

Powszechna Kasa Oszczędności Bank Polski SA Group

**Independent Registered Auditor's Report
on the consolidated financial statements
as at and for year ended 31 December 2008**

**Independent Registered Auditor's Report
on the consolidated financial statements
as at and for year ended 31 December 2008
to the General Shareholders' Meeting and the Supervisory Board
of Powszechna Kasa Oszczędności Bank Polski SA**

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Powszechna Kasa Oszczędności Bank Polski SA Group Independent Registered Auditor's report on the consolidated financial statements as at and for the year ended 31 December 2008

I. General information about the Group

1. General information

As at 31 December 2008, the Powszechna Kasa Oszczędności Bank Polski SA Group comprised the following entities:

Entity's name	Type of capital dependency	Consolidation method	Audit entity	Type of opinion	Balance date
Powszechna Kasa Oszczędności Bank Polski SA	Parent Company	n/a	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2008
Powszechne Towarzystwo Emerytalne BANKOWY SA	Subsidiary entity (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2008
Centrum Finansowe Puławska Sp. z o.o.	Subsidiary entity (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2008
PKO Inwestycje Sp. z o.o.	Subsidiary entity (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2008
Inteligo Financial Services SA	Subsidiary entity (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2008
Centrum Elektronicznych Usług Płatniczych „eService” SA	Subsidiary entity (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2008
Bankowy Fundusz Leasingowy SA	Subsidiary entity (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2008
Bankowe Towarzystwo Kapitałowe SA	Subsidiary entity (100%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2008
PKO Towarzystwo Funduszy Inwestycyjnych SA	Subsidiary entity (75%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2008
Kredobank SA	Subsidiary entity (98.56%)	Full	Pricewaterhouse-Coopers Sp. z o.o.	Unqualified opinion	31 December 2008
PKO Finance AB	Subsidiary entity (100%)	Full	Öhrlings Pricewaterhouse-Coopers AB	During the audit	31 December 2008

and subsidiaries of Bankowy Fundusz Leasingowy SA, PKO Inwestycje SA and Inteligo Financial Services SA.

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I. General information about the Group

1. General information (cont.)

Key financial data of the companies consolidated as at and for the year ended 31 December 2008 are as follows:

Entity's name	Total assets PLN thousand	Total income PLN thousand	Equity PLN thousand	Net profit PLN thousand
Powszechna Kasa Oszczędności Bank Polski SA	131,244,827	12,485,703	13,529,372	2,881,260
Grupa Kapitałowa Bankowy Fundusz Leasingowy S.A.	2,522,316	193,989	86,842	10,081
Kredobank S.A.	2,146,125	367,490	43,398	(198,209)
PKO Inwestycje Sp. z o.o.	674,794	121,596	174,805	(4,531)
Centrum Finansowe Puławska	294,965	49,350	205,756	7,376
Powszechne Towarzystwo Emerytalne BANKOWY S.A.	224,175	67,529	200,906	23,519
Grupa Kapitałowa Inteligo Financial Services S.A.	157,582	82,740	125,099	24,847
PKO Towarzystwo Funduszy Inwestycyjnych S.A.	149,438	382,852	128,415	104,815
Centrum Elektronicznych Usług Płatniczych "eService SA	88,651	102,467	68,180	27,767
Bankowe Towarzystwo Kapitałowe SA	14,386	3,482	14,256	1,704
PKO Finance AB	137		282	95
Total	137,517,396	13,857,198	14,577,311	2,878,724
Consolidation adjustments	(2,805,050)	(394,519)	(502,935)	336,823
Goodwill impairment allowances	(76,360)	-	(76,360)	(76,360)
Total	134,635,986	13,462,679	13,998,016	3,139,187

In the audited year, the Group's operations comprised, *inter alia*:

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

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I. General information about the Group (cont.)

2. Powszechna Kasa Oszczędności Bank Polski SA – Parent Company

- (a) The Bank was established in 1919 as Pocztaowa Kasa Oszczędnościowa (Postal Savings Bank).

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

The Bank was assigned a tax identification number (NIP) 525-000-77-38 for the purpose of making tax settlements. The Bank was assigned a REGON number 016298263 for statistical purposes.

- (b) As at 31 December 2008, the Bank's registered share capital amounted to PLN 1,000,000 thousand and comprised of 1,000,000,000 shares with PLN 1 par value each, including:

- 510,000,000 series A registered shares;
- 105,000,000 series B registered shares;
- 385,000,000 series C bearer shares;

- (c) In the financial year, the Management Board of the Bank comprised:

Jerzy Pruski	President of the Management Board	from 20 May 2008
Bartosz Drabikowski	Vicepresident of the Management Board	from 20 May 2008
Krzysztof Dresler	Vicepresident of the Management Board	from 1 July 2008
Tomasz Mironczuk	Vicepresident of the Management Board	from 20 May 2008
Jarosław Myjak	Vicepresident of the Management Board	from 15 December 2008
Wojciech Papierak	Vicepresident of the Management Board	from 1 July 2008
Mariusz Zarzycki	Vicepresident of the Management Board	from 1 September 2008
Mariusz Klimczak	Vicepresident of the Management Board	to 30 September 2008
Rafał Juszcak	President of the Management Board	to 20 May 2008
Berenika Duda-Uhryn	Vicepresident of the Management Board	to 20 May 2008
Robert Działak	Vicepresident of the Management Board	to 20 May 2008
Wojciech Kwiatkowski	Vicepresident of the Management Board	to 20 May 2008
Aldona Michalak	Vicepresident of the Management Board	to 20 May 2008
Adam Skowroński	Vicepresident of the Management Board	to 20 May 2008
Stefan Świątkowski	Vicepresident of the Management Board	to 20 May 2008

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2. Powszechna Kasa Oszczędności Bank Polski SA – Parent Company (cont.)

(d) The Bank owned also the following jointly controlled entities and associates:

Centrum Haffnera Sp. z o.o.	-	jointly controlled entity
Centrum Obsługi Biznesu Sp. z o.o	-	jointly controlled entity
Bank Pocztowy SA	-	associate
Kolej Gondolowa Jaworzyna Krynicka SA	-	associate
Ekogips SA (in liquidation)	-	associate
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	associate
Agencja Inwestycyjna CORP S.A.	-	associate

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

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II. Information about the audit

- (a) PricewaterhouseCoopers Sp. z o.o. was appointed an independent registered auditor of the Group under Resolution No. 3 of the Supervisory Board dated 17 April 2008, on the basis of section 15, subsection 1, item 3 of the Bank's Memorandum of Association.
- (b) PricewaterhouseCoopers Sp. z o.o. and the registered auditor conducting the audit are independent of the audited entity as defined by Article 66, clause 2 of the Accounting Act.
- (c) The audit was conducted in accordance with an agreement dated 12 May 2008, in the following periods:
- Interim audit from 13 October to 12 December 2008;
 - Final audit from 12 January to 8 April 2009.

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III. The Group's results and financial position

The consolidated financial statements do not take account of inflation. The consumer price index (on a December to December basis) amounted to 3.3% in the audited year (4.0% in 2007).

Powszechna Kasa Oszczędności Bank Polski SA is the parent company of a Group which, in the audited year, comprised of 10 direct subsidiaries and 10 indirect subsidiaries. The financial data relating to 5 direct associates and to jointly controlled entities were included in consolidated financial statements using the equity accounting method. In the year preceding the audited year, the Group consisted of 9 direct subsidiaries and 8 indirect subsidiaries; the data of 5 direct associates and 1 indirect associate and the data relating to jointly controlled entities were included in the consolidated financial statements using the equity accounting method.

The following comments are based on information obtained during the audit of the consolidated financial statements:

- As at the balance date, total assets amounted to PLN 134,635,986 thousand and increased by PLN 26,098,386 thousand (24%) compared with 31 December 2007. The increase was financed mainly by the increase in amounts due to customers of PLN 16,359,771 thousand (19%), an increase in liabilities arising on the valuation of derivative instruments of PLN 4,870,412 thousand (381%), an increase in amounts due from banks of PLN 2,285,489 thousand (49%) and the increase in equity of PLN 2,019,001 thousand (17%).
- The balance of amounts due to customers as at the balance date amounted to PLN 102,939,281 thousand and accounted for 77% of total assets (a decrease of 3 p.p. compared with 31 December 2007). The change in the balance of amounts due to customers was mainly related to the Bank (99%) and was due to a significant increase in amounts due to retail customers of PLN 10,074,055 thousand (15%) compared with 31 December 2007 (see Note 15).
- Liabilities arising on the valuation of derivatives amounted to PLN 6,150,337 thousand as at the end of 2008. The increase in the balance of PLN 4,870,412 thousand (381%) as at the balance date was primarily due to an increase in liabilities arising on the valuation of interest rate swaps of PLN 3,910,503 thousand (Note 14). This was mainly due to an increased volume of transactions concluded and the developments in the forex market in the second half of 2008.
- Amounts due to other banks amounted to PLN 6,988,603 as at the balance date and comprised mainly of loans obtained by Group companies of PLN 3,943,895 thousand, including PLN 2,656,004 thousand representing loans in Swiss francs received by the parent company. An increase in deposits from other banks of PLN 1,399,033 thousand (97%) compared to the end of the prior year also contributed to the increase in the total balance of amounts due to other banks. The increase in loans received was mainly due to the weakening of the Polish currency against the Swiss Franc (which is the currency of the loans received by the parent company) in the last two quarters of the audited year.

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

- As at 31 December 2008, consolidated equity amounted to PLN 13,998,016 thousand (PLN 11,979,015 thousand as at 31 December 2007). The increase in equity of PLN 2,019,001 thousand (17%) was the combined effect of the net profit generated by the Group in 2008 of PLN 3,139,187 thousand and the payment of dividend for 2007 of PLN 1,120,750 thousand (Note 20).
- The value of regulatory capital amounted to PLN 12,885,283 thousand as at 31 December 2008 (PLN 9,983,400 thousand as at 31 December 2007) and exceeded the total capital requirement by PLN 3,750,712 thousand at the end of 2008. The solvency ratio calculated as at the balance date based on the banking and trading portfolios amounted to 11.29% and decreased by 0.73 p.p. compared with the end of the prior year.
- The higher level of financing was reflected mainly in an increase, as at the balance date, in the balance of loans and advances to customers of PLN 24,690,742 thousand (32%), in investment securities available for sale of PLN 2,898,675 thousand (51%) and in an increase in assets arising on the valuation of derivatives of PLN 2,040,934 (131%). At the same time, financial instruments designated at fair value through profit or loss decreased by PLN 3,758,900 thousand (45%) as at the balance date.
- As at the balance date, loans and advances to customers amounted to PLN 101,107,891 thousand and accounted for 75% of total assets (an increase of 5 p.p. compared with the end of 2007). The gross value of the loan portfolio increased by PLN 25,193,015 thousand (32%) as at the balance date compared with 31 December 2007. The major portion of the increase of PLN 23,844,261 thousand (108%) related to mortgage loans.
- The quality of the portfolio of loans and advances and lease receivables within the Group as at the balance date, measured with reference to the share of impaired loans in total gross loans deteriorated compared with the end of 2007. As at 31 December 2008, the share of impaired loans in total loans was 3.6% (3.5% as at 31 December 2007). Combined with an increase in the gross value of the loan portfolio, this resulted in a lower coverage of gross receivables with impairment allowances, which decreased from 3.1% as at the end of 2007 to 2.8% as at 31 December 2008.
- The increase in the balance of available-for-sale investment securities of PLN 2,898,675 thousand (51%) to PLN 8,614,913 thousand as at the balance date resulted mainly from an increase in the Group's exposure to bonds issued by the State Treasury of PLN 2,315,193 thousand (193%) compared with 31 December 2007.

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

- Receivables arising on the valuation of derivative instruments as at the balance date amounted to PLN 3,597,670 thousand and increased by PLN 2,040,934 thousand (131%) compared with the prior year. The increase was mainly due to a higher valuation of interest rate swaps (IRS). The increase in receivables arising on the valuation of interest rate swaps of 93% compared with the end of 2007 was due to the higher level of sales of the instruments used for hedging against interest rate and currency risks, mainly to the segment of corporate customers and from the depreciation of the Polish zloty in the fourth quarter of 2008.
- The balance of financial assets designated at fair value through profit or loss at the balance date amounted to PLN 4,555,544 thousand. The decrease of PLN 3,758,900 thousand (45%) as at the balance date was mainly due to a decrease in the Group's exposure to Treasury securities of 2,979,412 thousand (41%) compared with 31 December 2007.
- The Bank's 1-month and 3-month liquidity ratios calculated on the basis of data about assets receivable and liabilities payable adjusted to real terms amounted to 1.49 and 1.29 respectively (in 2007 2.83 for both terms). The decrease in the ratios values in 2008 resulted from a significant increase in liabilities classified as with maturity up to one month, mainly amounts due to customers and due to valuation of derivative instruments.
- The operating profit for 2008 amounted to PLN 3,961,749 thousand and was PLN 356,891 thousand (10%) higher than in 2007. The operating profit had the following major components: net interest income of PLN 6,127,315 thousand, net fee and commission income of PLN 2,411,809 thousand and net foreign exchange gains of PLN 739,757 thousand. Items decreasing the operating profit included administrative expenses of PLN 4,296,275 thousand and the net impairment allowance charge of PLN 1,130,396 thousand in 2008.
- Regardless the fact that the interest margin calculated as the ratio of net interest income to interest income in 2008 decreased by 2 p.p. compared with 2007 in the audited year, net interest income was 1,480,748 thousand (32%) higher than in the prior year. This was mainly due to an increase in interest income resulting from intensified lending activity in 2008 - interest income on loans and advances to customers increased by PLN 2,519,517 thousand (49%). In addition, the rate of interest income on interest-bearing assets increased by 1.3 p.p. and amounted to 8.1% in 2008. The cost of borrowing decreased (from 2.1% in 2007 to 2.8% in 2008).
- In 2008, fee and commission income amounted to PLN 3,144,760 thousand and increased by PLN 61,344 thousand (2%) compared with 2007. Fee and commission income was mainly earned on payment cards (PLN 851,370 thousand), servicing bank accounts (PLN 805,449 thousand) and servicing investment and pension funds (PLN 448,071 thousand). Fee and commission expense in total amount of PLN 732,951 thousand in 2008 included mainly costs relating to payment cards (PLN 309,766 thousand).

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

- Net foreign exchange gains increased by PLN 209,278 thousand (40%) and amounted to PLN 739,757 thousand in 2008 (Note 24). The foreign exchange differences from translation of assets and liabilities in foreign currencies increase 8 times in the audited year and they amounted to PLN 2,946,341 thousand. The increase was offset by losses on derivatives valuation in the amount of PLN 2,206,584 thousand which related mainly to currency interest rate swaps (CIRS) used primarily for interest rate and currency risk management.
- The larger scale of the Bank's activities in 2008 resulted in an increase in administrative expenses of PLN 255,431 thousand (6%) to the level of PLN 4,296,275 thousand. The overall effectiveness calculated as the ratio of costs to income (C/I) improved in 2008. The C/I ratio in 2008 was 45.8% and was 6.7 p.p. lower than in 2007.
- The net impairment allowance charge increased by PLN 1,073,753 thousand (more than 19 times). In 2008, it amounted to PLN 1,130,396 thousand. The change in the balance of the net impairment allowance charge in 2008 was due to an increase in the impairment allowance for corporate loans of PLN 563,133 thousand (827%) and consumer loans of PLN 189,600 (81%).
- Gross profit for 2008 amounted to PLN 3,977,343 thousand and was PLN 368,113 thousand (10%) higher than in 2007. Gross profitability (measured as the ratio of profit before tax to total income) amounted to 29.5% in the audited year and decreased by 4.2 p.p. compared with the prior year.
- The income tax expense for 2008 amounted to PLN 838,156 thousand (PLN 667,838 thousand in 2007). The effective tax rate for 2008 was 21.1% and was 2.6 p.p. higher than in 2007. As a result, in 2008 the Group recorded a net profit of PLN 3,139,187 thousand, which was PLN 197,795 thousand (7%) higher than in 2007. Net profitability amounted to 23.3% in 2008 (27.5% in 2007).
- The return on assets (calculated as the ratio of the net profit to average total assets) was 2.6% in 2008 and decreased by 0.2 p.p. compared with 2007. The return on equity in 2008 was also 2.3 p.p. lower, and amounted to 24.2% in the audited year.

The consolidated financial statements have been prepared in accordance with the going concern principle.

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IV. Discussion of consolidated financial statements components

CONSOLIDATED BALANCE SHEET as at 31 December 2008

ASSETS	Note	31.12.2008 PLN thousand	31.12.2007 PLN thousand	Change PLN thousand	Change (%)	31.12.2008 Structure (%)	31.12.2007 Structure (%)
Cash and balances with the central bank	1	5,836,892	4,682,627	1,154,265	25	4	4
Amounts due from banks	2	3,363,599	5,261,236	(1,897,637)	(36)	3	5
Trading assets	3	1,496,147	1,202,919	293,228	24	1	1
Derivative financial instruments	4	3,597,670	1,556,736	2,040,934	131	3	2
Financial assets designated at fair value through profit or loss	5	4,555,544	8,314,444	(3,758,900)	(45)	3	8
Loans and advances to customers	6	101,107,891	76,417,149	24,690,742	32	75	70
Investment securities available for sale	7	8,614,913	5,716,238	2,898,675	51	6	5
Investments in jointly controlled entities and associates	8	247,145	178,584	68,561	38	-	-
Inventories	9	622,410	365,304	257,106	70	1	-
Intangible assets	10	1,352,778	1,183,491	169,287	14	1	1
Tangible fixed assets	11	2,964,659	2,820,103	144,556	5	2	3
<i>including investment properties</i>		24,170	32,767	(8,597)	(26)	-	-
Current income tax receivables		6,649	187,939	(181,290)	(96)	-	-
Deferred income tax asset		239,237	72,154	167,083	232	-	-
Other assets	12	630,452	578,676	51,776	9	1	1
TOTAL ASSETS		134,635,986	108,537,600	26,098,386	24	100	100

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

CONSOLIDATED BALANCE SHEET as at 31 December 2008 (cont.)

EQUITY AND LIABILITIES	Note	31.12.2008 PLN thousand	31.12.2007 PLN thousand	Change PLN thousand	Change (%)	31.12.2008 Structure (%)	31.12.2007 Structure (%)
Amounts due to the central bank		2,816	1,279	1,537	120	-	-
Amounts due to other banks	13	6,988,603	4,703,114	2,285,489	49	5	4
Derivative financial instruments	14	6,150,337	1,279,925	4,870,412	381	5	1
Amounts due to customers	15	102,939,281	86,579,510	16,359,771	19	77	80
Debt securities in issue	16	211,573	178,860	32,713	18	-	-
Subordinated liabilities	17	1,618,755	1,614,885	3,870	-	1	2
Other liabilities	18	1,667,776	1,732,333	(64,557)	(4)	1	2
Current income tax liabilities	29	472,228	9,932	462,296	4,655	-	-
Deferred income tax liability	29	20,585	4,446	16,139	363	-	-
Provisions	19	566,016	454,301	111,715	25	-	-
TOTAL LIABILITIES		120,637,970	96,558,585	24,079,385	25	89	89
Share capital		1,000,000	1,000,000	-	-	1	1
Other capital		9,835,307	8,137,270	1,698,037	21	7	7
Currency translation differences from foreign operations		(57,413)	(47,761)	(9,652)	20	-	-
Retained earnings		53,232	(72,192)	125,424	(174)	-	-
Net profit for the year		3,120,674	2,903,632	217,042	7	3	3
Capital and reserves attributable to shareholders of the parent company		13,951,800	11,920,949	2,030,851	17	11	11
Minority interest		46,216	58,066	(11,850)	(20)	-	-
TOTAL EQUITY	20	13,998,016	11,979,015	2,019,001	17	11	11
TOTAL LIABILITIES AND EQUITY		134,635,986	108,537,600	26,098,386	24	100	100

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

CONSOLIDATED INCOME STATEMENT for the year ended 31 December 2008

	Note	2008 PLN thousand	2007 PLN thousand	Change PLN thousand	Change (%)	2008 Structure (%)	2007 Structure (%)
Interest and similar income		9,033,781	6,559,333	2,474,448	38	67	61
Interest expense and similar charges		(2,906,466)	(1,912,766)	(993,700)	52	31	27
Net interest income	22	6,127,315	4,646,567	1,480,748	32		
Fee and commission income		3,144,760	3,083,416	61,344	2	23	29
Fee and commission expense		(732,951)	(751,569)	18,618	(2)	8	10
Net fee and commission income	23	2,411,809	2,331,847	79,962	3		
Dividend income		21,956	3,293	18,663	567	-	-
Net income from financial instruments at fair value through profit or loss		(201,129)	(73,314)	(127,815)	174	2	1
Gains less losses from investment securities		(2,986)	6,543	(9,529)	(146)	-	-
Net foreign exchange gains	24	739,757	529,779	209,978	40	6	5
Other operating income	25	522,425	514,566	7,859	2	4	5
Other operating expenses	26	(230,727)	(256,936)	26,209	(10)	2	4
Net other operating income and expense		291,698	257,630	34,068	13		
Net impairment allowance charge	27	(1,130,396)	(56,643)	(1,073,753)	1,896	12	1
Administrative expenses	28	(4,296,275)	(4,040,844)	(255,431)	6	45	57
Operating profit / Profit before income tax		3,961,749	3,604,858	356,891	10		
Share of profit (loss) of associates and jointly controlled entities		15,594	4,372	11,222	257	-	-
Profit before income tax		3,977,343	3,609,230	368,113	10		

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IV. Discussion of consolidated financial statements components

CONSOLIDATED INCOME STATEMENT for the year ended 31 December 2008 (cont.)

	Note	2008 PLN thousand	2007 PLN thousand	Change PLN thousand	Change (%)	2008 Structure (%)	2007 Structure (%)
Profit before income tax		3,977,343	3,609,230	368,113	10		
Income tax expense	29	(838,156)	(667,838)	(170,318)	26		
Net profit (including minority interest)		3,139,187	2,941,392	197,795	7		
Net profit attributable to minority shareholders		(18,513)	(37,760)	(19,247)	(51)		
Net profit attributable to the parent company		3,120,674	2,903,632	217,042	7		
Total income		13,478,273	10,701,302	2,776,971	26	100	100
Total expenses		(9,500,930)	(7,092,072)	(2,408,858)	34	100	100
Profit before income tax		3,977,343	3,609,230	368,113	10		

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

Selected ratios summarizing the Group's financial position and results

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

	2008	2007
Profitability ratios:		
Gross profitability (profit before tax / total income)	29.5%	33.7%
Net profitability (net profit / total income)	23.3%	27.5%
Return on equity (net profit / average net assets) (2)	24.2%	26.5%
Return on assets (net profit / average total assets) (2)	2.6%	2.8%
Profitability ratio on interest-bearing assets (interest income / average interest-bearing assets) (2)	8.1%	6.8%
Cost / Income ratio (Administrative expenses / the result on banking operations) (3)	45.8%	52.5%
Cost of borrowings (interest expenses / average deposits) (2)	2.8%	2.1%
Quality of assets ratios:		
Interest-bearing assets to total assets (4)	91.0%	92.0%
Gross impaired loans to total gross loans	3.6%	3.5%
Impairment allowances on impaired loans and advances to customers to impaired loans and advances to customers	2.8	3.1
Liquidity ratio:		
Liquidity I (assets due within 1 month/liabilities due within 1 month) (5)	1.49	2.83
Liquidity II (assets due within 3 months/liabilities due within 3 months) (5)	1.29	2.83
Other ratios:		
Solvency ratio	11.29%	12.02%
Regulatory capital (PLN thousand)	12,885,283	9,983,400
Total capital requirement (PLN thousand)	9,134,571	6,645,674

(1) Individual ratio percentage may differ from those presented in the consolidated financial statements due to applying a different method for their calculation.

(2) Average balances of the balance sheet items were calculated on the basis of individual balances as at the beginning and end of the current and previous years

(3) The result on banking operations defined as the operating result less the Group's administrative expenses and net of impairment charge for loans and advances

(4) Interest-bearing assets defined as balances with the central bank (excluding cash), loans and advances to banks and customers, investment and trading securities.

(5) Liquidity ratios are calculated based on the parent company and relate to assets receivable to liabilities payable ratio adjusting by real maturity as at the balance date.

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

Consolidated balance sheet as at 31 December 2008

1. Cash and balances with the central bank

As at 31 December 2008, cash and balances with the central bank amounted to PLN 5,836,892 thousand (PLN 4,682,627 thousand at the end of 2007), of which 99% (PLN 5,758,248 thousand) related to the Bank. Of this amount, over a half (PLN 3,419,832 thousand) were balances maintained with the National Bank of Poland (PLN 2,972,067 thousand as at 31 December 2007).

At the balance date, the Bank calculated and maintained the mandatory reserve in accordance with Resolution No. 15/2004 of the Management Board of the National Bank of Poland dated 13 April 2004 on the principles and method of calculating and maintaining mandatory reserves by banks. The declared mandatory reserve to be maintained in December 2008 amounted to PLN 3,519,554 thousand (in December 2007: PLN 2,885,695 thousand).

2. Amounts due from banks

As at the balance date, amounts due from banks amounted to PLN 3,363,599 thousand, of which PLN 3,222,451 related to the Bank (96%). The balances of and movements in amounts due from banks as at respective balance dates are as follows:

	31.12.2008	31.12.2007	Change	Change
	PLN	PLN	PLN	(%)
	thousand	thousand	thousand	(%)
Deposits with other banks	2,106,309	4,676,670	(2,570,361)	(55)
Reverse repo transactions	603,200	14,397	588,803	4,090
Current accounts	383,847	183,784	200,063	109
Loans and advances	262,408	372,282	(109,874)	(30)
Receivables due from unsettled transactions	28,067	-	28,067	-
Cash in transit	7,879	14,379	(6,500)	(45)
Total	3,391,710	5,261,512	(1,869,802)	(36)
Impairment allowances	(28,111)	(276)	(27,835)	10.085
Net total	3,363,599	5,261,236	(1,897,637)	(36)

As at 31 December 2008, PLN 2,106,309 thousand (62%) of the gross balance related to deposits in other banks (PLN 4,676,670 thousand, 89% of the balance as at 31 December 2007). Within the balance of deposits with other banks, 83% comprised deposits with banks having a rating above A- (98% as at 31 December 2007).

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IV. Discussion of consolidated financial statements components

2. Amounts due from banks (cont.)

Receivables due from unsettled transactions of PLN 28,067 related almost entirely to transactions with derivative instruments declared as default with a foreign bank. An impairment allowance covering 100% of these transactions was recognized.

Amounts denominated in foreign currencies represented 68% of the balance (53% as at 31 December 2007).

3. Trading assets

Trading assets as at 31 December 2008 amounted to PLN 1,496,147 thousand and related solely to the Bank. Compared with the end of 2007, the balance increased by PLN 293,228 thousand (24%). The balance comprised the following assets:

	31.12.2008	31.12.2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Treasury bills	772,803	60,172	712,631	1,184
Treasury bonds denominated in PLN	699,119	1,125,562	(426,443)	(38)
Treasury bonds denominated in EUR	19,476	7,395	12,081	163
Other	4,749	9,790	(5,041)	(51)
Total	<u>1,496,147</u>	<u>1,202,919</u>	<u>293,228</u>	<u>24</u>

The increase in the value of financial assets held for trading of PLN 293,228 thousand as at the balance date was mainly due to the Bank's increasing exposure to Treasury bills combined with a decreasing exposure to bonds. A particularly significant increase in the value of Treasury bills in the portfolio of financial assets held for trading occurred in December 2008 and amounted to PLN 490,349 compared with November. Changes in the structure of the securities portfolio reflected the Bank's intention to invest in securities which are safe, ensure a stable rate of return and are not very sensitive to fluctuations in market prices.

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

4. Derivative financial instruments

The balance of receivables arising on the valuation of derivative instruments increased more than twofold compared with 31 December 2007 and it amounted to PLN 3,597,670 as at 31 December 2008. The Bank's share in the balance was 100%, and it comprised assets arising on the valuation of the following transactions:

	31.12.2008	31.12.2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Interest Rate Swaps	2,784,337	1,439,870	1,344,467	93
- including CIRS	56,289	410,927	(354,638)	(86)
Currency and equity options	575,003	15,528	559,475	3,603
FX forward	226,706	101,302	125,404	124
Other	11,624	36	11,588	32,189
Total	3,597,670	1,556,736	2,040,934	131

The increase in receivables arising on the valuation of interest rate swaps of 93% compared with 2007 resulted from the Bank's intensified sales of instruments used for hedging against interest rate and currency risks, mainly to the segment of corporate customers.

The increase in receivables arising on the valuation of options (mainly currency options) of PLN 559,475 thousand and a twofold increase in receivables arising on the valuation of forward currency transactions resulted from a significant increase in sales of hedging instruments in 2008, in the period of appreciation of the Polish currency. Dramatic developments in the forex market in the fourth quarter of 2008 resulted in a significant increase in receivables arising on the valuation of these transactions. The valuation of assets arising on derivative transactions presented in the financial statements includes a fair value adjustment resulting from an analysis of counterparty credit risk, amounting to PLN 115,448 thousand.

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

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

The balance of financial assets designated at fair value through profit or loss decreased by nearly a half (45%) compared with the end of 2007. As at 31 December 2008 it amounted to PLN 4,555,544 thousand and related almost entirely to the Bank. The balance comprised the following assets:

	31.12.2008	31.12.2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Debt securities	4,555,544	8,292,362	(3,736,818)	(45)
issued by the State Treasury	4,373,621	7,353,033	(2,979,412)	(41)
issued by other banks	172,876	764,018	(591,142)	(77)
issued by other financial institutions	-	129,142	(129,142)	(100)
issued by non- financial entities	9,047	46,169	(37,122)	(80)
shares not listed on stock exchange	-	22,082	(22,082)	(100)
Total	4,555,544	8,314,444	(3,758,900)	(45)

A decrease in the balance of financial assets designated at fair value through profit or loss as at the balance date resulted mainly from the Group's lower exposure to Treasury bonds, combined with a higher exposure to Treasury bills. During the audited year the Group gradually reduced its portfolio of Treasury bonds, as part of its liquidity management activities and as the result of the financing of lending activities.

An increase in the exposure to Treasury bills occurred in the last quarter of the year and reflected the Bank's efforts to invest surplus liquidity in liquid assets which ensured a stable rate of return at low risk. At the same time, throughout 2008, the Group gradually decreased its portfolio of foreign bonds issued by banks. A decrease of exposure in foreign bonds amounted to PLN 591,142 thousand. This change was due to macroeconomic developments which resulted in an increase in issuer's credit risk and the disappearance of liquidity in the banking debt securities market.

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

6. Loans and advances to customers

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

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

As at the balance date, the gross loan portfolio comprised:

	31.12.2008	31.12.2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Financial sector (without banks)	2,116,248	1,183,154	933,094	79
Corporate loans	2,116,248	1,183,154	933,094	79
Non-financial sector	98,694,129	73,970,120	24,724,009	33
Consumer loans	20,918,698	18,496,892	2,421,806	13
Mortgage loans	45,937,364	22,093,103	23,844,261	108
Corporate loans	31,838,067	33,380,125	(1,542,058)	(5)
Public sector	3,215,390	3,679,478	(464,088)	(13)
Corporate loans	3,215,390	3,679,478	(464,088)	(13)
Loans and advances - gross	104,025,767	78,832,752	25,193,015	32
Impairment allowances	(2,917,876)	(2,415,603)	(502,273)	21
Loans and advances – net	101,107,891	76,417,149	24,690,742	32

As at the balance date, loans and advances to customers amounted to PLN 101,107,891 thousand, of which 96% related to the Bank. The remaining 4% comprised, *inter alia*, loans and advances granted by Kredobank SA of PLN 1,969,159 thousand and lease receivables of the Bankowy Fundusz Leasingowy SA Group of PLN 2,397,662 thousand.

As at 31 December 2008, 29% of the gross balance (i.e. PLN 29,552,567) related to loans and advances in foreign currencies (including 76% denominated in Swiss francs). As at 31 December 2007, receivables in foreign currencies accounted for 31% of the balance, i.e. PLN 16,672,363 thousand (including 72% in Swiss francs).

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IV. Discussion of consolidated financial statements components

6. Loans and advances to customers (cont.)

b) The quality of the Group's loan portfolio

	31.12.2008	31.12.2007	31.12.2008 Structure	31.12.2007 Structure
	PLN thousand	PLN thousand	%	%
Impaired loans	3,667,210	2,699,009	3.5	3.4
Non-impaired loans	97,962,004	74,482,845	94.2	94.5
Impaired lease receivables	152,801	52,000	0.1	0.1
Non-impaired lease receivables	2,243,752	1,598,898	2.2	2.0
Loans and advances - gross	104,025,767	78,832,752	100.0	100.0
Impairment allowances for identified loss	(2,156,135)	(1,900,135)	73.9	78.7
Allowance for incurred but not reported loss (IBNR)	(717,081)	(475,673)	24.6	19.7
Allowance for impairment on finance lease receivables	(44,660)	(39,795)	1.5	1.6
Total impairment allowances	(2,917,876)	(2,415,603)	100.0	100.0
Loans and advances – net	101,107,891	76,417,149		

The quality of the Group's loan portfolio as at the balance date, measured with reference to the share of impaired loans and lease receivables in total gross loans was 3.6% (3.5% in 2007). At the same time, the coverage of gross loans and advances with impairment allowances decreased by 0.3 p.p., to 2.8% as at the balance date.

The share of Kredobank SA in the gross value of loans as at the balance date was 2%. Given the macroeconomic situation in the Ukraine, the quality of the loan portfolio, measured by reference to the share of impaired loans to total loans, deteriorated (an increase from 8.4% at the end of 2007 to 20.1% as at 31 December 2008).

A deterioration in the quality of the portfolio also occurred in respect of the lease receivables of the Bankowy Fundusz Leasingowy SA Group, whose share in the gross value of loans and advances as at 31 December 2008 was 2%. The share of impaired receivables increased from 3.1% at the end of 2007 to 6.4% as at the balance date.

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

7. Investment securities available for sale

As at 31 December 2008, 'investment securities available for sale' amounted to PLN 8,614,913 thousand and 97% of the balance related to the Bank. The breakdown of the balance as at the balance date is presented in the table below:

	31.12.2008	31.12.2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Investments securities available for sale				
Treasury bonds	3,516,322	1,201,129	2,315,193	193
Bonds issued by the central bank	2,673,729	2,633,505	40,224	2
Municipal bonds	1,418,100	1,176,047	242,053	21
Non-financial entities bonds	838,828	673,885	164,943	24
Other banks bonds	98,855	57,619	41,236	72
Other financial entities bonds	94,770	902	93,868	10,407
Total	8,640,604	5,743,087	2,897,517	50
Impairment allowance	(25,691)	(26,849)	1,158	(4)
Net total	8,614,913	5,716,238	2,898,675	51

The change in the balance as at the balance date resulted mainly from the Bank's increased exposure to Treasury bonds by PLN 2,193,263 thousand. The increase was mainly due to the fact that in the audited year, the Bank purchased Treasury bonds with a fixed interest rate and maturing in 2010 (10-year bonds with a nominal value of PLN 1,580,000 thousand and 5-year bonds with a nominal value of PLN 350,000 thousand). Moreover, in 2008 the Bank purchased Treasury bonds denominated in EUR and USD, with a nominal value of EUR 30,000 thousand and USD 30,000 thousand.

The balance of investment securities available for sale issued by local authorities and non-financial institutions comprised municipal and corporate bonds for which the Bank was the underwriter. The increase in the balances of both corporate and municipal bonds resulted from a large number of new issues in the first three quarters of 2008.

The balance of securities issued by the central bank comprised bonds issued by the National Bank of Poland.

The balance of securities issued by other banks included bonds denominated in EUR purchased in 2008.

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

8. Investments in associates and jointly controlled entities

As at 31 December 2008, the balance of investments in associates and jointly controlled entities amounted to PLN 247,145 thousand and increased by PLN 68,561 thousand (38%) compared with the end of 2007:

	31.12.2008	31.12.2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Jointly controlled entities	56,682	56,271	411	1
Centrum Haffnera Sp. z o.o. Group	45,748	45,752	(4)	-
Centrum Obsługi Biznesu Sp. z o.o.	10,934	10,519	415	4
Associates	198,580	176,744	21,836	12
Bank Pocztowy S.A.	175,870	146,500	29,370	20
Kolej Gondolowa				
Jaworzyna Krynicka SA	15,531	15,531	-	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	463	1,626	(1,163)	(72)
Agencja Inwestycyjna Corp SA	278	301	(23)	(8)
Ekogips SA (in liquidation)	5,400	5,400	-	-
Finder SA	-	7,386	(7,386)	(100)
Shares in jointly controlled entities and associates - gross	255,262	233,015	22,247	10
Impairment allowance	(8,117)	(54,431)	46,314	(85)
Shares in jointly controlled entities and associates - net	247,145	178,584	68,561	38

The increase in the balance of investments in jointly controlled entities and associates resulted mainly from the release of impairment allowances for investments in Bank Pocztowy SA and in Kolej Gondolowa Jaworzyna Krynicka SA as well as from the increase of the Group's share in net assets of Bank Pocztowy SA.

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

9. Inventories

As at the balance date inventories amounted to PLN 622,410 thousand. of which PLN 558,820 thousand (90%) related to PKO Inwestycje Group. The balance comprised the following items:

	31.12.2008	31.12.2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Work-in-progress	403,175	344,378	58,797	17
Finished goods	113,533	9,910	103,623	1,046
Supplies	100,270	10,551	89,719	850
Materials	5,432	465	4,967	1,068
Total	<u>622,410</u>	<u>365,304</u>	<u>257,106</u>	<u>70</u>

Work-in-progress of PLN 403,175 thousand had the largest share in the balance. It represented expenses incurred in connection with construction projects by the Group companies engaged in development activities.

The second largest component of the balance were the assets of the subsidiary Bankowy Fundusz Leasingowy SA amounting to PLN 40,988 thousand (7% of the total balance) which were fixed assets to be leased and leased assets recovered from customers as part of the debt collection process.

10. Intangible assets

As at the balance date intangible assets amounted to PLN 1,352,778; 80% of the balance related to the Bank. Compared with the end of 2007 the balance increased by PLN 169,287 thousand (14%). The balance comprises the following assets:

	31.12.2008.	31.12.2007.	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Software	1,828,366	1,634,511	193,855	12
Other including capitalised expenses	314,458	132,271	182,187	138
Goodwill acquired as a result of business combinations	241,080	234,066	7,014	3
Development costs	6,923	2,539	4,384	173
Gross total	<u>2,390,827</u>	<u>2,003,387</u>	<u>387,440</u>	<u>19</u>
Accumulated amortisation	(961,689)	(803,588)	(158,101)	20
Impairment allowances	(76,360)	(16,308)	(60,052)	368
Net total	<u>1,352,778</u>	<u>1,183,491</u>	<u>169,287</u>	<u>14</u>

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IV. Discussion of consolidated financial statements components

10. Intangible assets (cont.)

As a result of an impairment test in 2008 an impairment allowance of PLN 76.360 thousand was recognized for 100% of the goodwill on acquisition of Kredobank SA.

The wear-and-tear of intangible assets, measured as a ratio of accumulated amortization to gross book value was 40% as at the balance date (40% as at 31 December 2007).

11. Tangible fixed assets

As at the balance date the net book value of tangible fixed assets amounted to PLN 2,964,659 thousand; 83% of the balance related to the Bank. The increase in the balance compared with 2007 was 144,556 thousand (5%).

	31.12.2008	31.12.2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Land and buildings	2,346,187	2,311,780	34,407	1
Machinery and equipment	2,382,497	2,597,324	(214,827)	(8)
Assets under construction	560,319	341,461	218,858	64
Means of transport	81,853	76,508	5,345	7
Investment properties	32,009	39,012	(7,003)	(18)
Other	430,035	413,820	16,215	4
Tangible fixed assets- gross	5,832,900	5,779,905	52,995	1
Accumulated depreciation	(2,866,206)	(2,956,749)	90,543	(3)
Impairment allowances	(2,035)	(3,053)	1,018	(33)
Tangible fixed assets- net	2,964,659	2,820,103	144,556	5

The wear-and-tear of tangible fixed assets measured as the ratio of accumulated depreciation to gross book value was 49% as at the balance date, and decreased by 2 p.p. compared with the end of 2007.

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

12. Other assets

As at the balance date, other assets increased by PLN 51,776 thousand (9%) and comprised:

	31.12.2008	31.12.2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Amounts due from purchasers	218,234	225,762	(7,528)	(3)
Settlements of payment cards transactions	123,732	149,114	(25,382)	(17)
Prepayments	115,454	31,117	84,337	271
Receivables relating to foreign exchange activity	8,628	15,892	(7,264)	(46)
Receivables from the State budget due to distribution of Treasury stamps	8,883	8,373	510	6
Receivables from securities trading	7,255	6,614	641	10
Other	148,266	141,804	6,462	5
Total	<u>630,452</u>	<u>578,676</u>	<u>51,776</u>	<u>9</u>

The gross book value of other assets of PLN 732,598 thousand was adjusted by an impairment allowance of PLN 102,146 thousand (in the end of 2007 the gross book value amounted to PLN 658,614 thousand and the impairment allowance was PLN 79,938 thousand).

The change in the balance of settlements of payment card transactions of PLN 25,382 thousand (17%) related to the Bank and was due to a larger volume of transactions conducted by customers using payment cards in the last days of 2007 which had not yet been settled as at the balance date.

“Other” balance includes mainly interbank settlements, receivables relating to products sale and receivables on other operations.

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

13. Amounts due to other banks

As at 31 December 2008 amounts due to other banks amounted to PLN 6,988,603 thousand (PLN 4,703,114 thousand as at the end of 2007); 82% of the balance related to the Bank. Apart from PKO BP SA, Bankowy Fundusz Leasingowy had material liabilities to other banks (18% of the total balance). The balance comprised the following items:

	31.12.2008	31.12.2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Loans and advances received	3,943,895	3,128,706	815,189	26
Other banks' deposits	2,835,727	1,436,694	1,399,033	97
Other money market deposits	115,171	43,502	71,669	165
Current accounts	93,810	94,212	(402)	-
Total	<u>6,988,603</u>	<u>4,703,114</u>	<u>2,285,489</u>	<u>49</u>

The increase in amounts due to other banks as at 31 December 2008 resulted mainly from an increase of 97% in deposits accepted from other banks and in loans and advances from other banks received mainly by the Bank (an increase of PLN 606,728 thousand. i.e. 30% compared with 31 December 2007) and Bankowy Fundusz Leasingowy (an increase of PLN 185,358 thousand. i.e. 18%. compared with 31 December 2007). In addition, the strengthening of the foreign currencies in which loans and advances obtained by the Group are denominated was another factor which contributed to the increase in the balance.

14. Derivative financial instruments

As at the balance date. liabilities arising on the valuation of derivatives amounted to PLN 6,150,337 thousand and increased by PLN 4,870,412 thousand (381%) compared with the end of 2007. The balance represented solely the liabilities of the Bank.

	31.12.2008	31.12.2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Interest rate swaps	5,070,104	1,159,601	3,910,503	337
- including CIRS	2,391,272	200,717	2,190,555	1,091
Currency and equity options	585,414	16,424	568,990	3,464
FX contracts	494,759	103,507	391,252	378
Other	60	393	(333)	(85)
Total	<u>6,150,337</u>	<u>1,279,925</u>	<u>4,870,412</u>	<u>381</u>

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IV. Discussion of consolidated financial statements components

14. Derivative financial instruments (cont.)

The increase in the balance was mainly due to an increase in liabilities arising on the valuation of currency contracts. The Bank followed the principle of closing the majority of transactions concluded with customers on a "back-to-back" basis, i.e. of entering into transactions which are counter to options and currency forwards offered to customers in the interbank market.

At the same time, the Bank hedged its portfolio of foreign currency loans using cross-currency interest rate swaps (CIRS). The increase in liabilities arising on the valuation of these transaction of 1,091% compared with 31 December 2007 was due to the higher volume of transactions concluded in response to an increase in the portfolio of foreign currency loans and the weakening of the Polish zloty in the second half of 2008.

15. Amounts due to customers

As at the balance date amounts due to customers amounted to PLN 102,939,281 thousand. of which PLN 101,621,999 (or 99%) related to the Bank.

	31,12,2008	31,12,2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Amounts due to individuals	76,322,806	66,248,751	10,074,055	15
Amounts due to corporate customers	19,332,897	15,639,541	3,693,356	24
Amounts due to the public sector	<u>7,283,578</u>	<u>4,691,218</u>	<u>2,592,360</u>	<u>55</u>
Total	<u>102,939,281</u>	<u>86,579,510</u>	<u>16,359,771</u>	<u>19</u>

In 2008, the Bank pursued a strategy of expanding its deposit base. This objective was achieved by intensified marketing activities addressed mainly to retail customers and by introducing new deposit products offering high interest rates ("9-12-15" deposits, "Progresja" deposits, new 3-months and 6-month deposits and "MaxLokata" deposit).

As at the balance date 7% of the balance (PLN 7,131,584 thousand) related to liabilities denominated in foreign currencies (including 52% denominated in euro). As at 31 December 2007 liabilities denominated in foreign currencies accounted for 9% of the balance (PLN 7,887,055 thousand).

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

16. Debt securities in issue

The balance of debt securities in issue as at 31 December 2008 amounted to PLN 211,573 thousand. In this amount PLN 183,594 thousand (87%) related to Bankowy Fundusz Leasingowy SA and PLN 27,979 thousand (13%) related to Kredobank SA.

The amount relating to Bankowy Fundusz Leasingowy resulted from corporate bonds bearing interest from 6.47% for bonds issued in February 2008 to 8% for bonds issued in December 2008 (in total 16 series of bonds were issued in 2008). As at 31 December 2008 all securities issued matured within 12 months.

Kredobank's balance resulted from debt securities issued on the Ukrainian market with yield to maturity of 24% for 'A' series (maturity date: February 2012 with an option for early redemption in February each year) and 23% for 'B' series (maturity date: June 2013 with an option for early redemption in June each year).

17. Subordinated liabilities

The balance of subordinated liabilities as at 31 December 2008 comprised the valuation of subordinated bonds issued by the Bank in 2007, with a nominal value totalling PLN 1,600,700 thousand and a maturity date of 30 October 2017.

The said bonds were issued based on the Act on bonds dated 29 June 1995 with a view to increase the Bank's supplementary funds, in accordance with art. 127, para. 3, item 3b of the Banking Law. The value of bonds as at 31 December 2008 increased by PLN 3,870 thousand compared with the end of 2007 as a result of an increase in the value of interest accrued, not due, following an increase in the interest rate on these bonds to 7.88% (6.35% as at 31 December 2007)

In accordance with Decision No. 91 of the Banking Supervision Commission dated 5 December 2007, the Bank included the entire nominal value, as at the balance sheet, of subordinated bonds issued amounting to PLN 1,600,700 to the Bank's supplementary capital under art. 127, para. 3, item 2b of the Banking Law.

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

18. Other liabilities

As at the balance date other liabilities amounted to PLN 1,667,776 thousand of which PLN 1,346,525 (81%) related to the Bank. Apart from the Bank, PKO Inwestycje and Bankowy Fundusz Leasingowy had a material share in the balance of other liabilities (PLN 148.661 thousand, i.e. 9% and PLN 96.881 thousand, i.e. 6% respectively). The balance comprised the following items:

	31.12.2008	31.12.2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Deferred income	262,867	321,273	(58,406)	(18)
Accruals	237,520	220,330	17,190	8
Other liabilities, including:	1,167,389	1,190,730	(23,341)	(2)
• interbanking settlements	241,922	124,650	117,272	94
• liabilities relating to settlements of transactions with securities	205,896	323,286	(117,390)	(36)
• liabilities to suppliers	146,745	136,426	10,319	8
• tax and social charges liabilities	123,448	137,888	(14,440)	(10)
• liabilities due to foreign exchange services	76,854	64,176	12,678	20
• liabilities due to investing and purchasing activity	52,059	34,266	17,793	52
• realised guarantees of the State on mortgage loans	39,226	33,341	5,885	18
• liabilities to Competition and Consumer Protection Office (UOKiK)	22,310	16,597	5,713	34
• liabilities arising from transactions with non-financial institutions	14,534	83,642	(69,108)	(83)
• liabilities due to other transactions	8,271	32,782	(24,511)	(75)
• liabilities due to card transactions	1,663	38,348	(36,685)	(96)
• liabilities due to purchase of equipment and materials, goods and services relating to opex expenses	35,862	58,328	(22,466)	(39)
• liabilities due to cash drawings	-	9,225	(9,225)	(100)
• other	198,599	97,775	100,824	103
Total	1,667,776	1,732,333	(64,557)	(4)

The decrease in the balance was among others due to lower liabilities relating to settlements of transactions with securities (a decrease of PLN 117,390 thousand, i.e. 36% compared with 31 December 2007). The decrease was due to a lower liabilities to Dom Maklerski PKO BP's customers due to their cash blocked for settlement of Treasury bonds purchased.

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IV. Discussion of consolidated financial statements components

18. Other liabilities (cont.)

There was also a decrease in liabilities arising from transactions with non-financial institutions (of PLN 69,108 thousand, i.e. 83%). The decrease was mainly due to a lower balance of credits to be investigated as at 31 December 2008.

PLN 103,642 thousand (52%) of "Other" balance related to the Bank. PLN 57,764 thousand of the balance, which is PLN 40,317 thousand growth (231%) compared with 31 December 2007, resulted mainly from liabilities arising from derivatives settlement. PLN 27,081 thousand arose from other transactions (eg. legal costs refund, charges and refunds due to ATM cards, return of impaired notes and coins to the NBP). Apart from the Bank, the significant share in "Other" balance related to Bankowy Fundusz Leasingowy SA Group – in the amount of PLN 31,959 thousand (relating to clients' prepayments, collaterals and pledged cash due to leasing contracts) and to PKO Inwestycje SA Group – in the amount of PLN 14,666 thousand (pledged cash from subcontractors due to potential warranty claims). Besides of the described above, "other" consists of many individually not material items.

19. Provisions

As at the balance date, provisions amounted to PLN 509,309 thousand, of which PLN 504,646 (or 99%) related to the Bank. The balance of provisions as at 31 December 2008 comprised:

	31.12.2008 PLN thousand	31.12.2007 PLN thousand	Change PLN thousand	Change (%)
Provisions for jubilee and retirement benefits	365,186	320,857	44,329	14
Provisions for off-balance sheet liabilities and guarantees	78,250	28,063	50,187	179
Provision for legal claims	9,352	7,558	1,794	24
Other provisions	113,228	97,823	15,405	16
Total	566,016	454,301	111,715	25

The growth in provisions as at the end of 2008 resulted mainly from the increase of PLN 50,187 thousand in provision for off-balance sheet liabilities and guarantees and the increase of PLN 44.329 thousand in provision for jubilee and retirement benefits.

As at 31 December 2008, the provision for jubilee and retirement benefits in the Bank amounted to PLN 364,945 thousand and accounted for over 65% of the balance of this category of provisions. It was increased by PLN 46,609 thousand in the result of the actuarial calculation prepared in February 2009 and based on the projections as of the balance date. The increase in this provision is primarily the result of the change in discount rate used to calculate the present value of the Bank's liability.

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

20. Equity

As at 31 December 2008, the equity amounted to PLN 13,988,016 thousand (PLN 11,979,015 thousand as at 31 December 2007). Movements in equity in the audited year are presented in the table below:

	31.12.2007	Gains recognised in equity	Profit for the year	Transfer of previous year profit to retained earnings	Previous year profit retention	Dividends from previous year profit	Other changes	31.12.2008
Share capital	1,000,000	-	-	-	-	-	-	1,000,000
Supplementary capital	5,592,311	-	-	-	1,682,406	-	-	7,274,717
Revaluation capital	(43,066)	9,829	-	-	-	-	-	(33,237)
General banking risk fund	1,070,000	-	-	-	-	-	-	1,070,000
Other reserves	1,518,025	-	-	-	5,802	-	-	1,523,827
Foreign differences on translation of foreign subsidiaries	(47,761)	(9,652)	-	-	-	-	-	(57,413)
Retained earnings	(72,192)	-	-	2,903,632	(1,688,208)	(1,090,000)	(34,639)	53,232
Profit for the year	2,903,632	-	3,120,674	(2,903,632)	-	-	-	3,120,674
Total	11,920,949	177	3,120,674	-	-	(1,090,000)	-	13,951,800
Minority interests	58,066	(465)	18,513	-	-	(30,750)	852	46,216
Total equity	11,979,015	(288)	3,139,187	-	-	(1,120,750)	852	13,988,016

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IV. Discussion of consolidated financial statements components

20. Equity (cont.)

On 20 May 2008, the General Shareholders' Meeting of Powszechna Kasa Oszczędności Bank Polski passed a resolution on the distribution of the net profit for 2007 of PLN 2,710,991 thousand: PLN 1,624,991 was transferred to supplementary capital, PLN 5,000 thousand to other reserves and PLN 1,090,000 thousand was earmarked for the payment of dividend.

On 29 April 2008, the General Shareholders' Meeting of PKO Towarzystwo Funduszy Inwestycyjnych SA passed Resolution No. 3 on the distribution of its net profit for 2007, whereby PLN 92,250 thousand was earmarked for the payment of dividend to the Bank and PLN 30,750 thousand to minority shareholders.

As at 31 December 2008, the Bank's registered share capital amounted to PLN 1,000,000 thousand and comprised 1,000,000,000 ordinary shares with PLN 1 par value each, including:

- 510,000,000 series A registered shares;
- 105,000,000 series B registered shares;
- 385,000,000 series C bearer shares;

The Group's regulatory capital, calculated in accordance with the Banking Law and Resolution No. 2/2007 of the Banking Supervision Commission, amounted to PLN 12,885,283 thousand as at 31 December 2008 (PLN 9,983,400 thousand as at 31 December 2007) and exceeded by PLN 3,750,712 thousand the total capital requirement which amounted to PLN 9,134,571 thousand (PLN 6,645,674 thousand as at 31 December 2007). The solvency ratio was 11.29% (12.02% as at 31 December 2007).

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

21. Reconciliation of the net assets of consolidated entities with consolidated net assets of the Group

The reconciliation of the net assets of consolidated entities with the net assets of the Group as at the balance date is as follows:

	31.12.2008	31.12.2007
	PLN thousand	PLN thousand
Net assets of the Group entities:		
Powszechna Kasa Oszczędności Bank Polski S.A	13,529,372	11,729,541
Centrum Finansowe Puławska	205,756	49,350
Powszechne Towarzystwo Emerytalne BANKOWY S.A.	200,906	174,153
PKO Towarzystwo Funduszy Inwestycyjnych S.A	174,805	179,319
Grupa Kapitałowa Inteligo Financial Services S.A.	1258,415	148,712
Grupa Kapitałowa Bankowy Fundusz Leasingowy S.A	125,099	95,152
PKO Inwestycje Sp. z o.o.	86,842	46,761
Centrum Elektronicznych Usług Płatniczych eService S.A	68,180	40,413
Kredobank S.A.	43,398	201,863
Bankowe Towarzystwo Kapitałowe S.A	14,256	12,552
PKO Finance AB	282	-
Total net assets	14,577,311	12,697,843
Consolidation adjustments:		
- share capital of the Group entities	(824,938)	(794,737)
- other capital of the Group entities	322,003	75,909
- impairment allowance on goodwill	(76,360)	-
Total consolidation adjustments	(579,295)	(718,828)
Consolidated net assets:	13,998,016	11,979,015

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

Consolidated income statement for the year ended 31 December 2008

22. Net interest income

Net interest income earned by the Group in 2008 amounted to PLN 6,127,315 thousand of which PLN 5,892,748 thousand (96%) related to the Bank. A detailed analysis of net interest income components is as follows:

	2008	2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Income from loans and advances to customers	7,776,106	5,231,586	2,544,521	49
Income from securities designated at fair value through profit or loss	444,426	561,346	(116,920)	(21)
Income from placements with other banks	388,768	491,078	(102,310)	(21)
Income from investment securities	345,130	245,352	99,778	41
Income from trading securities	64,046	24,527	39,519	161
Other	15,304	5,444	9,860	181
Interest and similar income	9,033,781	6,559,333	2,474,448	38
Interest expense on amounts due to customers	(2,655,044)	(1,697,116)	(957,928)	56
Interest expense on debt securities in issue	(131,721)	(28,711)	(103,010)	359
Interest expense on deposits from other banks	(49,465)	(106,678)	57,213	(54)
Other	(70,236)	(80,261)	10,025	(12)
Interest expense and similar charges	(2,906,466)	(1,912,766)	(993,700)	52
Net interest income	<u>6,127,315</u>	<u>4,646,567</u>	<u>1,480,748</u>	32

The increase in interest income of PLN 2,474,448 thousand (38%) in 2008 resulted from higher interest income on loans and advances to customers (an increase of PLN 2,544,521 thousand, i.e. 49%). This was due primarily to the growth of the Bank's loan portfolio (Note 6).

The growth rate of interest expense was higher than the growth rate of interest income and amounted to 52%, which resulted in an increase in interest expense of PLN 993,700 thousand in 2008. Of this amount, PLN 957,928 thousand related to interest paid on amounts due to customers.

The interest margin, being the ratio of net interest income to interest income, was 68% in 2008 (71% in 2007). This was due to shrinking market margins on loans and higher cost of borrowings, particularly in the last quarter of 2008.

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

23. Net fee and commission income

Net fee and commission income earned by the Group in 2008 amounted to PLN 2,411,809 thousand. of which PLN 2,020,463 thousand (84%) related to the Bank. A detailed analysis of net fee and commission income components is as follows:

	2008	2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Payment cards	851,370	703,023	148,347	21
Maintenance of bank accounts	805,449	770,642	34,807	5
Investment and pension funds fees (incl. management fees)	448,071	630,190	(182,119)	(29)
Loans and advances granted	315,641	267,169	48,472	18
Loan insurance intermediary	225,063	202,260	22,803	11
Cash transactions	188,345	204,077	(15,732)	(8)
Securities transactions	43,845	87,742	(43,897)	(50)
Foreign mass transactions servicing	41,181	36,878	4,303	12
Sale and distribution of marks of value	21,738	28,523	(6,785)	(24)
Other	204,057	152,912	51,145	33
Fee and commission income	3,144,760	3,083,416	61,344	2
Payment cards	(309,766)	(254,078)	(55,688)	22
Acquisition services	(134,773)	(129,005)	(5,768)	4
Loan insurance intermediary	(94,140)	(152,205)	58,065	(38)
Management fees	(73,719)	(126,606)	52,887	(42)
Operating services granted by other banks	(8,118)	(9,264)	1,146	(12)
Fee and commissions paid to PPUP	(5,240)	(5,735)	495	(9)
Other	(107,195)	(74,676)	(32,519)	44
Fee and commission expense	(732,951)	(751,569)	18,618	(2)
Net fee and commission income	2,411,809	2,331,847	79,962	3

In the audited year an increase in the number of transactions executed with payment cards. which resulted in an increase in income from payment cards of PLN 148,348 thousand (21%) was among the key factors which contributed to an increase in net fee and commission income.

In addition, due to an increase in the loan portfolio. commission income on loans and advances granted to customers increased by PLN 48,472 thousand (18%). The increase in the deposit base resulted in higher income from the maintenance of bank accounts by PLN 34,807 thousand.

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IV. Discussion of consolidated financial statements components

23. Net fee and commission income (cont.)

Factors which negatively contributed to net fee and commission income included mainly a decrease in income of PKO Towarzystwo Funduszy Inwestycyjnych SA of PLN 85,892 thousand (19%). This resulted from a drop in quotations of securities on the Warsaw Stock Exchange and on stock exchanges globally in the second half of 2008 which brought about an outflow of customers' funds from investment funds.

24. Net foreign exchange gains

Net foreign exchange gains comprise gains and losses on revaluation of assets and liabilities in foreign currencies and the valuation at fair value of currency derivatives (FX forwards, FX swaps and CIRSs). In 2008 net foreign exchange gains amounted to PLN 739,757 thousand of which PLN 734,567 (99%) related to the Bank. Compared with 2007 in 2008 net foreign exchange gains increased by PLN 209,978 thousand (40%). The increase was mainly due to a significant growth of the foreign currency loan portfolio in 2008 (Note 6).

Foreign exchange differences on the revaluation of assets and liabilities in foreign currencies increased more than eightfold in the audited year and amounted to PLN 2,946,341 thousand. This increase was partly offset by net losses on the valuation of derivatives amounting to PLN 2,206,584 thousand, mainly cross-currency interest rate swaps (CIRS) used primarily for managing interest rate and currency risks.

25. Other operating income

In 2008 other operating income amounted to PLN 522,425 thousand. The following entities had the largest share in the balance: the Bank (PLN 159,234 thousand, i.e. 30%). PKO Inwestycje Group (PLN 131,598 thousand, i.e. 25%) and Centrum Elektronicznych Usług Płatniczych "eService" (PLN 63,221 thousand, i.e. 12%). The balance comprised the following items:

	2008 PLN thousand	2007 PLN thousand	Change PLN thousand	Change (%)
Net income from sale of goods, commodities and materials	213,073	324,824	(111,751)	(34)
Recovery of expired and written-off receivables	31,150	19,469	11,681	60
Sundry income	25,162	25,257	(95)	-
Sales and disposal of tangible fixed assets, intangible assets and assets held for sale	15,065	24,702	(9,637)	(39)
Penalties and fines recovered	14,228	20,122	(5,894)	(29)
Sale of shares in jointly controlled entities and associated	13,171	1,101	12,070	1,096
Other	210,576	99,091	111,485	113
Total	522,425	514,566	7,859	2

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IV. Discussion of consolidated financial statements components

25. Other operating income (cont.)

Net sales of products, commodities and materials in 2008 related mainly to income on real-estate construction activities conducted by PKO Inwestycje Group (PLN 124,223 thousand).

26. Other operating expenses

In 2008 other operating expenses amounted to PLN 230,727 thousand of which PLN 105,588 thousand (46%) related to the Bank, PLN 74,468 thousand to PKO Inwestycje Group (32%) and PLN 19,140 thousand (8%) to Bankowy Fundusz Leasingowy SA. The balance comprised the following items:

	2008	2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Costs of sale of goods, commodities and materials	(81,114)	(123,602)	42,488	(34)
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(28,321)	(23,636)	(4,685)	20
Sundry expenses	(5,570)	(4,224)	(1,346)	32
Donations	(5,245)	(8,348)	3,103	(37)
Expenses due to construction of tangible fixed assets and intangible assets – which do not meet the criteria for capitalisation	(426)	(4,013)	3,587	(89)
Other	(110,051)	(93,113)	(16,938)	18
Total	(230,727)	(256,936)	26,209	(10)

Costs of sale of goods, commodities and materials in 2008 related mainly to costs of the real-estate construction activities conducted by PKO Inwestycje Group (PLN 69,711 thousand).

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

27. Net impairment allowance charge

The net impairment allowance charge was negative (impairment allowances recognized exceeded those released) and amounted to PLN 1,130,396 thousand in 2008. The negative balance increased by PLN 1,073,753 thousand compared with 2007. Costs of impairment allowances recognized by the Bank had the largest share in the balance (73%).

	2008	2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Loans and advances to customers and amounts due from other banks	(1,022,940)	(124,549)	(898,391)	721
Intangible assets	(76,360)	16,308	(92,668)	(568)
Financial assets available for sale	(2,214)	2,479	(4,693)	(189)
Investments measured under equity method	60,416	(5,876)	66,292	(1,128)
Tangible fixed assets	541	48,246	(47,705)	(99)
Other	(89,839)	6,749	(96,558)	(1,431)
Net impairment allowances	<u>(1,130,396)</u>	<u>(56,643)</u>	<u>(1,073,753)</u>	1896

The change in the balance of the net impairment allowance charge in 2008 was largely due to an increase in the impairment allowance for corporate loans (of PLN 565,133 thousand, i.e. 827%) and consumer loans (of PLN 189,600. i.e. 81%). The detailed information on the credit quality of loan portfolio is presented in Note 6.

The difference between the change in the amount of PLN 502 273 thousand in impairment allowance for loans and advances to customers with the reference to the balance sheet and the impairment charge recognized in the income statement in the amount of PLN 1,022,940 thousand, resulted mainly from the sale of a part of the loan portfolio to customers conducted by the Group this year. This write-off caused decrease of balance sheet value of impairment allowances, which was not reflected in the net result of the Group for the current year. Decrease of impairment allowances resulting from the sale which had no impact on the income statement under 'Net impairment allowance' amounted to PLN 473,856 thousand.

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

28. Administrative expenses

In 2008 the Group's administrative expenses were PLN 255,431 thousand (6%) higher than in 2007. 90% of the Group balance related to the Bank. Administrative expenses comprised the following items:

	2008	2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Staff costs	(2,429,394)	(2,288,712)	(140,682)	6
Overheads	(1,356,437)	(1,288,548)	(67,889)	5
Depreciation and amortisation expense	(429,904)	(382,165)	(47,739)	12
Taxes and other charges	(63,803)	(67,737)	3,934	(6)
Contribution and payments to Banking Guarantee Fund	(16,737)	(13,682)	(3,055)	22
Total	<u>(4,296,275)</u>	<u>(4,040,844)</u>	<u>(255,431)</u>	6

The increase in staff costs in 2008 was mainly due to an increase in costs of salaries and wages of PLN 182,314 thousand (10%) and an increase in other employee benefits of PLN 29,169 thousand (41%). The increase in costs was partly offset by lower costs on employee insurance (a decrease of PLN 70,801 thousand, i.e. 19%). Overheads also increased in 2008, mainly due to an increase in promotion and advertising costs (in connection with the promotion of many new products of the Bank) and in costs of fixed assets maintenance and lease.

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

	2008	2007
	PLN thousand	PLN thousand
Administrative expenses	(4,296,275)	(4,040,844)
Average annual employment (in persons)	32,811	34,406
Administrative expenses per employee	131	117
Net profit per employee	96	85

The cost to income ratio in the audited year was 45.8% (52.5% in 2007). At the same time, the net profit per 1 employee increased 13% compared with 2007.

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

29. Income tax expense

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

	2008 PLN thousand	2007 PLN thousand	Change PLN thousand	Change (%)
Current income tax expense	(1,001,835)	(716,704)	(285,131)	40
Deferred income tax	163,679	48,866	114,813	235
Income tax disclosed in the income statement	(838,156)	(667,838)	(170,318)	26
Tax expense disclosed in the equity	(12,735)	11,001	(23,736)	(216)
Total income tax expense	(875,341)	(656,837)	(194,054)	30

The effective tax rate for 2008 was 21.1% and was 2.6 p.p. higher than in the prior year.

(a) Deferred income tax

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

	Balance sheet 31.12.2008	Balance sheet 31.12.2007	Income Statement
	PLN thousand	PLN thousand	PLN thousand
Deferred tax liability			
Capitalised interest on mortgage loans	258,759	277,827	(19,068)
Interest accrued on receivables	100,892	99,944	948
Interest on securities	44,113	28,126	15,987
Valuation of securities, of which:	11,486	1,901	x
recognised in profit or loss	6,365	705	5,660
recognised in equity	5,121	1,196	x
Difference between book value and tax value of tangible assets	196,000	133,926	62,074
Other taxable temporary differences	34,612	7,250	x
recognised in profit or loss	23,662	7,382	16,280
recognised in equity	10,950	(132)	X
Deferred tax liability - gross	645,862	548,974	x
recognised in profit or loss	629,791	547,910	81,881
recognised in equity	16,071	1,064	x

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IV. Discussion of consolidated financial statements components

29. Income tax expense

(a) Deferred income tax (cont.)

	Balance sheet 31.12.2008	Balance sheet 31.12.2007	Income Statement
	PLN thousand	PLN thousand	PLN thousand
Deferred tax assets			
Interest accrued on liabilities	223,004	138,252	84,752
Valuation of securities, of which:	27,825	33,217	x
recognised in profit or loss	14,759	22,065	(7,306)
recognised in equity	13,066	11,152	x
Adjustment to valuation at amortized cost	166,449	149,499	16,950
Impairment allowances on credit exposure	159,789	79,193	80,596
Provision for jubilee and retirement benefits	110,037	88,874	21,163
Valuation of derivative instruments	77,734	62,331	(15,403)
Other temporary tax deductible differences, of which:	99,676	65,316	x
recognised in profit or loss	99,318	65,316	34,002
recognised in equity	358	-	x
Deferred income tax asset - gross, of which:	864,514	616,682	x
recognised in profit or loss	851,090	605,530	245,560
recognised in equity	13,424	11,152	x
Deferred tax impact on the income statement, of which:	(218,656)	(67,708)	x
recognised in profit or loss	(221,299)	(57,620)	(163,679)
recognised in equity	(2,647)	(10,088)	x
Deferred income tax asset (presented in the balance sheet)	239,237	72,154	x
Deferred tax liability (presented in the balance sheet)	20,585	4,446	x
Net deferred tax impact on the income statement			<u>(163,679)</u>

Due to the fact that as at the end of 2008 deductible temporary differences exceeded taxable ones the Group recognized a deferred tax asset of PLN 239,237 thousand (PLN 72,154 thousand as at the end of 2007). The deferred tax provisions presented in the balance sheet was PLN 20,585 thousand (PLN 4,446 thousand as at the end of 2007).

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IV. Discussion of consolidated financial statements components

29. Income tax expense (cont.)

(b) Current income tax

In the current financial year, income tax was calculated at 19% (for Poland) or 25% (for the Ukraine) of the gross profit determined based on IFRS as adopted by the European Union adjusted for non-taxable income and non-deductible costs. The current income tax for a given financial year is the sum of current income taxes calculated by Group companies (including the Bank: PLN 949,873 thousand, and subsidiaries: PLN 51,962 thousand).

	2008	2007	Change	Change
	PLN	PLN	PLN	(%)
	thousand	thousand	thousand	(%)
Profit before income tax	3,977,343	3,609,230	368,113	10
Corporate income tax calculated using the enacted tax rate 19%	(755,695)	(685,753)	(69,942)	10
Effect of other tax rates : Ukraine (25%)	(2,338)	(1,424)	(914)	64
Permanent differences between accounting gross profit and taxable profit, of which:	(84,280)	21,065	(105,345)	(500)
Release of impairment allowances and valuation of assets not constituting taxable income	(123,743)	31,051	(154,794)	(499)
Other not taxable costs	33,164	(23,431)	56,595	(242)
Dividend income	21,140	9,711	11,429	118
Other non-taxable income	2,330	3,363	(1,033)	(31)
Other	(17,171)	371	(17,542)	(4,728)
Other differences including donations	(1,196)	(7,573)	6,377	(84)
Tax loss settlement	5,353	5,847	(494)	(8)
Income tax disclosed in the consolidated income statement	(838,156)	(667,838)	(170,318)	26
Effective tax rate	21,1%	18,5%	-	-
Temporary difference due to the deferred tax presented in the consolidated income statement	163,679	48,866	114,813	235
Current income tax expense disclosed in the consolidated income statement	(1,001,835)	(716,704)	(285,131)	40

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

30. Reconciliation of the net profit/loss of consolidated entities with the Group's consolidated net profit

The reconciliation of the net profit/loss of consolidated entities with the consolidated net profit of the Group for the audited year is as follows:

	2008	2007
	PLN thousand	PLN thousand
Net profit/ (loss):		
Powszechna Kasa Oszczędności Bank Polski S.A	2,881,260	2,719,991
PKO Towarzystwo Funduszy Inwestycyjnych S.A	104,815	125,498
Centrum Elektronicznych Usług Płatniczych "eService S.A	27,767	19,626
Grupa Kapitałowa Inteligo Financial Services S.A.	24,847	20,041
Powszechne Towarzystwo Emerytalne BANKOWY S.A.	23,519	21,157
Grupa Kapitałowa Bankowy Fundusz Leasingowy S.A	10,081	6,773
Centrum Finansowe Puławska	7,376	4,180
Bankowe Towarzystwo Kapitałowe S.A	1,704	(1,007)
PKO Finance AB	95	
PKO Inwestycje Sp. z o.o.	(4,531)	23,761
Kredobank S.A.	(198,209)	2,844
Net profit according to financial statements of the consolidated entities	2,878,724	2,942,864
Consolidation adjustments:	260,463	(1,472)
of which:		
- dividends	(108,877)	(48,750)
- impairment allowance on goodwill	(76,360)	-
- impairment allowance on subsidiaries	318,030	10,666
- other	127,670	36,612
Consolidated net profit	3,139,187	2,941,392

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

31. Off-balance sheet items

Off-balance sheet items are presented in the table below:

	31.12.2008	31.12.2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Contingent liabilities:	30,444,143	28,231,938	2,212,205	8
Financing granted	26,141,444	24,346,666	1,794,778	7
Guarantees and warranties granted – nominal value	4,302,699	3,885,272	417,427	11
Contingent assets:	4,928,425	5,063,779	(135,354)	(3)
Guarantees received	4,175,307	4,164,326	10,981	-
Other	753,118	899,453	(146,335)	(16)

The increase by PLN 2,212,205 thousand (8%) in contingent liabilities resulted from the increase in financing granted of PLN 1,794,778 thousand (7%) and the increase in guarantees and warranties granted of PLN 417,427 thousand (11%). As at the balance date, the Bank's share in the balance amounted to 99.7%.

Contingent assets decreased in 2008 by PLN 135,354 thousand. As at 31.12.2008, the Bank's share in this position amounted to 78% (PLN 3,829,183 thousand). Significant share of this position constituted Bankowy Fundusz Leasingowy SA (5%, i.e. PLN 230,732,382 thousand) and KREDOBANK SA (18%, i.e. PLN 868,509,506 thousand).

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V. The independent registered auditor's statement

- (a) The Management Board of the Parent Company provided all the information, explanations, and representations required by us in the course of the audit and provided us with a representation letter confirming the completeness of the information included in the consolidation documentation and the disclosure of all contingent liabilities and post-balance-sheet events which occurred up to the date on which that letter was signed.
- (b) The scope of the audit was not limited.
- (c) The consolidation documentation was complete and accurate and it is stored in a manner ensuring its proper safeguarding.
- (d) The accounting policies and disclosures specified by the Parent Company's Management complied with the International Financial Reporting Standards as adopted by the European Union in all material respects. There were no changes in the accounting policies and methods compared with the previous year.
- (e) The consolidation of equity items and the determination of minority interests were carried out properly in all material respects.
- (f) The elimination of mutual balances (receivables and payables) and transactions (revenue and costs) of the consolidated entities were carried out in accordance with the IFRSs as adopted by the European Union in all material respects.
- (g) Eliminations of gains/losses unrealized by the consolidated entities included in the value of assets and in respect of dividends were conducted in accordance with the IFRSs as adopted by the European Union in all material respects.
- (h) The Notes to the consolidated financial statements present all the material information required by the IFRSs as adopted by the European Union.
- (i) The Group Directors' Report includes all the information required by the Decree of the Minister of Finance dated 19 October 2005 on the publication of current and periodic information by issuers of securities (Journal of Laws No. 209, item 1744).
- (j) The following significant violations of the law affecting the consolidated financial statements and significant violations of the Memorandum of Association of the Parent Company were noted in the course of the audit.

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V. The independent registered auditor's statement (cont.)

- (k) We determined the materiality levels at the planning stage. Materiality levels specify the limits up to which identified irregularities may be left unadjusted without any detriment to the quality of the financial statements and to the correctness of the underlying books of account, since failing to make such adjustments will not be misleading for the readers of the financial statements. Materiality measures both the quantity and quality of audited items and that is why it varies for different balance sheet and income statement items. Due to the complexity and quantity of the materiality levels adopted for audit purposes, they are included in the audit documentation.
- (l) The total regulatory requirement, together with the requirement concerning the risk of excessive capital exposure, amounted to PLN 9,134,571 thousand as at the balance date. The capital adequacy ratio as at 31 December 2008 amounted to 11.29%. As at the balance date, the Group complied with the prudence principle in all material respects.
- (m) The Group's financial statements for the year 2007 were audited by other independent registered auditor. The registered auditor issued an unqualified opinion.
- (n) The financial statements of the Group as at and for the year ended 31 December 2007 were approved by resolution no. 30/2008 passed by the General Shareholders' Meeting on 20 May 2008, filed with the National Court Register in Warsaw on 11 June 2008 and published in the *Monitor Polski B*, No. 1033 on 30 July 2008.



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VI. Final notes and comments

This report has been prepared in relation to our audit of the consolidated financial statements of Powszechna Kasa Oszczędności Bank Polski SA Group (hereinafter referred to as the Group), of which Powszechna Kasa Oszczędności Bank Polski SA with its registered office in Warsaw, at 15 Puławska Street is the Parent Company. The audited consolidated financial statements comprised:

- (a) the consolidated balance sheet as at 31 December 2008, showing total assets and total equity and liabilities of PLN 134,635,986 thousand;
- (b) the consolidated income statement for the financial year from 1 January 2008 to 31 December 2008, showing a net profit of PLN 3,139,187 thousand;
- (c) the statement of changes in consolidated equity for the financial year from 1 January 2008 to 31 December 2008, showing an increase in equity of PLN 2,019,001 thousand;
- (d) the consolidated cash flow statement for the financial year from 1 January 2008 to 31 December 2008, showing net outflows of PLN 962,073 thousand;
- (e) additional information on adopted accounting policies and other explanatory notes.

The consolidated financial statements were signed by the Management Board of the Parent Company on 3 April 2009. This report should be read in conjunction with the Independent Registered Auditor's Opinion to the General Shareholders' Meeting and the Supervisory Board of the Powszechna Kasa Oszczędności Bank Polski SA Group, signed on 8 April 2009, concerning the above-mentioned financial statements. The opinion is a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual consolidated financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the consolidated financial statements as a whole.

Independent registered auditor conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o.:

Antoni F. Reczek
President of the Board
Registered Auditor
No. 90011/503

Registered Audit Company
No. 144

Warsaw, 8 April 2009