Bank Polski

THE PKO BANK POLSKI SA GROUP DIRECTORS' REPORT FOR THE FIRST HALF OF 2011

Warsaw, August 2011

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1. SELECTED FINANCIAL DATA[1]

Table 1. Key financial data of the PKO Bank Polski SA Group

	1st half of 2011			1st half of 2010			Change 1H'2011/1H'2010	
NET PROFIT	PLN	1 838.3	million	PLN	1 502.3	million	22.4%	(y/y)
RESULT ON BUSINESS ACTIVITIES*	PLN	5 315.6	million	PLN	4 855.1	million	9.5%	(y/y)
ADMINISTRATIVE EXPENSES	PLN	(2 123.2)	million	PLN	(2 035.0)	million	4.3%	(y/y)
NET IMPAIRMENT ALLOWANCE	PLN	(881.4)	million	PLN	(883.3)	million	-0.2%	(y/y)
C/I		39.9	%		41.9	%	(2.0)	pp.
ROE NET		16.3	%		14.3	%	2.0	pp.
ROA NET		2.1	%		1.7	%	0.4	pp.

** Result on business activities defined as operating profit before administrative expenses and net impairment allowances and write downs*

In the first half of 2011, the situation of the banking sector further improved compared with the corresponding period of the prior year, mainly due to the slowdown of deteriorating quality of the loan portfolio and a drop in net impairment allowance. The situation on the deposits and loans market was influenced by the stable growth in sales of housing loans, improvement on the corporate loans market and limited activity in consumer loans, as well as slower growth in deposits than in the prior year.

The priority for the PKO Bank Polski SA Group still remains maintaining a strong capital position and an increase in stable sources of finance which are the condition for sustainable business growth. As a result, in the first half of 2011 the Bank continued efforts to acquire new deposits and to conduct another issue of bonds. At the same time, the actions aimed at maintaining stable sources of financing accounted for the need to maintain high operating effectiveness and effective cost control.

The net profit of the PKO Bank Polski SA Group generated in the first half of this year amounted to PLN 1 838.3 million, which represents an increase of PLN 336.0 million in relation to the corresponding period of the previous year. The profit was determined by:

- ⇒ the high level of result on business activities of the PKO Bank Polski SA Group of PLN 5 315.6 million - determined by an increase in net interest income,
- ⇒ rationalization of operating expenses – the increase in costs on an annual basis (+4.3% y/y) was lower than the pace of growth of the result on business activities (+9.5% y/y), which translated into a drop in the C/I ratio to 39.9% from 41.9% generated in the first half of 2010,
- ⇒ an effective structure of the statement of financial position – an increase in amounts due to customers of the PKO Bank Polski SA Group of PLN 9.8 billion y/y and in underwriting of securities issued of PLN 3.0 billion y/y enabled a dynamic increase in business activities. As at the end of the first half of 2011 the loan to deposit ratio was 97.5%, and the ratio of loans to stable sources of financing amounted to 91.6% as at 30.06.2011,
- ⇒ prudent approach to credit risk – as at 30 June 2011 net impairment allowance was at a level similar to the amount for the same period of the prior year.

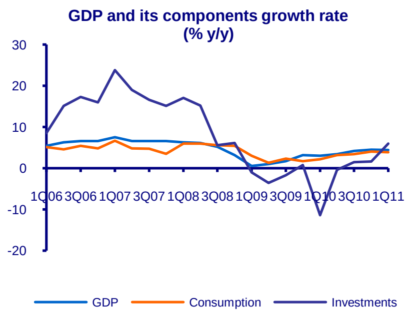
[1] *The ROE net ratio calculated as the net profit for the period from 01.07.2010 to 30.06.2011 divided by average equity (computed as the average of the equity balances as at the end of consecutive quarters in the period from 30.06.2010 to 30.06.2011); the ROA net ratio calculated as the net profit for the period from 01.07.2010 to 30.06.2011 divided by average assets (computed as the average of the assets as at the end of consecutive quarters in the period from 30.06.2010 to 30.06.2011).*

2. EXTERNAL FACTORS INFLUENCING THE ACTIVITIES AND RESULTS OF THE PKO BANK POLSKI SA GROUP

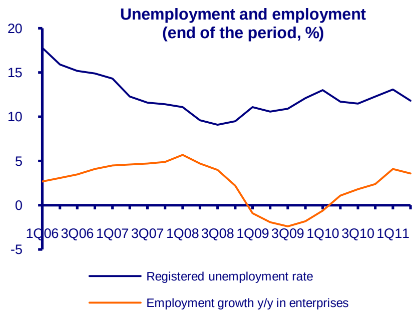
Macroeconomic environment

In the first half of 2011:

- the economic growth slowed down slightly in connection with a decrease in production for export and a significantly lower contribution of inventories, stable growth of private consumption and an increase in investments (mainly resulting from the very low prior year statistical reference base in the construction sector, which served as a reference point); the published real monthly data indicates that the GDP growth remained at a level slightly above 4.0% y/y compared with the growth of 4.5% y/y recorded in the fourth quarter of 2010 and 3.8% y/y in the whole of 2010,



- the average annual increase in salaries and wages in the enterprise sector amounted to 4.8% p.a., whereas the growth in employee pensions and disability benefits amounted to 5.5% p.a.; the average increase in employment in the enterprise sector in annual terms was 3.8% y/y; in the first quarter of 2011 the unemployment rate increased to 13.1%, whereas in the second quarter of the year it decreased to 11.8% due to seasonal factors,

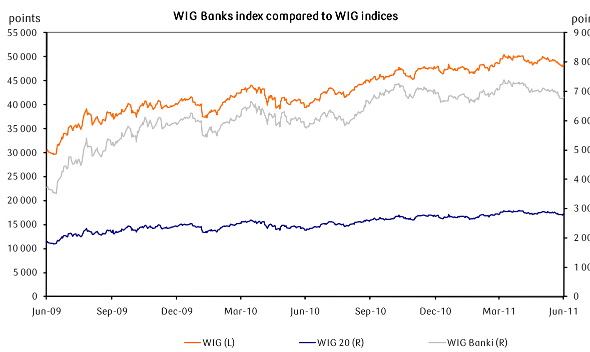


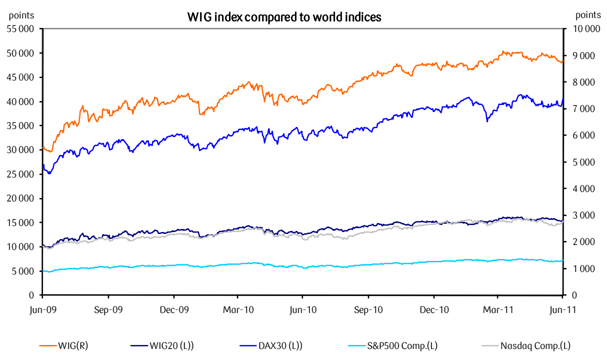
- inflation measured with CPI increased to 4.2% y/y in June of this year from 3.1% y/y in December of the previous year; the increase in inflation in the analysed period was mainly due to a big increase in the annual growth rate of food prices, which reflected global trends, as well as the changes in VAT rates introduced in January 2011.

Situation on Stock exchange

In the first half of 2011, the situation on the main market of the Warsaw Stock Exchange deteriorated significantly in relation to the second half of 2010. It was better, though, than in the first half of 2010. It was characterized by variability resulting from uncertainty as to the financial stability of PIIGS, the situation in North Africa and the Middle East, the economic consequences of the earthquake in Japan, concerns about the durability of the economic upturn in the USA, the high value of offerings on the WSE primary market, and also new domestic regulations affecting the lower investing activities of Open Pension Funds (OPF).

A slight increase in the main WSE indices was recorded in the first half of 2011. WIG and WIG20 increased by 1.9% and 2.1% respectively, which was due to a growing trend in the first quarter, stabilization at a high level in April and May, and a decrease in quotations in June. The WIG index increase was lower than the increase in the German index DAX (6.7%) and the American indices S&P500 Comp. and Nasdaq Comp. (5% and 4.5% respectively). The increases in the main WSE indices were significantly lower than in the second half of 2010, when they grew by 20.6% and 20.8% respectively. The slight increase in the main indices in the first half of 2011 was accompanied by decreases in the following indices: WIGBanki (-1.7% vs. an increase of 19.6% in the second half of 2010), mWIG40 (-0.5% vs. an increase of 20.7% in the second half of 2010), and sWIG80 (-1.1% vs. an increase of 11.3% in the second half of 2010).





Source: EcoWin Pro

In the first half of 2011 the capitalization of 416 companies listed in the main market of the Warsaw Stock Exchange (400 companies were listed at the end of 2010) increased by 4.4% to PLN 824 billion. In the first half of 2011, 25 companies made their debut on the WSE (compared with 34 debuts in 2010). At the end of the first half of 2011, the annual average P/E ratio was 15.7, compared with 18.2 at the end of 2010.

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

- volatility in valuations of banks listed on WSE,
- a slight decrease in the share of investment funds and an increase in the share of bank deposits in the savings of individuals and a decrease in the share of equity instruments,
- a slight increase in the value of assets of investment funds and a significant increase of pension funds.

The monetary policy of the NBP

In the first half of 2011, the Monetary Policy Council (MPC) increased interest rates by a total of 100 base points, to 4.5% for a reference rate. As grounds for its decisions, the MPC referred to the risk of an increase in inflation expectations and the occurrence of second-round effects in the situation of a very strong current CPI growth and, at the same time, the stable conditions of the real economy.

Situation in the Polish banking sector

In the first half of 2011, the situation of the banking sector further improved. As at the end of June of this year, the financial result of the banking sector amounted to PLN 7.8 billion and was 44% higher than in the corresponding period of the previous year. This was mainly due to a slower rate in the deterioration of the loan portfolio quality and a decrease in net impairment allowance of 36% y/y, as well as a high increase of net interest income by about 14% which was a result of an increase in NBP interest rates and maintaining low growth rate of operating expenses (5% y/y). The banking sector's solvency ratio was 13.7%.

Bad debts increased decidedly more slowly than in the prior year and as at the end of June of this year they grew by ca. 7% y/y compared with ca. 21% y/y as at the end of 2010. Their increase related mainly to the household sector and was the result of a growing balance of bad housing loans. Consumer bad debts grew at a decidedly slower pace. At the same time, the value of bad debts in the corporate sector dropped. As at the end of June of this year, the share of bad debts in total receivables was 8.4% and it was 0.4 pp. lower than as at the end of the previous year.

The situation on the loan and deposit market was affected by a stable increase in housing loans, an improvement on the market of corporate loans, limited lending activity on the consumer loan market and a slower increase in deposits than a year before. The changes in the volume of loans and deposits expressed in PLN were affected by changes in exchange rates, including in particular in the second quarter of this year depreciation of the Polish currency to the Swiss franc (whose exchange rate had increased by 5.3% since the beginning of this year), which resulted in an increase in the value of loans granted in foreign currencies (especially housing loans) translated into PLN.

The growth of the total loan portfolio in the first half of this year was significantly higher than a year before. Loans increased by PLN 43.2 billion, and their growth rate was 10.1% y/y compared with 9% in the corresponding period of the previous year. After adjustment for changes in exchange rates, the increase in loans would amount to PLN 35.8 billion as compared with ca. PLN 13 billion a year before.

An improvement in the situation on the corporate loans market had a significant effect on the increase in loans. The amount of corporate loans increased by ca. PLN 17.4 billion in the first half of 2011 compared with PLN 0.4 billion in the corresponding period of the previous year, and the growth rate was 6% y/y compared with 5% y/y decrease a year before. Loans for small and medium enterprises accounted for more than 67% of the increase in loans. According to a survey conducted by the NBP, the banks continued their gradual liberalization of the loan granting criteria, which was due to the competitive pressure and an increase in demand for loans – particularly among small and medium enterprises.

The housing loans portfolio grew in a systematic and stable manner in connection with the liberalization of the banks' lending policies resulting from growing competition on the housing loans market and the announced changes in the 'Rodzina na swoim' government-funded programme. The amount of the housing loans portfolio increased by ca. PLN 20.2 billion, i.e. 15.5% y/y. After eliminating the effect of changes in exchange rates, the actual increase in such loans would be 34% lower and would amount to PLN 13.4 billion in the first half of 2011, and the growth rate would be 15% y/y.

The banks' lending activities in the area of consumer loans were still being limited. The amount of such loans decreased by ca. PLN 3.2 billion, and their growth rate dropped to (-)2.3% y/y compared with a growth of 6.4% y/y in the corresponding period of the previous year. Banks continued to apply more severe criteria and terms of granting loans, due to the quality of the loan portfolio deteriorating.

The increase in total deposits was lower in the first half of this year than a year before. Their amount increased by ca. PLN 22 billion compared with ca. PLN 30 billion in the corresponding period of the previous year, and their growth rate dropped to 7.5% y/y compared with 9% y/y as at the end of June of previous year. Deposits of individuals, which increased by PLN 17.5 billion, i.e. 8.7%, were the main source of this growth. At the same time, corporate deposits decreased by PLN 4.3 billion.

Situation in the Polish industries other than the banking sector

Investment funds sector

In the first half of 2011 the pace of recovery of the investment fund market slowed down after the 2007 crisis. The investment fund assets increased to PLN 119.1 billion at the end of June, increasing the value during the first half of the year by 2.2% (PLN 2.6 billion), compared with 14.5% (PLN 18.8 billion) in the second half of 2010 and with 8.9% (PLN +8.3 billion) in the first half of 2010. The lower growth rate of assets was a result of the deterioration in the situation on the stock market (WIG index gained 1.9%) and on the debt market (the T-bond index IROS gained 3.2%), as well as a lower inflow of net funds (PLN 1.9 billion compared with PLN 5.9 billion in the second quarter of 2010 and PLN 6.5 billion in the first quarter of 2010). The situation on the funds market had an effect on non-interest income of banks participating in their distribution.

The market of open pension funds

In the first half of 2011, assets of open pension funds grew to PLN 236.8 billion, i.e. by PLN 15.5 billion (7.0%), compared with an increase of PLN 28.1 billion in the second half of 2010 and by PLN 14.6 billion in the first half of 2010. This was mainly due to a lower inflow of new funds from the Social Security Institution (ZUS), which resulted from regulatory changes (a reduction in contributions to the second pillar from 7.3% to 2.3% as of May 2011) and the effects of management, which were affected by the situation on the stock market and the debt market. In the first half of 2011, ZUS contributed funds amounting to PLN 11.2 billion to the OPFs, compared with PLN 11.5 billion in the corresponding period of 2010. The shares of PKO Bank Polski SA constituted the biggest proportion of the OPF share portfolio.

The lease market

Growth of the leasing market, which started in the second quarter of 2010 after a period of a significant slow-down, continued in the first half of 2011. It was enhanced by growing industrial production and individual consumption. According to preliminary data of the Polish Leasing Association (Związek Polskiego Leasingu), the amount of assets financed by lease companies in the first half of 2011 was PLN 14.6 billion. The rate of growth of this market was significantly higher than in the first half of 2010 (27.5% y/y vs. 4.9%). Demand for heavy vehicles contributed to the development of the lease market. This segment grew by more than 70% y/y. The car lease market grew by 39% y/y, and the plant and machinery lease market grew by ca. 34% y/y. The share of plant and machinery in the market structure increased to more than 36%, and the share of vehicles dropped to ca. 58%.

The situation on the financial market

The profitability curve of Polish Treasury securities showed a tendency to flatten throughout the first half of 2011. The difference between the profitability of 10-year and 2-year bonds decreased in the first half of the year from 133 base points to 96 base points. After an increase in profitability recorded in the first quarter of 2011, which was caused by NBP interest rate increases, in the second quarter the profitability stabilized on short end of the profitability curve, and the profitability at the other end of the curve started to decrease. The decrease in the profitability of 5-year and 10-year Treasury securities recorded in the second quarter of 2011 was a result of the limited supply of Treasury debt securities, which was due to the fact that the State Treasury had sufficient liquidity, and a decrease in profitability on the base markets, which was due to decreasing expectations as to the rate of economic growth in the world, a lower risk of inflation growth and putting off the expected introduction of stricter monetary policies in the USA.

The rates on the interbank market grew in the first half of the year in connection with the introduction of stricter monetary policies by the NBP. 1-month to 12-month WIBOR rates increased from 48 to 96 base points. Rate increases on the money market were also recorded in the same period in the lower maturities sector, including in this case the POLONIA rate. The average quarterly POLONIA rate in the second quarter of 2011 was ca. 50 base points below the average NBP reference rate, compared with ca. 60 base points in the fourth quarter of 2010. This situation was a result of the NBP policy of increasing the issue of bills with maturities below 7 days, which was aimed at bringing the POLONIA market rate to the level of the NBP reference rate.

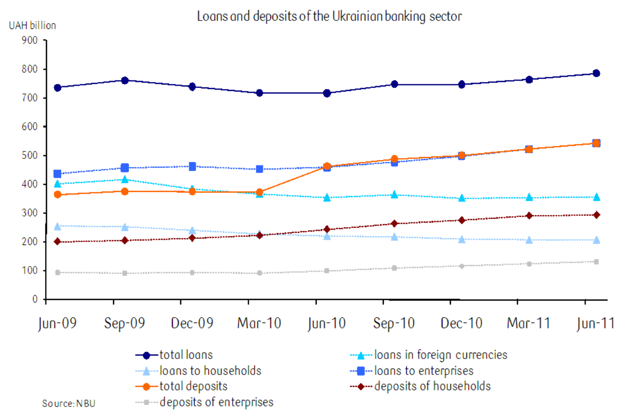
In the first half of the year, the exchange rate of the Polish zloty fluctuated around PLN 3.95 to EUR 1 and it showed no visible downward or upward trend. This was due to changing moods on the global markets resulting from alternating periods of increased uncertainty and aversion to risk on the financial markets. The main sources of uncertainty which contributed to the depreciation of the Polish zloty were the growing fiscal crisis in the euro zone, the uncertainty associated with political unrest in the Middle East and the disaster in Japan, and concerns that the global recession would be deeper than previously anticipated.

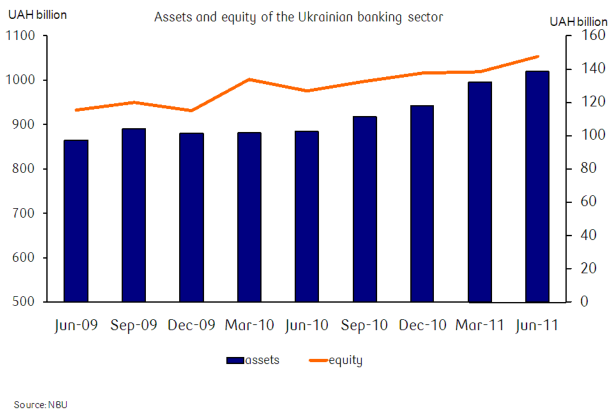
NBP interest rate increases introduced from the beginning of the year and moving currency exchange from EU transfers to the currency market (from the end of April) were the factors which reduced pressure on PLN depreciation. In the first half of the year, the Polish zloty gained value to the American dollar, which was associated with the appreciation of the euro to the American dollar resulting from the introduction of stricter monetary policies by the ECB and continued liberalization of monetary policies in the USA. At the end of the second quarter, the Polish zloty depreciated to PLN 3.99 to EUR 1 compared with PLN 3.96 to EUR 1 as at the end of 2010 (a decrease of 0.7%), while its value against the American dollar increased to PLN 2.75 against USD 1 from PLN 2.96 against USD 1 (a 7% increase).

Ukrainian banking sector

The activities and results of the PKO Bank Polski SA Group for the first half of 2011 were affected by the macroeconomic situation in Ukraine, where PKO Bank Polski SA has a subsidiary, KREDOBANK SA. Significant events of the first half of 2011 include:

– the publication in February 2011 by the International Monetary Fund (IMF) of the information on the economic situation in Ukraine as part of the regular monitoring of countries using IMF aid under the *Stand-by-Arrangement* (SBA) scheme; delays in the implementation of the necessary reforms will delay the payment of subsequent tranches of the loan in the short term, however, this will have a limited impact on the financial stability of the Ukraine due to its good liquidity situation,
– continued economic growth following deep recession in 2009 in the situation of stable global economic growth and foreign demand; however, the rate of growth remained at a very low level due to the very low growth of individual consumption and investments resulting from the very difficult situation of the Ukrainian domestic economy,
– continued improvement of Ukraine's external stability and, on the other hand, a growing risk of deterioration in the light of increased demand for import and higher oil prices,
– a slight depreciation of the Ukrainian hryvnia: the official exchange rate of the Ukrainian hryvnia announced by the Central Bank of Ukraine (NBU) as at the end of June 2011 was UAH 7.97 against USD 1, compared with UAH 7.96 against USD 1 as at the end of 2010,
– further stabilization of the situation in the banking sector thanks to increasing the banks' capital, the activities of NBU aimed at improving liquidity and the improvement in the economic situation. At the same time, the sector's situation is considered difficult due to its low profitability and the poor quality of the banks' assets,
– stabilization of Ukraine's credit risk assessment in the light of a relatively stable situation on global markets and the country's financial perspectives given continued financial aid from the IMF; a slight deterioration at the end of the second quarter of 2011 due to growing risks to the global economy growth perspectives and concerns over the financial stability of the euro zone peripheral countries.





According to the NBU data, as at the end of the first half of 2011, 178 banks operated in Ukraine, including 56 with foreign capital (compared with 52 a year before), of which 21 had 100% of foreign capital. The share of foreign capital in the Ukrainian banking sector dropped to 38.9% from 40.6% at the end of 2010.

In the first half of 2011, the banking sector's assets increased by ca. 8% (15% y/y) to UAH 1 020 billion, which was due to an upturn on the loan market.

The loan volume increased by 4% in the first half of 2011 (UAH 31 billion), compared with a 3% decrease in the first half of 2010. This was due to an improvement of the situation on the corporate loan market and the continued recession on the household loan market, even though the decrease in this segment was smaller than a year before. Corporate loans increased by 9% (compared with a decrease of 1% in the first half of 2010), and household loans decreased by 1% (compared with a decrease of 8% a year before). The slow decrease of the share of foreign currency loans in total loans was maintained (45% compared with 47% at the end of 2010).

The increase in the volume of deposits in the first half of 2011 was half of the previous year's level. It amounted to ca. UAH 42.5 billion (up 8% growth in the first half of 2011, compared with 23% in the first half of 2010). Household savings increased by ca. 7%, and corporate deposits increased by 13%, compared with 14% and 5%, respectively, a year before.

The banking sector's liquidity improved slightly. The loans to deposits ratio was 145% compared with 149% at the end of 2010.

In the first half of 2011, the capital of the banking sector increased by 7.3% compared with 38% in the first half of 2010. This was due to the lower amount of capital contributed by the government and strategic foreign investors, as required by the NBU. It is expected that private banks will complete the capital increase process by the end of 2011.

Despite stabilization of the growth of non-performing loans recorded in the first half of 2011, the low loan portfolio quality remains a challenge for the Ukrainian banking sector. Further increases in the amounts of non-performing loans and provisions recorded were noted. According to NBU data, in the first half of 2011, the amount of non-performing loans increased by ca. 2% compared with 11% in the corresponding period of 2010, and the amount of provisions increased by 23% in the first half of 2011.

The banking sector's profitability remains negative. As at the end of the first half of 2011, the loss of the banking sector decreased in relation to the corresponding period of the previous year. Return on equity and return on assets remained negative. ROE amounted to (-)1.5%, and ROA amounted to (-)0.2%, compared with (-)13.5% and (-)1.9% respectively a year before.

Regulatory environment

The financial and organizational situation of the PKO Bank Polski SA Group in the first half of 2011 was affected i.a. by the following new significant regulatory changes:

- Resolution of the Monetary Policy Council No. 9/2010 of 27 October 2010 (Official Journal of NBP No. 15, item 16) increasing the mandatory reserve rate for banks to 3.5% as of 31 December 2010,
- Resolutions of the Monetary Policy Council of January, April, May and June increasing the reference rate by a total of 1 percentage point to 4.5%, the interest rate on refinancing loans secured with a pledge on securities to 6%, the interest rate of fixed-term deposits placed by banks with the National Bank of Poland to 3% and the rediscount rate for bills of exchange accepted by the National Bank of Poland from banks for rediscounting to 4.75%,
- Resolution of the Bank Guarantee Fund (BGF) Council of 17 November 2010 increasing the interest rate used to calculate the mandatory annual fee payable by banks to the BGF for 2011 more than two-fold,
- Resolutions of the Polish Financial Supervision Authority (PFSA) No. 367/2010 of 12 October 2010 (Official Journal of PFSA No. 8, item 36) and No. 434/2010 of 20 December 2010 (Official Journal of PFSA No. 1 of 2011, item 36) introducing changes in items included in the banks' share capital and supplementary capital as of 31 December 2010,
- PFSA Resolution No. 369/2010 of 12 October 2010 (Official Journal of PFSA No. 8, item 38) introducing changes in the determination of capital requirements for different types of risk as of 31 December 2010,
- Resolution No. 52/2010 of the PFSA of 23 February 2010 (Official Journal of PFSA No. 2, item 12) which required banks to comply, as of 23 December 2010, with all rules of Recommendation T in respect of retail loan exposure risk management,

– amendment of the Act on land and mortgage register of 26 June 2009 (Journal of Laws of 2009 No. 131, item 1075), which among other things cancelled the distinction between ordinary and capped mortgage as of 20 February 2011,
– amendment of the VAT Act of 16 December 2010 (Journal of Laws No. 247, item 1652) introducing in the period from 1 January 2011 to 31 December 2012 certain restrictions in respect of deducting total output VAT on the lease of passenger cars with homologation,
– decree of the Minister of Finance of 23 December 2010 (Journal of Laws 244, item 1692) extending the list of items included in the public debt by adding i.a. loans and borrowings and lease contracts,
– Act of 25 March 2011 introducing changes to the organization and functioning of pension funds (Journal of Laws No. 75, item 398), including changes to the system of depositing OPF assets as of 1 May 2011, which decreased the base amount of the social insurance contribution payable to OPFs from 7.3% to 2.3% and prohibited canvassing on behalf of OPFs,
– decree of the President of the Council of Ministers of 30 May 2011 on payments covering the costs of supervision over pension fund activities (Journal of Laws No. 122, item 655), increasing the liabilities of pension funds to PFSA and the Ombudsman for the Insured.

The situation of the PKO Bank Polski SA Group was also affected by regulatory solutions which will enter into force at a later date after *vacatio legis*, including:

– PFSA Resolution No. 18/2011 of 25 January 2011 (Official Journal of PFSA No. 3, item 6) instructing the banks to comply with Recommendation S on good practices in respect of mortgage loan exposures as of 25 July 2011,
– anticipated gradual liquidation of the 'Rodzina na swoim' programme as of 1 January 2013, as a result of the amendment to the Act on financial support for families buying their own homes,
– anticipated changes to the Tax Code relating to the principles of calculation of tax on capital gains.

The situation of the PKO Bank Polski SA Group was also affected by the new legal solutions introduced in the Ukraine, where a subsidiary of PKO Bank Polski SA – KREDOBANK SA – operates, including:

– the new Tax Code decreasing the corporate income tax rate to 23% in the period from 1 April 2011 to 31 December 2011, introducing changes in the assessment of inflows and expenses, and introducing new regulations concerning tax depreciation and amortization of tangible fixed assets and intangible assets,
– Resolution of the NBU Management Board No. 111 of 13 April 2011 introducing, among other things, changes in currency *swaps* and allowing banks to execute simultaneous foreign currency sale and purchase transactions on the interbank market (before only purchase or only sale was possible).

3. FINANCIAL RESULTS[2]

3.1. The PKO Bank Polski SA Group

3.1.1. Key financial indicators

Results achieved by the PKO Bank Polski SA Group in the first half of 2011 are represented by the following key financial efficiency indicators, which are shown in the table below.

Table 2. Key financial indicators of the PKO Bank Polski SA Group

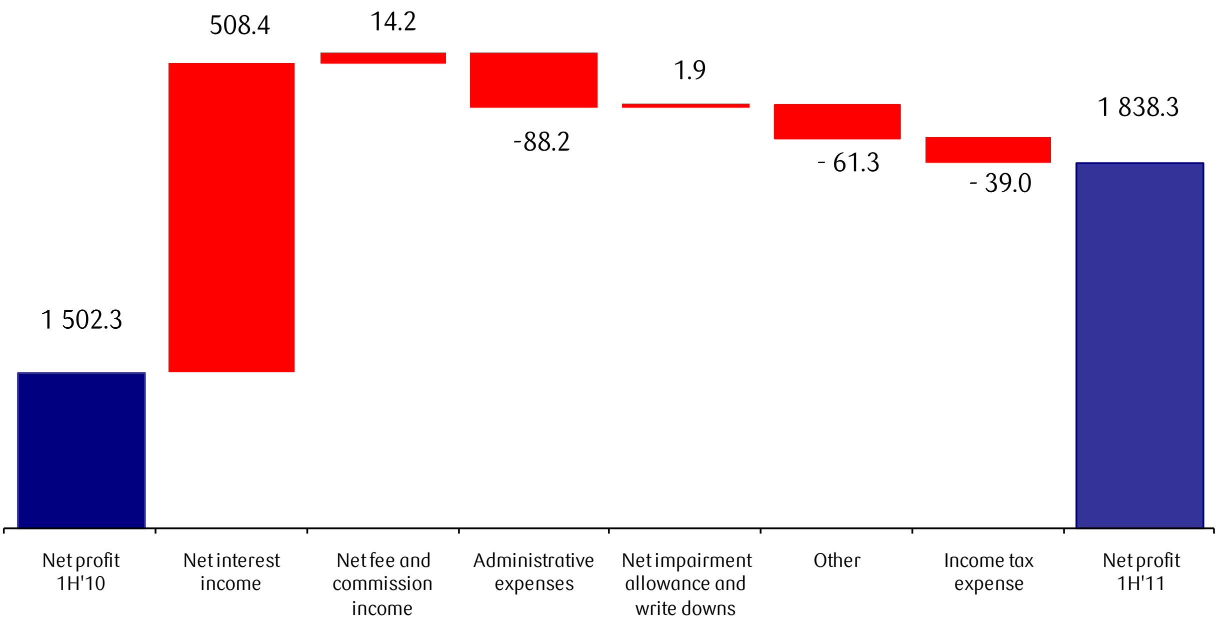
	30.06.2011	30.06.2010	Change
ROA net (net profit/average total assets)	2.1%	1.7%	0.4 pp.
ROE net (net profit/average total equity)	16.3%	14.3%	2.0 pp.
C/I (cost to income ratio)	39.9%	41.9%	-2.0 pp.
Interest margin (net interest income/average interest-earning assets)	4.5%	4.1%	0.4 pp.
The share of impaired loans*	7.6%	7.6%	0.0 pp.
The coverage ratio of loans with recognized impairment**	49.2%	45.8%	3.4 pp.

* *Calculated by dividing the gross carrying amount of impaired loans and advances to customers by the gross carrying amount of loans and advances to customers.*
** *Calculated by dividing the balance of impairment write-downs in respect of loans and advances to customers by the gross book value of loans and borrowings with recognized impairment.*

3.1.2. Consolidated income statement

The consolidated net profit of the PKO Bank Polski SA Group earned in the first half of this year amounted to PLN 1 838.3 million and was PLN 336.0 million higher than in the comparable period of 2010, mainly thanks to the dynamic increase in net interest income.

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



In the income statement of the PKO Bank Polski SA Group for the first half of 2011 the sum of income items amounted to PLN 5 315.6 million and was PLN 460.5 million higher than compared with the prior year 2010 (increase by 9.5% y/y). The main consolidated items of the income statement were as follows:

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

Table 3. Changes in income statement of the PKO Bank Polski SA Group (in PLN million)

	01.01 -30.06.2011	01.01 -30.06.2010	Change (in PLN million)	Change I H 2011 /I H 2010
Interest and similar income	5 602.3	5 033.2	569.1	11.3%
Interest expense and similar charges	(2 027.8)	(1 967.0)	(60.8)	3.1%
Net interest income	**3 574.5**	**3 066.2**	**508.4**	**16.6%**
Fee and commission income	1 899.9	1 910.8	(10.9)	-0.6%
Fee and commission expense	(358.5)	(383.5)	25.1	-6.5%
Net fee and commission income	**1 541.4**	**1 527.2**	**14.2**	**0.9%**
Dividend income	6.5	5.5	1.0	18.6%
Net income from financial instruments at fair value	(35.3)	(22.6)	(12.7)	56.1%
Gains less losses from investment securities	15.9	36.1	(20.2)	-55.9%
Net foreign exchange gains	132.4	166.0	(33.6)	-20.2%
Other operating income	230.1	189.3	40.8	21.5%
Other operating expenses	(150.0)	(112.6)	(37.4)	33.2%
Net other operating income and expense	**80.1**	**76.7**	**3.3**	**4.3%**
Net impairment allowance	(881.4)	(883.3)	1.9	-0.2%
Administrative expenses	(2 123.2)	(2 035.0)	(88.2)	4.3%
Operating profit	**2 311.0**	**1 936.8**	**374.2**	**19.3%**
Share of profit (loss) of associates and jointly controlled entities	(3.8)	(5.0)	1.2	-24.0%
Profit (loss) before income tax	**2 307.2**	**1 931.8**	**375.4**	**19.4%**
Income tax expense	(470.1)	(431.1)	(39.0)	9.0%
Net profit (including non-controlling interest)	1 837.1	1 500.7	336.4	22.4%
Net profit (loss) attributable to non-controlling shareholders	(1.2)	(1.6)	0.4	-26.9%
Net profit attributable to the parent entity	**1 838.3**	**1 502.3**	**336.0**	**22.4%**

Net interest income

In the first half of 2011, net interest income was PLN 508.4 million higher than in the corresponding period of the previous year. It was mainly the result of the increase in interest income by PLN 569.1 million.

Table 4. Interest income and expense of the PKO Bank Polski SA Group (in PLN million)

Items	01.01-30.06.2011	Structure 1H 2011	01.01-30.06.2010	Structure 1H 2010	Change 1H 2011/ 1H 2010
Interest income, of which:	5 602.3	100.0%	5 033.2	100.0%	11.3%
Loans and advances to customers	4 601.7	82.1%	4 104.5	81.5%	12.1%
Derivative hedging instruments	351.1	6.3%	308.4	6.1%	13.9%
Securities designated at fair value through profit and loss	256.3	4.6%	242.9	4.8%	5.5%
Income of investment securities available for sale	247.7	4.4%	229.4	4.6%	8.0%
Placements with banks	97.0	1.7%	72.6	1.4%	33.5%
Trading securities	45.3	0.8%	72.5	1.4%	-37.5%
Other	3.1	0.1%	3.0	0.1%	4.5%
Interest expenses, of which:	(2 027.8)	100.0%	(1 967.0)	100.0%	3.1%
Amounts due to customers	(1 902.4)	93.8%	(1 859.4)	94.5%	2.3%
Debt securities in issue	(104.0)	5.1%	(53.6)	2.7%	94.0%
Deposits from banks	(19.4)	1.0%	(17.2)	0.9%	12.6%
Other	(1.9)	0.1%	(36.8)	1.9%	-94.8%
Net interest income	3 574.5	x	3 066.2	x	16.6%

In the first half of 2011, interest income amounted to PLN 5 602.3 million and was 11.3% higher than in the first half of 2011, which was mainly due to the increases in:

– income from loans and advances to customers (+)12.1% y/y – a result of fast loan portfolio growth (+8.8% y/y) as well as of interest rates growth,
– income from derivative hedging instruments (+)13.9% y/y, including among the other income resulting from an increase in the CIRS transactions volume.

Growth of interest expenses amounted to (+)3.1% y/y, which was mainly due to an increase in the costs of amounts due to customers (+2.3% y/y) and the costs of issue of own securities.

The interest margin increased by about 0.4 pp. y/y to 4.5% in the first half of 2011 as a result of an increase in annualized interest income of 20.8% y/y, which was accompanies by an increase in average interest-bearing assets of 11.9% y/y.

Net fee and commission income

In the first half of 2011, fee and commission income remained at the stable level to the 1st half of 2010.

Table 5. Fee and commission income and expense of the PKO Bank Polski SA Group (in PLN million)

Items	01.01-30.06.2011	Structure 1H 2011	01.01-30.06.2010	Structure 1H 2010	Change 1H 2011 /1H 2010
Fee and commission income, including:	**1 899.9**	**100.0%**	**1 910.8**	**100.0%**	**-0.6%**
Payment cards	501.4	26.4%	475.2	24.9%	5.5%
Maintenance of bank accounts	462.6	24.4%	461.4	24.1%	0.3%
Loan insurance	262.2	13.8%	338.1	17.7%	-22.5%
Loans and advances granted	278.3	14.6%	246.1	12.9%	13.1%
Maintenance of investment funds and pension funds (including management fees)	186.8	9.8%	158.1	8.3%	18.1%
Cash transactions	82.4	4.3%	88.8	4.6%	-7.2%
Securities operations	32.7	1.7%	33.3	1.7%	-1.9%
Foreign mass transactions servicing	23.4	1.2%	21.5	1.1%	8.7%
Sale and distribution of court fee stamps	10.6	0.6%	13.7	0.7%	-22.3%
Other*	59.5	3.1%	74.5	3.9%	-20.2%
Fee and commissions expenses related to:	**(358.5)**	**100.0%**	**(383.5)**	**100.0%**	**-6.5%**
Payment cards	(145.2)	40.5%	(158.7)	41.4%	-8.5%
Loan insurance	(68.5)	19.1%	(74.0)	19.3%	-7.5%
Acquisition services	(69.8)	19.5%	(73.1)	19.1%	-4.5%
Assets management fees	(18.4)	5.1%	(12.9)	3.4%	43.2%
Other**	(56.6)	15.8%	(64.9)	16.9%	-12.9%
Net fee and commission income	**1 541.4**	**x**	**1 527.2**	**x**	**0.9%**

** Included in 'Other' are i.a.: bond sale, commissions of the Brokerage House (Dom Maklerski) for servicing Initial Public Offering issue and commissions for servicing loans granted by the State budget, fiduciary services.*
*** Included in 'Other' are i.a.: fees and expenses paid by the Brokerage House (Dom Maklerski) to Warsaw Stock Exchange (WSE) and the National Depository for Securities (KDPW), costs of settlement services, operating services granted by other banks.*

The result on commissions and fees increased by 0.9% y/y as a result of:
- an increase in commission income in respect of loans and advances granted (+13.1% y/y),
- an increase in commission income in respect of the servicing of investment and pension funds (+18.1% y/y),
- an increase in the result on payment cards (+12.5% y/y),

along with a decrease in the result on loan insurance by 26.7% y/y.

Administrative expenses

Expenses discipline continued in the first half of 2011 resulted in the slight increase in the Group administrative expenses by 4.3% as compared to the first half of 2010.

Table 6. Administrative expenses of the PKO Bank Polski SA Group (in PLN million)

Items	01.01-30.06.2011	Structure 1H 2011	01.01-30.06.2010	Structure 1H 2010	Change 1H 2011 /1H 2010
Staff costs	(1 145.2)	53.9%	(1 138.4)	55.9%	0.6%
Overheads and other *	(726.6)	34.2%	(658.4)	32.4%	10.4%
Depreciation and amortisation	(251.4)	11.8%	(238.2)	11.7%	5.5%
Total	**(2 123.2)**	**100.0%**	**(2 035.0)**	**100.0%**	**4.3%**

* Other: taxes and other charges, contribution and payments to the Bank Guarantee Fund.

The level of total administrative expenses in the first half of 2011 was mainly determined by:

- the increase in the costs of contributions and payments to the Bank Guarantee Fund of PLN 41.7 million (+2.6x y/y) - a result of the increase in the annual fee payable to the BGF,
- an increase in overheads of PLN 25.5 million (+4.3% y/y),
- an increase in amortization and depreciation costs of PLN 13.2 million (+5.5% y/y),
- increase in staff costs by PLN 6.7 million (+0.6% y/y), affected mainly by increase in remuneration expenses of PLN 7.4 million (+0.8% y/y)

A slight increase in administrative expenses, accompanied by a significant increase in the income of the PKO Bank Polski SA Group of 9.5% y/y, resulted in maintaining high operating efficiency of the PKO Bank Polski SA Group measured with the C/I ratio, which amounted to 39.9% (-2.0 pp. y/y) as at the end of the first half of 2011.

Net impairment allowances and write-downs

As at 30 June 2011 net impairment allowances and write-downs were at a level similar to the amount for the same period of the prior year (PLN (–)881.4 million), which reflects the PKO Bank Polski SA Group's prudent approach to the measurement of the credit risk in the previous periods. The drop in net impairment allowances and write-downs losses compared with the result for the first half of 2010 (-0.2% y/y) resulted from the improvement in the result on consumer and business loans (with a simultaneous deterioration in the result on housing loans).

Table 7. Net impairment allowances and write-downs (in PLN million)

Items	01.01-30.06.2011	Structure 1H 2011	01.01-30.06.2010	Structure 1H 2010	Change 1H 2011 /1H 2010
Net impairment allowances, including:					
loans and advances to customers and amounts due from banks measured at amortised cost	(843.7)	95.7%	(878.7)	99.5%	-4.0%
investment in entities measured at equity method	(0.6)	0.1%	0.0	0.0%	x
Other	(37.0)	4.2%	(4.6)	0.5%	702.2%
Net impairment allowances – total	**(881.4)**	**100%**	**(883.3)**	**100%**	**-0.2%**

3.1.3. Consolidated statement of financial position – main items

The financial situation of the PKO Bank Polski SA Group is strongly influenced by the financial situation of the parent entity. It determines both the size of total assets and the structure of assets and liabilities. As at 30.06.2011 total assets of PKO Bank Polski SA accounted for 98.9% of the total assets of the PKO Bank Polski SA Group.

As at 30.06.2011, total assets of the PKO Bank Polski SA Group amounted to PLN 178 702 million, which represents an increase of 5.3% compared to the end of December 2010.

Loans and advances to customers represent the most significant item of the Group assets and they amounted to PLN 135 680 million as at the end of June 2011, i.e. 75.9% of total assets.
Assets are mainly financed by amounts due to customers, which accounted for PLN 139 093 million as at the end of June 2011, i.e. 88.0% of total liabilities.

The main items of the statement of financial position of PKO Bank Polski Group SA for the first half of 2011 are presented in the table below.

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

	30.06.2011	Structure 30.06.2011	31.12.2010	Structure 31.12.2010	Change (%)
Cash and balances with the central bank	7 643.5	4.3%	6 182.4	3.6%	23.6%
Amounts due from banks	2 225.8	1.2%	2 307.0	1.4%	-3.5%
Loans and advances to customers	135 680.4	75.9%	130 668.1	77.0%	3.8%
Securities	24 917.6	13.9%	22 481.4	13.3%	10.8%
Other assets	8 234.5	4.6%	8 021.6	4.7%	2.7%
Total assets	**178 701.9**	**100.0%**	**169 660.5**	**100.0%**	**5.3%**
Amounts due to banks	6 222.4	3.5%	5 237.2	3.1%	18.8%
Amounts due to customers	139 093.4	77.8%	132 981.2	78.4%	4.6%
Debt securities in issue and subordinated liabilities	5 070.0	2.8%	4 910.6	2.9%	3.2%
Other liabilities	7 674.1	4.3%	5 171.8	3.0%	48.4%
Total liabilities	**158 059.9**	**88.4%**	**148 300.9**	**87.4%**	**6.6%**
Total equity	20 641.9	11.6%	21 359.6	12.6%	-3.4%
Total liabilities and equity	**178 701.9**	**100.0%**	**169 660.5**	**100.0%**	**5.3%**
Loans/Deposits (amounts due to customers)	97.5%	x	98.3%	x	-0.7 pp.
Loans/Stable sources of financing*	91.6%	x	92.0%	x	-0.5 pp.
Interest bearing assets/Assets	91.1%	x	91.6%	x	-0.5 pp.
Interest paying liabilities/Liabilities	84.2%	x	84.4%	x	-0.2 pp.

** Stable sources of financing include amounts due to customers and long-term external financing in the form of issue of securities, including funds from the issuance of Eurobonds, subordinated liabilities and amounts due to financial institutions.*

Loans and advances to customers

In the type structure of the net loan portfolio, the main items are housing loans and borrowings of PLN 65.9 billion (+5.6% compared with the end of 2010), the share of which in the structure of the gross loan portfolio went up by 0.7 pp. compared with the end of 2010. The largest increase in the volume compared with the end of 2010 was recorded in mortgage loans and corporate loans ((+) 5.0%).

Amounts due to customers

In the structure of amounts due to customers by types, the main items were amounts due to retail clients of PLN 96.8 billion (+1.8% compared with the end of 2010) whose share in the portfolio structure compared to the end of 2010 decreased by 1.9 pp. along with an increase of amounts due to companies by 3.3 pp.

Equity and capital adequacy ratio

Equity decreased by 3.4% compared with the end of 2010 and at the end of first half of 2011 accounted for 11.6% of total liabilities and equity of the PKO Bank Polski SA Group (the decrease in share by 1.0 pp. as compared with the end of 2010).

The solvency ratio of the PKO Bank Polski SA Group was at a level of 12.58% as at the end of the first half of 2011. This level significantly exceeds the minimum level for the ratio required by the Banking Law. Capital adequacy measured with the capital adequacy ratio remained at a safe level with simultaneous dynamic growth of the loan portfolio.

In the first half of 2011, efficiency ratios improved: the return on assets (ROA) and the return on equity (ROE), by 0.4 pp. and 2.0 pp. respectively. The increase was due to a high growth rate of the annualized net profit (+33.7% y/y) combined with an increase in average assets of 11.2% y/y and in average equity of 17.4% y/y.

Table 9. Equity and capital adequacy ratio of the PKO Bank Polski SA Group (in PLN million)

Items	30.06.2011	Structure 30.06.2011	31.12.2010	Structure 31.12.2010	Change (%)
Equity, including:	**20 641.9**	**100.0%**	**21 359.6**	**100.0%**	**-3.4%**
Share capital	1 250.0	6.1%	1 250.0	5.9%	0.0%
Reserve capital	13 042.4	63.2%	12 212.2	57.2%	6.8%
General banking risk fund	1 070.0	5.2%	1 070.0	5.0%	0.0%
Other reserves	3 460.4	16.8%	3 412.2	16.0%	1.4%
Cash flow hedges	141.5	0.7%	217.9	1.0%	-35.1%
Financial assets available for sale	(1.8)	0.0%	(25.2)	-0.1%	-92.9%
Currency translation differences from foreign operations	(136.3)	-0.7%	(109.7)	-0.5%	24.2%
Unappropriated profits	(24.1)	-0.1%	112.3	0.5%	x
Net profit for the period	1 838.3	8.9%	3 216.9	15.1%	-42.9%
Non-controlling interest	1.1	0.0%	2.0	0.0%	-44.9%
Share of other comprehensive income of an associate	0.6	0.0%	1.0	0.0%	-37.6%
Own funds	**18 302.4**	**x**	**17 618.7**	**x**	**3.9%**
Capital adequacy ratio (%)	**12.58**	**x**	**12.47**	**x**	**0.1 pp.**

3.2. PKO Bank Polski SA

3.2.1. Key financial indictors

The summary of results, achieved by PKO Bank Polski SA in the first half of 2011, is represented by the following key financial efficiency indicators, which are shown in the table below.

Table 10. Key financial indicators of PKO Bank Polski SA

	30.06.2011	30.06.2010	Change
ROA net (net profit/average total assets)	2.1%	1.8%	0.3 pp.
ROE net (net profit/average total equity)	16.6%	15.0%	1.6 pp.
C/I (cost to income ratio)	37.9%	39.7%	-1.8 pp.
Interest margin (net interest income/average interest-earning assets)	4.4%	4.1%	0.3 pp.
The share of impaired loans*	6.9%	6.5%	0.4 pp.
The coverage ratio of loans with recognized impairment**	50.0%	47.1%	2.9 pp.

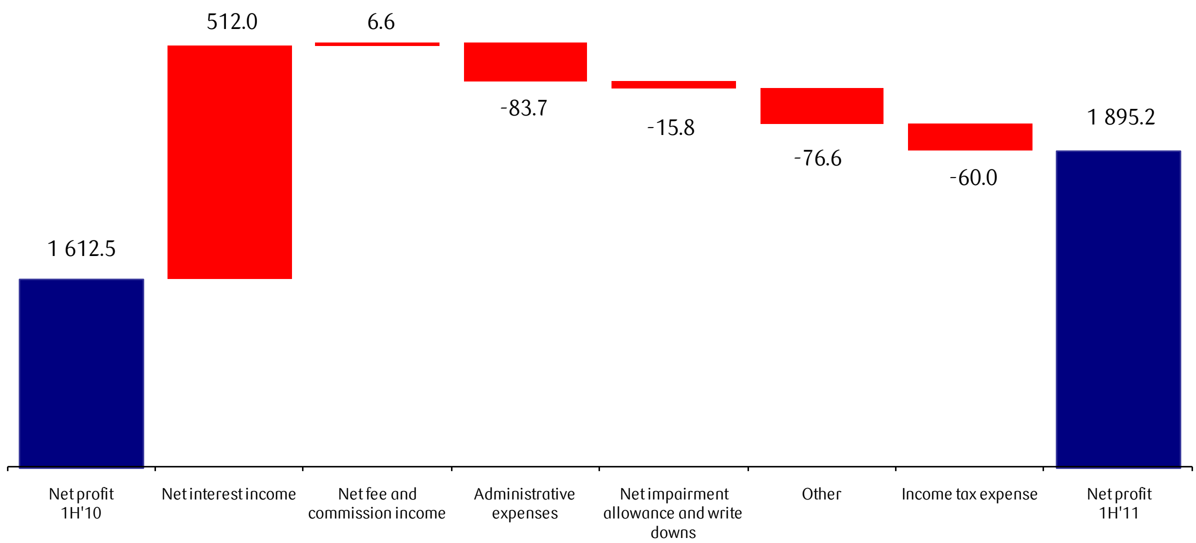
** Calculated by dividing the gross carrying amount of loans and advances to customers for which an individual objective of impairment was identified by the gross carrying amount of loans and advances to customers.*

*** Calculated by dividing the gross carrying amount of impaired loans and advances to customers by the gross carrying amount of loans and advances for which an individual objective of impairment was identified.*

3.2.2. Income statement of PKO Bank Polski SA

In first half of 2011, PKO Bank Polski SA achieved net profit at the amount of PLN 1 895.2 million, which was PLN 282.6 million higher than in the corresponding period of 2010.

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



In the income statement of PKO Bank Polski SA for the first half of 2011, the sum of income items amounted to PLN 5 167.0 million and was PLN 442.1 million (i.e. 9.4%) higher than in the corresponding period of 2010. The main items of the income statement were as follows.

Table 11. Movements in income statement items of PKO Bank Polski SA (in PLN million)

	01.01. - 30.06.2011	01.01. - 30.06.2010	Change (in PLN million)	Change (%)
Interest and similar income	5 489.3	4 870.1	619.2	12.7%
Interest expense and similar charges	(1 969.8)	(1 862.7)	(107.1)	5.8%
Net interest income	**3 519.5**	**3 007.4**	**512.0**	**17.0%**
Fee and commission income	1 789.0	1 808.5	(19.5)	-1.1%
Fee and commission expense	(356.5)	(382.7)	26.2	-6.8%
Net fee and commision income	**1 432.5**	**1 425.9**	**6.6**	**0.5%**
Dividend income	93.8	109.7	(16.0)	-14.6%
Net income from financial instruments at fair value	(35.4)	(17.8)	(17.6)	98.8%
Gains less losses from investment securities	15.1	35.9	(20.8)	-58.0%
Net foreign exchange gains	130.3	164.7	(34.4)	-20.9%
Other operating income	39.2	23.6	15.6	65.9%
Other operating expenses	(27.9)	(24.6)	(3.3)	13.6%
Net other operating income and expense	**11.2**	**(1.0)**	**12.2**	**x**
Net impairment allowance	(857.7)	(841.9)	(15.8)	1.9%
Administrative expenses	(1 960.2)	(1 876.6)	(83.7)	4.5%
Operating profit	**2 349.0**	**2 006.4**	**342.6**	**17.1%**
Profit (loss) before income tax	**2 349.0**	**2 006.4**	**342.6**	**17.1%**
Income tax expense	(453.8)	(393.9)	(60.0)	15.2%
Net profit (loss)	**1 895.2**	**1 612.5**	**282.6**	**17.5%**

Net interest income

In the first half of 2011, net interest income was PLN 512.0 million higher than in the corresponding period of the previous year. It was mainly the result of the increase in interest revenues by PLN 619.2 million.

Table 12. Interest income and expense of PKO Bank Polski SA (in PLN million)

Items	01.01-30.06.2011	Structure 1H 2011	01.01-30.06.2010	Structure 1H 2010	Change 1H 2011 /1H 2010
Interest income, including:	**5 489.3**	**100.0%**	**4 870.1**	**100.0%**	**12.7%**
Loans and advances to customers	4 499.4	82.0%	3 950.0	81.1%	13.9%
Derivative hedging instruments	351.1	6.4%	308.4	6.3%	13.9%
Securities designated at fair value through profit and loss	256.3	4.7%	242.9	5.0%	5.5%
Income of investment securities available for sale	237.0	4.3%	222.3	4.6%	6.7%
Trading securities	45.3	0.8%	72.5	1.5%	-37.5%
Placements with banks	97.1	1.8%	72.3	1.5%	34.2%
Other	3.0	0.1%	1.8	0.0%	69.7%
Interest expense, including:	**(1 969.8)**	**100.0%**	**(1 862.7)**	**100.0%**	**5.8%**
Amounts due to customers	(1 907.6)	96.8%	(1 789.1)	96.0%	6.6%
Debt securities in issue	(41.4)	2.1%	(41.5)	2.2%	-0.1%
Deposits from banks	(19.4)	1.0%	(17.2)	0.9%	12.6%
Other	(1.3)	0.1%	(14.9)	0.8%	-91.0%
Net interest income	**3 519.5**	**x**	**3 007.4**	**x**	**17.0%**

Net fee and commission income

In the first half of 2011, fee and commission income remained stable compared to the same period last year.

Table 13. Fee and commission income and expense of PKO Bank Polski SA (in PLN million)

Items	01.01-30.06.2011	Structure 1H 2011	01.01-30.06.2010	Structure 1H 2010	Change 1H 2011 /1H 2010
Fee and commission income, including:	**1 789.0**	**100.0%**	**1 808.5**	**100.0%**	**-1.1%**
Payment cards	486.8	27.2%	475.0	26.3%	2.5%
Maintenance of bank accounts	456.9	25.5%	454.5	25.1%	0.5%
Loan insurance	262.2	14.7%	338.1	18.7%	-22.5%
Loans and advances granted	275.0	15.4%	244.5	13.5%	12.5%
Cash transactions	76.9	4.3%	83.2	4.6%	-7.5%
Maintenance of investment funds and pension funds (including management fees)	104.8	5.9%	73.0	4.0%	43.5%
Securities operations	32.6	1.8%	33.3	1.8%	-2.1%
Foreign mass transactions servicing	23.4	1.3%	21.5	1.2%	8.7%
Sale and distribution of court fee stamps	10.6	0.6%	13.7	0.8%	-22.3%
Other*	59.8	3.3%	71.8	4.0%	-16.7%
Fee and commissions expenses related to:	**(356.5)**	**100.0%**	**(382.7)**	**100.0%**	**-6.8%**
Payment cards	(169.3)	47.5%	(175.6)	45.9%	-3.6%
Loan insurance	(68.5)	19.2%	(74.0)	19.3%	-7.5%
Acquisition services	(62.1)	17.4%	(68.9)	18.0%	-9.9%
Other**	(56.6)	15.9%	(64.2)	16.8%	-11.8%
Net fee and commission income	**1 432.5**	**x**	**1 425.9**	**x**	**0.5%**

** Included in 'Other' are i.a.: commissions received for servicing bond sale transactions, commissions of the Brokerage House (Dom Maklerski) for servicing Initial Public Offering issue and commissions for servicing loans granted by the State budget, fiduciary services.*
*** Included in 'Other' are i.a.: fees and expenses paid by the Brokerage House (Dom Maklerski) to Warsaw Stock Exchange (WSE) and the National Depository for Securities (KDPW), costs of settlement services and costs of operational services of the banks.*

Administrative expenses

Cost discipline continued in the first half of 2011 resulted in administrative expenses being slightly increased (by 4.5% compared with the first half of 2010). Dynamics of the business activity was higher than the growth of administrative overhead which resulted in increase of efficiency, measured via the C/I ratio, which amounted to 37.9% compared with 39.7% in first half of 2010.

Table 14. Administrative expenses of PKO Bank Polski SA (in PLN million)

Items	01.01-30.06.2011	Structure 1H 2011	01.01-30.06.2010	Structure 1H 2010	Change 1H 2011 /1H 2010
Staff costs	(1 056.2)	53.9%	(1 053.2)	56.1%	0.3%
Overheads and other*	(685.7)	35.0%	(617.1)	32.9%	11.1%
Depreciation and amortisation	(218.2)	11.1%	(206.3)	11.0%	5.8%
Total	**(1 960.2)**	**100.0%**	**(1 876.6)**	**100.0%**	**4.5%**

** Other: taxes and other charges, contribution and payments to the Banking Guarantee Fund.*

Net impairment allowances and write-downs

The net impairment allowances and write-downs reflect the prudent policy of PKO Bank Polski SA to assessment of credit risk. The increase in net impairment allowances and write-downs in the first half of 2011 (+1.9% y/y) resulted from an increase in loan receivable impairment allowances and write-downs (mainly in respect of housing loans), which were partly offset by an improvement in off-balance sheet write-downs (in the first half of 2010, PKO Bank Polski SA concluded a guarantee contract for the credit portfolio of the subsidiary KREDOBANK SA, which resulted in recording write-downs for off-balance sheet liabilities at the Bank's level of ca. (PLN (-) 55 million).

3.2.3. Statement of financial position of PKO Bank Polski SA – main items

The total assets of PKO Bank Polski SA amounted as at 30.06.2011 to PLN 176 651.9 million, and was higher of 5.6% compared to the end of December 2010.
The evolutions in the main items of the statement of financial position of PKO Bank Polski SA during the last six months are presented in the table below.

Table 15. Main items of the statement of financial position of PKO Bank Polski SA (in PLN million)

	30.06.2011	Structure 30.06.2011	31.12.2010	Structure 31.12.2010	Change (%)
Cash and balances with the central bank	7 571.8	4.3%	6 112.6	3.7%	23.9%
Amounts due from banks	2 285.3	1.3%	2 379.2	1.4%	-3.9%
Loans and advances to customers	134 169.3	76.0%	128 933.1	77.1%	4.1%
Securities	24 676.4	14.0%	22 138.2	13.2%	11.5%
Other assets	7 949.1	4.5%	7 675.8	4.6%	3.6%
Total assets	**176 651.9**	**100.0%**	**167 238.9**	**100.0%**	**5.6%**
Amounts due to banks	5 326.6	3.0%	4 167.6	2.5%	27.8%
Amounts due to customers	141 552.8	80.1%	135 289.1	80.9%	4.6%
Debt securities in issue and subordinated liabilities	1 656.3	0.9%	1 611.8	1.0%	2.8%
Other liabilities	7 546.8	4.3%	4 968.7	3.0%	51.9%
Total liabilities	**156 082.5**	**88.4%**	**146 037.1**	**87.3%**	**6.9%**
Total equity	20 569.4	11.6%	21 201.8	12.7%	-3.0%
Total liabilities and equity	**176 651.9**	**100.0%**	**167 238.9**	**100.0%**	**5.6%**
Loans/Deposits (amounts due to customers)	94.8%	x	95.3%	x	-0.5 pp.
Loans/Stable sources of financing*	91.7%	x	92.2%	x	-0.5 pp.
Interest bearing assets/Assets	91.2%	x	91.8%	x	-0.5 pp.
Interest paying liabilities/Liabilities	84.1%	x	84.3%	x	-0.3 pp.

** Stable sources of financing include amounts due to customers, (including funds from the issuance of Eurobonds, amounts due to financial institutions and long-term external financing in the form of subordinated liabilities.*

Loans and advances to customers represent the most significant item of the assets and they amounted to PLN 134 169 million as at the end of June 2011, i.e. 76.0% of total assets.

Assets are mainly financed by amounts due to customers, which accounted for PLN 141 553 million as at the end of June 2011, i.e. 90.7% of total liabilities.

4. BUSINESS DEVELOPMENT[3]

4.1. Directions of development of the PKO Bank Polski SA Group

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, factoring, investment funds, pension funds, online banking services as well as handling and clearing of cards transactions. Companies are also involved in property development.

The Group strategy assumes focusing on the core banking activities, supplemented with an offer of complementary financial products and services. The Group's objective is to simplify and optimize the structure of the Group, increase efficiency in the Group and achieve full consistency of the operating model adopted. The key strategic initiatives in this respect include:

- integration of the Group companies, primarily "product factories", with the Bank through among others centralization of the support function or a complete transfer of the companies' operations to the Bank,
- sale of assets which are not related to the Group's core activities,
- implementation of a new development strategy for KREDOBANK SA in order to gradually achieve the status of a market participant taking advantage of market niches, mainly in the sectors of retail clients and SMEs operating chiefly in Western Ukraine,
- increasing the efficiency of property management.

In the first half of 2011, the Bank, in line with the Group strategy, took actions aimed at simplifying the Group structure and optimizing its operating expenses (including those relating to taking over the operations of Centrum Finansowe Puławska Sp. z o.o. and the change of the ownership structure of PKO BP Finat Sp. z o.o. from an indirect subsidiary to a direct subsidiary of the Bank), as well as establishing within the Group a single centre responsible for asset and investment management through integrating the operations of the PKO Bank Polski SA Brokerage House with the operations of the subsidiary PKO TFI SA.

4.2. Market shares of PKO Bank Polski SA

In the first half of 2011 the Bank continued activities aimed at maintaining its leading position in the banking sector as measured by share of loans. PKO Bank Polski SA has the highest market share in the market in loans for retail clients - 19.9% as at 30 June 2011 (growth by 0.2 pp. y/y).

At the end of June of this year, PKO Bank Polski SA had the highest value of receivables from institutional clients in its history, which amounted to PLN 58 billion. The Bank has become a leading lender for corporate clients, having the largest loan portfolio for such entities in the market.

As regards deposits, as compared to the first half of 2010, market share has stabilized, with a corresponding growth of amounts due from corporate customers by 0.2 pp. y/y.

*Table 16. Market share of PKO Bank Polski SA (in %)**

	30.06.2011	31.12.2010	30.06.2010**	Change 30.06.2011 /31.12.2010	Change 30.06.2011 /30.06.2010
Loans	**17.0**	**17.2**	**17.0**	**-0.2 pp.**	**0 pp.**
retail clients:	19.9	20.0	19.7	-0.1 pp.	0.2 pp.
mortgage	20.6	20.9	20.8	-0.3 pp.	-0.2 pp.
PLN	31.9	33.1	33.8	-1.2 pp.	-1.9 pp.
FX	13.5	13.7	13.8	-0.2 pp.	-0.3 pp.
consumer and other	18.3	18.2	17.7	0.1 pp.	0.6 pp.
corporate clients	13.8	14.1	14.1	-0.3 pp.	-0.3 pp.
Deposits	**18.1**	**17.9**	**18.1**	**0.2 pp.**	**0 pp.**
retail clients	23.0	23.2	23.3	-0.2 pp.	-0.3 pp.
corporate clients	12.1	11.7	11.9	0.4 pp.	0.2 pp.

** Data source: NBP reporting system – Webis.*
*** The change compared to previously published data results from the changed methodology. Data as at 30.06.2010 brought to comparability.*

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

4.3. Operations by segments[4]

4.3.1. Retail segment

4.3.1.1. Activities of PKO Bank Polski SA

In first half of 2011, 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. 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).

As at 30 June 2011, the total value of deposits of the retail segment of PKO Bank Polski SA amounted to PLN 106.3 billion. Since the beginning of the year, the volume has increased by PLN 2.0 billion (i.e. 1.9%) as a result of an increase in retail and private banking deposit volumes ((+) 3.6% since the beginning of the year), including specifically the volume of current deposits (including savings accounts).

Table 17. Deposits of PKO Bank Polski SA – in the retail segment (in PLN million)

	30.06.2011	31.12.2010	30.06.2010	Change since: 31.12.2010	Change since: 30.06.2010
Clients deposits, including:					
- retail and private banking	93 935	90 674	87 810	3.6%	7.0%
- small and medium entities	7 791	8 592	7 665	-9.3%	1.7%
- mortgage market	4 623	5 088	4 233	-9.1%	9.2%
Total deposits	**106 349**	**104 354**	**99 708**	**1.9%**	**6.7%**

Source: Bank's Management information.

As at 30 June 2011, the gross value of loans and advances to the retail segment of PKO Bank Polski SA was PLN 107.1 billion which constituted an increase of PLN 4.2 billion (i.e. 4.0%) since the beginning of the year. The Bank maintained its leading position in the market for the sale of mortgage loans.

The activities of PKO Bank Polski SA addressed to small and medium enterprises were focused on further improvement of service quality and the Bank's competitive position on that market, also by changing the product offer. The most important of these activities include the promotional activities aimed at reducing the prices for product packages for SMEs. The changes in the SME segment allowed the Bank to achieve significant loan volume increases (7.3% from the beginning of the year).

Table 18. Gross loans and advances of PKO Bank Polski SA (in PLN million) – in the retail segment*

	30.06.2011	31.12.2010	30.06.2010	Change since: 31.12.2010	Change since: 30.06.2010
Gross loans and advances, including:					
- retail and private banking	22 875	23 410	22 723	-2.3%	0.7%
- small and medium entities	15 605	14 537	13 396	7.3%	16.5%
- mortgage banking	61 483	58 067	53 714	5.9%	14.5%
- mortgage market (including refinanced by the state budget)	7 176	6 972	6 736	2.9%	6.5%
Total loans and advances	**107 139**	**102 987**	**96 569**	**4.0%**	**10.9%**

Source: Bank's Management information.
**Loans without interest due and interest not due.*

PKO Bank Polski SA remains the market leader in terms of the number of current accounts, which as at the end of the first half of 2011 was about 6.1 million. In the first half of the year, the Bank's activities were focused on the execution of the 'Nowa oferta ROR' (New Current Account Offer) strategic programme at PKO Bank Polski SA. 8 new current account packages were offered to clients with different preferences. The diversity of the accounts offered allows the clients to choose the most attractive options.

[4] *For presentations in the various Group segments making up the PKO Bank Polski SA Group, financial result represents net profit of the parent company of this Group.*

At the end of the first half of 2011, PKO Bank Polski SA had 7.5 million retail clients and 0.6 million Inteligo clients.

Table 19. Accounts and banking cards of PKO Bank Polski SA (in thousands of units)

	30.06.2011	31.12.2010	30.06.2010*	Change since: 31.12.2010	Change since: 30.06.2010
Number of current accounts, including:	**6 148**	**6 150**	**6 173**	**(2)**	**(25)**
- Inteligo current accounts	665	655	688	10	(22)
Number of banking cards, including:	**7 086**	**7 171**	**7 253**	**(84)**	**(167)**
- credit cards	997	1 063	1 102	(66)	(105)

** Change in number of accounts results from reclassification.*

The Bank's own net of ATMs comprised 2 426 items as at the end of the first half of 2011, which allowed a further reduction in costs of cash service and the expansion of services availability to clients. Still extremely important addition to the network of branches and ATMs is a network of agencies (about 1.7 thousand locations).

Table 20. Branches and ATMs of PKO Bank Polski SA

	30.06.2011	31.12.2010	30.06.2010	Change since: 31.12.2010	Change since: 30.06.2010
Total number of branches	1 201	1 208	1 222	(7)	(21)
- in the retail segment	1 134	1 140	1 154	(6)	(20)
Number of ATM's	2 426	2 419	2 390	7	36
Number of agencies	1 709	1 942	2 028	(233)	(319)

The main activities aimed at specified groups of products and services to retail segment customers are detailed below.

Table 21. Activities and achievements of PKO Bank Polski SA in the retail segment in the first half of 2011

New products and services	Activities
Checking account in the 'Superkonto' group	On 14 March, a new, innovative offer of checking (ROR) accounts was added to the Bank's offer: - SUPERKONTO Oszczędne - the basic account in the New Offer, - PKO Konto za Zero, - PKO Konto dla Młodych, - PKO Konto Pogodne, - PKO Konto Pierwsze. From 16 May 2011, 3 new type of accounts have been introduced, in which two of them dedicated to private banking clients: - PKO Konto bez Granic, - PKO Konto Aurum, - PKO Konto Platinium II. The sale of new accounts is supported by an advertising campaign aimed to gain new clients as well as to stop the outflow of current costumers of the Bank. Under iPKO services, new accounts were made available to clients: Konto Pierwsze, Konto dla Młodych, Superkonto Oszczędne, Konto za Zero, PKO Konto Pogodne, PKO Konto bez Granic, PKO Konto Aurum, PKO Konto Platinium. In respect of all the new packages, the monthly fee for using iPKO service is PLN 0.
Circulating savings books (Obiegowe książeczki oszczędnościowe)	In January 2011, interest rates on funds accumulated on circulating savings books with a-vista deposits, issued for School Savings Accounts (Szkolna Kasa Oszczędności) were changed. The change involved increasing the interest rate from 0.01% to 3.5% and applying a promotional interest rate of 4.5% in the period from 3 January to 31 May 2011. This change results from introduction of an innovative project aimed to revitalise and create positive image of School Savings Accounts, along with building partnership with the youngest client.
Savings Account	Due to the introduction of new accounts to the offer, the product procedures for the Savings Account were changed in the first half of 2011. Under the new procedure, the process of opening a Savings Account has been simplified for the holders of new packages, i.e. they do not need to sign a separate agreement. In the period from 17 June to 3 August 2011, the Bank offers promotional interest rates on new Savings Accounts in PLN opened in that period.
Housing Savings Book (Oszczędnościowa Książeczka Mieszkaniowa)	In January 2011, the deposit and investment product called 'Oszczędnościowa Książeczka Mieszkaniowa' powiązana z funduszami inwestycyjnymi PKO'(housing savings book linked to PKO investment funds) was revitalized. The launch of the new version of the housing savings book is aimed at modernizing the product offer of PKO Bank Polski and once again drawing the clients' attention to this form of savings. The product is meant for clients expecting higher profits in a longer time horizon, which would not be charged with the tax on capital income on the deposit portion of the product. The characteristic feature of the product is: 1) an attractive interest rate on the deposit portion, 2) preferences in drawing the housing loan 'Własny Kąt' with PKO BP SA' 3) possibility of additional gains on the investment portion linked to PKO funds, 4) exemption of interest obtained from the deposit portion from personal income tax.
Deposit linked to investment funds (Lokata Inwestycyjna Akcji Plus / Stabilnego Wzrostu Plus)	Third edition of popular product. It combines guaranteed profit from a deposit earning a high interest rate with an investment portion in the form of investment fund participation units. Clients can choose from 2 subfunds in PKO TFI offer: Akcji PLUS Subfund or Stabilnego Wzrostu PLUS Subfund.

New products and services	Activities
2-year structured bank securities (BPW) based on S&P 500	Structured bank securities based on S&P 500 (*Bankowe Papiery Wartościowe Strukturyzowane oparte o indeks S&P 500*) are an investment product with full protection of the principal amount and possibility of earning higher yields than on a standard term deposit. The client will earn profit if the value of S&P 500 increases compared with the initial value determined at the Issue Date (27 April 2011). The minimum payment is PLN 2 000, there is no maximum limit (provided it is a multiple of PLN 1 000 – the nominal value of 1 BPW). The profit on the maturity of the investment depends only on the changes in the S&P500 index. Participation in the increase of the index will be in the range of 60-90%.
New deposits 3+3, 6+6, 9+9	New fixed-term deposit accounts offered from 16 May of the current year are opened for 3+3, 6+6 and 9+9 deposit accounts. The objective of this product is to increase the Bank's deposit base by offering to the clients attractive interest on new funds. When there is a surplus of funds deposited on the client's accounts with the Bank (in relation to the amount deposited on the client's accounts with the Bank on the reference day), the client can open a deposit with a higher than standard interest rate.
Insurance Policy with PZU Życie	The policy is a group life and endowment insurance policy with PZU Życie SA (the Insurer), which offers an attractive profit of 4.05% p.a. (corresponding to the profit on a deposit bearing interest of 5.00% p.a.).
Solidny Złoty EUR/PLN	The 2-year and 3-year structured deposit based on the EUR/PLN exchange rate is an investment product with full protection of the principal amount and possibility of obtaining higher yields than on a standard term deposit. The minimum payment is PLN 2 000. Profit on the investment is subject to the tax on capital gains.
Structured gold-based deposit	A two-year structured deposit based on the gold price is an investment product which guarantees full protection of capital on the maturity date and the possibility of obtaining higher profits than a standard fixed-term deposit. The minimum amount of deposit is PLN 5 000. In exchange for maintaining the deposit until the end of the contractual period, the client will receive an amount based on the current gold price.
Biznes Waluta Package	The package, introduced to the Bank's offer in March 2011, is a tool for attracting dynamically developing SMEs which carry out regular foreign transactions (export, import, foreign exchange). The basis of the package is an internet transactional platform iPKO dealer. The launch of, Pakiet Biznes Waluta' was aimed at attracting new clients on the market who perform foreign exchange transactions and at increasing the competitiveness of the offer of PKO Bank Polski SA for SMEs.
SME Business Deposit	A deposit with progressive interest for periods of 6 or 12 months. The main purpose of introducing this deposit was to achieve the following business benefits on the small and medium enterprises market: maintaining the existing term deposit portfolio, obtaining a new deposit portfolio from the market and extending the period for which fixed-term deposits are placed. Since April 2011 SME Business Deposit is available in iPKO service.
Nasza Wspólnota Plus Package	Making the Bank's offer more attractive and enhancing its competitive position on the housing community market by introducing the Nasza Wspólnota Plus The fee for maintaining the account of PLN 12 includes domestic transfers through iPKO or iPKO Biznes. Moreover, the account holders pay lower rates for: maintaining the repair fund account, subscription for iPKO Biznes and open cash payments in PLN. Additionally, the new offer supports the sale of investor loans from the Nasz Remont group by decreasing the fee for maintaining the basic current account in the period of the first four years of crediting.
Mortgage loan	In order to support sales, promotional activities were carried out in respect of two loans: the WŁASNY KĄT mortgage loan and the preferential housing loan with interest subsidized by BGK. Additionally, a special offer was introduced for clients purchasing properties from selected developers (ca. 173 developers) and for clients employed by certain companies (6 companies), as well as a special offer for clients of industrial fairs (the offer included ca. 56 fairs). A special offer was also prepared for a selected group of PKO BP clients who had not taken housing loans before.
Credit cards	In the first half of 2011 PKO BP SA's credit card offer was reorganized in a comprehensive manner, which involved a new tariff of fees and commissions, and: - expanding the insurance offer for credit cards, - introducing a new functionality (*Instalment*) for PKO Bank Polski SA's credit cards which allows splitting non-cash credit card transactions into instalments, - introducing a new, attractive design for credit cards issued with the Visa logo from the so-called gallery (production of cards using the photo technology), - possibility of obtaining a credit card without the first annual fee for the card on condition that the user opens a ROR account under the new offer and applies for the card. The offer concerns clients who will convert their current accounts to the new type.
INTELIGO Account	Under the Inteligo account a debit card MasterCard PayPass in the EMV standard was launched which enabled making payments using the PayPass contactless technology. The card is offered both in the segment of individual clients (from February 2011) and in the SME segment (since March 2011). From May, the clients who have Individual Pension Accounts – Bonds maintained by the PKO Bank Polski SA Brokerage House can have permanent online access to information on their account balance through the Inteligo webpage. As of July, the interest on fixed-interest deposits with daily interest capitalization was increased to 3.70% for 1M deposits, 4.20% for 3M deposits and 4.45% for 6M deposits. The offer of the Wojażer – PZU Travel Assistance insurance was extended for Inteligo account holders. The clients who purchase this insurance can choose one of six new assistance packages: Extended, Family, Child/Dependant, Business, Sport, Biker.

4.3.1.2. Activities of the PKO Bank Polski SA Group

Table 22. Activities of the PKO Bank Polski SA Group entities in the retail segment

SUBSIDIARY	SIGNIFICANT EVENTS IN THE FIRST HALF OF 2011
KREDOBANK SA	1. As at 30 June 2011, the equity of KREDOBANK SA amounted to PLN 318 095 thousand (UAH 923 621 thousand). 2. As at the end of June 2011, KREDOBANK SA reported a net profit of PLN 2 988 thousand (UAH 8 526 thousand). In the same period of 2010, KREDOBANK SA reported a net loss of PLN 49 860 thousand (UAH 129 507 thousand). 3. The Company's gross loan portfolio decreased by PLN 253 million, i.e. 19.5% in the first half of 2011 - the decrease was caused i.a. by restructuring activities including the sale of a part of the loan portfolio to the external entities (the gross loan portfolio as denominated in UAH decreased in the first half of 2011 by UAH 399 million, i.e. 10.6%). As at 30 June 2011, gross loan portfolio of the Company amounted to PLN 1 294 million (UAH 3 758 million). 4. In the first half of 2011 term deposits of KREDOBANK SA customers decreased by PLN 127 million, i.e. 17.9% - the decrease in deposits resulted from the adopted policy for reducing the interest rate on deposits in 2011 (term deposits denominated in UAH in the first half of 2011 dropped by UAH 187 million, i.e. by 9.1%). As at 30 June 2011, term deposits amounted to PLN 709 million (UAH 2 057 million). 5. In the first half of 2011 PKO Bank Polski SA granted KREDOBANK SA subordinated loan in the amount of USD 50 million. 6. As at 30 June 2011, the network of KREDOBANK SA branches consisted of 1 branch and 131 subordinated branches in 22 out of 24 Ukrainian districts and in the Autonomous Republic of the Crimea i.e. 6 subordinated branches were closed in first half of this year. *The financial information concerning the statement of financial position of KREDOBANK SA was recalculated using the average NBP rates prevailing at the last day of each month – as at the end of June 2011 UAH 1 = PLN 0.3444 and as at the end of 2010 UAH 1 = PLN 0.3722.* *The financial information concerning the profit and loss account of KREDOBANK SA was recalculated using the arithmetic average of NBP rates prevailing at the last day of each month - for the first half of 2011 UAH 1 = PLN 0.3505 for the first half of 2010 UAH 1 = PLN 0.3850.*
PKO Towarzystwo Funduszy Inwestycyjnych SA	1. As at the end of June 2011, the equity of the PKO TFI SA amounted to PLN 47 346 thousand. 2. In the first half of 2011 the Company earned a net profit of PLN 19 852 thousand (in the corresponding period of 2010 company earned PLN 27 711 thousand). 3. The asset value of the funds managed by the entity amounted to PLN 9.68 billion as at the end of June 2011, which is a slight increase of the assets value comparing with the end of 2010 (PLN 11.2 million). 4. The asset value of the PKO TFI SA estimates to 8.13%* share in the investment fund market holding the fourth place among the funds. 5. In the first half of 2011, the Company has introduced 2 new investment subfunds as part of PKO Parasolowy – FIO: PKO Skarbowy Plus Subfund and PKO Akcji Małych i Średnich Spółek Plus Subfund. 6. In total as at 30 June 2011 PKO TFI SA managed 28 investment funds and subfunds. 7. In the first half of 2011, the Company paid dividend to PKO Bank Polski SA for 2010 in the amount of PLN 48 200 thousand (gross). * Source: Chamber of Fund and Asset Management
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	1. As at the end of June 2011, the equity of the PKO BP BANKOWY PTE SA amounted to PLN 242 096 thousand. 2. In the first half of 2011, PKO BP BANKOWY PTE SA earned a net profit of PLN 5 266 thousand (in the corresponding period in 2010 company earned PLN 4 879 thousand). 3. As at the end of June 2011, the net assets of PKO BP Bankowy OFE managed by PKO BP BANKOWY PTE SA, amounted to PLN 7.5 billion, which is an increase of PLN 949 million in results comparison to the end of 2010. 4. As at the 30 June 2011, the number of accounts maintained for participants of PKO BP OFE Bankowy amounted to 554 764. 5. PKO BP Bankowy OFE possessed the 9th largest net assets amongst pension funds and the 10th largest number of active member accounts*. ** Source: www.knf.gov.pl**

SUBSIDIARY	SIGNIFICANT EVENTS IN THE FIRST HALF OF 2011
Inteligo Financial Services SA	1. As at the end of June 2011, the IFS SA Group (Inteligo Financial Services SA and it's subsidiary PKO BP Finat Sp. z o.o.) equity amounted to PLN 145 973 thousand. 2. In the first half of 2011, the Group earned a net profit of PLN 9 797 thousand (in the first half of 2010: PLN 10 619 thousand). 3. At the end of the first half of 2011, the Company provided electronic banking services to 3 992 thousand of PKO Bank Polski SA's customers using iPKO services. 4. The Company provided services to over 640 thousand Inteligo account customers 5. In June 2011, the Ordinary General Meeting of Shareholders decided to pay dividend to PKO Bank Polski SA for 2010 in the amount of PLN 16 716 thousand (gross). 6. As a result of an audit, PKO BP Finat Sp. z o.o. – a subsidiary of Inteligo Financial Services SA – obtained recommendation for extending the validity of its ISO 27001/:2005 certificate for the Information Safety Management System in the Company for 3 consecutive years.
Centrum Elektronicznych Usług Płatniczych eService SA	1. As at the end of June 2011, the CEUP eService SA equity amounted to PLN 72 675 thousand. 2. In the first half of 2011, the company earned a net profit of PLN 9 458 thousand (in the first half of 2010: PLN 13 999 thousand). Lower profit is a result of tight competition on the market on which CEUP eService SA is operating. 3. The number of terminals as at the end of the first half of 2011 (including terminals enabling to withdraw cash) amounted to 51 671 units, which is a decrease of 3.6% compared to the end of 2010. Decrease of number of terminals is a result of actions undertaken in order to increase the efficiency of these terminals. 4. In terms of the number of installed terminals (including terminal used to cash withdrawal), the Company's estimated market share amounted to 20.7% as at the end of June of current year. 5. Transactions with a total value of PLN 11.1 billion were performed by means of CEUP eService SA terminals during the first half of 2011 (PLN 10.1 billion in the corresponding period of 2010). 6. The Company estimated that its market share reached 25.2% as measured by number of card transactions (including cash withdrawals). 7. In the first half of 2011, the Company expanded its ATM network to 117 units. 8. On June 2011, The Company's General Shareholders' Meeting decided to pay out the dividend for 2010 of PLN 22 200 thousand, gross, to PKO Bank Polski SA.
Qualia Development Sp. z o.o. (previously: PKO BP Inwestycje Sp. z o.o.)	1. The value of equity of the Qualia Development Sp. z o.o Group (Qualia Development Sp. z o.o. and its subsidiaries) at the end of June 2011 amounted to PLN 156 402 thousand. 2. Qualia Development Sp. z o.o. Group in the first half of 2011 generated a net loss of PLN 2 161 thousand (in the corresponding period of 2010: net loss of PLN 5 605 thousand). 3. In the first half of 2011, the Company's activities were focused on the following development projects: - continuing its projects: Nowy Wilanów in Warsaw Neptun Park in Gdańsk Jelitkowo and Rezydencja Flotylla in Międzyzdroje, - conducting activities related to the commencement of new projects: a residential building with an office function in Sopot, an apart hotel in Gdańsk Jelitkowo, and an investment in Warsaw realized by a related entity - Fort Mokotów Inwestycje Sp. z o.o., - restructuring of the remaining projects. 4. In the first half of 2011 work was conducted related to the restructuring of the Group to achieve higher economic and organizational effectiveness. New corporate governance terms and conditions were adopted which stipulate that the investment projects would be realized by limited partnerships; Qualia Development Sp. z o.o. would be the limited partner and Qualia Sp. z o.o. would be the general partner.
Fort Mokotów Inwestycje Sp. z o.o.	1. As at the end of June 2011, Fort Mokotów Inwestycje Sp. z o.o. equity amounted to PLN 105 369 thousand. 2. The Company recorded a net loss of PLN 241 thousand for the first half of 2011 (in the first half of 2010 the loss amounted PLN 111 thousand). The loss resulted from the fact that the Company incurred start-up cost in the initial period of its operations. 3. In the first half of 2011, the Company continued working on the organization of a development project on the plot of land located at 107 Racławicka Street in Warsaw.

4.3.2. Corporate segment

4.3.2.1. Activities of PKO Bank Polski SA

In the first half of 2011, through its consistent credit policy, PKO Bank Polski SA developed financing for corporate entities and local governments. The conducted credit action reinforced the Bank's lead role as the banking sector leader in financing corporate entities. During the first six months of 2011, the actions of the corporate sector of PKO Bank Polski SA concentrated on adapting the sales policy to the liquidity position of the Bank and to the growing customer requirements resulting from visible recovery of the credit market. In effect, the volume of loans in the corporate segment grew dynamically, reaching a record portfolio level in the second quarter of 2011. As of the beginning of the year, the segment achieved an increase in credit volumes of 7.3%, which is a year on year increase of 6.8%. The corporate loan portfolio exceeded the level of PLN 30 billion, reaching a record value of PLN 31.2 billion as at the end of the first half of 2011.

Table 23. Gross loans and deposits of PKO Bank Polski SA - in the corporate segment (in PLN million)*

	30.06.2011	31.12.2010	30.06.2010	Change since:	
				31.12.2010	30.06.2010
Gross corporate loans	31 237	29 112	29 238	7.3%	6.8%
Corporate deposits	28 288	25 500	26 285	10.9%	7.6%

Source: Management information of the Bank.

** Loans without interest due and interest not due.*

Increased interest in investment loans was visible on the loan market in the first half of 2011. In the first six months of the current year, new sales of investment loans were more than 58% higher than in the first six months of 2010. The share of investment loans in the corporate portfolio at the end of June 2011 was 37% due to the increase in the value of such loans of PLN 1.7 billion as compared to the end of June 2010.

The policy of intensive sales of corporate products carried out by the Bank also affected development of the deposit base. The funds obtained from corporate clients as at the end of the first half of 2011 amounted to PLN 28.3 billion, which resulted in an increase of 7.6% y/y.

The number of branches in the corporate segment changed comparing with the end of 2010 and turned 67.

Table 24. Branches of PKO Bank Polski SA

	30.06.2011	31.12.2010	30.06.2010	Change since:	
				31.12.2010	30.06.2010
Total number of branches	1 201	1 208	1 222	(7)	(21)
- in the corporate segment:	67	68	68	(1)	(1)
regional corporate branches	13	13	13	-	-
corporate centers	54	55	55	(1)	(1)

Business development in the corporate segment is based on building long-term relations with the clients through offering high quality services and organizing a competent sales network. One of the elements which support such relations is the constantly developed loyalty programme, which covered more than 500 corporate clients at the end of June 2011.

The iPKO biznes online banking system is the leading product in the corporate banking segment of PKO Bank Polski SA. This specialized transaction platform guarantees a high level of security and at the same time it is user-friendly. In the first half of 2011, new functionalities were implemented within the iPKO biznes system in relation to management of access to the system, improvement of safety and extension customer information about transactions made.

In corporate banking, activities towards improvement of the products are being constantly maximized. This objective is supported by selling of Korporacja Optimum packages.

Table 25. Activities and achievements of PKO Bank Polski SA in the corporate segment in the 1st half of 2011

Investment activity	Activity
Loan activity	In the first half of 2011 the following events took place: 1) granted a bridge investment loan of PLN 400 million to a chemical company, 2) granted a working capital loan of PLN 400 million to a financial sector company, 3) increased the Multi-Purpose Loan Limit granted to a company operating in the mining and fuel industry by USD 15 million to USD 80 million, 4) increased the Multi-Purpose Loan Limit granted to a company operating in the fuel industry by PLN 160 million to PLN 500 million, 5) signed a bank guarantee agreement in the amount of up to EUR 45 million with a power company, 6) extended the working capital financing agreement (in the form of a Multi-Purpose Loan Limit) in the amount of PLN 110 million with a company engaged in distribution of food, chemicals and cosmetics, 7) signed an investment financing agreement for PLN 300 million with a municipal company working for local administration entities and other municipal legal persons, 8) granted four overdraft facilities totaling PLN 334 million to a local administration entity.
Deposit activity	In the first half of 2011, the corporate segment increased its deposit portfolio by PLN 2.8 billion in relation to the balance as at the end of 2010.
Transactional banking	Issuing six import letters of credit totaling PLN 2.3 billion.

4.3.2.2. Activities of the PKO Bank Polski SA Group

Table 26. Activities of the PKO Bank Polski SA Group entities in the corporate segment

SUBSIDIARY	SIGNIFICANT EVENTS IN THE FIRST HALF OF 2011
Bankowy Fundusz Leasingowy SA	1. As at the end of June of 2011, the BFL SA Group (Bankowy Fundusz Leasingowy SA and it's subsidiaries) equity amounted to PLN 102 386 thousand. 2. In the first half of 2011, the Group generated a net profit of PLN 2 538 thousand (in the first half of 2010 the net profit of the Group amounted PLN 2 862 thousand). 3. In the first half of 2011, the BFL SA Group Companies leased out assets with a total value of PLN 767 million, which represents an increase of 60% compared with the first half of 2010. The increase results from the industry being stabilized and the financial standing of entities using leasing being improved after financial crisis 2008-2009. 4. In terms of the value of assets leased, the first half of 2011, the BFL SA Group ranked 5th position on the market* 5. The total carrying amount of the lease investments of the BFL SA Group's entities amounted to PLN 2 563 million as at 30 June 2011 (as at the end of 2010 it amounted to PLN 2 402 million). **Source: Company's calculation based on the data published by the Polish Leasing Association.*
Bankowe Towarzystwo Kapitałowe SA	1. As at the of June 2011, the BTK SA Group (Bankowe Towarzystwo Kapitałowe SA and its subsidiary PKO BP Faktoring SA) equity amounted to PLN 4 563 thousand. 2. In the first half of 2011, the Group incurred a net loss of PLN 2 077 thousand (in the same period of 2010 the Group incurred a net loss of PLN 2 478 thousand). The loss resulted from the Group having incurred costs related to beginning new activities both by Bankowe Towarzystwo Kapitałowe SA and by PKO BP Bankowy Faktoring SA. 3. In first half of 2011, PKO BP Faktoring SA – the subsidiary of BTK SA – providing domestic factoring services and export factoring services, both with and without the acceptance of risk (with recourse) and reverse factoring. 4. In the first half of 2011, the volume of factoring turnover amounted to PLN 775 million. Client volume increased to 97. 5. At the end of June of this year, PKO BP Faktoring SA ranked 9th among factoring companies associated in the Polish Factors' Association, with a market share of 2.6%

4.3.3. Investment segment

The investment segment covers investing activities, brokerage activities, interbank transactions, transactions in derivatives, in debt securities, long-term sources of financing. The results of the segment are determined by the conditions on the global financial markets described in detail in Chapter 2.

4.3.3.1. Activities of PKO Bank Polski SA

Table 27. Activities and achievements of PKO Bank Polski SA in the investment segment in the 1st half of 2011

Scope of activity		Activity
Treasury activities	Treasury products	The network distributing the Bank's treasury products is diversified and adapted to the individual needs of the clients. Transactions on treasury and non-treasury securities, currencies exchange and derivatives can be concluded with consultants at the Bank's branches, with dedicated corporate dealers and, from 2010, through the internet platform (SPOT operations). Compared with the first half of the previous year, in the first half of 2011 the number of SPOT transactions increased by about 20%, the number of FORWARD transactions increased by 30% and the number of option transactions increased by nearly 20%.
Treasury activities	inter-bank market	The Bank is the Treasury Securities Dealer and the Money Market Dealer, and it acts as the market maker on the domestic interest rate and currency markets. As a result of its intensive activity on the inter-bank market, the Bank took second place in the second assessment (second assessment fell on the period of the first quarter of 2011) and the second place in the overall ranking of Treasury Securities Dealers for the year 2012. As at the end of June this year, the Bank's share in the FRA transactions market was close to 24.3% compared with 15.9% at the end of June 2010. The Bank's share in the SPOT market was 9.7% (9.1% at the end of June 2010), and its share in the FORWARD market was 7.6% (6.7% at the end of June 2010). In order to secure its trading, in the first half of this year the Bank concluded 3 ISDA agreements, 3 CSA (Credit Support Annex) agreements and one GMRA/ISMA agreement with foreign banks, as well as one framework agreement and two hedging agreements with domestic banks. The Bank actively managed financial risk (the liquidity, interest rate and currency risk), focusing on minimizing exposure. Cash surpluses in PLN not used for the purposes of the Bank's lending activities were mainly invested in NBP and Treasury bills and Treasury bonds.

Table 28. Activities and achievements of PKO Bank Polski SA in the investment segment in the first half of 2011

Scope of activity		Activity
Brokerage activities	Primary market	In the first half of this year, the Brokerage House prepared and carried out the public offering with pre-emptive right for Ciech SA and acted as the joint offering agent and joint book runner for BGŻ SA. Moreover, it participated in the handling of calls for Mobile Internet Technology SA and Multimedia SA, and, as a member of the selling syndicate, it handled subscriptions as part of IPOs for the following companies: Megaron SA, Kino Polska TV SA, Enel-Med SA and Industrial Milk Company SA, and for Kredyt Inkaso SA as part of SPO. In the last six months, the Brokerage House introduced the municipal bonds of the City of Warsaw to the Catalyst market and started the next stage of the management programme for Elektrotim SA. As at the end of June of this year, the Brokerage House served 157 investment funds managed by 11 Investment Fund Societies and continued distribution of four types of retail Treasury bonds with fixed and variable interest rates.
Brokerage activities	Secondary market	In the first half of current year, DM's operations on the bonds and options market brought about very good results. With the value of sales on the bonds market dropping by nearly 35% compared with the prior year, DM's sales were 21% lower. The share of DM in sales on the bonds market slightly exceeded 49%, which gave it the lead position on the market. DM achieved a significant increase in sales on the options market. Compared with the first half of 2010, the market dynamics amounted to nearly 150%, and DM's sales dynamics to 222%. DM ranked first on the option contracts market with a market share exceeding 17%. Brokerage House realized lower sales on the shares and contracts market. In the first half of the current year DM's sales on the shares market were 16.7% lower than in the same period of the prior year, sales on the market increased by 36.9%, and on the contracts market decreased by 26.3%, with a drop on the market of 14.2%. The share of Brokerage House in sales on the shares market amounted to 4.1% and on the contracts market to 4.3%; thus, it ranked 11th and 7th respectively in the brokerage office ranking. As at the end of June of this year Brokerage House was market maker for 51 companies and issue underwriter for 28 companies, which gives it 2nd and 3rd place on the market respectively.
Brokerage activities	Number of accounts	As at the end of June, the Brokerage House maintained 134.9 investment accounts, 14.2% more than in the corresponding period of the previous year. Together with active registration accounts, the number of accounts maintained 'by the office' was 315.7 thousand.
Brokerage activities	Awards and prizes	The Brokerage House is one of the leading brokerage firms on the 'domestic' capital market. In the first half of 2011, it received the following awards: • '*Corporate Broker of the Year 2011 in Eastern Europe'*, 'Online Broker of the Year 2011 in Eastern Europe' and '*Advisory Brokers of the Year 2011 in Eastern Europe*' granted by a prestigious British magazine '*World Finance*', • the first place in the IPO brokerage houses ranking for 2010 (Forbes), • second place in the 'Best Primary Market Broker 2010' ranking (Puls Biznesu), • first place in the 2010 brokerage houses ranking by value of IPOs on the WSE and the top position in the 'Best Brokerage House of 2010' ranking (Home & Market), • second place in the Brokerage Houses category of the Financial Institutions ranking (Rzeczpospolita – the Best Financial Institutions in 2010).

Table 29. Fiduciary activities in the 1st half of 2011

Scope of activity	Activity
Fiduciary activities	The Bank is a direct participant in the National Depository for Securities and the Securities Register (NBP) and a member of the Council of Depositary Banks and the Non-Treasury Debt Securities Council of the Polish Banks Association. The Bank maintains securities accounts and handles transactions on the domestic market and the foreign markets. It also provides fiduciary services and acts as a depositary for pension and investment funds and actively participates in creating market regulations and standards. As at the end of June of this year, the Bank maintained more than 1.8 thousand securities accounts as part of its fiduciary function. The amount of assets held by clients on fiduciary accounts increased in that period to PLN 50.7 billion compared with PLN 27.5 billion at the end of June of last year, i.e. by nearly 85%.

Table 30. Structured finance in the 1st half of 2011

Scope of activity	Activity
Structured finance	The Bank has a wide offer of products addressed to corporate clients. One of the important components of this offer is the financing of large investment projects in the form of loans or issues of non-treasury debt securities. For many years, the Bank has been the leader in the organization of municipal bond issues and it has a strong position on the corporate bond market. In the first half of 2011, the Bank organized 10 bank syndicates which granted loans totaling PLN 12.5 billion, of which the loans granted by the Bank amounted to PLN 1.9 billion. Furthermore, the Bank organized 5 bilateral loans amounting to PLN 1 billion and concluded two agreements for the issue of bank guarantees amounting to PLN 1.4 million. One of the bilateral loans with a value of USD 50 million and both guarantee agreements were related to transactions with an entity directly related to the Bank – Kredobank SA. The transactions with the related entity were concluded on an arm's length basis. The Bank achieved very good results in the organization of the issue of non-treasury debt securities. In the first half of this year, the Bank concluded 30 agreements for the issue of municipal bonds with the total value of PLN 842.4 million. It should be noted that the Bank participated in the bank syndicate which organized the issue of municipal bonds of the City of Warsaw - the amount of the issue was PLN 600 million. Moreover, in the last six months the Bank concluded 3 corporate bond issue agreements with closing guarantee for the total amount of PLN 1.4 billion. One of these corporate bond issues was carried out by a bank syndicate, for which the total programme value was PLN 10 billion. Additionally, the Bank concluded 4 agreements for the organization of corporate bond issue programme without a closing guarantee for the amount of PLN 545 million.

4.3.3.2. Activities of the PKO Bank Polski SA Group

Table 31. Activities of the PKO Bank Polski SA Group entities in the investment segment

SUBSIDIARY	SIGNIFICANT EVENTS IN THE FIRST HALF OF 2011
PKO Finance AB	1. As at 30 June 2011, the value of PKO Finance AB equity amounted to PLN 486 thousand (EUR 117 thousand). 2. As at the end of June 2011, the Company incurred a net profit of PLN 41 thousand (EUR 10 thousand). In the corresponding period of 2010 the net loss of the Company amounted to PLN 81 thousand (SEK 196 thousand). In 1 January 2011 Company changed functional currency to euro. 3. The Company's core activity is to raise funds for PKO Bank Polski SA deriving from issue of bonds. 4. In the first half of 2011 the Company serviced Eurobonds issued in October 2010 and worked on the planned consecutive bond issue. * *Company's equity value was calculated according to average NBP rates prevailing at 30.06.2011 which is: EUR 1 = PLN 3.9866.* *The financial results of the Company for the first half of 2011 were translated using rate of EUR 1 = PLN 3.9673, while at the end of first half of 2010 using rate 1 SEK=0,4112 PLN, which are calculated based on average NBP rates prevailing at the last day of each month in first half of the year.*
Centrum Finansowe Puławska Sp. z o.o.	1. The value of Company's equity at the end of June 2011 amounted to PLN 255 417 thousand. 2. In the first half of 2011 the reported net profit of PLN 6 118 thousand (in the first half of 2010 the Company reached net profit of PLN 7 477 thousand). 3. As at 30 June 2011, the Company rented 98% of the office and commercial space in the managed by itself Centrum Finansowe Puławska building, 91.9% of which was rented by the entities of the PKO Bank Polski SA Group. 4. On 30 May 2011 the Company made an early repayment of a loan received from PKO Bank Polski SA. The amount of the repayment amounted to PLN 62.6 million, including PLN 39 million obtained by the Company by increasing its share capital. Repayment of the loan was one of the activities conducted as part of the preparations for the liquidation of the Company. 5. As at 1 July 2011 the Company's liquidation proceedings were opened.

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

In the 2011, 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.

Activities supporting the investment of PKO Bank Polski SA in the Ukraine

The Management Board of PKO Bank Polski SA continued its cooperation with the National Bank of Ukraine (NBU) and the Ukrainian government. In the first half of 2011 several meetings with Ukrainian representatives took place in Kiev and Warsaw.

In order to obtain up-to-date information on changes in the policy of the Ukrainian authorities, including those relating to the financial regulations, and ensure institutionalized and structured response to issues which prevent development of foreign investment, PKO Bank Polski SA continues its cooperation with the Polish-Ukrainian Chamber of Commerce and the Amicus Europae Foundation.

PKO Bank Polski SA actively participated in the 10th Economic Summit Poland-Ukraine 2011, which took place in Warsaw with the participation of the Presidents of Poland and the Ukraine.

Agreement with the National Bank of Ukraine

On 20 April 2011, KREDOBANK SA signed with the National Bank of Ukraine a two-year agreement defining actions to be taken in order for KREDOBANK SA to obtain a positive financial result and all regulatory requirements of NBU. Under this agreement, NBU will not introduce any restrictions in the activity of KREDOBANK SA despite its incompliance with regulatory standards. The agreement defined in particular the requirements relating to: (i) adjusting the capital structure to the requirements of art. 32 of the Ukrainian Law on banks and banking activities, (ii) complying with the regulatory limit of the open currency position, and (iii) loan portfolio quality improvement. PKO Bank Polski SA participated in negotiations with NBU before signing the agreement.

Building of PKO Bank Polski SA's strategy for KREDOBANK SA

In the first half of 2011, PKO Bank Polski SA started to work on developing its new strategy for the Ukrainian market, including KREDOBANK SA, which takes into account the changed socio-economic circumstances. McKinsey & Company Poland Sp. z o.o., a firm with long experience in developing strategies for banks on the Ukrainian market, is the advisor to PKO Bank Polski SA in this area.

Investment policy relating to KREDOBANK SA

As part of its investment policy concerning KREDOBANK SA, PKO Bank Polski SA carried out restructuring of its activities. In the first half of 2011, these activities were focused on:

1) debt collection and restructuring activities relating to the KREDOBANK portfolio,
2) monitoring the costs and expenses of KREDOBANK SA, in particular the staff costs and costs of rental of space,
3) optimalization of KREDOBANK SA branch network by shutting down unprofitable branches. In first half of 2011 six of them were closed,
4) strengthen of supervision over KREDOBANK SA, including:
    a) changes in and appointing new members of the Supervisory Board of KREDOBANK SA – in the first half of 2011, two new members of the Supervisory Board of KREDOBANK SA were appointed and it has 9 members;.
    b) changes in the KREDOBANK SA Audit Committee – in the first half of 2011, changes were made to the Audit Committee, which now consists of 6 members,
    c) changes in the KREDOBANK SA Audit Committee – Vice President responsible for supervising the corporate and retail segments was appointed following the resignation of the previous first Vice President of the Management Board of KREDOBANK SA ,
    d) PKO Bank Polski SA supervision over investment, which consist of:
        – monitoring of the economic and financial situation of KREDOBANK SA,
        – further harmonization of procedures of KREDOBANK SA with the rules of PKO Bank Polski SA,
        – supporting of the transfer of experience from PKO Bank Polski SA to KREDOBANK SA by engaging employees of the Bank in projects and organization of practices for employees of KREDOBANK SA.

These actions are aimed at reconstructing the value of PKO Bank Polski SA's investment in KREDOBANK SA.

5. INTERNAL ENVIRONMENT

5.1. Organisation of the PKO Bank Polski SA Group

As at 30 June 2011 PKO Bank Polski SA Group consists of the Bank as a parent company and 23 entities as direct and indirect subsidiaries.

The consolidated financial statements include: PKO Bank Polski SA – the parent company of the PKO Bank Polski SA Group and its subsidiaries as defined in IAS 27 „Consolidated and separate Financial Statements".

Table 32. Entities comprising the PKO Bank 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	935 619	99.5655	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. [1]	167 288	100	full method
6	Qualia Development Sp. z o.o.* [2]	128 953	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. * [3]	51 599	99.9885	full method
11	Bankowe Towarzystwo Kapitałowe SA	21 566	100	full method
12	PKO Finance AB	172	100	full method
	Subsidiaries of Qualia Development Sp. z o.o.			
13	PKO BP Inwestycje - Nowy Wilanów Sp. z o.o.* [4]	82 980	99.9750	full method
14	PKO BP Inwestycje - Neptun Park Sp. z o.o. * [4]	19 000	99.9975	full method
15	Sarnia Dolina Sp. z o.o. * [5]	8 187	56	full method
16	Qualia - Rezydencja Flotylla Sp. z o.o.* [6]	7 575	100	full method
17	Qualia spółka z ograniczoną odpowiedzialnością - Sopot Sp. k.* [7]	4 700	99.9787	full method
18	Fort Mokotów Sp. z o.o. * [8]	2 040	51	full method
19	UKRPOLINWESTYCJE Sp. z o.o.	519	55	full method
20	Qualia Sp. z o.o.*	30	100	full method
	Subsidiary of Bankowe Towarzystwo Kapitałowe SA			
21	PKO BP Faktoring SA [9]	13 329	99.9889	full method
	Subsidiary of Inteligo Financial Services SA			
22	PKO BP Finat Sp. z o.o. [10]	7 600	80.3287	full method
	Subsidiaries of Bankowy Fundusz Leasingowy SA			
23	Bankowy Leasing Sp. z o.o. [9]	42 009	99.9988	full method
24	BFL Nieruchomości Sp. z o.o. [9]	18 409	99.9973	full method

** value of shares at acquisition cost, inclusive of specific capital injections and in case of the limited partnerships the value of contributions made*

1 - *since 1 July 2011 Centrum Finansowe Puławska Sp. z o.o. - in liquidation*

2 - *the previous name of the entity was PKO BP Inwestycje Sp. z o.o.*

3 - *the other shareholder in the company is Qualia Development Sp. z o.o.*

4 - *the other shareholder in the company is Qualia Sp. z o.o.*

5 - *the previous name of the entity was PKO BP Inwestycje - Sarnia Dolina Sp. z o.o.*

6 - *the previous name of the entity was PKO BP Inwestycje - Rezydencja Flotylla Sp. z o.o.*

7 - *the limited partner of the entity is Qualia Development Sp. z o.o., the general partner is Qualia Sp. z o.o.,*

8 - *since 28 July 2011 Fort Mokotów Sp. z o.o. – in liquidation*

9 - *PKO Bank Polski SA holds 1 share in the entity*

10 - *PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA holds other shares of the entity (19.6702%) while PKO Bank Polski SA has 1 share*

Table 33. 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
	Subsidiaries of Bank Pocztowy SA			
10	Centrum Operacyjne Sp. z o.o.	3 284	100	equity method
11	Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o.	2 000	100	equity method

* value of shares at acquisition cost and 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.

5.2. Changes in the organization of subordinated entities

In the first half of 2011, the structure of the PKO Bank Polski SA Group was affected by the following events:

1. **Taking up shares in the increased share capital of Bankowe Towarzystwo Kapitałowe SA**

   On 12 January 2011, the increase in the share capital of Bankowe Towarzystwo Kapitałowe SA in the total amount of PLN 3 000 thousand was registered with the National Court Register. As a result, the Company's share capital amounts to PLN 24 243.9 thousand and consists of 242 439 shares of PLN 100 nominal value each.

   All the shares in the increased share capital were taken up by PKO Bank Polski SA, for a price equal to the nominal value of the shares taken up.

   As at 30 June 2011, PKO Bank Polski SA held a total of 100% of the Company's share capital and of voting rights at the Company's General Shareholders' Meeting.

2. **Taking up shares in the increased share capital of PKO BP Faktoring SA**

   On 7 March 2011, the increase in the share capital of PKO BP Faktoring SA in the total amount of PLN 1 500 thousand was registered with the National Court Register. As a result, the Company's share capital amounts to PLN 9 000 thousand and consists of 9 000 shares of PLN 1 thousand nominal value each.

   All the shares in the increased share capital were taken up by Bankowe Towarzystwo Kapitałowe SA - a subsidiary company of PKO Bank Polski SA, for a price of PLN 3 000 thousand.

   After the registration of the issue mentioned above, BTK SA held a total of 99.9889% of the Company's share capital and of voting rights at the Company's General Shareholders' Meeting.

3. **Taking up shares in the increased share capital of Centrum Finansowe Puławska Sp. z o.o.**

   On 13 June 2011, the increase in the share capital of Centrum Finansowe Puławska Sp. z o.o. in the total amount of PLN 39 000 thousand was registered with the National Court Register. As a result, the Company's share capital amounts to PLN 117 808 thousand and consists of 14 726 shares of PLN 8 thousand nominal value each.

All the shares in the increased share capital were taken up by PKO Bank Polski SA, for a price equal to the nominal value of the shares taken up. Funds raised through a share capital increase have been allocated to early repayment of loan in the PKO Bank Polski SA.

As at 30 June 2011, PKO Bank Polski SA held a total of 100% of the Company's share capital and voting rights at the Company's General Shareholders' Meeting.

4. **Taking up shares in the increased share capital of BFL Nieruchomości Sp. z o.o.**

In the first half of 2011, the increase in the share capital of BFL Nieruchomości Sp. z o.o. in the total amount of PLN 8 000 thousand, including: on 27 January the amount of PLN 1 000 thousand and on 9 May the amount of PLN 7 000 thousand, was registered with the National Court Register. As a result, the Company's share capital amounts to PLN 18 400 thousand and consists of 36 800 shares of PLN 500 nominal value each.

All the shares in the increased share capital were taken up by Bankowy Fundusz Leasingowy SA – a subsidiary company of PKO Bank Polski SA, for a price equal to the nominal value of the shares taken up.

As at 30 June 2011, Bankowy Fundusz Leasingowy SA held a total of 99.9973% of BFL Nieruchomości Sp. z o.o. share capital and of voting rights at the BFL Nieruchomości Sp. z o.o. General Shareholders' Meeting.

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

In the first half of 2011, the increase in the share capital of Bankowy Leasing Sp. z o.o. in the total amount of PLN 19 300 thousand, including: on 27 January the amount of PLN 6 600 thousand and on 11 May the amount of PLN 12 700 thousand, was registered with the National Court Register. As a result, the Company's share capital amounts to PLN 42 000 thousand and consists of 84 000 shares of PLN 500 nominal value each.

All the shares in the increased share capital were taken up by Bankowy Fundusz Leasingowy SA – a subsidiary company of PKO Bank Polski SA, for a price equal to the nominal value of the shares taken up.

As at 30 June 2011, Bankowy Fundusz Leasingowy SA held a total of 99.9988% of Bankowy Leasing Sp. z o.o. share capital and of voting rights at the Bankowy Leasing Sp. z o.o. General Shareholders' Meeting.

6. **Changes in the Qualia Development Sp. z o.o. Group (until 10 May of this year operating under the name PKO BP Inwestycje Sp. z o.o. Group)**

In the first half of 2011, the Qualia Development Sp. z o.o. Group carried out actions aimed at implementing a new concept of conducting development activities within the Holding structure, in which Qualia Development Sp. z o.o. manages the Group and acts as a limited partner in limited partnerships established within the Group, Qualia Sp. z o.o. acts as a general partner, and investment projects are executed by limited partnerships.

As part of such actions:

1) Qualia Sp. z o.o. was established (the Company was registered in the National Court Register on 25 February 2011).

The Company's share capital amounts to PLN 5 thousand and consists of 100 shares, each of PLN 50 nominal value. On the day of the Company's establishment, its shares with a nominal value of PLN 4 950 were acquired by Qualia Development Sp. z o.o. - a subsidiary of PKO Bank Polski SA, and one share with a nominal value of PLN 50 was acquired by Qualia – Rezydencja Flotylla Sp. z o.o. - a subsidiary of Qualia Development Sp. z o.o.

Since 28 April 2011, Qualia Development Sp. z o.o., which bought one share for a price equal to its nominal value, has been the sole shareholder of the Company.

2) Qualia spółka z ograniczoną odpowiedzialnością – Sopot Spółka komandytowa was established (the Partnership was registered with the National Court Register on 11 March 2011).

The partners are: Qualia Sp. z o.o. (general partner, amount of contribution: PLN 1 thousand) and Qualia Development Sp. z o.o. (limited partner, the limited partner's amount of contribution and limit of liability: PLN 4 700 thousand; increased from PLN 1 thousand by the partners' resolution of 31 March 2011).

The activities of Qualia spółka z ograniczoną odpowiedzialnością - Sopot Sp. k. comprise the preparation and execution of the investment project in Sopot at Bohaterów Monte Casino Street.

3) On 6 April 2011, Qualia Sp. z o.o. bought from PKO Bank Polski SA one share in PKO BP Inwestycje – Nowy Wilanów Sp. z o.o. for PLN 21.4 thousand.

4) On 6 April 2011, Qualia Sp. z o.o. bought from PKO Bank Polski SA one share in PKO BP Inwestycje – Neptun Park Sp. z o.o. for PLN 0.8 thousand.

In the first half of 2011 the names of the following companies were changed:

- PKO BP Inwestycje Sp. z o.o. changed its name to Qualia Development Sp. z o.o.; the change was registered with the National Court Register on 11 May 2011,
- PKO BP Inwestycje – Sarnia Dolina Sp. z o.o. changed its name to Sarnia Dolina Sp. z o.o.; the change was registered with the National Court Register on 29 June 2011,
- PKO BP Inwestycje – Rezydencja Flotylla Sp. z o.o. changed its name to Qualia - Rezydencja Flotylla Sp. z o.o.; the change was registered with the National Court Register on 30 June 2011.

In the first half of 2011, the following additional contributions to the Qualia Development Sp. z o.o. Group companies were made:

- PKO Bank Polski SA made additional contributions to Qualia Development Sp. z o.o. in the total amount of PLN 11 140 thousand (including: PLN 5 340 thousand on 25 March and PLN 5 800 thousand on 1 June),
- Qualia Development Sp. z o.o. made an additional contribution to Qualia Sp. z o.o. of PLN 25 thousand.

5.3. Related party transactions

In the first half of 2011, PKO Bank Polski SA provided (on arm's-length) the following services to its related parties (subsidiaries): keeping bank accounts, accepting deposits, extending loans and advances, issuing debt securities, providing guarantees, conducting spot foreign exchange transactions and offering purchasing units in funds and leasing products of the PKO Bank Polski SA Group companies.

A schedule of significant transactions of PKO Bank Polski SA with its subordinated entities, including the debt of the entities in respect of the Bank as at 30 June 2011 was disclosed in the financial statements of PKO Bank Polski SA for the first half of 2011.

The associates of PKO Bank Polski SA in the first half of 2011 did not conclude any significant agreements with related parties on other conditions then on arm's length.

6. PRINCIPLES OF RISK MANAGEMENT

Risk management is one the most important internal processes in both PKO Bank Polski SA and the other entities of the PKO Bank Polski SA Group, especially KREDOBANK SA and the Bankowy Fundusz Leasingowy SA Group. Risk management aims at ensuring an appropriate level of security and profitability of business activities in the changing legal and economic environment. The level of the risk plays an important role in the planning process.

The following types of risk which are subject to risk management have been identified in the PKO Bank Polski SA Group: credit risk, interest rate risk, currency risk, liquidity risk, price risk of equity instruments, operational risk, compliance risk, business risk (including strategic risk) and reputation risk. Derivatives risk is a subject to a special control due to the specific characteristics of these instruments. Managing the banking risk by maintaining the risk level within the adopted tolerance level is aimed at:

- protecting the value of the shareholders' capital,
- protecting clients deposits,
- supporting the Bank in conducting effective operations.

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

- the Group manages all of the identified types of banking risk,
- the risk level is monitored on a current basis,
- the risk management process is appropriate to the scale of the operations and to the materiality, scale and complexity of a given risk and tailored to new risk factors and sources on a current basis,
- the risk management methods (in particular the models and their assumptions) and the risk measurement systems are tailored to the scale and complexity of the risk and verified and validated on a periodical basis,
- the risk management process supports the pursuit of the Bank's strategy in keeping with the risk management strategy, in particular with regard to the level of tolerance of the risk,
- the area of risk and debt collection remains organizationally independent of business activities,
- risk management is integrated with the planning and controlling systems.

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 PKO Bank Polski SA Group and the most important activities taken in the area of risk management.

The Bank's Management Board is responsible for the risk management, including supervising and monitoring of activities taken by the Bank in the area of risk management. The Bank's Management Board approves the most important decisions affecting the risk level of the Bank and enacts internal regulations concerning the risk management.

The risk management process is carried out in three, mutually independent lines of defense:

1) the first line of defense, which is functional internal control that ensures using risk controls and compliance of the activities with the generally applicable laws,
2) the second line of defense, which is the risk management system, including risk management methods, tools, process and risk management,
3) the third line of defense, which is an internal audit.

The independence of the lines of defense consists of preserving organizational independence in the following areas:

- the function of the second line of defense as regards creating system solutions is independent of the function of the first line of defense,
- the function of the third line of defense is independent of the functions of the first and second lines of defense,
- the function of managing the compliance risk reports directly to the President of the Management Board of the Bank.

The Bank supervises activities of the individual subsidiaries of the PKO Bank Polski SA Group. As part of this supervision, the Bank sets out and approves their development strategies, including the level of the risk. 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.

The internal regulations concerning management of certain types of risk in the entities of the Group are defined by internal regulations implemented by those entities, after taking the Bank's opinion and having taken into account the recommendations issued to the entities by the Bank. The internal regulations of the entities concerning risk management allow for consistent and comparable assessment of particular types of risk within the Bank and entities of the Group, as well as reflect the specific nature of the entity's activity and the market on which it operates.

6.1. 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 due amounts to the Bank.

The objective of credit risk management is to minimize losses on the credit portfolio as well as to minimize the risk of occurrence of loans threatened with impairment exposure, while keeping expected level of profitability and value of credit portfolio at the same time.

The Bank and the subsidiaries of the Group 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 or their value 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 in particular by geographical location, by industry, by product and by clients,
- expected credit risk level is mitigated by setting by the Bank legal collateral, credit margins received from clients and impairment allowances on loan exposures.

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

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

Credit risk relating to the financing of corporate clients is assessed on two levels: the client and the transaction. 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. Since 1 September 2010, the Bank has implemented a scoring method of credit risk assessment of small and medium enterprises customers along with a dedicated IT application. For those clients, apart from the rating method, a scoring method is used, according to which the Bank assesses the credit risk in two dimensions: creditworthiness and financial viability of the client. Implementation of the scoring method for SME customers will result in shortening the assessment process of loan applications as well as improvement of credit risk management effectiveness. The project of the next stage of scoring methods developments is currently running.

In the 1st quarter of 2011, the Bank added to its rating system the identification of events of default, i.e. events whose occurrence, in the Bank's opinion, would make it impossible to collect receivables without using such measures as cashing the security or restructuring. The rating scale was extended as follows: 10 rating classes were introduced in place of the former 8 classes (7 classes of clients who are in compliance with their obligations and 3 classes of clients who are not in compliance) and, in principle, the conditions of availability of financing were maintained.

Information on 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 in the credit risk assessment and reporting system.

In order to reduce the period of response as regards warning signals suggesting an increase in credit risk level, the Bank implemented an IT application to support the Early Warning System (EWS) in August 2010. The application is now being developed.

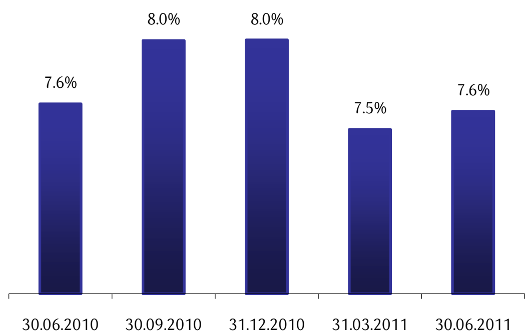
Group companies whose activities are related to credit risk developed and implemented new regulations on credit risk management, and updated the already binding ones. Moreover, in KREDOBANK active efforts were made to automate the lending process, including the assessment of credit risk based on IT tools.

Table 34. The structure of loan portfolio and impairment allowances of the PKO Bank Polski SA Group (in PLN million)

	30.06.2011	31.12.2010	Change
Loans and advances to customers:			
Valued with the individual method, including:	5 722.6	6 562.4	-12.8%
Impaired	5 122.4	5 899.2	-13.2%
Not impaired	600.1	663.1	-9.5%
Valued with the portfolio method	5 640.4	4 987.9	13.1%
Valued with the group method (IBNR)	129 607.5	123 974.5	4.5%
Loans and advances to customers - gross	**140 970.5**	**135 524.8**	**4.0%**
Allowances on exposures valued with the individual method	(1 722.5)	(1 766.0)	-2.5%
Impaired	(1 722.5)	(1 766.0)	-2.5%
Allowances on exposures valued with the portfolio method	(2 884.6)	(2 593.1)	11.2%
Allowances on exposures valued with the group method (IBNR)	(683.0)	(497.6)	37.3%
Allowances - total	**(5 290.0)**	**(4 856.7)**	**8.9%**
Loans and advances to customers - net	**135 680.4**	**130 668.1**	**3.8%**

In the first half of 2011, the value of gross loans granted by the Group and evaluated under the individual method dropped by PLN 0.8 billion, and those evaluated under the portfolio method increased by PLN 0.7 billion.

Chart 3. Share of loans and advances with recognized impairment in the PKO Bank Polski SA Group



The share of impaired loans in the total gross portfolio of loans of the PKO Bank Polski SA Group as at 30 June 2011 amounted to 7.6% and remained at the same level as at 30 June 2010, which is the consequence of the Bank using stricter loan granting criteria and of changing the principles of classifying loans for impairment in 2011[5].

The ratio of coverage of impaired loans in the PKO Bank Polski SA Group as at 30 June 2011 amounted to 49.2% compared with 45.8% as at 30 June 2010.

[5] *In the first half of 2011 modification of the catalogue of premises for individual loan impairment was made consisting specifically of discontinuing to recognize the premise of "deterioration in the customer's financial position during the crediting period' in respect of customers who until then were in the group and are characterized by relatively low probability of default.*

Those Group companies exposed to significant credit risk (KREDOBANK SA, the BFL SA Group, the BTK SA Group) manage credit risk on an individual basis and the methods used for assessing and measuring credit risk are adapted to the methods used in PKO Bank Polski SA, taking into consideration the specific nature of operations.

The change in solutions used by the subsidiaries of the Group is each time agreed with the entities responsible for risk management in the Bank.

The BFL SA Group, KREDOBANK SA and BTK SA Group periodically measure credit risk and the results of the measurements are forwarded to the Bank.

Appropriate organizational units of PKO Bank Polski SA participate in managing the credit risk in the Group companies by giving their opinions on projects and periodically reviewing the internal regulations of the companies relating to the assessment of credit risk and preparation of recommendations relating to amendments in the draft regulations. The Bank supports implementing the recommended changes in the principles for assessing credit risk in the Group companies.

6.2. Interest rate risk

The interest rate risk is a risk of incurring losses on balance and off-balance sheet items sensitive to interest rate fluctuations, as a result of 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 by shaping the structure of balance and off-balance sheet items.

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

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

The PKO Bank Polski SA Group's exposure to interest rate risk as at 30 June 2011 and 31 December 2010 consisted mainly of the Bank's exposure. The interest rate risk for such currencies as PLN, EUR and CHF, generated by the Group entities, did not have a material influence on the interest rate risk of the whole Group and, as a result, did not change significantly its risk profile. Interest rate risk for USD was changed significantly by the exposure of the Group entities, in which the most significant exposure concerned KREDOBANK SA.

Table 35. VaR of PKO Bank Polski SA and stress tests of the Group's exposure to the interest rate risk (in PLN thousand)

Name of sensitivity measure	30.06.2011	31.12.2010
VaR for a 10-day time horizon*	58 909	39 004
Parallel movement of interest rate curves by 200 base points (stress test)	647 421	522 641

** 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 on which they operate, the Group 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 22 795 thousand as at 30 June 2011 and PLN 30 150 thousand as at 31 December 2010, respectively.*

As at 30 June 2011, the Bank's interest rate VaR for the holding period of 10 days (10-day VaR) amounted to PLN 58 909 thousand, which accounted for approximately 0.34% of the value of the Bank's own funds. As at 31 December 2010, VaR for the Bank amounted to PLN 39 004 thousand, which accounted to approximately 0.24% of the Bank's own funds (own funds calculated in accordance with regulations governing calculation of the capital adequacy ratio).

6.3. Currency risk

Currency risk is the risk of incurring losses due to exchange rate changes, generated by maintaining open currency positions in a given foreign currencies. The objective of managing the currency risk is to mitigate the risk of incurring losses arising from the structure of currency mismatch to an acceptable level by shaping the currency structure of the balance and off-balance sheet items. The Bank measures currency risk using the Value at Risk model and stress tests.

Methods of currency risk management in the Group entities are defined by internal regulations implemented by these entities. The regulations are developed by entities, for which currency risk measurement tools obtain a significant value, after consulting the Bank's opinion and taking into account recommendations issued to the entities by the Bank.

Table 36. VaR of PKO Bank Polski SA and stress tests of the Group's exposure to the currency risk, cumulatively for all currencies (in PLN thousand)

Name of sensitivity measure	30.06.2011	31.12.2010
VaR for a 10-day time horizon*	975	3 171
Change of CUR/PLN by 15% (stress test)	2 289	6 081

** Due to the nature of the activities carried out by the other Group entities generating significant currency risk as well as a the specific nature of the market on which they operate, the Bank does not calculate consolidated VaR. These entities apply their own risk measures in the currency risk management. KREDOBANK SA uses the 10-day VaR, which amounted to ca. PLN 181 thousand as of 30 June 2011 and ca. PLN 182 thousand as of 31 December 2010, respectively.*

The level of currency risk was low both as at 30 June 2011 and as at 31 December 2010.

Table 37. The Group's currency position for particular currencies (in PLN thousand)

Currency	30.06.2011	31.12.2010
USD	1 588	(78 916)
GBP	317	48 073
CHF	(26 640)	(18 820)
EUR	28 689	(4 035)
Other (Global Net)	11 302	11 257

6.4. 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. Lack of liquidity may arise from an inadequate structure of the statement of financial position, mismatch of cash flows, not received payments from contractors, sudden withdrawal of cash by clients or other market events.

The objective of liquidity risk management is to ensure the appropriate level of capital necessary to pay present and future debts (also potential) on time, taking into account the nature of performed activities and requirements which may occur due to changes in market environment, by shaping the structure of the balance and off-balance-sheet liabilities.

The Group policy concerning liquidity is based on keeping a portfolio of liquid securities and increasing stable sources of financing (in particular, a stable deposit base). In its liquidity risk management policy, money market instruments, including NBP open market operations, are used.

Methods of liquidity risk management in the Group entities are defined by internal regulations implemented by entities, for which currency risk measurement tools obtain a significant value. These regulations are developed after consulting the Bank and taking into account recommendations issued to the entities by the Bank. To ensure an adequate liquidity level, the Bank and the subsidiaries of the PKO Bank Polski SA Group accepted limits and thresholds for liquidity risk. The limits and thresholds were set for both current liquidity measures and medium and long-term liquidity measures.

Table 38. Liquidity reserve of the Bank (in PLN million)

Name of sensitivity measure	30.06.2011	31.12.2010
Liquidity reserve up to 1 month*	12 460	10 151

**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 30 June 2011, the level of core deposits constituted ca. 94.7% of all deposits in the Bank (excluding inter-bank market), which means a decrease by ca. (0.5) pp. as compared to the end of 2010.

6.5. 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 objective 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 centralised at the PKO Bank Polski SA Head Office level. The ongoing operational risk management is conducted by every organizational unit of the Bank.

The main tools for managing the operational risk are as follows:

- control instruments,
- human resources management (staff selection, enhancement of professional qualifications of employees, motivation packages),
- setting threshold values of Key Risk Indicators (KRI),
- tolerance and operational risk limits,
- contingency plans,
- insurance,
- outsourcing,
- business continuity plan.

In the first half of 2011, the dominant impact on the operational risk profile of the Group was exercised by the following three entities: PKO Bank Polski SA, the BFL SA Group and KREDOBANK SA. The other Group entities, considering their significantly smaller scale and type of activity, generate only reduced operational risk. Other Group entities manage operational risk according to principles of risk management in PKO Bank Polski SA, considering their specific nature and scale of activity.

The process of unification of IT solutions for operating risk management at the BFL SA Group and at KREDOBANK SA was commenced in the first half of 2011.

Furthermore, on 21 June 2011 PKO Bank Polski SA obtained the consent of the Polish Financial Supervision Authority (PFSA) for applying statistical methods to calculate capital requirements for operating risk (AMA) as of 30 June 2011.

6.6. 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 Group, its employees or entities acting on its behalf to comply with the provisions of the law, internal regulations and standards adopted by the Group, including ethical standards.

The objective of compliance risk management is to ensure the Group's compliance with law and adopted standards and the Group's acting as a entity that is reliable, fair and honest, through mitigating compliance risk, reputation risk or the Group's credibility and mitigating the risk of occurring financial losses or legal sanction risk resulting from breach of regulations and ethical standards.

Compliance risk management involves in particular:

- preventing involvement of the Group in illegal activities,
- ensuring data protection,
- development of ethical standards and monitoring of their application;
- conflict of interest management,
- preventing situations where the Group'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.

The Group has adopted a zero tolerance policy against compliance risk, which means that the Group focuses its actions towards eliminating this risk. The rules concerning the process of compliance risk management adopted by all Group entities is inherent within the PKO Bank Polski SA Group.

6.7. 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. Managing the strategic risk is aimed at maintaining, on an acceptable level, the negative financial consequences resulting from erroneous decisions, decisions made on the basis of an incorrect assessment or failing to make appropriate decisions to the direction of the strategic development of the Bank. In measuring the strategic risk, the Bank takes into account an impact of selected types of factors, distinguished in the activity and in the environment, which comprise in particular:

- 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.

6.8. 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 Banks' image.

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

Management of reputation risk in the Group comprises mainly preventive activities aimed at reducing or minimizing the scale and the scope of image-related events, as well as selection of effective tools for protective measures aimed at eliminating, mitigating or minimizing the unfavourable effect of image-related events on the image of the Group.

6.9. Capital adequacy[6]

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 significant types of 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:

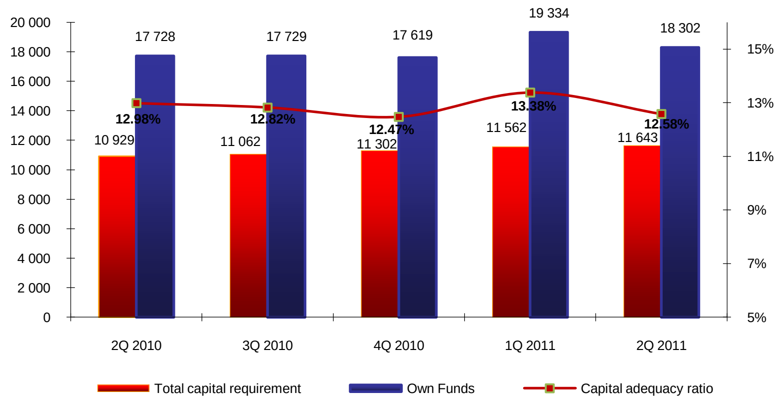
- the capital adequacy ratio whose minimum level in accordance with the Banking Act is 8%,

[6] *Own funds for the purposes of capital adequacy is calculated in accordance with the provisions of the Banking Law and Resolution No. 381/2008 of the Polish Financial Supervision Authority (PFSA) of 17 December 2008 on deductions from Tier 1 capital, as amended by Resolution No. 367/2010 of the PFSA of 12 October 2010, applicable to the data starting from 31 December 2010.*

– 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 PKO Bank Polski SA Group in the first half of 2011 remained on a safe level and was significantly above the statutory limits.

Chart 4. Capital adequacy of the PKO Bank Polski SA Group (in PLN million)

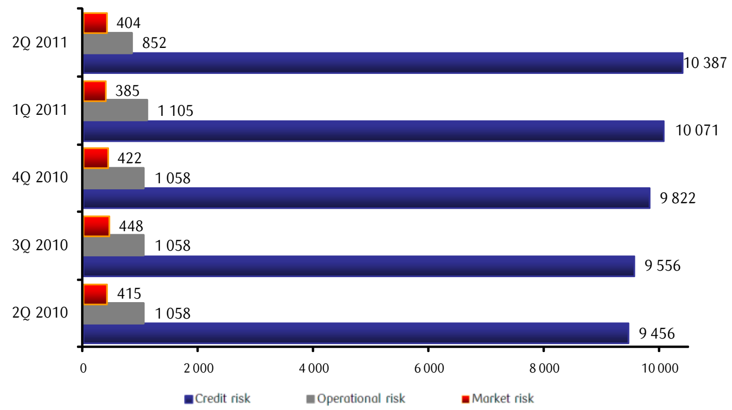


Compared with 31 December 2010, the Group's capital adequacy level increased by 0.11 pp., which was mainly caused by an increase in the Bank's own funds designated for the purposes of measuring capital adequacy. In the first half of 2011, the Group's own funds increased by PLN 683.7 million.

The Group calculates capital requirements in accordance with Resolution no. 76/2010 of PFSA dated 10 March 2010, as amended – (Basel II): in respect of credit risk – the standardized approach, in respect of the Bank's operational risk – the advanced approach (AMA) as of June 2011, and for the Group companies – the basic index approach, in respect of market risk – the basic approach.

The increase in the capital requirement in respect of credit risk was mainly the consequence of the growth of the Group's loan portfolio in the first half of 2011 by ca. 3.8%. The drop in the capital requirement in respect of market risk resulted mainly from a drop in the value of corporate and municipal bonds of ca. 3% with a simultaneous increase in commitments due to issue underwriting by ca. 26%. The drop in the capital requirement in respect of operational risk resulted from the Bank's using, for the first time, the advanced measurement approach (AMA) to its data for June 2011 in respect of operational risk. In accordance with the PFSA, the requirement is 75% of the requirement calculated according to the standardized approach (STA). As at December 2010 the Bank's requirement had been calculated using the standardized approach (STA). The requirement in respect of the Group companies' operational risk in both periods was calculated using the basic index approach (BIA).

Chart 5. Capital requirements of the PKO Bank Polski SA Group (in PLN million)[7]



[7] *Starting from 31 December 2010, the Group calculates the capital requirements in accordance with Resolution No. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010, as amended by Resolution No. 369/2010 of 12 October 2010 (CRD II): for credit risk – using the standardized approach, for operational risk for the Bank – using the advanced approach (AMA) from June 2011, and for Group companies – using the basic indicator approach, and for market risk – using the basic approaches.*

7. Information for investors

Shareholders holding, directly or indirectly through subsidiaries, at least 5% of votes at the General Shareholders' 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 the date of submitting the report, respectively 512 406 277 and 128 102 731 of 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 PKO Bank Polski SA.

Table 39. The shares held by the Shareholders as at the date of submitting the report

Shareholders	As at the date of submitting the report for the first half of 2011		As at the date of submitting the report for the first quarter of 2011		Change in the number of votes at the GSM (pp.)
	Number of shares	Share in the votes on GSM	Number of shares	Share in the votes on GSM	
The State Treasury	512 406 277	40.99%	512 406 277	40.99%	0.00
Bank Gospodarstwa Krajowego	128 102 731	10.25%	128 102 731	10.25%	0.00
Other shareholders	609 490 992	48.76%	609 490 992	48.76%	0.00
Total	1 250 000 000	100.00%	1 250 000 000	100.00%	0.00

Sale of PKO BP SA shares by the State Treasury and BGK

On 18 July 2011, the application for the approval of the Bank's prospectus prepared in connection with a public offering for sale of up to 190 602 731 of the Bank's shares (i.e. up to 15.25% of the Bank's share capital) and seeking approval for the admission and introduction of 197 500 000 A-series shares of the Bank to trading on the main market at the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie SA) was filed with the Polish Financial Supervision Authority (PFSA)

In accordance with the Prospectus, the Bank's shareholders, i.e. Bank Gospodarstwa Krajowego and the State Treasury, will offer up to 165 602 731 A and D-series ordinary bearer shares of the Bank with PLN 1 par value each (i.e. up to 13.25% of the Bank's share capital), where Bank Gospodarstwa Krajowego will offer up to 128 102 731 D-series ordinary bearer shares (i.e. 10.25% of the Bank's share capital) and the State Treasury will offer up to 37 500 000 A-series ordinary bearer shares (i.e. up to 3% of the Bank's share capital).

Not later than on the date of setting the share prices and the final number of the shares offered, the State Treasury can decide to offer additional 25 000 000 A-series ordinary bearer shares (i.e. up to 2% of the Bank's share capital). Due to the above, the maximum number of shares sold as part of the public offering can be 190 602 731 ordinary bearer shares with a PLN 1 par value each (i.e. 15.25% of the Bank's share capital).

The application and the prospectus also deal with the admission of 197 500 000 A-series ordinary bearer shares with PLN 1 par value each to trading on the regulated market.

Before implementing the public offering and admission and introduction of A-series ordinary shares of the Bank to trading on the Warsaw Stock Exchange primary market, 197 500 000 A-series ordinary registered shares of the Bank will be transformed into A-series ordinary bearer shares, in accordance with Resolutions No. 25/2011 and No. 26/2011 of the Ordinary General Shareholders' Meeting of the Bank dated 30 June 2011.

Changes in the number and entitlement of PKO Bank Polski SA shares held by Management or Supervisory Board Members

Table 40. Shares held by PKO Bank Polski SA's Management or Supervisory Board Members

No.	Name	Number of shares as at the date of submitting the report for the first half of 2011	Purchase	Disposal	Number of shares as at the date of submitting the report for the first quarter of 2011
I.	Management Board of the Bank				
1.	Zbigniew Jagiełło, President of the Bank's Management Board	6000	1000	0	5000
2.	Piotr Alicki, Vice-President of the Bank's Management Board	2627	0	0	2627
3.	Bartosz Drabikowski, Vice-President of the Bank's Management Board	0	0	0	0
4.	Andrzej Kołatkowski*, Vice-President of the Bank's Management Board	0	x	x	x
5.	Jarosław Myjak, Vice-President of the Bank's Management Board	0	0	0	0
6.	Jacek Obłękowski*, Vice-President of the Bank's Management Board	512	x	x	x
7.	Jakub Papierski, Vice-President of the Bank's Management Board	0	0	0	0
II.	Supervisory Board of the Bank				
1.	Cezary Banasiński, President of the Bank's Supervisory Board	0	0	0	0
2.	Tomasz Zganiacz, Vice-President of the Bank's Supervisory Board	0	0	0	0
3	Jan Bossak, Member of the Bank's Supervisory Board	0	0	0	0
4.	Mirosław Czekaj, Secretary of the Bank's Supervisory Board	0	0	0	0
5.	Krzysztof Kilian*, Member of the Bank's Supervisory Board	0	x	x	x
6.	Piotr Marczak, Member of the Bank's Supervisory Board	0	0	0	0
7.	Ewa Miklaszewska*, Member of the Bank's Supervisory Board	0	x	x	x
8.	Marek Mroczkowski*, Member of the Bank's Supervisory Board	0	x	x	x
9.	Ryszard Wierzba**, Member of the Bank's Supervisory Board	n.a.	x	x	x

*) members of the Bank's Management Board and the Bank's Supervisory Board performing the functions since 30 June 2011, except for Andrzej Kołatkowski, Vice-President of the Bank's Management Board, who performs the function since 9 August 2011.
**) As at the date of assuming the position of the Supervisory Board member, i.e. 30 June 2011, Professor Ryszard Wierzba held 2 570 shares in PKO Bank Polski SA. On 7 July 2011, he transferred all of these shares to a 'blind portfolio' managed by DM PKO Banku Polskiego SA. A 'blind portfolio' means that the owner is not informed of the portfolio composition and transactions. Therefore, after 7 July 2011, and consequently also as at the date of submission of this report, Professor Wierzba was unable to provide information on the number of the Bank's shares held by him.

Co-operation with rating agencies

Currently, the financial reliability ratings of PKO Bank Polski SA are awarded by three meaningful 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 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 the Bank made available during direct contacts of representatives of the agency with the Bank.

The ratings awarded to the Bank by the agencies did not change in the first half of 2011.

On 10 May 2011, *rating* agency Standard & Poor's Ratings Services ("S&P") informed that the Bank's *rating* of "A-pi" was maintained. In the opinion of S&P, the announced reduction of the State Treasury interest in the capital of PKO Bank Polski SA, which can occur again in the coming years (although it will not drop below 25%), will not result in limiting the control of the State Treasury over the Bank's strategic decisions. This is due to the recent amendment to the Bank's Memorandum of Association (Resolution No. 3/2011 of the Extraordinary General Shareholders' Meeting of the Bank amending the PKO Bank Polski SA Memorandum of Association).

Table 41. Ratings given to PKO Bank Polski SA as at 30 June 2011

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 with a stable perspective
Long-term rating for deposits in a domestic currency	A2 with a stable perspective
Short-term rating for deposits in a domestic currency	Prime-1 with a stable perspective
Financial strength	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	A-pi

The rating awarded to KREDOBANK SA in September 2010 by Standard & Poor's did not change in the first half of 2011.

Amendments to the Memorandum of Association of PKO Bank Polski SA

1. On 14 April 2011, the Extraordinary General Shareholders' Meeting passed Resolution No. 3/2011 amending the Memorandum of Association of PKO Bank Polski SA (the Bank published the said Resolution in its current report No. 13/2011). The amendments to the Bank's Memorandum of Association were proposed by the Bank's shareholder - the State Treasury. The amendments included in the said resolution concerned:
   1) limiting the shareholders' voting rights and adopting the principles for the accumulation and reduction of votes,
   2) the number of Supervisory Board members,
   3) the agenda of the first meeting of the new term of office of the Supervisory Board,
   4) definition of a the Parent and a subsidiary.

The above-mentioned changes in the PKO Bank Polski SA's Memorandum of Association, introduced by resolution passed by the Extraordinary General Shareholders' Meeting of the Bank on 14 April 2011, were registered in the National Court Register by the District Court in Warsaw, the 13th Business Department of the National Court Register.

2. On 30 June 2011, the Ordinary General Shareholders' Meeting passed the following resolutions:
   1) No. 26/2011 on the amendment to the PKO Bank Polski SA's Memorandum of Association relating to transforming 197 500 000 A-series registered shares into bearer shares. This amendment was introduced in connection with intended sale of up to 197 500 000 A-series shares by the State Treasury as part of the public offering,
   2) No. 27/2011 on the amendment to the PKO Bank Polski SA's Memorandum of Association aimed at specifying in more detail the powers to establish and carry out cooperation between the Bank and the Bank Group entities, in particular providing services to those entities.

The said resolutions (No. 26/2011 and 27/2011) were published by the Bank in its current report No. 35/2011.

As at the date of this report, the above-mentioned amendments to the Bank's Memorandum of Association introduced by resolutions of the Ordinary General Shareholders' Meeting held on 30 June 2011 were not registered in the National Court Register.

8. OTHER INFORMATION

Identification data

PKO Bank Polski SA, with its registered Head Office in Warsaw at 15 Puławska Street, has been entered in the Register of Entrepreneurs of the National Court Register kept by the District Court in Warsaw, Entry No. KRS 0000026438. The Company was granted statistical number (REGON) 016298263 and tax identification number (NIP) 525-000-77-38.

Authorities of PKO Bank Polski SA in the period

Table 42. The Management Board of PKO Bank Polski SA as at 30 June 2011

No.	Name	Post	Date of appointment
1.	Zbigniew Jagiełło*	President of the Management Board	On 2 March 2011, the Bank's Supervisory Board appointed Mr. Zbigniew Jagiełło to the position of President of the Management Board of Powszechna Kasa Oszczędności Banku Polskiego SA, for the joint term of the Board, which began on 30 June 2011.
2.	Piotr Alicki*	Vice-President of the Management Board	On 1 April 2011 the Bank's Supervisory Board of PKO BP SA appointed Mr. Piotr Alicki to the position of Vice-President of the Management Board of PKO Bank Polski SA for the joint term of the Board, which began on 30 June 2011.
3.	Bartosz Drabikowski*	Vice-President of the Management Board	On 1 April 2011 the Bank's Supervisory Board of PKO BP SA appointed Mr. Bartosz Drabikowski to the position of Vice-President of the Management Board of PKO Bank Polski SA for the joint term of the Board, which began on 30 June 2011.
4.	Krzysztof Dresler*	Vice-President of the 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 30 June 2011 expired mandate of Vice-President of the Management Board Krzysztof Dresler.
5.	Jarosław Myjak*	Vice-President of the Management Board	On 1 April 2011 the Bank's Supervisory Board of PKO BP SA appointed Mr. Jarosław Myjak to the position of Vice-President of the Management Board of PKO Bank Polski SA for the joint term of the Board, which began on 30 June 2011.
6.	Jacek Obłękowski	Vice-President of the Management Board	On 1 April 2011 the Bank's Supervisory Board of PKO BP SA appointed Mr. Jacek Obłękowski to the position of Vice-President of the Management Board of PKO Bank Polski SA for the joint term of the Board, which began on 30 June 2011. Vice-President of the Management Board J. Obłękowski covered feature on 30 June 2011.
7.	Wojciech Papierak*	Vice-President of the 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 30 June 2011 expired mandate of Vice-President of the Management Board Wojciech Papierak.
8.	Jakub Papierski*	Vice-President of the Management Board	On 1 April 2011 the Bank's Supervisory Board of PKO BP SA appointed Mr. Jakub Papierski to the position of Vice-President of the Management Board of PKO Bank Polski SA for the joint term of the Board, which began on 30 June 2011.

*Management Board members who performed their functions during the term of the Management Board ended on 19 May 2011.

On 16 May 2011, the Supervisory Board appointed Mr. Andrzej Kołatkowski as Vice-President of the Management Board responsible for Risk and Debt Collection Area, for a joint term of the Management Board which would commence on 30 June 2011, provided that he obtains the approval of the PFSA for performing this function. On 9 August 2011, the PFSA has approved Mr. Andrzej Kołatkowski as Vice-President of the Management Board of PKO Bank Polski SA.

Table 43. The Supervisory Board of PKO Bank Polski SA as at 30 June 2011

No.	Name	Post	Date of appointment/recalling
1.	Cezary Banasiński*	Chairman of the Supervisory Board	appointed on 30 June 2011 for the joint term of the Supervisory Board, which began this day. On 30 June 2011 the Minister of State Treasury appointed Mr. Cezary Banasiński, a member of the Supervisory Board, as a President of the Supervisory Board.
2.	Tomasz Zganiacz*	Deputy-Chairman of the Supervisory Board	appointed on 30 June 2011 for the joint term of the Supervisory Board, which began this day. On 30 June 2011 the Minister of State Treasury appointed Mr. Tomasz Zganiacz, a member of the Supervisory Board, as a Deputy-Chairman of the Supervisory Board.
3.	Mirosław Czekaj*	Secretary of the Supervisory Board	appointed on 30 June 2011 for the joint term of the Supervisory Board, which began this day. On 6 July 2011 the Supervisory Board chose as Secretary of the Supervisory Board.
4.	Jan Bossak*	Member of the Supervisory Board	appointed on 30 June 2011 for the joint term of the Supervisory Board, which began this day.
5.	Krzysztof Kilian	Member of the Supervisory Board	appointed on 30 June 2011 for the joint term of the Supervisory Board, which began this day.
6.	Błażej Lepczyński*	Member of the Supervisory Board	appointed on 20 April 2009 for the term, of the Supervisory Board which ended on 19 May 2011 and for the current term of the Supervisory Board. On 30 June 2011 expired mandate of Member of the Supervisory Board, Mr. Błażej Lepczyński.
7.	Ewa Miklaszewska	Member of the Supervisory Board	appointed on 30 June 2011 for the joint term of the Supervisory Board, which began this day.
8.	Piotr Marczak*	Member of the Supervisory Board	appointed on 30 June 2011 for the joint term of the Supervisory Board, which began this day.
9.	Marek Mroczkowski	Member of the Supervisory Board	appointed on 30 June 2011 for the joint term of the Supervisory Board, which began this day.
10.	Alojzy Zbigniew Nowak*	Member of the Supervisory Board	appointed on 31 August 2009 for the term, of the Supervisory Board which ended on 19 May 2011 and for the current term of the Supervisory Board. On 30 June 2011 r. expired mandate of Member of the Supervisory Board, Mr. Alojzy Zbigniew Nowak.
11.	Ryszard Wierzba	Member of the Supervisory Board	appointed on 30 June 2011 for the joint term of the Supervisory Board, which began this day.

* The Members of the Supervisory Board who performed their functions during the term of the Supervisory Board, which ended on 19 May 2011.

Seasonality or cyclical nature of activities in the reporting period

PKO Bank Polski SA is a universal bank, which provides services on the area of Poland, and thus its activities are exposed to similar fluctuations to those affecting the entire Polish economy. The activities of other companies of the PKO Bank Polski SA Group similarly do not show any particular seasonality or cyclical nature.

Activities in the area of sponsoring, charity and promotion

Sponsoring activities carried out in the first half of 2011 were aimed at creating a positive image of PKO Bank Polski SA, enhancing the brand value and prestige, as well as supporting business activity. In accordance with its sponsorship plan, the Bank focuses on a few selected areas of social life, in particular projects with noble aims which contribute to the development of culture and the knowledge of history and national heritage, or promote patriotism and encourage an active and healthy lifestyle. As one of the banking market leaders in Poland, PKO Bank Polski SA makes every effort to participate actively in the organization of congresses and conferences at which different business circles exchange their experience and creative solutions.

The most interesting sponsorship project executed by PKO Bank Polski SA is the cooperation with the Planetarium at the Copernicus Science Centre. The Planetarium sponsorship agreement is the biggest sponsorship investment of the Bank initiated in 2010 and the biggest education project. Cooperation with the Copernicus Science Centre is aimed at modifying the image of PKO Bank Polski SA by making it more youthful and dynamic. The Bank plans extensive cooperation with the Planetarium, in particular in the context of the education programme addressed to children and adolescents, aimed at revitalization of the School Savings Bank (SKO).

Other major projects executed in the first half of 2011 include sponsorship of: the Piast Race, the prizes awarded in honour of: Kisiel, Lech Wałęsa, Lesław Paga, and the following events: the European Economic Congress in Katowice, the Economic Forum in Toruń, the CEE IPO SUMMIT conference, the Innovative Economy Congress, and the events relating to the Polish EU Presidency. One of the important elements of the Bank's sponsorship activities is supporting actions aimed at saving the national heritage, which include: the digitalization of Polish film art masterpieces, continued cooperation with the National Museum on the renovation of the 'Battle of Grunwald' painting, and financing the purchase of Marek Szyszko's watercolours for the Polish Army Museum.

As part of <u>charity activities</u>, the Bank made 191 donations in the first half of 2011. In the period analyzed the Bank focused in particular on activities for the benefit of children from poor and maladjusted families and disabled children and people. Support activities of the Bank related to i.a.: protecting health, organizing rehabilitation camps, integration workshops, winter and summer holidays. Co-financed the purchase of medical equipment as well as earmarked funds to support families in difficult situations in life, support children's home, as well as grant feeding poor children. As part of promoting education, the Bank supported the organization of competitions and education journeys, as well as the purchase of teaching aid. Additionally, the Bank continued in providing financial support to flood victims.

<u>Promotional activities</u> carried out in the first half of this year were chiefly aimed at promoting new banking products (including new checking account offer) and supporting the sale of existing products, and they were communicated mainly via television, press, Internet, outdoor and windows of bank outlets.

Prizes and awards

In the first half of 2011 PKO Bank Polski SA was awarded the following prizes and awards:

1. PKO Bank Polski wins with banking giants

The PKO Bank Polski SA team became winner of this year's edition of the European educational competition *Visa Debit Challenge* 2011. The idea of the competition was to create the best operating virtual debit card program, which earns the highest profits – the task of the teams participating in eliminations was to prepare a debit card offer and launch it on a virtual market.

2. Public Company of 2010

In the poll organized by the Inwestycje.pl portal readers ranked PKO Bank Polski SA among the 20 best public companies listed on the main market and on *NewConnect*. The following criteria were taken into account: the company's transparency, gains on investments in its shares and development perspectives. The ranking was organized by the Inwestycje.pl portal.

3. *Reader's Digest*, Złote Godło Zaufania (Golden Emblem of Credibility)

For eleven years *Reader's Digest* has been conducting polls among its readers aimed at selecting the best brands with the highest credibility among European consumers. This year the PKO Bank Polski SA brand was once again indicated as the most credible by readers of the monthly magazine:
- PKO Bank Polski SA (for the tenth time) received the Golden Emblem European Trusted Brand,
- PKO Bank Polski SA also received the title of the Most Friendly Brand.

4. Ranking '100 best financial institutions'

PKO Bank Polski SA won the ranking organized by Gazeta Finansowa, and ranked first in the banks and brokerage house ranking. The purpose of the editors is to present and promote the key financial institutions in Poland, which despite the difficult market conditions in the last year maintained stable position and demonstrated dynamic development.

5. Ambasador Polskiej Gospodarki (Ambassador of the Polish Economy)

PKO Bank Polski SA received the title of Ambassador in the category 'European Brand'. The jury of the third edition of the competition selected winners in four categories: Exporter, Partner of Foreign companies, European Brand, Creator of 21st Century Solutions. The competition is organized by *Business Center Club*.

6. Best Macroeconomic Analyst

The team of analysts of PKO Bank Polski SA ranked second in category 'Investments' in the competition 'Best Macroeconomic Analyst'. Those economic analysts/teams are awarded whose forecasts from the prior year proved to be most accurate. The awards are granted by NBP, Rzeczpospolita daily and Parkiet, the daily exchange publication.

7. Mistrz Biznesu 2011 (Business Master 2011)

The committee of the competition 'Mistrz Biznesu' organized by Businessman.pl awarded PKO Bank Polski SA a distinction in the category Finance and Banking.

8. Best Banks 2011 Ranking

Gazeta Bankowa announced the results of the 'Best Banks' ranking for the nineteenth time. PKO Bank Polski SA ranked second both in the category 'Big Banks' and in the category 'Most Effective Bank'. The ranking is a synthesis of the financial results for 2010.

9. Solidny Pracodawca 2010 (Reliable Employer 2010)

In the competition organized by Grupa Media Partner PKO Bank Polski SA was awarded the title of a 'Reliable Employer'. The purpose of the competition Reliable Employer is to promote the best firms in Poland which distinguish themselves from others by model human resources management policies which translates into high quality of the products and services offered.

10. Mieszkaniowa Marka Roku 2010 (Housing Brand of the Year 2010)

In the ranking 'Mieszkaniowa Marka Roku' developed by Nowy Adres SA company, PKO Bank Polski SA unquestionably ranked first with 76.8% of votes in the category 'Bank granting mortgage loans'.

11. Marka Wysokiej Reputacji (High Reputation Brand)

PKO Bank Polski SA was among the 14 brands awarded the 'High Reputation Brand' title. PKO Bank Polski SA obtained a nearly model index of brand awareness.

12. Perły Rynku FMCG 2011 (Pearls of the Market)

PKO Bank Polski won in the competition 'Pearls of the Market FMCG 2011' in the category 'Best Banking Service'. The award was granted for the card in the EMV technology with the paywave proximity feature.

13. Ranking '50 largest banks in Poland 2011'

PKO Bank Polski SA was awarded the main prize in the ranking prepared by the monthly 'Bank'. The ranking '50 largest banks in Poland' reflects the market position of the largest banking sector institutions.

14. Ranking 'Best financial Institutions'

In the ninth edition of the ranking 'Best Financial Institutions' organized by 'Rzeczpospolita', PKO Bank Polski SA ranked second in two categories: commercial banks and brokerage houses.

In the first half of 2011, the PKO Bank Polski SA Group companies received the following awards:

1. The Inteligo account took the first place in the "2010 User-Friendly Online Account" online opinion poll.
2. Inteligo was selected the IT Leader for financial institutions in electronic banking and e-finance by the jury of the technological contests organized by Gazeta Bankowa.
3. PKO Bank Polski SA and *Inteligo Financial Services* SA received the Benefactor of the Year award for supporting the Polish Artificial Heart programme.
4. Centrum Elektronicznych Usług Płatniczych eService SA was awarded the title "Business Gazelle" by Puls Biznesu in the 11th Ranking of the Most Dynamic Small and Medium-Sized Firms.
5. KREDOBANK SA took first place in the "Investor of the Year" category in the contest organized by the Lviv State Administration and the Lviv Chamber of Commerce.

Underwriting agreements and guarantees issued to the subsidiaries

As at 30 June 2011, bonds' issues of Bankowy Fundusz Leasingowy SA – a subsidiary of PKO Bank Polski SA – regulates Underwriting Agreement for Organization, Conducting and Servicing of the 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 30 June 2011, Bankowy Fundusz Leasingowy SA issued bonds for a total amount of PLN 170 million, including bonds with a value of PLN 146 million which were sold on the secondary market, and bonds with a value of PLN 24 million which were included in the portfolio of PKO Bank Polski SA.

Loans and advances taken, guarantee and suretyship agreements not related to operating activity of the Bank

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.

In the first half of 2011, KREDOBANK SA did not take out any loans or advances or receive any guarantees or suretyships that were not related to its operating activity.

Significant contracts and important agreements with the central bank or supervisory authorities

In first half of 2011, PKO Bank Polski SA did not conclude any significant agreements with the central bank or with the regulators.

On 20 April 2011, KREDOBANK SA signed with the National Bank of Ukraine a two-year agreement. Information about the above agreement is included in the section on actions taken by PKO Bank Polski SA to KREDOBANK SA.

Simultaneously, in the first half of 2011 the remaining PKO Bank Polski SA Group companies did not conclude significant agreements.

Subsequent events which took place after the reporting period

1. On 1 July 2011, PKO Bank Polski SA, as the sole shareholder of Centrum Finansowe Puławska Sp. z o.o., passed a Resolution on the Company's winding up and opening its liquidation as of 1 July 2011. The relevant motion was filed with the National Court Register on 4 July this year. The winding up of the company will not result in any changes to the scope of activities of the PKO Bank Polski SA Group.
2. On 1 July 2011, the transformation of PKO BP Inwestycje – Nowy Wilanów Sp. z o.o. into a limited partnership and the change in its name to Qualia Sp. z o.o. – Nowy Wilanów Spółka komandytowa was registered with the National Court Register.
3. On 1 July 2011, the transformation of PKO BP Inwestycje – Neptun Park Sp. z o.o. into a limited partnership and the change in its name to Qualia Sp. z o.o. – Neptun Park Spółka komandytowa was registered with the National Court Register.
4. On 4 July 2011 the Memorandum of Association of Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Spółka komandytowa was drawn up. The Partnership is part of the Qualia Development Group. The Partners are: Qualia Development Sp. z o.o. (limited partner) and Qualia Sp. z o.o. (general partner). The Partnership's operations comprise development activities. The registration process of the Partnership in the National Court Register has not yet been completed.
5. On 5 July 2011, the Bank signed with its subsidiary PKO Finance AB in Sweden ('the Issuer') a loan agreement, on the basis of which the Bank will borrow from the Issuer the funds raised as a result of the bond issue executed by the Issuer ('the Loan Agreement') as part of the Eurobond issue programme of which the Bank informed in its report No. 35/2008. The Bank is the Issuer's sole shareholder. The Issuer is the Bank's related entity within the meaning of the Accounting Act. The intention of the Loan Agreement is for the Issuer to grant the Bank a loan of CHF 250 million for the general purposes of financing the Bank. The interest on the loan is fixed and amounts to 3.538% p.a. Interest is payable annually. The Loan Agreement was signed for a period of 5 years. The loan is not secured. The Loan Agreement does not provide for any contractual penalties. The total amount of the Bank's exposure under agreements concluded by the Bank with the Issuer in the last 12 months as at the date of the Loan Agreement (including the amount of the Loan) was PLN 3 966.2 million.
6. On 21 July 2011 a new limited liability partnership was registered with the National Court Register Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Spółka komandytowa, comprising part of the Qualia Development Group. The Partners are: Qualia Development Sp. z o.o. (limited partner) and Qualia Sp. z o.o. (general partner). The Partnership's operations comprise development activities.
7. On 28 July 2011 the Extraordinary General Shareholders' Meeting of Fort Mokotów Sp. z o.o. passed a resolution to dissolve the Partnership and open its liquidation proceedings as of 28 July 2011. The Partnership will be liquidated in connection with the completion of the development project.
8. On 8 August 2011, PKO Bank Polski SA has signed a conditional sale agrement with Inteligo Financial Services SA and PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA for the sale of shares of PKO BP Finat Sp. z o.o. After the conditions described in those agreements are met, the Bank will become the sole shareholder of PKO BP Finat Sp. z o.o.

Benefits provided to members of the Management and Supervisory Board

Full information regarding the remuneration and other benefits on behalf of the members of the Management Board of PKO Bank Polski SA and the Supervisory Board of PKO Bank Polski SA in the reporting period was disclosed in Additional information of the PKO Bank Polski SA Group consolidated financial statements for the six-month period ended 30 June 2011.

Number of employees in PKO Bank Polski SA and in the PKO Bank Polski SA Group as at 30 June 2011 and 30 June 2010

	As at 30.06.2011	As at 30.06.2010	Change in employment
PKO Bank Polski SA	26 490	27 540	(1 050)
Other Group entities	3 044	3 162	(118)
Total	29 534	30 702	(1 168)

Results of changes in the Entity's structure, including the effects of merger, takeover or disposal of the Group entities, long-term investments, division, restructuring and discontinuation of activities

The results of changes in the Entity's structure, including the results of merger, takeover or sale of the Group entities have been described in point 5.2 of this Report.

Factors which may affect future financial performance within at least the next quarter

Results of the Bank and the PKO Bank Polski SA Group within next quarters will be affected by economic processes which will take place in the Polish and global economies, as well as by a response of the financial markets. The interest rate policy applied by the Monetary Policy Council and by other largest central banks will also have a great influence on the Bank's performance.

Information of the issuer or its subsidiary granting a surety of repayment of a loan or borrowing, or a guarantee – jointly to one entity or its subsidiary if the total value of existing sureties or guarantees equals at least 10% of the issuer's equity

1. In the first half of 2011 PKO Bank Polski SA subsidiaries did not grant a surety of repayment of loan or borrowing, or a guarantee to one entity or the subsidiary of such entity, whose total value would equal 10% of the Bank's equity.
2. On 30 June 2011, the Bank signed financing agreements (hereinafter jointly called 'the Agreements') with one of the Bank's Clients ('The Client'). The Agreements include the following agreements signed by the Bank:
   1) The agreements for opening letters of credit, concerning the opening for the Client of letters of credit totaling PLN 2 258 million for financing the Client's activities. These agreements were concluded for a period from 30 June 2011, and the longest validity period of the letters of credit opened in accordance with the Agreement for opening letters of credit cannot be longer than until 30 June 2021. The Agreements for opening letters of credit were secured by paying a certain amount of money (deposit) to the Bank's account. The amount of such a deposit shall be equal to the maximum combined amount of the letters of credit opened by the Bank for the Client under the Agreement for opening letters of credit, which are valid at the same time.
   2) A syndicated loan agreement concerning a syndicated loan granted to the Client by a consortium of five banks including PKO Bank Polski SA, which includes i.a. a tranche of an amortized investment loan of PLN 3 400 million, a tranche of a non-amortized investment loan of EUR 448 million and PLN 600 million, and a tranche of revolving working capital loan of PLN 600 million. The share of PKO Bank Polski SA in these tranches amounts to PLN 600 million, PLN 510 million and PLN 90 million respectively. The participation of PKO Bank Polski SA in the syndicated loan is limited to the above-mentioned tranches. The term of the syndicated loan provided by PKO Bank Polski SA is up to 6.5 years. The tranches bear interest based on the WIBOR/EURIBOR rate plus the Bank's margin. In accordance with the Syndicated Loan Agreement, the margin depends on the selected financial ratio of the Client. The receivable resulting from the loan granted under the Syndicated Loan Agreement was secured with registered pledges and transfers of receivables (among other things).

Agreements for Opening Letters of Credit have the highest value among the agreements signed by the Bank with the Client in the period of 12 months preceding the signing of the Agreements. The total amount of the Bank's exposure resulting from loan agreements concluded by the Bank with the Client and its subsidiaries within the last 12 months is PLN 3 458 million. In net terms (after deducting the deposit paid to the Bank's account) it is PLN 1 200 million.

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

As at 30 June 2011, the total value of court proceedings, which the Bank is a defendant was PLN 355 873 thousand (in round figures), while the total value of court proceedings in which the Bank is the plaintiff was PLN 92 370 thousand (in round figures).

No court proceedings with the participation of the Bank are in progress, the value of which amounts to at least 10% of the Bank's shareholders' equity.

Other Group entities did not have any proceedings pending before courts, arbitration institutions or public administration authorities in respect of receivables or liabilities whose amount would be equal to at least 10% of the equity of PKO Bank Polski SA.

Position of PKO Bank Polski SA Management Board in regards to possibility of achieving previously published forecasts

PKO Bank Polski SA did not publish any financial forecasts for 2011.

Information on dividend paid (or declared)

On 5 May 2011 the Bank's Management Board adopted a resolution and decided to submit a recommendation to the Ordinary General Meeting of distribution of dividend for the year 2010 in the amount of PLN 1 375 million (i.e. 41.5% of the PKO Bank Polski SA net profit for 2010) i.e. 1.10 per share. This recommendation was considered by the Bank's Supervisory Board, which issued a positive opinion, and subsequently it was presented to the Ordinary General Shareholders' Meeting.

On 30 June 2011, the Ordinary General Shareholders' Meeting of PKO Bank Polski SA, having appropriated the profit of PKO Bank Polski SA for 2010, earmarked the amount of PLN 2 475 million (i.e. 75.4% of profit), which is PLN 1.98 per share, for the payment of dividends to the shareholders. The General Meeting decided:

– dividends day /day of acquisition of the dividends right on 31 August 2011,
– dividends payment date on 15 September 2011.

Dividends are subject to all shares of PKO Bank Polski SA i.e., 1 250 000 000 units.

Other disclosures significant for evaluation of the issuer's human resources, financial situation, financial performance, and any changes therein

1. On 28 March 2011, the Supervisory Board of PKO Bank Polski S.A selected PricewaterhouseCoopers Sp. z o.o. as the entity authorized to audit and review the Bank's financial statements and the consolidated financial statements of the Bank's Group. PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw, Al. Armii Ludowej 14, has been entered to the list of registered auditors maintained by the National Council of Registered Auditors with No. 144. The Bank's Supervisory Board appointed the auditor in accordance with the applicable provisions and professional standards, on the basis of par. 15.1.3 of the Bank's Memorandum of Association. A contract was concluded for the audit and review of the financial statements of the Bank and the PKO Bank Polski SA Group for the years 2011-2013. In the past, the Bank used the services of PricewaterhouseCoopers Sp. z o.o. for the purpose of auditing and reviewing the financial statements of PKO Bank Polski SA and the Group for the years 2008-2010, and for related services.

2. On 21 June 2011, the Bank's Management Board passed a resolution on granting consent for the opening of a programme for issuing the Bank's bonds on the domestic market ('the Issue Programme'). The Issue Programme amount is PLN 5 000 000 000 or its equivalent in other currencies. The funds obtained as a result of the issue of bonds under the Issue Programme will be used for the general purposes of financing the Bank's operations. The term of the Issue Programme is unlimited.

Declaration of the Management Board of PKO Bank Polski SA

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

1. the consolidated interim financial statements 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 the PKO Bank Polski SA Group,
2. the interim Directors' Report presents a true view of the development and achievements as well as condition of the 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 review of the condensed consolidated interim financial statements, has been elected as the auditor in compliance with applicable laws. The entity as well as the certified auditor performing the review fulfilled all criteria for providing unbiased and independent review report in compliance with applicable laws and professional norms.

The Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group Directors' Report for the first half of 2011 consists of 53 sequently numbered pages.

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President of the Management Board
Zbigniew Jagiełło

_ _
Vice-President of the Management Board
Piotr Alicki

_ _
Vice-President of the Management Board
Bartosz Drabikowski

_ _
Vice-President of the Management Board
Andrzej Kołatkowski

_ _
Vice-President of the Management Board
Jarosław Myjak

_ _
Vice-President of the Management Board
Jacek Obłękowski

_ _
Vice-President of the Management Board
Jakub Papierski