order to enhance the effectiveness of recovering doubtful and defaulted receivables, KREDOBANK SA:

- reorganized the Restructuring and Debt Collection Division (among others by creating regional branches)
- implemented outsourcing services and the sale of doubtful and defaulted receivables from retail clients
- developed new ways of restructurisation for retail clients
- changed the decision-making procedure related to doubtful and defaulted receivables in order to optimize the lending process.

In 2009, BFL SA continued limiting the credit risk by widening the scope of verification the applications in records of unreliable clients. It also introduced limits in financing companies from high risk market sectors, restricted credit policy, rules of granting loans and revised competence thresholds and cut-offs.

6.1.2 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, as well as liquidity risk. Market risk includes: interest rate risk, currency risk and liquidity risk.

Interest rate risk

The interest rate risk is a risk of incurring losses on the Bank's assets and liabilities sensitive to interest rate fluctuations, as a result of unfavourable changes in the interest rates on the market.

The objective of interest rate risk management is to mitigate the risk of incurring losses arising from market interest rate changes to an acceptable level.

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

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.

As at 31 December 2009 and 31 December 2008, the exposure of the PKO Bank Polski 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.

Table 28. VaR of the Bank and stress testing analysis of the Group's exposure to the interest rate risk (PLN thousand)

Name of sensitivity measure	31.12.2009	31.12.2008
VaR for a 10-day time horizon*	17 086	72 337
Parallel move of interest rate curves by +200 base points* (stress test)	233 304	266 216**

* Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk 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 40 048 thousands as of 31 December 2009 and PLN 17 788 thousands as of 31 December 2008, respectively.
** Data brought to comparability.

As at 31 December 2009, the interest rate VaR for the holding period of 10 days (10-day VaR) amounted to PLN 17 086 thousand, which accounted for approximately 0.10 % of the value of the Bank's own funds. As at 31 December 2008, VaR for the Bank amounted to PLN 72 337 thousand, which accounted to approximately 0.60% of the Bank's own funds[9]. The interest rate risk was generated mainly by the risk of a mismatch between the repricing dates of assets and liabilities.

Currency risk

Currency risk is the risk of incurring losses due to unfavorable exchange rate changes. The risk is generated by maintaining open currency positions in a given foreign currency.

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.

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, chich 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

Table 29. VaR of the Bank and stress-testing of the Group financial assets exposed to currency risk (cumulatively, PLN thousand)

Name of sensitivity measure	31.12.2009	31.12.2008
VaR for a 10-day time horizon with a confidence level of 99%*	1 092	11 297**
Change of PLN +15% (stress test)	697	13 222

* Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk 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 for the main currencies, which amounted to PLN 64 thousands as of 31 December 2009 and PLN 809 thousands as of 31 December 2008, respectively.
** VaR as at 31 December 2008 resulted mainly from USD position due to the acquisition of Kredobank SA shares, registered on 31 December 2008.

The level of currency risk was low both as at 31 December 2009 and as at 31 December 2008.

Table 30. The Group's currency positions (PLN thousand)

Currency	Currency position as at 31.12.2009	Currency position as at 31.12.2008
USD	(31 811)	(128 288)
GBP	1 501	(1 459)
CHF	(3 634)	(14 865)
EUR	26 489	17 728
Other (Global Net)	12 101	38 661

Liquidity risk

The liquidity risk is defined as the lack of the possibility to pay the debts on time due to the lack of liquid assets. Situation of the lack of liquidity may arise due to inconvenient structure of the statement of financial position, misfit cash flows, not received payments from contractors, sudden withdraw of cash by clients or other market events.

[9] Own funds calculated in accordance with regulations governing calculation of the capital adequacy ratio.

The objective of liquidity risk management is to shape the structure of the Bank's statement of financial position and contingent liabilities and commitments that will ensure the continuous and future (and potential) 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: the contractual liquidity gap method and the liquidity gap in real terms method, the surplus liquidity method, analysis of stability of deposit and loan portfolios, as well as stress testing.

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.

To ensure an adequate liquidity level, the Bank and the entities of the Group accepted limits and thresholds for liquidity risk. The limits and thresholds were set for both current liquidity measures, as well as for medium and long-term measures. The table below presents liquidity reserve as at 31 December 2009 and 31 December 2008.

Table 31. Liquidity reserve of PKO Bank Polski SA (PLN million)

	31.12.2009	31.12.2008
Liquidity reserve to 1 month*	16 030	6 666

**Liquidity reserve equals the gap between the most liquid assets and expected and potential liabilities which mature in a given period of time.*

As at 31 December 2009, the level of permanent balances on deposits constituted approximately 95% of all deposits of the Bank's (excluding interbank market), which is approximately 1p.p. higher as compared to the level as at the end of 2008.

6.1.3 Derivative instrument risk

The risk of derivative instruments is a risk of incurring losses arising from the Bank taking up a position in financial instruments, which meet all of the following conditions:

- the value of an instrument changes with the change of the underlying instrument;
- it does not require any initial net investment or requires only a small initial net investment compared with other types of contracts which similarly respond to changes in market terms;
- it is to be settled at a future date.

The derivative instruments risk includes the following risk types: credit risk, market risk (interest rate or currency risk) and liquidity risk.

The objective of managing the derivative instrument risk is to mitigate the risk of incurring losses arising from derivative instruments to the level acceptable by the Bank's general risk profile. The process of derivatives management in the Bank is integrated with the management of interest rate, currency, liquidity and credit risks.

The Bank measures the derivative instrument risk using, among others, the Value at Risk (VaR) model, depending on the risk factor which affects the value of the instrument.

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 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.

6.1.4 Operational risk

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.

Operational risk management is performed through systemic solutions as well as regular ongoing management of the risk. Systemic operational risk management is performed at the Bank's head office level. The ongoing operational risk management is conducted by every organizational unit of the Bank.

The mail tools for managing the operational risk are as follows:
- 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,*
- business continuity plan

In 2009, the Bank implemented SAS *OpRisk Management* application providing system support to operating risk management.

The dominant impact on the operational risk profile is exercised by the following three entities: PKO Bank Polski SA, BFL SA Group and KREDOBANK SA (in total 99% of all financial results). The other Group entities, considering their significantly smaller scale and type of activity, generate reduced operational risk and they manage operational risk according to principles of managing the risk in PKO Bank Polski SA, considering their specific nature and scale of activity.

6.1.5 Compliance risk

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 Bank as an entity that is reliable, fair, honest and compliant with law and adopted standards through mitigating compliance risk, covering the possibility of losing reputation or reliability as well as mitigating the risk of incurring financial losses or legal sanctions caused by the violation of regulations or codes of conduct.

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.

In all of the Group entities principles of compliance risk management are consistent with principles being in force at the Bank.

6.1.6 Strategic risk

The strategic risk is defined as a risk related to the possibility of negative financial consequences caused by erroneous decisions, decisions made on the basis of an inappropriate assessment or failure to make correct decisions relating to the direction of the Bank's strategic development.

The objective of strategic risk management is to identify the risks relating to setting and implementing the Bank's strategic goals and reducing their negative impact on the implementation of the adopted business strategy.

In measuring the strategic risk, the Bank takes the following into account:
- external factors;
- factors related to the growth and development of the banking operations;
- factors related to the management of human resources;
- factors related to investment activities;
- factors related to the organization's culture.

6.1.7 Reputation Risk

The reputation risk is defined as the risk related to a possibility of negative variations from the planned results of the Bank due to the deterioration of the Bank's image.

The objective of managing the reputation risk is to protect the Bank's image and limit the probability of the occurrence and level of reputation-related losses.

The management of the Bank's reputation risk comprises in particular:
- monitoring the external and internal communication channels of the Bank with the environment in terms of identifying the negative impact of image-related events;
- accumulating and analyzing information related to the occurrence or a possibility of occurrence of image-related events;
- recording data on the identified negative impact of image-related events at the Bank;
- selecting effective tools for protective measures aimed at eliminating, mitigating or minimizing the unfavourable effect of image-related events on the Bank's image, and their realization;
- analyzing the nature, importance, scale and dynamics of the negative effects of image-related events;
- determining the level of reputation risk.

6.1.8 Capital adequacy

Capital adequacy is the maintenance of a level of capital by the PKO Bank Polski SA Group which is sufficient to meet regulatory capital requirements (the so-called Pillar 1) and internal capital requirements (the so-called Pillar 2).

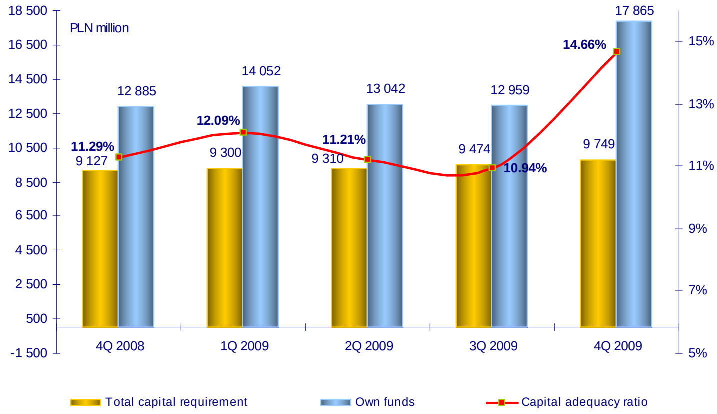
The objective of capital adequacy management is to maintain capital on a level that is adequate to the risk scale and profile of the Group's activities.

The process of managing the Group's capital adequacy comprises:
- identifying and monitoring of all of significant risks;
- assessing internal capital to cover the individual risk types and total internal capital;
- monitoring, reporting, forecasting and limiting of capital adequacy;
- performing internal capital allocations to business segments, client segments and entities in the Group in connection with profitability analyses;
- 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 2009 remained on a safe level and was significantly above the statutory limits.

Chart 2. Capital adequacy of the PKO Bank Polski SA Group



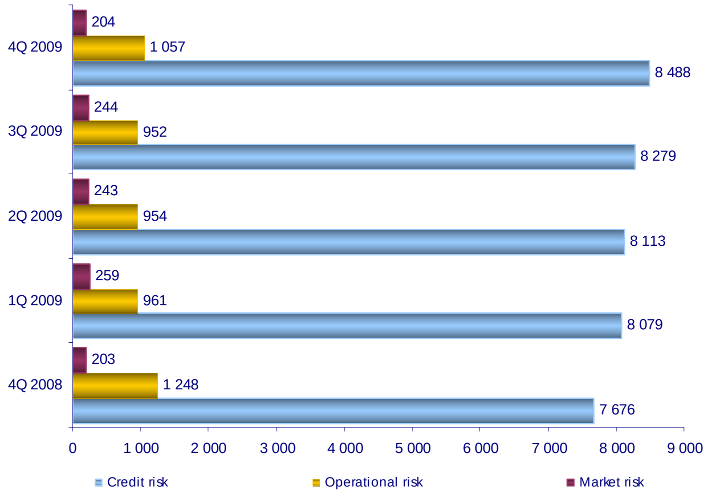
Compared with 31 December 2008, the Group's capital adequacy level increased by 3.37 p.p, which was mainly caused by an increase in the Bank's own funds through the Bank's own issue (fourth quarter of 2009) amounting to PLN 5.1 billion.

In 2009, the value of the PKO Bank Polski SA Group's own funds increased by PLN 4.98 billion.

Since January 2009, the Group calculates capital requirements in accordance with Resolution No. 380/2008 of the Financial Supervision Authority dated from 17 December 2008 (Basel II): in respect of credit risk - using the standardized approach, in respect of operational risk for the Bank - using the the standardized approach and for the entities of the Group using the basic indicator approach, in respect of market risk – using the basic approach.

In 2009, the total capital requirement of the Group increased by PLN 623 million. The increase of PLN 812 million in the capital requirement for credit risk was mainly due to the 16% growth in the loan portfolio. The decrease of PLN 191 million in the capital requirement for operational risk was due to a change in the method of calculating the capital requirement. In 2009, the Bank used the standardized method for calculating the capital requirement (in 2008, the basic indicator method was applied).

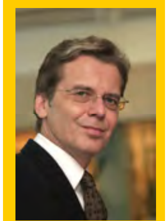
Chart 3. Capital requirements of the PKO Bank Polski SA Group (PLN million)



6.2 Agreements, benefits and competences of the authorities of PKO Bank Polski SA

Competences of the Members of the Management Board PKO Bank Polski SA

Table 32. The Management Board of the Bank in the reporting period

Management Board of PKO Bank Polski SA	Competences
	**Zbigniew Jagiełło - Acting President of the Management Board of the Bank performing the function of the President of the Management Board and supervising issues related to Investment Banking.** He is a graduate of the Faculty of Information Technology and Management of Wrocław School of Technology and Executive MBA conducted by Gdańska Fundacja Kształcenia Menedżerów (Gdańsk Foundation for Education of Managers), University of Gdańsk and Rotterdam School of Management Erasmus University. Since 1995 he has been engaged in Pioneer Pierwsze Polskie Towarzystwo Funduszy Inwestycyjnych S.A. He was also one of the co-founders of PKO/Credit Suisse TFI S.A. In July 2000 he took the position of the President of the Management Board of Pekao Towarzystwo Funduszy Inwestycyjnych S.A.. At the same time, since 2005 he held the position of the President of the Management Board of Pioneer Pekao Investment Management S.A. In the global structure of Pioneer Investments, he had the function of Head of Distribution in Central and Eastern Europe Region (CEE). Among others, he headed the Board of the Chamber of Funds and Assets Managers. Zbigniew Jagiełło has also been awarded by the President of the Republic of Poland with the Bachelor's Cross of the Order of the Revival of Poland and awarded with the Social Solidarity Medal for promoting the idea of corporate social responsibility.
	**Bartosz Drabikowski - Vice President of the Management Board in charge of Finance, Accounting and Settlements** He graduated from the Technical University of Łódź, the Polish National School of Public Administration, Warsaw School of Economics, the Polish Institute of International Affairs and the Executive MBA Programme at the University of Illinois at Urbana - Champaign. He attended numerous academic trainings: at Deutsche Bank, Deutsche Börse AG, Deutsche Ausgleichsbank Rheinische Hypothekenbank, European Commission and International Monetary Fund. He received scholarship from the German Marshall Fund of the United States. In 1998 he started his professional career at the Ministry of Finance, where (till 2006) he consecutively took positions of Advisor to the Minister, Deputy Director and Financial Institutions Department Director. In the years 2006-2008 he served as Member of the Management Board of the National Clearing House. For several years he served as a member of the Commission for Banking Supervision (2004-2005), member of the Polish Securities and Exchange Commission (2004-2005), deputy member of the Payment System Board at the National Bank of Poland SA (2002 - 2005), member of the Supervisory Board of the National Depository for Securities SA (2002-2004), member of the Board of the Bank Guarantee Fund (2004-2007) and member of the Supervisory Board of the Polish Security Printing Works SA (1998-2006). In the years 2003 - 2005 he also served as a member of many institutions of the European Union, including the Financial Services Committee, the European Banking Committee and the European Securities Committee.
	**Krzysztof Dresler - Vice President of the Management Board in charge of Risk and Debt Recovery. Polish Financial Supervision Authority Commission (PFSA) gave the approval to appoint Krzysztof Dresler as Board Member at PKO Bank Polski SA.** Krzysztof Dresler graduated from the Faculty of Finance and Banking of the Warsaw School of Economics. Since 1998 he has been working for the Warsaw School of Economics specialising in monetary and currency policies and globalisation of financial markets. He is a member of the Global Association of Risk Professionals and the Professional Risk Management International Association as well as the Polish Association of Business Economists. Among others, he underwent an internship at the Depository Trust Company at New York. He completed courses for investment advisors Chartered Financial Analysts (CFA) and a course for Chief Financial Officers. In the years 1996-2001 he worked for the National Depositary for Securities. In March 2001, he joined PKO BP as Director of the Financial Risk Department and subsequently he worked as Director of the Planning and Controlling Department. Since March 2007, he has been working as Chief Financial Officer for UniCredit Group in Xelion. In May 2008 he was appointed Managing Director in charge of the Assets and Liabilities Management Department at Pekao S.A.
	**Jarosław Myjak - Vice President of the Management Board in charge of Corporate Market** He earned the master's degree at the Faculty of English Philology (American Studies) (1978) and at the Faculty of Law and Administration (1981) at Adam Mickiewicz University in Poznań. Moreover, he studied at the Faculty of Economics at Toronto University. He has also graduated from programmes: Columbia Business School and CEDEP. He is a member of the Warsaw Bar Council and the Warsaw Chamber of Legal Advisers. He Has worked as a legal adviser for law offices Altheimer & Gray and Dewey & LeBouef. He was responsible for establishing and developing Commercial Union Group in Poland and Lithuania. He gained seventeen years of experience being a manager of holding, financial as well as proprietary supervision groups. In the years 2000 – 2004, he took position of the President of Commercial Union Group in Poland and Lithuania. In the years 1998 - 2004 he was also the President of CU Poland TUnŻ; the chairperson of the Supervisory Councils of Commercial Union companies in Poland and Lithuania, that is CU PTE, CU TFI, CU Ogólne, CU Asset Management, CU Sp. z o.o. (Transfer Agent) and CU Lithuania (Lietuvos Draudimas). Moreover, he served as a member of the Supervisory Council and the Strategic Committee of Citibank Handlowy SA, the Supervisory Council of BGŻ SA. At present he is the vice chairman of the Supervisory Board of PZU Życie SA, the chairman of the Supervisory Board of Finanse Agent Transferowy Sp. z o.o. and of the Supervisory Board of Bankowy Fundusz Leasingowy SA. Since 2008 he has served as the Vice President of the Management Board of PKO Bank Polski SA in charge of corporate banking. He was a member of the Polish Business Roundtable, the vice president of the Management Board of the Polish Chamber of Insurance, the vice president of the Polish Confederation of Private Employers "Lewiatan". He was granted an award of "Manager of the Year 2002" and "Golden Cross of Merit of the Republic of Poland".
	**Wojciech Papierak - Vice President of the Management Board in charge of Retail Market** He graduated from the Faculty of Law and Administration at the University of Łódź. During his professional career he worked at the following positions: in the years 1993-1995 as assistant at the Credit Department at Powszechny Bank Inwestycyjny S.A. in the years 1995-1998 in Powszechny Bank Gospodarczy; as Chief Specialist at the Retail Banking Department and Director of the Customer Service Department at the Building Society established as a unit of Grupa Pekao S.A.; in the years 1998-2000 as Deputy Director and subsequently Director of the Retail Banking Department at PKO Bank Polski SA. From 2000 to 2003 he worked for BRE Bank S.A. as a Director of the Department of Commercial Management for Retail Banking as well as Director of the Department of Operational Support for Retail Banking. In the years 2002-2006 he worked at the Settlement and Information Centre CERI sp. z o.o. as a member of the Management Board, Managing Director and subsequently President of the Management Board and Chief Executive Officer. From November 2006 to June 2008 he served as Vice President of the Management Board of Nordea Bank Polska S.A.in charge of Operations, Logistics and Security. In the years 1999-2002, he served as the member of the Supervisory Board of the Credit Information Bureau in Warsaw. In the years 2001-2003 he served as Vice Chairman of the Supervisory Board of Bank Częstochowa S.A. in Częstochowa. Since July 2008 he serves as the Vice President of the Management Board of PKO Bank Polski SA in charge of Retail Banking. He is also a member of Supervisory Board of Bank Pocztowy SA, of Supervisory Board of Ukrainian Kredobank SA and of Supervisory Board of PKO TFI SA. Moreover, he serves as the Vice President of the European Mortgage Federation and he is a member of the Board of Directors in Visa Europe.
	**Mariusz Zarzycki – Vice-President of the Management bard in charge of Information Technology and Services.** In 1991, he has graduated from the Faculty of Economics at the University of Łódź. He is also a graduate of the University of Stockholm (major: Banking and Finance). He began his professional career in 1992 at Bank Przemysłowy in Łódź. In the years 1993-1998, he worked for Powszechny Bank Gospodarczy SA - Grupa Pekao S.A. as Deputy Director of the Organisational Department and subsequently as Director of the Support Department, the Banking Technology Department and the IT Department. In the years 1998-2008, he worked for BRE Bank S.A. as Deputy Director of the IT and Telecommunication Department, Director of the Information Technology for Retail Banking, Director of Department for Development of Information Technology. Since 2004, he worked as the Bank's Director for Information Technology. In the years 2002-2008 he acted as President of the Management Board of ServicePoint (an IT company from the structures of BRE Bank).

**As of 1 October 2009 until the PFSA consents for Zbigniew Jagiełło to perform the function of the President of the Management Board.*

Competences of the Members of the Supervisory Board of PKO Bank Polski SA

Table 33. The Supervisory Board of the Bank in the reporting period

Supervisory Board of PKO Bank Polski SA	Competences
	**Cezary Banasiński - Chairman of the Supervisory Board** He graduated from University of Warsaw at the Faculty of Management in 1977 and at the Faculty of Law and Administration in 1980 obtaining master's degree in Management and Law. Moreover, in 1987 he was awarded a PhD at the Faculty of Law and Administration at the University of Warsaw, where he has been assistant professor since 1980. From 1999 to 2001 he held the position of the undersecretary of state at the Office of the Committee for European Integration and from 2001 to 2006 he was the President of the Office of Competition and Consumer Protection. From 2005 to 2006 he was a member of the Securities and Exchange Commission, of Coordination Commission for Financial Conglomerates and of the Insurance and Pension Fund Supervisory Commission.
	**Tomasz Zganiacz - Vice-Chairman of the Supervisory Board** He graduated from Warsaw University of Technology at the Faculty of Automotive and Construction Machinery Engineering (in 1989 obtaining master degree in Mechanical Engineering) and Mechanical Faculty of Technology and Automation (in 1991 obtaining master degree in Mechanical Engineering of Manufacturing Organization). In 1993, he obtained Master of Science in Business (equivalent of MBA) at Business School (joint venture of Warsaw University of Technology, London Business School, HEC School of Management Paris and Norwegian School of Economics and Business Administration). From 1991 to 1998, he was a member of the academic and teaching staff of the Institute of Production Systems Organization at Warsaw University of Technology. He has been also working as an assistant of the President of the Management Board at Mesat S.A. (1991-1992), Chief Executive Officer at Aster City S.A. (1994), Manager at Loans Department in Societe Generale Succursale de Varsovie (1995-1996) and assistant of the President of the Management Board in Eurofund Management Polska Sp. z o.o.. From 1999 to 2 for the company 7bulls.com S.A. at following positions: Research & Development Director (1999), Chief Financial Officer (2001-2002), Financial Advisor of the Management Board (2002-2006). Since 1999, he was working for Pekpol S.A. where he held the position of Chief Financial Officer (1999-2002), Vice President of the Management Board - Chief Financial Officer (2002-2003) and liquidator – Chief Financial Officer of Pekpol S.A. in liquidation (2003). From 2003 to 2006 he was also a liquidator of Pekpol-bis S.A. and from 2006 to 2009 he was a President of the Management Board at Triton Development S.A. (previously named 7bulls.com S.A.). Since 2009, he is a Director of Department of Ownership Supervision and Privatisation II.
	**Jan Bossak – Member of of the Supervisory Board** Jan Bossak graduated from the Faculty of Foreign Trade at the Main School of Planning and Statistics in Warsaw (currently the Warsaw School of Economics) obtaining master degree in Economics in 1968. From 1972 to 1974 he was awarded a scholarship from the government of Japan and took his Ph.D. course at the University of Osaka. In 1975 he was awarded a PhD in International Economic Relations, and in 1984 he obtained the habilitation at the Faculty of Foreign Trade. In order to improve his occupational qualifications he has taken part in numerous finance and management trainings. Since 1992, Jan Bossak works as Professor of Economics at the Warsaw School of Economics. In the years 1991-1992, Prof. Bossak acted as Chairman of the Polish-American Enterprise Fund. Moreover, from 1994 to 1996 he was the Chairman of Hevelius Management International Sp. z o.o. and in the years 1995-1997 he acted as President of the Second National Investment Fund S.A. From 1999 and 2003 he acted as President of the investment bank Erste Securities Polska S.A. From 1997 to 1999 he also acted as an investment advisor for Petrochemia Płock S.A and he served as Chairman of Supervisory Boards of numerous companies including Stilton S.A., FAMUR S.A. and Tarbud S.A. Moreover, he was cooperating with International Monetary Fund and the World Bank at organizing 172 international economics conferences. He has conducted lectures on international economic relations at many foreign universities, among others in Japan, United Kingdom and the USA.
	**Mirosław Czekaj - Member of the Supervisory Board** He graduated from the Nicolaus Copernicus University in Toruń in 1988 obtaining master degree in Economics. In 1992 he completed training for candidates for chartered accountants organized by the Accountants Association in Poland. In 2000 he was awarded a PhD in Economics at the University of Szczecin. Moreover, since 2007 he has been taking part in annual trainings for charted accountants organized by the Accountants Association in Poland. He has started his professional career working for BISP Spółdzielnia Pracy (an employment co-operative) in Grudziądz as a Chief Accountant (1988-1990). He also held the position of Deputy Director for economic affairs at Wojskowe Zakłady Uzbrojenia in Grudziądz (1990-1992) and the City Treasurer in the City Council of Szczecin (1992-2004). Mirosław Czekaj was also a Vice-President of Bank Gospodarstwa Krajowego (2004-2006), and the Chairman of the Board of Euro Fund Advisors Sp. z o.o - a company from BGŚ S.A. Group (2006-2007). From 2005 to 2008 he was also a member of FIRE Fundacja Rozwoju i Innowacji (Foundation for Development and Innovation). Since 2007 he holds the position of City Treasurer in the City Council of Warsaw. Moreover, Mirosław Czekaj is a Board Member and Treasurer of The Union of Polish Metropolises.
	**Ireneusz Fąfara - Member of the Supervisory Board** He graduated from Cracow University of Economics, obtaining master's degree in Economics. Moreover, in 2003 he completed postgraduate studies in Corporate Governance at Technical University of Łódź. In order to improve his professional qualifications he has completed numerous international trainings in the area of finance, capital markets and pension schemes, which were organized among others by the Polish Bank Association. He started his professional career working in energy sector companies as an export specialist (1985-1990). In 1992 he was the manager in the Economic Policy Department at Voivodship Office in Radom. From 1992 to 1998, he was engaged by Bank Energetyki in Radom and he hold the position of Director of Finance Policy Department, Director of the Brokerage House and Vice-President of the Management Board – director of the bank. From 1998 to 2007, he was working for ZUS (the Social Security Office), holding the position of the Management Board Member and the Chairman's advisor. Moreover, he was a member of numerous Supervisory Boards including Kompania Węglowa SA Centrum Informatyki Grupy PZU SA, Koncern Energetyczny ENERGIA-OPERATOR S.A. , Korporacja Ubezpieczeń Kredytów Eksportowych SA.and a member of the Board of the National Health Fund. From 2007 to 2009 he has been President of the Management Board of Bank Gospodarstwa Krajowego. He is also a member of the Supervisory Board of Grupa Lotos SA
	**Błażej Lepczyński - Member of the Supervisory Board** He graduated from the University of Gdańsk obtaining a master degree in Economics. Moreover, in 2002 he has completed post graduate studies in the field of banking and finances at the Faculty of Economic Sciences and Management of Nicolaus Copernicus University in Toruń (organised in cooperation with the Gdańsk Academy of Banking). He was awarded a PhD in Economics at the University of Gdańsk in 2003 and since that year he has held the position of an assistant professor at the Management Faculty. Since 1996 he has been engaged with the Gdańsk Institute of Market Economics where, since 2005, he is manager of the "Banking and financial markets" research area.
	**Alojzy Zbigniew Nowak - Member of the Supervisory Board** In 1984 he graduated from the Faculty of Foreign Trade at the Main School of Planning and Statistics (currently Warsaw School of Economics), where he obtained a master's degree in Economics. In 1991, he gained the PhD degree and in 1995 he obtained the habilitation in Economics at the Faculty of Management at the University of Warsaw. Moreover, he studied banking and finance at the Exeter University in United Kingdom (1992), economics at the University of Illinois at Urbana Champaign in USA (1991) and at the Free University of Berlin in Germany (1994). Since 2002 he has been a professor of Economics at the University of Warsaw. He began his scientific career at the Faculty of Management at the University of Warsaw, where he served as an assistant (1984-1987), and subsequently a senior assistant. He is the Dean of Faculty of Management at the University of Warsaw (since 2005), Head of the Chair of National Economy (since 2007) and the Department of International Economic Relations (since 1999) within the Faculty of Management at the University of Warsaw and Head of the Chair of Finances of the Leon Koźmiński Business and Management School in Warsaw (since 1995). Moreover, he is the author of over 150 academic publications related to banking and international economic relations, a member of the programme committees and editorial boards of 173 Polish and foreign academic journals, including "Gazeta Bankowa", "Journal of Interdisciplinary Economics", "Cross Cultural Management", "Yearbook on Polish European Studies" and „Problemy Zarządzania". Professor Akojzy Nowak is a lecturer on many subjects at Polish and foreign universities (in the United States, Great Britain, France, Germany and Russia).

Agreements concluded between the issuer and managing persons (an employment contract, a non-competition agreement, average monthly salary, remuneration Cap Act)

Within the meaning of § 2 clause 1 item 30a of the Decree of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and the conditions of considering as equivalent the information required by law of a non-member country (Journal of Laws No. 33, item 259), members of the Management Board are persons managing the Bank.

In 2009, two agreements were signed with each of the Management Board's members, providing for compensation in the case of their resignation or dismissal without a valid reason:

– an employment contract providing for severance pay of the last 3 received monthly basic salaries;
– a non-competition agreement, providing for damages for failure to comply with the non-competition requirement during 6 months after termination of the employment relation, amounting to 100% of the monthly basic salary received before termination of the employment relation, to be paid monthly in arrears during the non-competition period.

The monthly basic salary in 2009 was defined as the equivalent of 6 times the average monthly salary specified in the Act on remuneration of persons managing certain legal entities of 3 March 2000 (Journal of Laws No. 26, item 306, with subsequent amendments), i.e. the so-called Remuneration Cap Act.

Benefits provided to members of management and supervisory boards

Full information on remunerations and other benefits provided to members of the Bank's Management and Supervisory Boards during the reporting period has been presented in the Notes to the Consolidated Financial Statements.

Proxies, Management Board meetings and execution of the resolutions of the General Shareholders' Meeting and the guidelines of the Minister of the State Treasury

PKO Bank Polski SA had 8 proxies on 1 January 2009; three proxies were appointed during the year and four were dismissed. As at 31 December 2009, the Bank had 7 proxies. In 2009, the Bank's Management Board held 94 meetings and adopted 479 resolutions.

Due to the fact that the Act of 19 December 2008 amending the Act on commercialization and privatization and the Act on the rules governing the acquisition of shares from the State Treasury in the process of consolidation of the energy sector entered in to force, as well as the related recommendation of the Ministry of the State Treasury to resume the process of disposing of gratuitous shares in the Bank to inheritors of eligible employees. On 15 May 2009, an Annex to the agreement No MSP/365/00 dated 28 June 2000 on the execution of technical activities in the process of the gratuitous granting of shares in PKO Bank Polski SA to eligible employees was signed.

In accordance with the said Annex, the Bank undertook to:

- place an advertisement in the press, internet and in the Bank's branches notifying that the process of disposing of shares has been resumed;
- formally verify the documents confirming the identity of an inheritor and his/her right to inherit after the eligible employee;
- inform the Ministry of the State Treasury in writing of the number of shares acquired by the inheritors of the eligible employees.

Having signed the Annex, the Bank undertook steps resulting from the agreement signed and is executing them on an ongoing basis. The deadline for making gratuitous shares in PKO Bank Polski SA available expired on 12 February 2010.

Key measures and decisions taken by the Management Board that influenced the Bank's financial and economic situation are described in further parts this Directors' Report.

Bank's shares held by Members of Management or Supervisory Board

The Bank's shares held by the members of the Management Board and the Supervisory Board of PKO Bank Polski SA as at 31 December 2009 are presented in the table below. The par value of each share is PLN 1.

Table 34. Shares held by Members of Management or Supervisory Board of PKO Bank Polski SA as at 31 December 2009

No.	Name	Number of shares
I.	**Management Board of the Bank**	
1.	Zbigniew Jagiełło, Acting President of the Bank's Management Board	0
2.	Bartosz Drabikowski, Vice-President of the Bank's Management Board	0
3	Krzysztof Dresler, Vice-President of the Bank's Management Board	0
4.	Jarosław Myjak, Vice-President of the Bank's Management Board	0
5.	Wojciech Papierak, Vice-President of the Bank's Management Board	3 283
6.	Mariusz Zarzycki, Vice-President of the Bank's Management Board	0
II.	**Supervisory Board of the Bank**	
1.	Cezary Banasiński, Chairman of the Bank's Supervisory Board	0
2.	Tomasz Zganiacz, Vice-Chairman of the Bank's Supervisory Board	0
3	Jan Bossak, Member of the Bank's Supervisory Board	0
4.	Mirosław Czekaj, Member of the Bank's Supervisory Board	0
5.	Ireneusz Fąfara, Member of the Bank's Supervisory Board	0
6.	Błażej Lepczyński, Member of the Bank's Supervisory Board	0
7.	Alojzy Nowak, Member of the Bank's Supervisory Board	0

6.3 Human resources management

6.3.1 Incentive system in PKO Bank Polski SA

At PKO Bank Polski SA operates a remuneration and incentive system, in which the level of variable component of the salary is determined by the degree of achievement of the targets set. The procedure for target setting and performance measures used depend on the type of position and classification to one of the three employee groups: management, widely understood sales and processing-support. The system is based mainly on the Management by Objectives (MbO) model. Incentives in the system are directly linked to the process of setting targets and objectives. As the individual remuneration is linked with the level and quality of performance of the tasks specified, the variable component of the remuneration is strengthened and represents an additional salary incentive. The system focuses on setting objectives which are aligned with the direction of development of the entire organisation; these tasks are then cascaded to particular organizational units and individual employees.

The remuneration and incentive system bases on three following pillars:

I Pillar, the so-called Management by Objectives (MbO) covers top managers for which specific objectives may be assigned. The MbO consists in granting bonuses which depend on the quality and degree of completion of the tasks assigned. The system focuses on: determining performance indicators, assessing performance against the targets assigned; granting bonuses depending on performance.

II Pillar, the so called Individual Bonus System (IBS), is the system of commission and bonuses which depend on the degree of completion of specific tasks in the areas of sales and effectiveness. The system covers those employees who are completing business tasks, mainly in retail outlets and corporate centers, where individual and team, measurable targets can be defined or where there is a strong causal link between activities undertaken by individual employees and the level of achievement of the economic and financial results of PKO Bank Polski SA.

III Pillar, the so-called Support Bonus System, is at form of premiums. This is a typical 'participatory' solution, whereby award is granted for the achievement of targets by a person managing a given group of employees (a directors' contribution to the completion of tasks) and an organizational unit. Given the nature of their jobs, such employees have an indirect, but significant impact on the degree of completion of the tasks assigned to their superiors and the organization as such, and thus participate in the results achieved by PKO Bank Polski SA as a whole.

6.3.2 Remuneration policy

The remuneration policy is carried out in PKO Bank Polski SA within a framework specified by the internal regulations which, in accordance with the requirements of the provisions of the Labour Code, specify the terms and conditions of remunerating the Bank's employees and granting other work-related benefits. The basic regulation in this regard is the Company Collective Work Agreement (ZUZP) concluded with the company trade union organizations on 28 March 1994 (amended so far by means of six additional protocols), according to which the Bank's employees are eligible for the following remuneration components in return for their work:

- <u>determined in accordance with the principles specified in the ZUZP:</u>

1) the base remuneration;
2) additional remuneration for working overtime and at night, as well as under conditions which are especially onerous or detrimental to health;
3) long service bonuses;
4) one-off cash bonuses in connection with retairment or a disability pension due to a complete or partial inability to work;

- determined in accordance with the principles specified in other internal regulations – issued by the Management Board of the Bank based on the ZUZP, in consultation with the company trade union organizations:
  1) bonuses – which are granted from the 1st quarter of 2008 in accordance with a restructured formula based on the concept of Management by Objectives (MbO);
  2) annual bonuses for the results of operations achieved by the Bank;
  3) awards for special achievements in work.

In 2009, no system changes were made to the ZUZP or the 'Rules of Granting Bonuses' or the 'Rules of Payment of Annual Bonuses'. However, the 'Rules of Granting Awards to the Bank's Employees' were changed. The main changes in the remuneration system relate to the following:

- increasing the funds for awards at the disposal of the directors of the Regional Retail Branches (ROD) and the directors of the Regional Corporate Branches (ROK);
- determining the competencies of the President of the Management Board of the Bank to create a prize competition fund intended for honourable mentions for the winners of the competitions organized in the Bank.

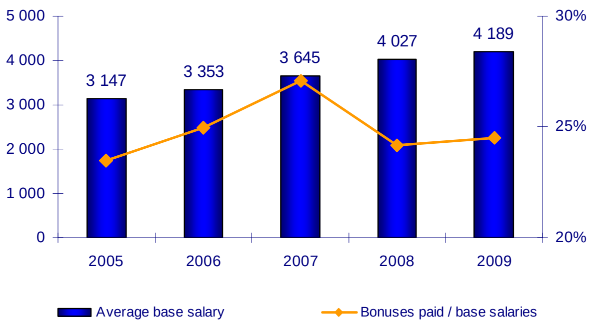
PKO Bank Polski SA follows the practice of increasing the base pay of its employees each year – based on the possibilities specified in the staff cost level determined in the Bank's budget and taking into consideration the ratio of the planned increase in the average monthly pay, which the Bank was obliged to determine for 2009 by the act of 16 December 1994 on the negotiating system of shaping the increase in average remuneration in enterprises (the act will lose effect starting from 2010).

The salary increase policies adopted in 2008-2009 and the bonus award system implemented starting from 2008 contributed to reaching a more market-driven level of employee remuneration for the basic position in the Bank's sales function (customer advisors in retail branches and in regional corporate branches). The proportion between the fixed (basic salary) and variable (bonuses, awards) components of remuneration are 75/25.

The level of individual bonuses for employees in managerial positions and the sales force depends directly on sales and performance criteria, which means that the failure to realize the required parameters at the level expected (predetermined, planned financial, sales or efficiency targets) resulted in a loss of the right to the bonuses.

The break-down of the costs of wages and salaries, i.e. the relationship between the bonus (awards for professional achievements and bonuses) and the base remuneration paid, as well as the average remuneration for the years 2005-2009 is presented in the graph below.

Chart 4. Average base salary and bonuses paid / base salary (PLN)



6.3.3 Benefits for employeses

There are two systems of additional employee benefits offered by PKO Bank Polski SA:

- mandatory – health care programme in occupational medicine available to all employees, irrespective of their place in the remuneration matrix;
- voluntary – various options to be selected according to individual needs of an employee: additional medical benefits, life insurance, foreign language learning;

In 2009 – as part of the budgeted costs of medical services for the employees – free of charge, comprehensive health care continued to be provided. PKO Bank Polski SA ensured employees - in addition to mandatory benefits to be provided under the applicable provisions of the Polish Labour Code – with additional medical care according to various packages addressed to particular employee groups:

- All packages enabled employees to have unlimited access to doctors in all areas of specialization and to diagnostic tests ordered by these doctors. Providing a broad range of healthcare services for all the employees stands for a significant element of additional benefits package linked to the employment at PKO Bank Polski SA.
- Medical care services were provided by LUX MED Sp. z o.o. which cooperates with various subcontractors to ensure access to these services to PKO Bank Polski SA's employees in all branches country-wide.

Providing broad range of medical services for all employees (as well as for members of their families and pensioners – for a lump sum fee) constitutes a significant element of additional benefits provided for the employed in the Bank.

Table 35. Benefits granted by Company Social Benefits Fund to the employees

Type of benefit	Number of beneficiaries	total money granted (PLN)
Refundable benefits*	6 559	80 948 700
Non-refundable benefits**	54 092	20 837 358
Total	60 651	101 786 058

** Housing loans*

*** inclusive of aids, organized and non-organized holidays subsidies, promotion of education, cul tural and sport activities, writing off loans, material and other non-refundable aid*

6.3.4 Number of employees

As at 31 December 2009 the Bank employed 28 548 people (27 846 full-time equivalents)

In the course of 2009, layoffs for reasons unrelated to the employees affected 1 327 people. The massive layoffs in the Bank resulted mainly from the following:

- tailoring the employment levels to the tasks carried out in the individual organizational units of the Bank and in the organizational units of the Head Office;
- implementing organizational changes which resulted in the range of tasks performed being altered;
- implementing new IT technologies supporting the reduction in operating expenses and increasing the effectiveness of the work of the Bank's employees.

Table 36. Number of employees in PKO Bank Polski SA and Group's subsidiaries (in number of full-time equivalents)

Entities	As at 31.12.2009	As at 31.12.2008	Change in employment (full-time equivalent)
PKO Bank Polski SA	27 846	29 196	-1 350
Rest of the Group	3 252	3 615	-363
Total	31 098	32 811	-1 713

6.3.5 Training policy

In 2009, training activities – as in the previous periods – was strongly determined by the business and organizational model of the Bank. Training-related decisions took into consideration the dynamic changes within and around PKO Bank Polski SA and were concentrated on developing the professional competencies of the employees, including:

- expanding and consolidating knowledge, in particular that relating to:

1) the law, economy and finance;
2) up-to-date technological and IT solutions;
3) product-related training courses;
4) a share issue;

– improving skills, in particular those relating to:

5) identifying the client's needs;
6) developing pro-client attitudes;
7) improving sales techniques;
8) increasing the level of labour effectiveness;

– supporting the management executives in improving their professional skills with regard to effective management of the Bank's resources.

The training courses were accompanied by the active involvement of the employees in the process of self-education and in the process of sharing knowledge, including in-house training courses conducted by trainers – the Bank's employees.

In 2009, a total of 111 007 participants took part in training courses, including:

– a total of 55 189 participants took part in the in-house training courses conducted by trainers – the Bank's employees and in external training courses;
– 55 818 took part in e-learning training courses.

Conducting the majority of the training courses based on a cascade formula and the gradual implementation of training courses based on the distant learning formula contributed to a more effective utilization of the budget intended for training courses for employees, without lowering the expected level of teaching at the same time.

7. INVESTOR RELATIONS

7.1 Public offering for new issue shares

Pursuant to Resolution No. 39/2009 of the Annual General Shareholders' Meeting of PKO Bank Polski SA dated 30 June 2009, amended by Resolution No. 9/2009 of the Extraordinary General Shareholders' Meeting of PKO Bank Polski SA dated 31 August 2009 (the 'GSM Resolution'), the Bank took actions aimed at increasing the PKO Bank Polski SA's share capital by issuing new D-series shares offered in public offering with a pre-emptive right. The procedure aimed at executing the offer was commenced by filing the Prospectus with the Financial Supervision Authority on 1 September 2009, as a result of which subscriptions for the new issue shares could be taken. In accordance with the GSM Resolution, up to 300 million shares were to be issued.

The most important events relating to the public offering for the new issue of the Bank's shares were as follows:

1. on 28 September 2009, the Financial Supervision Authority approved the Prospectus for the Bank's D-series shares;
2. on 1 October 2009, the Bank's Management Board adopted resolutions in which it recommended to the Bank's Supervisory Board setting the issue price for the shares at PLN 20.5 and increasing the capital by 250 000 000 D-series shares. The Bank's Management Board decided that 0.25 D-series shares will be allocated to one pre-emptive right. Pursuant to the GSM Resolution, the Bank's Supervisory Board, based on the said recommendations of the Bank's Management Board, set the issue price and approved the final number of D-series shares and the number of D-series shares allocated to one pre-emptive right as given above;
3. on 7 October 2009, quotation of single pre-emptive rights for D-series shares began at the WSE, and between 7 and 20 October 2009 subscriptions for the new issue shares were taken. As a result of the purchase of pre-emptive rights from the State Treasury, Bank Gospodarstwa Krajowego subscribed for and acquired 128 102 731 pre-emptive rights to the new issue shares of PKO Bank Polski SA;
4. between 7 and 20 October 2009 subscriptions for the new D-series of PKO Bank Polski SA shares were taken. Subscriptions were taken in all brokerage houses in Poland;
5. on 29 October 2009, the new issue shares were allocated and on the same day the Bank announced the Current Report No. 46/2009 containing information on ending the subscription of D-series Shares:
   - within the basic subscription investors submitted subscription for 247 900 587 shares, which constituted 99.16% of shares issued by the Bank;
   - within the additional subscription investors submitted subscription for 219 531 961 shares, which, by available 2 099 413 shares not subject to basic subscription, means a reduction rate of 99.04%;
   - under the pre-emptive right a total of 67 724 subscriptions were submitted for D-series Shares and a total of 9 454 subscriptions were submitted as additional subscriptions.
6. since 3 November 2009 the pre-emptive rights for the new issue shares are quoted at the WSE.
7. On 11 December 2009, the District Court in Warsaw, 13th Business Department of the National Court Register registered an amendment of the Bank's Statute in accordance with Resolution No 40/2009 of the General Shareholders' Meeting of the Bank dated 30 June 2009 and registered an increase in the Bank's share capital from PLN 1 000 000 000 to PLN 1 250 000 000 by way of an issue of 250 000 000 D series ordinary bearer shares with a nominal value of PLN 1 each.
8. On 18 December 2009, 250 000 000 D series ordinary bearer shares of PKO Bank Polski SA with a nominal value of PLN 1 each, admitted to trading on the main market of the WSE were registered by KDPW (National Depository for Securities)

The Public Offering for the new issue shares was successful, because all the shares were placed within the execution of pre-emptive rights or additional subscription and the Bank obtained the expected proceedings from the issue in the amount of PLN 5 125 million.

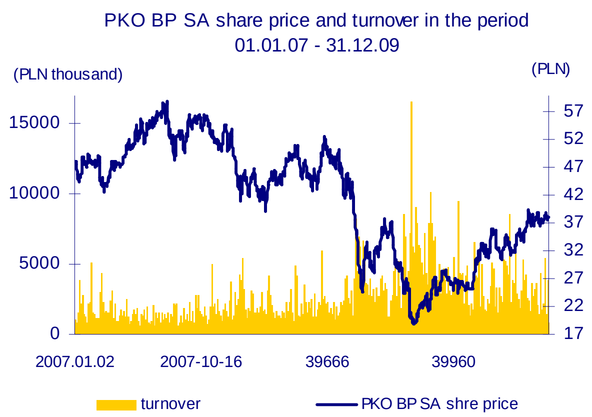
The share capital increase will increase the PKO Bank Polski SA's chances for maintaining and enhancing its position as the biggest retail lender in the Polish economy and extending its role in the segment of business entities and public sector institutions. The Bank intends to use the proceedings from the Offering until the end of 2011 mainly for the organic growth. According to the Bank'splans:

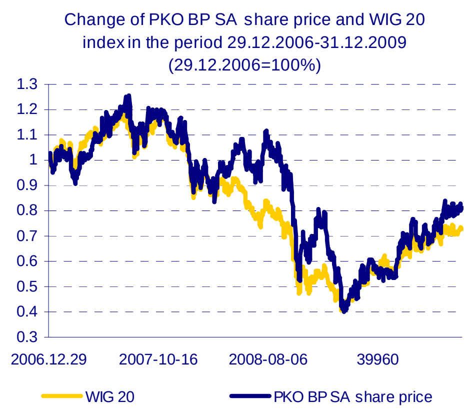
- ca. 81% of the proceedings from the Offering will be used for developing the lending activity, of which ca. 60% will be spent on supporting the development of the retail segment, and ca. 40% will be spent on the corporate segment. This is consistent with the Bank's strategy, which is focused on the development of products and services for the existing and new clients in both key segments of the Bank, in particular the products and services which generate high margins at a relatively low risk.
- ca. 13% of the proceedings from the Offering will be spent on financing capital expenditure, in particular the purchase of software and execution of other projects relating to the Bank's IT systems, in particular the purchase of intangible assets associated with the Bank's operating activities.
- ca. 6% of the proceedings from the Offering will be spent on providing additional capital for the subsidiaries providing financial services.

7.2 Share price of PKO Bank Polski SA and its competitors

The average share price of PKO Bank Polski SA in 2009 amounted to PLN 29.76 per share, and its highest level of PLN 39.30 per share was noted on 16 November 2009.

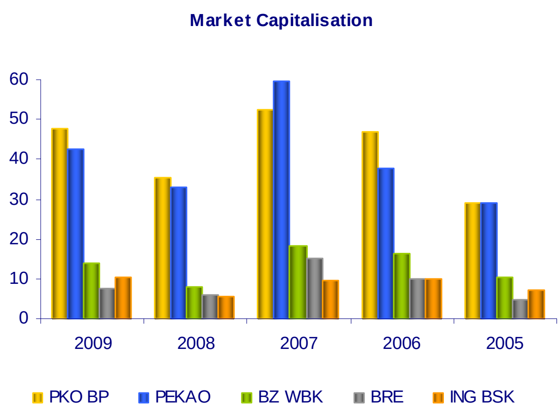
Share price of PKO Bank Polski SA traded on the Warsaw Stock Exchange

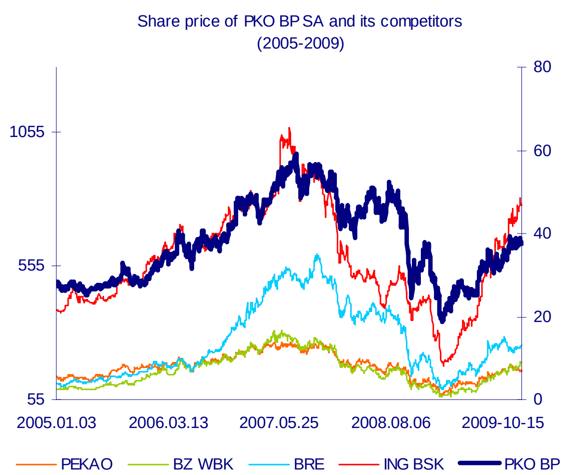




The average daily turnover of PKO Bank Polski SA's shares in 2009 accounted for 3 457 thousand units and the largest volume of 16 576 thousand units was noted on 18 February 2009.

Share price and market capitalization of market competitors





7.3 Co-operation with rating agencies

Currently, the financial reliability ratings of PKO Bank Polski SA are awarded by four rating agencies:

– Moody's Investors Service assigns a *rating* to the Bank at a charge, in accordance with its own bank assessment procedure;
– *Standard & Poor's*, *Capital Intelligence* and *Fitch Ratings* assign a free-of-charge *rating* (not ordered by the Bank), on the basis of publicly available information, including primarily interim and annual reports, and information on PKO Bank Polski SA made available during direct contacts of representatives of the agency with the Bank.

On 18 June 2009, Moody's Investors Service Ltd. rating agency ('Moody's') informed the Bank on changing the Bank's ratings.

Moody's lowered the Bank's financial strength rating ('BFSR') from 'C' to 'C-' with a negative perspective. Recalibration of the credit risk model reflecting the risk of negative impact on the level of banks' capitals along with an increase in the share of non-performing loans were the reasons for this.

As a result of the verification of the assessment of system support, the rating for long-term deposits in Polish zloty was lowered from 'Aa2' to 'A2' with a stable perspective.

At the same time, *Moody's* confirmed ratings for long-term foreign currency deposits and short-term debt liabilities and deposits at a level of 'A2' and 'Prime-1' respectively.

On the same day, *Moody's* also lowered the ratings for the four largest Polish banks: Pekao, BZ WBK, BGŻ and Bank Handlowy.

The ratings awarded free-of-charge by the other agencies did not change in 2009.

Table 37. Ratings and co-operation with rating agencies in 2009

Rating with a charge	
Moody's Investors Service	
Long-term rating for deposits in foreign currencies	A2 with a stable perspective
Short-term rating for deposits in foreign currencies	Prime-1 wih a stable perspecitve
Long-term rating for deposits in a domestic currency	A2 with a stable perspecitve
Short-term rating for deposits in a domestic currency	Prime-1 with a stable perspecitve
Financial strenght	C- with negative perspective
Rating not requested by the Bank	
Fitch Ratings	
Support Rating	2
Standard and Poor's	
Long-term rating for liabilities in a domestic currency	BBBpi
Capital Intelligence	
Long-term rating for liabilities in a foreign currency	A-
Short-term rating for liabilities in a foreign currency	A2
Strenght on a national scale	BBB+
Support Rating	2
Perspective for upholding the rating	Stable

In November 2009 international *rating* agency *Standard & Poor's* confirmed the following rating for Kredobank SA:

- long-term credit rating on the international scale – 'CCC+',
- forecast – 'Negative',
- short-term credit rating on the international scale – 'C',
- rating on the Ukrainian scale – 'uaB'.

The *rating* and forecasts for Kredobank SA are identical as the rating and forecasts for the Ukraine as a country.

8. COMPLIANCE WITH THE RULES FOR CORPORATE GOVERNANCE

8.1 The rules for corporate governance and the scope of use

The rules for corporate governance and the place where they are publicly available

PKO Bank Polski SA applies the rules for corporate governance introduced in the form of a document 'Good Practices of Warsaw Stock Exchange Companies' approved by the Supervisory Board of the Warsaw Stock Exchange SA on 4 July 2007 (resolution no.12/1170/2007).

Above-mentioned document is publicly available at the website: www.corp-gov.gpw.pl, which is the official site of Warsaw Stock Exchange in the topic of corporate governance of listed companies.

The scope in which the Bank violated against above-mentioned rules for corporate governance

The Bank in 2008 took necessary actions in aim to closely stick to the rules included in a document 'Good Practices of Warsaw Stock Exchange Companies'. In it's opinion, PKO Bank Polski SA has not violated above-mentioned rules.

8.2 Main characteristics of PKO Bank Polski SA internal control system

Main characteristics of PKO Bank Polski SA internal control and risk management systems used in the process of preparation of financial statements and consolidated financial statements

PKO Bank Polski SA operates the internal control system which is an element of the Bank management function, and which is composed of the following items: control mechanisms, compliance of Bank's operations with binding laws and internal regulations of the Bank and internal audit. The system of controls is supported by functional internal control.

Internal control system covers the whole Bank, including organizational entities of PKO Bank Polski SA, organizational units of the Head Office and subsidiaries included in the PKO Bank Polski SA Group.

The objective of the internal control system is to support management of the Bank, including decision processes which contribute to ensuring the following: the Bank's effectiveness and efficiency, truth and fairness of its financial reporting and the compliance of Bank's operations with binding laws and internal regulations of PKO Bank Polski SA. Within the system of internal control the Bank identifies risk: connected with every operation, transaction, product and process, resulting from the organizational structure of PKO Bank Polski SA and PKO Bank Polski SA Group.

Control mechanisms cover the process of tasks' execution in the Bank, including: competencies, regulations, limits and procedures concerning PKO Bank Polski SA's operations and control activities performed by employees and their superiors, concerning their operations. Mechanisms are of control character and are embedded in internal regulations, as well as in IT system of PKO Bank Polski SA.

The objective of the internal audit performed by the Internal Audit Department is to deliver to the Management and Supervisory Boards of PKO Bank Polski SA independent and objective information and assessments, especially about the following:

- adequacy and effectiveness of the internal control system, including the effectiveness of control mechanisms,
- PKO Bank Polski SA's management system, including the effectiveness of business risk management,
- truth and fairness, completeness and the current status of the Bank's financial reporting and management information,
- compliance with binding laws and regulations and internal regulations of PKO Bank Polski SA.

and indicating the course of actions enhancing quality and effectiveness, including performing training within the scope of the audit in a reviewed entity, reviewed company or reviewed external institution, especially on the methods of removing misstatements and correct performance of tasks.

Audits are conducted based on the three-year and a yearly plan developed on, among others, information from prior audits, information concerning functioning of PKO Bank Polski SA, risks identified in individual areas of the Bank's business and in the processes realized (including those in the process of the preparation of the financial statements), as well as generally binding legal regulations.

The compliance of PKO Bank Polski SA operations with binding laws, internal regulations of the Bank and accepted procedure standards was verified within internal functional control and by internal audit performed by Internal Audit Department.

In 2009, the functional internal control function was exercised in the following manner:

- at the stage of legislative works, by providing compliance of internal regulations with generally binding laws, including defining in internal regulations adequate control mechanisms which guarantee a proper execution of processes and tasks.
- by employees in the course of their activities concerning the scope of business of organizational teams and units,
- at the stage of verification, by management and persons authorized by said employees, the correctness of performed tasks, especially its compliance with binding laws and regulations, internal regulations and prudence norms

The operation of internal control system and risk management in respect of the process of preparation of the financial statements are based on control mechanisms embedded in the functionality of the reporting systems, on the on-going verification of compliance with the books of accounts and other documents underlying the financial statements and with the binding laws concerning accounting principles and financial statements preparation.

The process of the preparation of the financial statements is subject to cyclical multi-level functional control, in particular concerning the correctness of accounting reconciliations, merit-based or substantial analysis and fairness of financial information. In accordance with the internal regulations, the financial statements are accepted by the Management Board of PKO Bank Polski SA and the Audit Committee established by the Supervisory Board of PKO Bank Polski SA in 2006.

Information included in the financial statements is prepared in accordance with International Financial Reporting Standards, after taking into account all data available.

Information concerning objectives and risk management policies as well as quantitative information relating to individual risk types is included in annual and periodic financial statements. The above-mentioned information comprises:

- credit risk (including the risk of credit concentration),
- market risk (interest rate, currency, derivatives and financial institutions credit risks as well as liquidity risk),
- operating or business risk,
- capital adequacy.

On an annual basis, in a separate non-financial reporting document, disclosed is the full scope of information relating to capital adequacy, in accordance with resolution No. 385/2008 of the Financial Supervision Authority. Currently at the website of the Bank (in the section 'Investor Relations') the last report 'Capital Adequacy and Risk Management (Pillar III) in the PKO Bank Polski SA Group as at 31 December 2008' is available.

8.3 Number of shares and shareholders of PKO Bank Polski SA

Shareholders holding, directly or indirectly, significant shareholding together with the number of owned shares, percentage share in the share capital, number and percentage of voting rights at the Shareholder' Meeting.

To the best knowledge of PKO Bank Polski SA, there are two shareholders that hold, directly or indirectly, significant shareholding (at least 5%): the State Treasury and Bank Gospodarstwa Krajowego, holding as at 31 December 2009, respectively 512 406 927 and 128 102 731 of the PKO Bank Polski SA's shares.

The share of the State Treasury and Bank Gospodarstwa Krajowego in the share capital of PKO Bank Polski SA amounts, respectively, to 40.99% and 10.25% and matches the percentage share in the total number of votes at the General Shareholders' Meeting of the Bank.

Table 38. Shareholding structure of PKO Bank Polski SA

Shareholder	As at 31.12.2009		As at 31.12.2008		Change (y/y)	
	number of shares	number of votes %	number of shares	number of votes %	number of shares	number of votes (p.p.)
The State Treasury	512 406 927	40.99%	512 435 409	51.24%	-28 482	-10.25
Bank Gospodarstwa Krajowego	128 102 731	10.25%	0	0.00%	128 102 731	10.25
Other shareholders	609 490 342	48.76%	487 564 591	48.76%	121 925 751	0
TOTAL	1 250 000 000	100.00%	1 000 000 000	100.00%	250 000 000	0

Holders of any type of securities giving special control rights together with the description of these rights

Special control rights are not resulting from PKO Bank Polski SA securities for their holders.

Voting right restrictions such as the restriction on exercising voting rights by holders of a specific portion or number of shares, time restrictions relating to exercising voting rights or provisions according to which, in cooperation with the Company, equity rights related to securities are separated from the ownership of the securities.

In PKO Bank Polski SA there are no voting right restrictions such as the restriction on exercising voting rights by holders of a specific portion or number of shares, time restrictions relating to exercising voting rights or provisions according to which, in cooperation with PKO Bank Polski SA, equity rights related to securities are separated from the ownership of the securities.

Restrictions for the transfer of ownership of the securities of PKO Bank Polski SA

In accordance with par. 6 section 2 of the Bank's Memorandum of Association, the conversion of the registered 'A' class shares with a nominal value of PLN 510 000 000 into bearer shares and the transfer of these shares require an approval of the Polish Council of Ministers in the form of a resolution. Acquiring such consent results in the expiry of the above restrictions to the extent to which this consent was given.

8.4 The Memorandum of Association and manner of functioning of Annual General Meeting of PKO Bank Polski SA

Principles for amending the Memorandum of Association of PKO Bank Polski SA

Principles for amending the Memorandum of Association of PKO Bank Polski SA comply with the provisions of the Commercial Companies Code and the Banking Law. The Memorandum of Association does not introduce different or detailed regulations in this respect.

Annual General Meeting of the Bank, its manner of functioning and fundamental powers; the rights of shareholders and the manner of their execution, in particular the rules following from the Internal Regulations of the General Shareholders' Meeting, if such Internal Regulations have been passed, if the respective information does not follow directly from the legal regulations

Annual General Meeting of PKO Bank Polski SA is convened as ordinary or extraordinary meeting in accordance with the provisions of the Code of Commercial Companies and the Bank's Memorandum of Association, and based on the policies defined in the by-laws of the Annual General Meeting (hereinafter 'the AGM').

The fundamental powers of the AGM, apart from other matters defined in the binding laws, include adopting resolutions concerning the following matters:

- appointment and dismissal of Supervisory Board Members;
- approval of by-laws of the Supervisory Board,
- determining the manner of buyout of shares and the amount of consideration for the shares subject to buyout,
- creation and liquidation of special funds established from net profit appropriation,

- disposal by the Bank of property items or perpetual usufruct right to property, from which the Bank conducts its business,
- issuance of convertible bonds or other instruments giving the right to acquire or take up the Bank's shares.

Allowed to participate in the Annual General Meeting of the Bank are beneficiaries of rights attached to registered shares, as well as pledgees and usufructuaries having voting rights, who have been entered in the Register of Shares at the day of registration or holders of bearer shares, if they were shareholders of the Bank at the day of the registration and they asked, within the act compliant time frame specified in the notification on the call of Annual General Meeting, the entity maintaining their securities accounts for registered certificate on the right to participate in the Annual General Meeting.

The shareholder who is a natural person may participate in the AGM, exercise his voting right in person or by proxy. The shareholder who is not a natural person may participate in the AGM and exercise his voting right through a proxy authorized to file statements of will on his behalf, or by proxy.

An authorization should be prepared, under the sanction of nullity, in writing and attached to the minutes of the General Shareholders' Meeting or granted in an electronic form. The right to represent a shareholder who is not an individual should be specified in the excerpt from the relevant register produced at the time of drawing up the attendance register (submitted in the original or a copy whose conformity to the original has been confirmed by a notary public), or a sequence of authorizations. The person(s) granting an authorization on behalf of a shareholder who is not an individual should be listed in an up-to-date excerpt from the relevant register of a given shareholder.

Management Board Member or Bank employee may serve as proxy at the AGM of the Bank.

The documentation which is to be presented to the General Shareholders' Meeting along with draft resolutions is placed on the Bank's website from the date of the General Shareholders' Meeting being convened. The comments of the Management Board of the Bank or the Supervisory Board of the Bank concerning matters included in the agenda of the General Shareholders' Meeting or matters which are to be included in the agenda before the date of the General Shareholders' Meeting are available on the Bank's website as soon as they are prepared.

A shareholder or shareholders representing at least one twentieth of the share capital of the Bank may demand that certain matters be included in the agenda of the General Shareholders' Meeting. Such demand should be filed with the Management Board of the Bank no later than twenty-one days before the date set for the Meeting. The demand should contain a justification or a draft resolution concerning the proposed item on the agenda. The demand may be filed in an electronic form.

A shareholder or the shareholders of PKO Bank Polski SA representing at least one twentieth of the share capital may, before the date of the General Shareholders' Meeting, put forward to the Bank, in writing or by using electronic means of communication, draft resolutions concerning the matters included in the agenda of the General Shareholders' Meeting or matters which are to be included in the agenda. Moreover, each of the shareholders may, in the course of the General Shareholders' Meeting, put forward draft resolutions concerning the matters included in the agenda.

Removing from the AGM agenda or desisting, at the request of the shareholders, from further discussing the matter included in the AGM agenda requires that the AGM resolution is adopted by the majority of ¾ votes, after prior consent of all those shareholders present at the AGM who applied for including the matter in the agenda.

Resolutions of the AGM are adopted by an absolute majority of votes, unless the binding laws or the Memorandum of Association of the Bank provide otherwise.

The AGM adopts resolutions by way of open vote, with the proviso that votes by secret ballot are ordered in the following circumstances:

- elections,
- applications for dismissal of members of the Bank's Management or Supervisory Board or liquidators,
- applications for bringing the Bank's liquidators or members of the Management or Supervisory Board to justice,
- in personal matters,
- on demand of at least one shareholder present or represented at the AGM,

– in other cases defined in binding law regulations.

A shareholder may not, either personally or by proxy, or while acting in the capacity of a proxy of another person, vote on resolutions concerning his liability towards the Bank on whatever account, including the acknowledgement of the fulfillment of his duties, release of any of his duties towards the Bank, or any dispute between him and the Bank.

Shareholders have the right to ask questions, through the Chairman of the AGM, to the Members of the Bank's Management or Supervisory Boards, the Bank's auditor or the persons whose presence at the AGM is considered indispensable by the Management or Supervisory Boards of the Bank.

For each of the agenda point, each shareholder has the right to one own speech and one reply. Shareholders may, during the course of discussion on each of the agenda points, apply for closing the list of speakers or closing the discussion on the given agenda point.

8.5 The Supervisory Board and the Management Board of PKO Bank Polski SA during the reporting period

Rules for appointing and dismissing Members of the Management Board and their rights (in particular the right to make a decision of issuance or redemption of shares)

In accordance with § 19 Section 1 and Section 2 of the Bank's Memorandum of Association, Management Board members are appointed by the Supervisory Board for a common three-year term. Board members may only be dismissed for important reasons, in accordance with §19 section 4 of the Bank's Memorandum of Association.

In accordance with § 20 Section 1 of the Bank's Memorandum of Association, the scope of Management Board responsibilities includes all matters related to the conducting of Bank's affairs that have not been reserved by law or Memorandum of Association for the General Shareholders' Meeting or Supervisory Board, including purchase and disposal of property, property interests or perpetual usufruct, that do not require consent of the General Meeting in accordance with § 9 Section 1 point 5 of the Bank's Memorandum of Association.

According to § 20 Section 2 of the Memorandum of Association, making decisions on incurring liabilities or disposing of assets the total value of which exceeds 5% of the Bank's equity in a transaction with a single entity shall fall within the scope of competence of the Management Board, with the proviso for the scope of competence of the General Shareholders' Meeting set out in par. 9 or the scope of competence of the Supervisory Board set out in § 15 of the Memorandum of Association.

Composition, changes, which took place in the last financial year and the manner of functioning of the authorities of PKO Bank Polski SA and their committees.

The Supervisory Board of PKO Bank Polski SA

The Supervisory Board is composed of 6 to 11 members appointed for a joint term of office of three years. Members of the Supervisory Board are appointed and dismissed by the General Shareholders' Meeting.

On 26 February 2008, pursuant to § 11 Section 1 of PKO Bank Polski SA's Memorandum of Association, the State Treasury, as the Eligible Shareholder, determined the number of the Supervisory Board members to include 7 persons.

In 2009, the composition of the Bank's Supervisory Board was as follows:

Table 39. Supervisory Board of PKO Bank Polski SA (as at 31.12.2009)

No.	Name	Post	Date of appointment / recalling
1.	Cezary Banasiński	Chairman of the Bank's Supervisory Board	Appointed on 20 April 2009 until the end of the current term of the Bank's Supervisory Board (beginning on 20 May 2008) The Minister of State Treasury appointed Mr. Cezary Banasiński, a Member of the Supervisory Board, as the Chairman of the Supervisory Board.
2.	Tomasz Zganiacz	Vice-Chairman of the Bank's Supervisory Board	Appointed on 31 August 2009 until the end of the current term of the Bank's Supervisory Board the Minister of State Treasury appointed Mr. Tomasz Zganiacz, a Member of the Supervisory Board, as the Vice-Chairman of the Supervisory Board
3.	Jan Bossak	Member of the Bank's Supervisory Board	Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Supervisory Board.
4.	Mirosław Czekaj	Member of the Bank's Supervisory Board	Appointed on 31 August 2009 until the end of the current term of the Bank's Supervisory Board
5.	Ireneusz Fąfara	Member of the Bank's Supervisory Board	Appointed on 31 August 2009 until the end of the current term of the Bank's Supervisory Board
6.	Błażej Lepczyński	Member of the Bank's Supervisory Board	Appointed on 20 April 2009 until the end of the current term of the Bank's Supervisory Board
7.	Alojzy Zbigniew Nowak	Member of the Bank's Supervisory Board	Appointed on 31 August 2009 until the end of the current term of the Bank's Supervisory Board

Table 40. Changes in Supervisory Board of PKO Bank Polski SA in 2009

No.	Name	Post	Date of appointment / recalling
1.	Marzena Piszczek	Chairman of the Bank's Supervisory Board	Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Bank's Supervisory Board
			On 31 August 2009 resigned from the post of Member of the Bank's Supervisory Board
2.	Eligiusz Jerzy Krześniak	Vice-Chairman of the Bank's Supervisory Board	Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Bank's Supervisory Board
			On 20 April 2009 resigned from the post of Member of the Bank's Supervisory Board
3.	Jacek Gdański	Member of the Bank's Supervisory Board	Appointed on 20 April 2009 for the current term of the Supervisory Board
			On 21 August 2009 resigned from the post of Member of the Bank's Supervisory Board
4.	Błażej Lepczyński	Vice-Chairman of the Bank's Supervisory Board untill 31 August 2009	Appointed on 20 April 2009 for the current term of the Supervisory Board
		Member of the Bank's Supervisory Board	On 31 August 2009 resigned from the post of Vice-Chairman of the Bank's Supervisory Board, remaining as the Member of the Bank's Supervisory Board
5.	Jerzy Osiatyński	Member of the Bank's Supervisory Board	Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Bank's Supervisory Board
			On 20 April 2009 recalled from the Bank's Supervisory Board
6.	Urszula Pałaszek	Member of the Bank's Supervisory Board	Appointed on 26 February 2008 for the current term of the Bank's Supervisory Board
			On 20 April 2009 recalled from the Bank's Supervisory Board
7.	Roman Sobiecki	Member of the Bank's Supervisory Board	Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Bank's Supervisory Board
			On 20 April 2009 recalled from the Bank's Supervisory Board
8.	Jerzy Stachowicz	Member of the Bank's Supervisory Board	Appointed on 20 April 2009 for the current term of the Supervisory Board
			On 31 August 2009 recalled from the Bank's Supervisory Board
9.	Ryszard Wierzba	Member of the Bank's Supervisory Board	Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Bank's Supervisory Board
			On 31 August 2009 recalled from the Bank's Supervisory Board

Supervisory Board acts based on the by-laws decided by the Supervisory Board and approved by the AGM. Meetings of the Supervisory Board are convened at least once a quarter.

Supervisory Board adopts resolutions by an absolute majority of votes with the presence of at least half of the Members, including the President or Vice-president of the Supervisory Board, except for resolutions concerning those matters that are required to be accepted by, apart from the quorum indicated, the qualified majority of 2/3 of total votes. Excluded from the vote are those members of the Supervisory Board to whom the given voted matter relates.

The competencies of the Supervisory Board, apart from the rights and obligations stipulated in generally binding legal regulations and the provisions of the Memorandum of Association of PKO Bank Polski SA, include passing resolutions relating specifically to:

- approving the strategy of PKO Bank Polski SA and the annual financial plan passed by the Management Board;
- appointing the entity to conduct the audit or review of the financial statements and giving consent to concluding contracts with such entity or its related entities;
- passing the Internal Regulations of the Supervisory Board and the Regulations for using the reserve capital;
- appointing and dismissing the President of the Management Board and, at the request of the President of the Board, also the Vice Presidents and other Management Board Members, and suspending Members of the Management Board from performing their duties, as well as delegating Members of the Supervisory Board to temporarily perform the duties of Members of the Management Board;
- approving the Internal Regulations passed by the Management Board: of the Management Board, Management of special funds set up from the net profit, the Organizational Fund of PKO Bank Polski SA;
- expressing prior consent to actions which meet specific criteria, including, among other things, purchasing and selling fixed assets and real estate, establishing a company, taking up or acquiring shares, concluding transactions between PKO Bank Polski SA and a related entity;
- applying to the Financial Supervision Authority for granting consent to appointing two Members of the Management Board, including the President of the Board.

In 2009, the following Committees operated within the Supervisory Board of PKO Bank Polski SA:
1) Audit Committee
2) Informatization Committee (untill 14 September 2009)
3) Strategy Implementation Committee (untill 14 September 2009)

Each Committee is composed of at least three members chosen by Members of the Supervisory Board of PKO Bank Polski SA from within its own circle.

Committee Meetings are convened as ordinary meetings by the Committee Chairman on his initiative or at the request of the Committee or Supervisory Board Member.

In the extraordinary mode, Committee meetings are convened by the President of the Supervisory Board on his initiative or at the request of the Supervisory Board Member or the PKO Bank Polski SA's Management Board. Minutes are prepared from the meetings and the Committee Chairman presents the Supervisory Board, at its next meetings, with resolutions, conclusions and recommendations.

Each Committee presents the Bank's Supervisory Board with an annual report on its activities, with the proviso that the Audit and Informatization Committees are required to file their reports within the timeframe that allows the Bank to account for the content of those reports in the process of annual assessment of the financial position of PKO Bank Polski SA.

<u>The Audit Committee of the Supervisory Board</u>, whose tasks include, in particular:

- monitoring:
  - ⇒ the process of the financial reporting of the Bank and the Bank's Group (including interim and annual financial statements (separate and consolidated));
  - ⇒ the effectiveness of the internal control system, the internal audit system, and the risk management system;
  - ⇒ the performance of financial audit activities;
  - ⇒ the independence of a registered auditor and a registered audit company;
- recommending a registered audit company and performing a financial audit of the Bank to the Supervisory Board;
- preparing recommendations for the Supervisory Board concerning the evaluation of the Management Board's conclusions as to the appropriation of the profit (including, in particular, the dividend policy) and the issue of securities;
- evaluating the plan of internal audits in the Bank, as well as DAW's regulations and internal regulations concerning the functioning of the internal control system in the Bank;

- reviewing the management accounting system;
- performing advisory activities for the Supervisory Board as regards the auditing of the financial statements of the Bank and the Bank's Group;
- considering the following documents submitted by a registered audit company:
  - ⇒ written information on material issues relating to the financial audit activities, including, in particular, on significant irregularities in the Bank's internal control system as regards the financial reporting process;
  - ⇒ statements confirming the independence of a registered audit company and the independence of the registered auditors conducting the financial audit activities;
  - ⇒ information on the services referred to in Art. 48, clause 2 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision, provided to the Bank.

Bank Informatization Committee (*disbanded as at 14 September 2009*) was established with a view to supervising information and telecommunication systems at the Bank, including implementation of the Integrated Information System. Included in the tasks of the Committee were in particular: issuing opinions on the strategic directions of informatization at PKO Bank Polski SA and analysis of the progress of works on implementation of strategic IT solutions.

Strategy Implementation Committee (*disbanded as at 14 September 2009*) was established in order to exercise permanent supervision over implementation of the Strategy of PKO Bank Polski SA. Included in the tasks of the Committee are in the particular: analysis of the progress of work relating to implementation of strategic initiatives, analysis of the results of implementation of strategic initiatives, proposing supplementary or correcting measures, discussing all contentious issues and doubts resulting from the analysis of the process of implementation of the Bank's Strategy.

The Management Board of PKO Bank Polski SA

The Management Board of the Bank is composed of 3 to 9 members appointed by the Supervisory Board of the Bank for a joint term of office of three years. Appointment of two members of the Management Board, including President of the Management Board, requires approval by the Polish Financial Supervision Authority.

Table 41. Management Board of PKO Bank Polski SA (as at 31.12.2009)

No.	Name	Post	Date of appointment
1.	Zbigniew Jagiełło	Acting President of the Management Board	On 14 September 2009, the Bank's Supervisory Board appointed Mr. Zbigniew Jagiełło as the acting President of the Management Board of PKO Bank Polski SA, effective as of 1 October 2009, for the joint term of the Board beginning on 20 May 2008. The Supervisory Board appointed Mr. Jagiełło as the acting President of the Management Board of PKO Bank Polski SA for the period from 1 October 2009 to the date on which the Financial Supervision Authority approves his appointment as the President of the Management Board of PKO Bank Polski SA
2.	Bartosz Drabikowski	Vice-President of the Bank's Management Board	Appointed on 20 May 2008 as Vice-President of the Management Board for the joint term of the Board beginning on that day
3.	Krzysztof Dresler	Vice-President of the Bank's Management Board	Appointed on 20 May 2008, effective as of 1 July 2008, as Vice- President of the Management Board for the joint term of the Board beginning on 20 May 2008. On 27 October 2008, the Financial Supervision Authority approved the appointment of Mr. Krzysztof Dresler as the Member of the Management Board of PKO Bank Polski SA.
4.	Jarosław Myjak	Vice-President of the Bank's Management Board	Appointed on 9 December 2008, effective as of 15 December 2008, as Vice-President of the Management Board for the joint term of the Board beginning on 20 May 2008.
5.	Wojciech Papierak	Vice-President of the Bank's Management Board	Appointed on 20 May 2008, effective as of 1 July 2008, as Vice- President of the Management Board for the joint term of the Board beginning on 20 May 2008. The Supervisory Board of PKO Bank Polski SA entrusted Mr. Wojciech Papierak with the duties of the President of the Management Board of PKO Bank Polski SA as of 7 July 2009 until the President of the Bank's Management Board is appointed. On 14 September 2009, the Bank's Supervisory Board revoked (effective as of 1 October 2009) the Resolution No. 75/2009 of the Bank's Supervisory Board dated 7 July 2009 on appointment of the Chairman of the Management Board of PKO Bank Polski SA
6.	Mariusz Zarzycki	Vice-President of the Bank's Management Board	Appointed on 20 May 2008, effective as of 1 September 2008, as Vice-President of the Management Board for the joint term of the Board beginning on 20 May 2008.

Table 42. Changes in Management Board of PKO Bank Polski SA in 2009

No.	Name	Post	Date of appointment
1.	Jerzy Pruski	President of the Management Board	On 11 April 2008, the Supervisory Board of PKO Bank Polski SA appointed Mr. Jerzy Pruski as the acting President of the Management Board of PKO Bank Polski SA, effective as of 20 May 2008, for the joint term of the Board beginning on that date. The Supervisory Board appointed Mr. Pruski as the acting President of the Management Board of PKO Bank Polski SA for the period from 20 May 2008 to the date on which the Financial Supervision Authority approves his appointment as the President of the Management Board of PKO Bank Polski SA
			On 17 June 2008 the Financial Supervision Authority approved the appointment of Mr. Jerzy Pruski as the President of the Management Board of PKO Bank Polski SA.
			On 7 July 2009 recalled from the function of President of the Bank's Management Board.
3.	Tomasz Mironczuk	Vice-President of the Bank's Management Board	Appointed on 20 May 2008 as Vice-President of the Management Board for the joint term of the Board beginning on that day
			On 7 July 2009 recalled from the function of Vice-President of the Bank's Management Board.

Table 43. Other functions performed by the Bank's Management Board Members in the reporting period

No.	Name	Function
1.	Bartosz Drabikowski Vice-President of the Bank's Management Board	President of the Expenses Committee since 20.05.2008
		Vice-President of the Bank's Assets and Liabilities Committee since 20.05.2008
		Vice-President of the Steering Committee for the Integrated IT System since 20.05.2008
		President of the Steering Committee for the Retail Sales Operational Support Model (2.07.2009 to 31.12.2009)
		Vice-President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of International Accounting Standard 39 (1.01.2009 to 23.06.2009 – the date of the last SC meeting)
2.	Krzysztof Dresler Vice-President of the Bank's Management Board	President of the Bank's Assets and Liabilities Committee since 1.07.2008
		President of the Bank's Credit Committee since 1.07.2008
		Vice-President of the Steering Committee for the Integrated IT System since 1.07.2008
		President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of International Accounting Standard 39 (1.01.2009 to 23.06.2009 – the date of the last SC meeting)
		Vice-President of the Expenses Committee (11.05.2009 to 20.12.2009)
3.	Jarosław Myjak Vice-President of the Bank's Management Board	Vice-President of the Bank's Credit Committee since 15.12.2008
4.	Wojciech Papierak Vice-President of the Bank's Management Board	Vice-President of the Expenses Committee (1.04.2008 to 10.05.2009)
		Member of the Integrated IT System Project Committee since 1.07.2008
		Vice-President of the Steering Committee for the Retail Sales Operational Support Model (2.07.2009 to 31.12.2009)
		Vice-President of the Steering Committee for the Integrated IT System since 1.07.2008
5.	Mariusz Zarzycki Vice-President of the Bank's Management Board	Member of the Expenses Committee (10.08.2009 to 20.12.2009)
		Vice-President of the Expenses Committee since 21.12.2009
		President of the IT Architecture Committee since 1.08.2009
		President of the Steering Committee for the Integrated IT System since 09.09.2008
		Member of the Steering Committee for the Retail Sales Operational Support Model (2.07.2009 to 31.12.2009)

The manner of functioning of the Management Board is defined in the by-laws decided by the Management Board and approved by the Supervisory Board.

Management Board makes decisions in the form of resolutions, which are passed by an absolute majority of votes of those present at the Management Board Meeting. In the case of a voting tie, the President of

the Management Board has the casting vote. For all matters outside the scope of ordinary Bank business to be effected, resolution of the Management Board is required.
The competencies of the Management Board include all issues related to running the business of PKO Bank Polski SA which are not reserved by generally binding legal regulations or the provisions of the Memorandum of Association of PKO Bank Polski SA for the General Shareholders' Meeting or for the Supervisory Board. The Management Board passes specifically the following in the form of resolutions:

- it determines the strategy of PKO Bank Polski SA;
- it determines the annual financial plan;
- it passes the organizational regulations and the principles for segregation of duties;
- it establishes and dissolves permanent committees of the Bank and determines their competences;
- it passes the Internal Regulations of the Management Board;
- it determines the internal regulations for managing the special funds set up from the net profit;
- it determines the dates of payment of dividend in periods specified by the General Shareholders' Meeting;
- it appoints proxies;
- it determines bank products and other banking and financial services;
- it determines the principles for participation of PKO Bank Polski SA in other companies and organizations;
- it determines the principles of operation of the internal controls and annual control plans;
- it establishes, transforms and liquidates organizational entities of PKO Bank Polski SA in Poland and abroad.

In 2009, there were the following committees appointed by the Management Board in which Members of the Management Board operated:

I. Permanent committees

<u>Assets and Liabilities Committee of PKO Bank Polski SA</u>, whose purpose is managing assets and liabilities by influencing the structure of PKO Bank Polski SA statement of financial position and its off-balance sheet items in a manner conducive to achieving the optimum financial result. The competences of the Committee include
specifically:

- taking decisions on risk limits (market, liquidity, settlement and pre-settlement risk) and investment limits, as well as the values of the coefficients adjusting the transfer prices;
- issuing recommendations in respect of:
  - ⇒ forming the statement of financial position structure, the financial model and the assumptions for the financial plan of PKO Bank Polski SA and its capital requirements in the light of prudence standards;
  - ⇒ the principles of risk management (market, liquidity, settlement and pre-settlement) and real and economic capital;
  - ⇒ the value of the cut-off points and minimum scores used in assessing credit risk;
  - ⇒ the principles of the pricing policy in particular business areas and the amount of interest rates and minimum credit margins.

<u>The Loan Committee of the Bank</u>, whose objective is to mitigate credit risk when making lending decisions or decisions concerning the bad debt management in PKO Bank Polski SA. The competencies of the Loan Committee include, in particular:

- making decisions in matters relating to the segregation of competencies for making lending decisions and managing bad debts, industry and client limits, and securing the receivables of PKO Bank Polski SA;
- issuing recommendations for the Management Board of PKO Bank Polski SA in matters relating to making decisions about lending transactions and changes in the material terms and conditions of these transactions, industry and client limits, bad debt management, equity exposure to a Group company.

<u>Expenses Committee of PKO Bank Polski SA</u> whose tasks include specifically:

- accepting expenses, including projects, in a specific amount brackets, including requests for increasing the budget;
- determining project priorities and taking decisions on discontinuing projects, changing their scope, purpose or time schedule;
- giving opinions on the grounds for expenses in amounts approvable by the Management Board of PKO Bank Polski SA;
- taking measures to curb expenses.

The IT Architecture Committee in PKO Bank Polski SA, whose objective is to develop an IT architecture ensuring the implementation of the Bank's Strategy by performing the following tasks:

- developing the key assumptions of the IT architecture of the Bank (the principles);
- evaluating the IT architecture functioning in the Bank on a periodical basis;
- developing a target architecture model;
- initiating measures aimed at achieving the target architecture model.

II. Non-permanent committees

Steering Committee for the Integrated IT System Project whose purpose is to supervise actions related to the development of the Integrated IT System in PKO Bank Polski SA and to take decisions necessary to ensure proper and efficient implementation of new ZSI versions. The Committee's tasks include specifically:

- accepting the assumptions and requirements of the ZSI Project;
- supervising the strategic development of the ZSI Project;
- approving priorities of the ZSI Project;
- accepting the budget of the ZSI Project and potential changes to the budget;
- resolving potential disputes arising during the implementation of the new versions of the system requiring its participation.

Integrated IT System Project Committee (ZSI) which is responsible for the overall supervision over the execution of work, taking key decisions on operating management related to the delivery and implementation of ZSI. Specifically, the Committee is responsible for:

- approving solutions developed at the level of the Project Management Team and solving problems reported by the Team;
- approving changes leading to a change in the Time Schedule by value and by volume;
- informing the appropriate authorities of PKO Bank Polski SA and the ZSI Provider on the work progress.

Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of International Accounting Standard 39 whose purpose is supervising the execution of adaptation measures of PKO Bank Polski SA to the requirements of the directive on capital requirements and to the regulations of International Accounting Standard 39. The Committee's tasks include specifically:

- taking key decisions, and supervising and monitoring the progress of work related to PKO Bank Polski SA's adaptation to the requirements of the directive on capital requirements and to the regulations of International Accounting Standard 39;
- recommending changes relating to the schedule of adaptation activities;
- ensuring cooperation of appropriate entities and organizational units in respect of executing the work;
- preparing regulations relating to investment projects consisting of modifying PKO Bank Polski SA's IT system to ensure implementation of the above-mentioned requirements in the IT systems.

The Steering Committee in charge of the 1st part of the Draft Model of Operating Support for Retail Sales, whose task is to develop a concept of a new operating and organizational model of the Bank as regards the functioning of the operating back office structures for retail banking and small and medium-sized enterprises, which is aimed at:

- simplifying the processes;
- gradually increasing the level of computerization/use of IT (IT solutions), solutions integrating and significantly changing the nature of the work and the roles of the employees;
- gradually implementing the electronic document, the electronic repository of documents;
- responding more quickly to the needs of the branches and clients of the Bank;
- reducing the amount of paper documentation;
- cutting the unit costs of the tasks/activities of the operating back office of the Bank;
- a centralized model of the functioning of the operating back office – for certain product groups, preparing (creating) a basis for further centralization;
- clear and simple procedures.

9. OTHER INFORMATION

Off-balance sheet commitments

At the end of 2009, guarantees and other financial off-balance sheet commitments granted with respect to related parties amounted to PLN 809.8 million and increased by PLN 189.9 million compared to the end of 2008.

The largest commitments related to the following entities:

- Bankowy Fundusz Leasingowy SA – PLN 423.6 million,
- Kredobank SA – PLN 268.8 million,
- Bankowy Leasing Sp. z o.o. – PLN 72.5 million.

All transactions with related parties were concluded at an arm's length.

The details of related party transactions are presented in the Notes to the Financial Statements.

Reacquisition of own shares

During the period covered by this Report, PKO Bank Polski SA did not re-acquire its shares on its own account.

Information concerning dividend paid (or to be paid)

On 30 June 2009 Shareholders General Meeting took up resolution concerning dividend payout for the year 2008 in the amount of PLN 1.00 per share. List of shareholders entitled to receive dividend for the year 2008 was set on 24 September 2009 and the dividend was paid out on 5 October 2009.

In the future, the Management Board intends to recommend that the General Shareholders' Meeting adopt resolutions concerning the payment of a dividend representing 40% of the separate net profit of the Bank for a given financial year.

Significant contracts and important agreements with the Central Bank or supervisory authorities

1. In 2009, the Bank disclosed in its current reports all the agreements with clients for which the total value of services arising from long-term agreements with the given client met the criteria defined in § 2 section 2 of the Decree of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and the conditions of considering as equivalent the information required by law of a non-member country (Journal of Laws No. 33, item 259).
2. In 2009, the Bank did not conclude any significant agreements with the Central Bank or with the regulators.
3. As at the date of the financial statements, the Bank is not aware of any agreements as a result of which changes may occur in the future in the proportions of shares held by the current shareholders.
4. The Bank took actions aimed at concluding a financing transaction in the amount of up to PLN 2.9 billion with the Bank's client (the 'client'). As part of the said actions, after obtaining the required corporate approvals, on 9 October 2009 the Bank signed a commitment for the financing with the client. It is a commitment to conclude a transaction of conditional and/or unconditional purchase of Treasury debt securities from the client's portfolio at the agreed price and on the agreed operating terms and conditions. The financing will be provided on the condition that the client obtains corporate approvals and both parties sign a relevant agreement. If the transaction is concluded, the Bank will inform about it in a separate report.
5. In 2009 PKO Bank Polski concluded the following transactions with one of the Bank's clients:

- on 5 October 2009, the Bank, acting as a member of a consortium of banks, concluded three loan agreements.
  The purpose of the agreements is to grant to the Borrower revolving working capital loans in the total amount of up to PLN 2 500 000 000 for financing the Borrower's activities. The revolving working capital loan agreements were concluded for a period of one year. The revolving working capital loan agreements were secured with powers of attorney to the Borrower's bank account. The PKO Bank Polski SA's total share in the above-mentioned revolving working capital loans is PLN 1 700 000 000.

– on 6 November 2009, the Bank concluded two loan agreements as part of a consortium of banks. The subject matter of the agreements is to grant working capital, renewable loans to the Borrower in the total amount of up to PLN 800 000 000, to finance the Borrower's operations. The agreements to grant working capital, renewable loans were concluded for a period of six months. The agreements to grant working capital, renewable loans were secured with authorization to the Borrower's bank account. PKO Bank Polski SA's share in the amounts of the said working capital, renewable loans totals PLN 200 000 000;
– on 19 November 2009, the Bank concluded three loan agreements as part of a consortium of banks. The subject matter of the agreements is to grant working capital, renewable loans to the Borrower in an amount of up to PLN 1 000 000 000, to finance the Borrower's operations. The agreements to grant working capital, renewable loans were concluded for a period of six months. The agreements to grant working capital, renewable loans were secured with authorization to the Borrower's bank account. PKO Bank Polski SA's share in the amounts of the said working capital, renewable loans totals PLN 250 000 000;
– on 25 November 2009, the Bank concluded three agreements as part of a consortium of banks. The subject matter of the agreements is to grant working capital, renewable loans to the Borrower in an amount of up to PLN 1 000 000 000, to finance the Borrower's operations. The agreements to grant working capital, renewable loans were concluded for a period of six months. The agreements to grant working capital, renewable loans were secured with authorization to the Borrower's bank account. PKO Bank Polski SA's share in the amounts of the said working capital, renewable loans totals PLN 250 000 000;
– on 7 December 2009, the Bank concluded a loan agreement as part of a consortium of banks. The subject matter of the agreement is to grant a working capital, revolving loan to the Borrower in an amount of up to PLN 2 350 000 000, to finance the Borrower's operations. PKO Bank Polski SA's share in the amount of the said working capital, revolving loan amounts to PLN 763 750 000. The agreement to grant a working capital, revolving loan was concluded for the period until the end of 2010.

6. In 2009, Kredobank SA signed an agreement with the National Bank of Ukraine concerning the improvement in the Bank's performance indicators (February 2009) and subsequently amended (November 2009). The said agreement is discussed in the item 'Ongoing cooperation of PKO Bank Polski SA with representatives of the National Bank of Ukraine'
7. The remaining PKO Bank Polski SA Group companies did not conclude any significant agreements with the Central Bank or with the regulators.
8. Neither did the PKO Bank Polski SA Group companies conclude any significant agreements in 2009.

Guarantees and financial commitments

As at 31 December 2009, the total value of granted guarantees and financial commitments amounted to PLN 32 882.6 million, with financial commitments making up 83.3% of this amount. The total value of granted guarantees and financial commitments increased by 8.0% (y/y), while the value of guarantees alone increased by 27.8% (y/y).

Table 44. Off-balance sheet items (PLN million)

OFF-BALANCE SHEET ITEMS
OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA GROUP

Items	As at 31.12.2009	As at 31.12.2008	Change PLN	Change %
Financial liabilities granted	**27 385.2**	**26 141.4**	**1 243.7**	**4.8%**
to financial entities	784.0	635.3	148.6	23.4%
to non-financial entities	24 786.9	25 084.4	(297.53)	-1.2%
to public entities	1 814.3	421.7	1 392.6	4,3x
of which: irrevocable	6 985.5	7 712.8	(727.3)	-9.4%
Guarantees liabilities issued:	**5 497.5**	**4 302.7**	**1 194.8**	**27.8%**
to financial entities	22.6	4.9	18	4,6x
to non-financial entities	5 101.6	4 093.8	1 007.8	24.6%
to public entities	373.3	204.1	169	82.9%
Total	**32 882.6**	**30 444.1**	**2 438.5**	**8.0%**

Loans taken and loan, guarantee and suretyship agreements

During the year 2009, PKO Bank Polski SA did not take out any loans or advances or receive any guarantees or suretyships that were not related to its operating activity.

During the year 2009, Kredobank SA did not take out any loans or advances or receive any guarantees or suretyships that were not related to its operating activity.

Amendments to the Memorandum of Association of PKO Bank Polski SA

In 2009, an amendment to the Memorandum of Association of PKO Bank Polski SA was registered by the District Court for the Capital City of Warsaw in Warsaw, 13th Business Department of the National Court Register, on the basis of Resolution No. 40/2009 of the Ordinary General Shareholders' Meeting of the Bank dated 30 June 2009.

The following amendments were made to the Memorandum of Association:

	Existing content	Changed content
§ 6 clause 1	1. Share capital of the Bank amounts to PLN 1.000.000.000 (one billion) and consists of 1.000.000.000 (one billion) shares, each of PLN 1 (one) par value, including: – 510.000.000 (five hundred and ten million) registered A-series shares numbered from A 000000001 to A 510000000, – 105.000.000 (one hundred and five million) bearer B-series shares numbered from B 000000001 to B 105000000, – 385.000.000 (three hundred and eighty five million) bearer B-series shares numbered from C 000000001 do C 385000000.	1. Share capital of the Bank amounts to PLN 1.250.000.000 (one bilion two hundred and fifty million) and consists of 1.250.000.000 (one bilion two hundred and fifty million) shares, each of PLN 1 (one) par value, including: – 510.000.000 (five hundred and ten million) registered A-series shares numbered from A 000000001 to A 510000000, – 105.000.000 (one hundred and five million) bearer B-series shares numbered from B 000000001 to B 105000000, – 385.000.000 (three hundred and eighty five million) bearer B-series shares numbered from C 000000001 do C 385000000., – 250.000.000 (two hundred and fifty million) bearer D-series shares numbered from D 000000001 to D 250000000.

Underwriting agreements and guarantees issued to the subsidiaries

As at 31 December 2009, bonds' issues of Bankowy Fundusz Leasingowy SA – a subsidiary of PKO Banku Polskiego SA – regulates Underwriting Agreement of a Bond Issuance Program as of 14 December 2006, amended by annex at 28 March 2008, as a result of which the maximum value of the bond issue programme amounts to PLN 600 million.

As at 2009, Bankowy Fundusz Leasingowy SA issued bonds for a total amount of PLN 540 million, including bonds with a value of PLN 290.8 million which were sold on the secondary market, and bonds with a value of PLN 249.22 million which were included in the portfolio of PKO Bank Polski SA.

In 2009 PKO Bank Polski SA issued to Centrum Elektronicznych Usług Płatniczych eService SA a guarantee for up to maximum PLN 700 thousand to the benefit of Polska Telefonia Komórkowa Centertel Sp. z o.o. as a pledge for liabilities arising from sales of mobile phone recharge services. The guarantee is issued for the period ending 30 September 2011.

Enforceable titles issued by the Group

During the year 2009, PKO Bank Polski SA issued 26 129 banking enforceable titles for a total amount of PLN 841 487 426.

In the case of Kredobank SA, the Ukrainian law does not allow to issue enforceable titles as defined in the Polish Banking Law.

Debt write-offs

The amount of equity redemption of PKO Bank Polski SA for 2009 amounted to PLN 469 556 thousand and included:

- exposures written off as uncollectible
- reductions under the executed restructuring agreements.

The reductions relating to derivative transactions in PKO Bank Polski SA amounted to PLN 17 975 019 in 2009.

Proceedings pending before the court, arbitration tribunal or public administrative authority

As at 31 December 2009, the total value of court proceedings against PKO Bank Polski SA was approximately PLN 232 234 thousand (after rounding up), while the total value of proceedings initiated by PKO Bank Polski SA was approximately PLN 71 114 thousand (after rounding up). No court proceedings with the participation of PKO Bank Polski SA are in progress, the value of which amounts to at least 10% of the equity of PKO Bank Polski SA.

Integrated Information System (ZSI)

In 2009, PKO Bank Polski SA continued the work associated with accepting and implementing subsequent versions of the ZSI software and developing the functionality of the system by preparing detailed documents describing the functionalities to be implemented in subsequent versions of the software. The further development of the ZSI will be based on rules identical to those governing the other critical IT systems of the Bank.

Factors, which will influence financial results of the PKO Bank Polski SA Group in the future

Economic processes, which will take place in Poland and global economy and the reactions of financial markets, will influence results of PKO Bank Polski SA Group. The interest rate policy of the Monetary Policy Council and other biggest central banks, will be of great importance for future results.

Events after the reporting period

1. On 27 January 2010, the Supervisory Board of the Bank completed recruitment proceedings for the position of the Vice President of the Management Board of PKO Bank Polski SA, who will be responsible for investment banking matters, and it subsequently appointed Mr. Jakub Papierski, effective 1 April 2010, to perform the function of Vice President of the Management Board of PKO Bank Polski SA for a joint term of office of the Management Board which commenced on 20 May 2008.
2. On 1 February 2010, the Bank concluded an agreement for the organization and operation of a programme to issue stand-by bonds with one of the clients of PKO Bank Polski SA for the amount of PLN 1 500 000 000 (amount in words: one billion, five hundred million Polish zloties). The agreement for the organization and operation of a bond issue programme was concluded for the period to 31 January 2011. PKO Bank Polski SA is obliged to purchase the bonds issued as part of the programme. Moreover, on 1 March 2010 the Bank concluded an agreement for the organization, conducting and the operation of a programme to issue subordinated bonds with the same client of PKO Bank Polski SA for an amount of up to PLN 350 000 000. The agreement for organizing, conducting and operating a bond issue programme was concluded for the period to 31 March 2020. PKO Bank Polski SA guaranteed the closing of the issue and is obliged to purchase the bonds issued as part of the programme should the said bonds be issued by 31 March 2010.
3. On 9 February 2010, PKO Bank Polski SA granted Kredobank SA a second subordinated loan in the amount of USD 15 million. The agreement for the afore-mentioned loan was registered by the National Bank of Ukraine.
4. On 24 February 2010, the Supervisory Board of PKO Bank Polski SA accepted the strategy for 2010-2012. The strategy assumes that PKO Bank Polski SA will remain a universal bank with a Polish character, it will consolidate its leading position in all of the important market segments, it will continue its sustainable development, focused on recognizing and satisfying the needs of its clients with whom it intends to build strong, long-term relationships. Thanks to increased operating efficiency it will improve the quality of its client service significantly. At the same time, it will be a bank which cares about maintaining a stable profitability in line with the expectations of its shareholders, pursuing a prudent risk management policy. It will be perceived as a safe and yet modern bank with traditions.
5. On 26 February 2010, all of the shares held by PKO BP Inwestycje Sp. o.o. – a subsidiary of PKO Bank Polski SA – in WISŁOK Inwestycje Sp. z o.o. became the property of JEDYNKA S.A. with its registered office in Rzeszów as a result of the fulfilment of all the terms and conditions contained in the Conditional Agreement for the Sale of Shares dated 23 November 2009.
6. On 26 February 2010, PKO Bank Polski SA transferred funds in the amount of UAH 366 million to Kredobank SA in respect of a subscription for shares of a new 20th issue (the 1st stage of the subscription).

Information concerning entity authorised to audit financial statements

On 8 August 2005, PKO Bank Polski SA concluded a contract with Ernst & Young Audit Sp. z o.o., an entity authorised to audit financial statements, for an audit of standalone and consolidated financial statements for the years ended 31 December 2005, 2006 and 2007 and for a review of standalone and consolidated financial statements for the 6-month periods ended 30 June 2005, 2006 and 2007.

Total fees payable to Ernst & Young Audit Sp. z o.o. under the contracts concluded by PKO Bank Polski SA amounted to PLN 1 830.9 thousand net for the financial year of 2008, including:

- arising from a contract for an audit of standalone and consolidated financial statements PLN 575.0 thousand,
- arising form other services PLN 1 225.9 thousand.

On 12 May 2008, PKO Bank Polski SA concluded a contract with PricewaterhouseCoopers Sp. z o.o., an entity authorised to audit financial statements, for an audit of standalone and consolidated financial statements for the years ended 31 December 2008, 2009 and 2010 and for a review of standalone and consolidated financial statements for the 6-month periods ended 30 June 2008, 2008 and 2010.

Total fees payable to PricewaterhouseCoopers Sp. z o.o. under the contracts concluded by PKO Bank Polski SA amounted to PLN 1 254.0 thousand net for the financial year of 2008 and 4 276.6 thousand net for the financial year 2009, including:

- arising from a contract for an audit of standalone and consolidated financial statements PLN 342.0 thousand and PLN 1 225.0 thousand respectively,
- arising from assurance services, including reviews of financial statements PLN 781.4 thousand and PLN 560.0 thousand respectively,
- arising from financial advisory PLN 35.0 thousand and PLN 102.8 thousand respectively,
- arising form other services PLN 95.6 thousand and 2 388.8 thousand respectively.

Declaration of the Management Board

The Management Board of PKO Bank Polski SA Group certifies that, to the best of its knowledge:

1) the yearly financial statement and comparative data have been prepared in accordance with binding accounting and reporting standards and present a true and fair view of financial condition and results of operations of PKO Bank Polski SA Group,
2) the yearly Directors' Report presents a true and fair view of the progress and achievements as well as condition of PKO Bank Polski SA Group, including a description of the basic risks and threats.

The Management Board of PKO Bank Polski SA certifies that the entity authorized to audit the financial statements and which is performing the audit of the consolidated financial statements, has been elected in compliance with applicable laws. The entity as well as the certified auditor performing the audit fulfilled all criteria for providing unbiased and independent audit opinion in compliance with applicable laws.

The PKO Bank Polski SA Group Directors' Report for the year 2009 consists of 76 numbered pages.

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Acting President of the Board
Zbigniew Jagiełło

_ _
Vice-President of the Board
Bartosz Drabikowski

_ _
Vice-President of the Board
Krzysztof Dresler

_ _
Vice-President of the Board
Jarosław Myjak

_ _
Vice-President of the Board
Wojciech Papierak

_ _
Vice-President of the Board
Mariusz Zarzycki