Ladies and Gentlemen,

I have the pleasure of introducing you to the 2008 Financial Statement of PKO Bank Polski and its Capital Group. In the year 2008 PKO BP regained its leading position in the Polish banking sector: we are again Poland’s largest bank as regards the balance-sheet total and equity capital. Thanks to our conservative risk management strategy, we have consistently developed our business, generating high profits despite the financial crisis.

The turmoil in the international financial markets observed in 2008 has triggered unprecedented changes in the architecture of global finance. This fact has also significantly impacted the domestic financial system and business environment of PKO Bank Polski. The financial and economic crisis brings serious challenges and great unknowns, but at the same time opportunities. Above all, it is a period of additional special responsibility for the bank: responsibility to our customers and our shareholders. I am convinced that PKO Bank Polski will come through this turbulent period unscathed.

PKO Bank Polski has been building its development on three solid pillars, which have gained, rather than lost, importance since their presentation in mid 2008. These are: a strong capital base, stable and consistently developed deposit base and effective risk management.

As a result of these and other measures taken in the last months, PKO Bank Polski has further consolidated its market share. Deposits in the new Deposit Offer and the Savings Account enjoy enduring popularity among customers. The consistently built deposit base facilitates the prudent growth of our loan activity. Applying our conservative approach to credit risk assessment, we managed to increase our loan portfolio by 32% in the last year. This proves that with the right approach in place, it is possible to pursue ambitious goals even in difficult times of crisis.

The Bank constantly undergoes internal transformations whose ultimate objective is to ensure growing efficiency and quality of our services. These efforts are supported by the integrated IT system, which was fully implemented in 2008.

Our achievements and, of which I am assured, our future successes would not have been possible were it not for the involvement of all PKO BP employees, in particular those who work in the network of retail and corporate branches throughout Poland. It is thanks to their efforts that day by day we are better at identifying and responding to our customers’ needs and expectations. I would like to express my deep gratitude to the employees.

PKO Bank Polski faces further important challenges. We will overcome them together.

Jerzy Pruski

President of the PKO Bank Polski Management Board

PKO BANK POLSKI
SPÓŁKA AKCYJNA

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

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SELECTED FINANCIAL DATA

Below presented selected financial data are the part of suplementary information of PKO BP SA financial statements for the Lear ended 31 December 2008

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	2008	2007	2008	2007
Net interest income	5 968 083	4 503 107	1 689 670	1 192 308
Net fee and commission income	2 132 815	1 993 772	603 838	527 900
Operating profit	3 697 850	3 327 145	1 046 927	880 943
Net profit	2 881 260	2 719 991	815 736	720 184
Total equity	13 529 372	11 729 541	3 242 587	3 274 579
Net cash flow from / used in operating activities	3 429 872	(8 252 025)	971 057	(2 184 925)
Net cash flow from / used in investing activities	(3 048 466)	473 187	(863 075)	125 288
Net cash flow from / used in financing activities	(1 327 021)	2 929 573	(375 703)	775 676
Total net cash flows	(945 615)	(4 849 265)	(267 720)	(1 283 961)
Earnings per share for the period - basic	2.88	2.72	0.82	0.72
Earnings per share for the period - diluted	2.88	2.72	0.82	0.72
Tier 1 capital	11 003 657	8 324 410	2 637 249	2 323 956
Tier 2 capital	1 294 488	1 202 935	310 250	335 828
Tier 3 capital	91 048	15 997	21 821	4 466

Selected financial data of the financial statements were translated into Euro using the following rates:

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

(in PLN thousand)

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

Continued operations	**Notes**	**2008**	**2007**
Interest and similar income	3	8 646 426	6 245 091
Interest expense and similar charges	3	(2 678 343)	(1 741 984)
Net interest income		**5 968 083**	**4 503 107**
Fee and commission income	4	2 813 078	2 648 092
Fee and commission expense	4	(680 263)	(654 320)
Net fee and commission income		**2 132 815**	**1 993 772**
Dividend income	5	130 896	52 113
Net income from financial instruments at fair value through profit or loss	6	(195 430)	(76 746)
Gains less losses from investment securities	7	(951)	6 521
Net foreign exchange gains	8	734 567	522 693
Other operating income	9	160 736	140 607
Other operating expenses	9	(114 689)	(84 551)
Net other operating income and expense		**46 047**	**56 056**
Net impairment allowance	10	(1 148 930)	(44 948)
Administrative expenses	11	(3 969 247)	(3 685 423)
Operating profit		**3 697 850**	**3 327 145**
Profit before income tax		**3 697 850**	**3 327 145**
Income tax expense	12	(816 590)	(607 154)
Net profit		**2 881 260**	**2 719 991**
Earnings per share:	13		
- basic earnings per share (PLN)		2.88	2.72
- diluted earnings per share (PLN)		2.88	2.72
Weighted average number of ordinary shares during the period		1 000 000 000	1 000 000 000
Weighted average (diluted) number of ordinary shares during the period		1 000 000 000	1 000 000 000

Discontinued operations

In years 2008 and 2007 the Bank did not carry out discontinued operations.

(in PLN thousand)

BALANCE SHEET
as at 31 December 2008 and 31 December 2007

	Notes	31.12.2008	31.12.2007
ASSETS			
Cash and balances with the central bank	15	5 758 248	4 594 084
Amounts due from banks	16	3 906 973	5 315 799
Trading assets	17	1 496 147	1 202 919
Derivative financial instruments	18	3 599 545	1 556 750
Financial assets designated at fair value through profit or loss	19	4 546 497	8 101 534
Loans and advances to customers	20	98 102 019	73 822 193
Investment securities available for sale	21	8 756 511	5 841 553
Investments in subsidiaries, jointly controlled entities and associates	22	823 518	1 054 395
Intangible assets	23	1 155 042	927 610
Tangible fixed assets	24	2 462 967	2 270 480
- including investment properties		24 170	32 767
Current income tax receivables	12	-	187 707
Deferred income tax asset	12	166 803	35 531
Other assets	25	470 557	429 699
TOTAL ASSETS		**131 244 827**	**105 340 254**
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to the central bank	26	2 816	1 279
Amounts due to other banks	27	5 699 452	3 624 455
Derivative financial instruments	18	6 150 337	1 280 265
Amounts due to customers	29	101 856 930	85 215 463
Subordinated liabilities	30	1 618 755	1 614 885
Other liabilities	31	1 355 396	1 421 321
Current income tax liabilities	12	470 416	-
Provisions	32	561 353	453 045
TOTAL LIABILITIES		**117 715 455**	**93 610 713**
Equity			
Share capital	33	1 000 000	1 000 000
Other capital	34	9 648 112	8 009 550
Net profit for the year		2 881 260	2 719 991
TOTAL EQUITY		**13 529 372**	**11 729 541**
TOTAL EQUITY AND LIABILITIES		**131 244 827**	**105 340 254**
Capital adequacy ratio	47	11.24	11.87
Book value (TPLN)		13 529 372	11 729 541
Number of shares	1	1 000 000 000	1 000 000 000
Book value per share (PLN)		13.53	11.73
Diluted number of shares		1 000 000 000	1 000 000 000
Diluted book value per share (PLN)		13.53	11.73

(in PLN thousand)

STATEMENT OF CHANGES IN EQUITY

for the years ended 31 December 2008 and 31 December 2007

For the year ended 31 December 2008	Share capital	Other capital				Retained earnings	Net profit	Total equity
		Reserve capital	Revaluation reserve	General banking risk fund	Other reserves			
As at 1 January 2008	**1 000 000**	**5 591 995**	**(42 445)**	**1 070 000**	**1 390 000**	**-**	**2 719 991**	**11 729 541**
Net change in available for sale investments less deferred tax	-	-	8 571	-	-	-	-	**8 571**
Total income/expenses recognized directly in equity	**-**	**-**	**8 571**	**-**	**-**	**-**	**-**	**8 571**
Net profit for the period	-	-	-	-	-	-	2 881 260	**2 881 260**
Total profit for the period	**-**	**-**	**8 571**	**-**	**-**	**-**	**2 881 260**	**2 889 831**
Transfer of net profit from previous years	-	-	-	-		2 719 991	(2 719 991)	**-**
Transfer from net profit to reserves	-	1 624 991	-	-	5 000	(1 629 991)	-	**-**
Transfer from net profit to dividends	-	-	-	-	-	(1 090 000)	-	**(1 090 000)**
As at 31 December 2008	**1 000 000**	**7 216 986**	**(33 874)**	**1 070 000**	**1 395 000**	**-**	**2 881 260**	**13 529 372**

For the year ended 31 December 2007	Share capital	Other capital				Retained earnings	Net profit	Total equity
		Reserve capital	Revaluation reserve	General banking risk fund	Other reserves			
As at 1 January 2007	**1 000 000**	**4 529 604**	**3 729**	**1 070 000**	**1 385 000**	**-**	**2 047 391**	**10 035 724**
Net change in available for sale investments less deferred tax	-	-	(46 174)	-	-	-	-	**(46 174)**
Total income/expenses recognized directly in equity	**-**	**-**	**(46 174)**	**-**	**-**	**-**	**-**	**(46 174)**
Net profit for the period	-	-	-	-	-	-	2 719 991	**2 719 991**
Total profit for the period	**-**	**-**	**(46 174)**	**-**	**-**	**-**	**2 719 991**	**2 673 817**
Transfer of net profit from previous years	-	-		-		2 047 391	(2 047 391)	**-**
Transfer from net profit to reserves	-	1 062 391	-		5 000	(1 067 391)	-	**-**
Transfer from net profit to dividends	-	-	-	-	-	(980 000)	-	**(980 000)**
As at 31 December 2007	**1 000 000**	**5 591 995**	**(42 445)**	**1 070 000**	**1 390 000**	**-**	**2 719 991**	**11 729 541**

(in PLN thousand)

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

	Note	2008	2007
Net cash flow from operating activities			
Net profit		2 881 260	2 719 991
Adjustments:		548 612	(10 972 016)
Amortisation and depreciation		361 382	323 755
(Gains) losses from investing activities	39	45	(72 004)
Interest and dividends	39	(414 176)	(257 695)
Change in amounts due from banks	39	(728 788)	3 105 353
Change in trading assets and other financial assets at fair value through profit or loss		3 261 809	3 066 280
Change in derivative financial instruments (asset)		(2 042 795)	(357 401)
Change in loans and advances to customers	39	(24 573 638)	(16 455 740)
Change in deferred income tax asset and income tax receivables		56 435	(223 238)
Change in other assets		7 879	2 648
Change in amounts due to other banks	39	2 076 534	(2 304 851)
Change in derivative financial instruments (liability)		4 870 072	182 469
Change in amounts due to customers	39	16 677 287	2 685 279
Change in impairment allowances and provisions	39	427 944	4 213
Change in other liabilities	39	139 146	(463 546)
Income tax paid		(479 457)	(811 193)
Current tax expense		949 873	640 233
Other adjustments	39	(40 940)	(36 578)
Net cash from / used in operating activities		**3 429 872**	**(8 252 025)**
Net cash flow from investing activities			
Inflows from investing activities		**6 580 401**	**6 603 974**
Proceeds from sale of investment securities		6 443 329	6 465 198
Proceeds from sale of intangible assets and tangible fixed assets		6 226	83 684
Other investing inflows		130 846	55 092
Outflows from investing activities		**(9 628 867)**	**(6 130 787)**
Purchase of a subsidiary, net of cash acquired		(78 909)	(172 759)
Purchase of investment securities		(8 748 517)	(5 346 405)
Purchase of intangible assets and tangible fixed assets		(801 441)	(611 623)
Net cash from / used in investing activities		**(3 048 466)**	**473 187**
Net cash flow from financing activities			
Proceeds from debt securities in issue		-	1 597 374
Dividends paid to minority shareholders		(1 090 000)	(980 000)
Long-term borrowings		-	2 376 198
Repayment of long term loans		(237 021)	(63 999)
Net cash generated from financing activities		**(1 327 021)**	**2 929 573**
Net cash inflow (outflow)		**(945 615)**	**(4 849 265)**
Cash and cash equivalents at the beginning of the period		9 001 426	13 850 691
Cash and cash equivalents at the end of the period	39	**8 055 811**	**9 001 426**
of which restricted	36	7 966	8 120

NOTES TO THE FINANCIAL STATEMENTS
as at 31 December 2008

1. General information

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

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

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

The Bank's shareholding structure is as follows:

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

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

Business activities

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

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

(in PLN thousand)

Information on members of the Management and Supervisory Board of PKO BP SA

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

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

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

– On 11 April 2008 the Supervisory Board of PKO BP SA appointed Jerzy Pruski to the position of acting President of the Management Board with effect from 20 May 2008 for a joint term of the Management Board, beginning that day. Supervisory Board appointed Jerzy Pruski to perform a function of the President of the Management Board of the Bank until the date of the approval of his appointment as President by the Financial Supervision Authority.

– On 17 June 2008 the Financial Supervision Authority agreed to the appointment of Jerzy Pruski as the President of the Management Board of PKO BP SA.

– On 20 May 2008 the Supervisory Board appointed:

  - Bartosz Drabikowski as Vice-President of the Management Board of the Bank as of 20 May 2008,
  - Mariusz Klimczak as Vice-President of the Management Board of the Bank as of 20 May 2008,
  - Tomasz Mironczuk as Vice-President of the Management Board of the Bank as of 20 May 2008,
  - Krzysztof Dresler as Vice-President of the Management Board of the Bank as of 1 July 2008,
  - Wojciech Papierak as Vice-President of the Management Board of the Bank as of 1 July 2008,
  - Mariusz Zarzycki as Vice-President of the Management Board of the Bank as of 1 September 2008.

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

- On 21 August 2008 Mariusz Klimczak submitted his resignation as Vice-President of the Management Board of PKO BP SA effective from 30 September 2008.

- On 9 December 2008, the Supervisory Board passed a resolution appointing Jarosław Myjak as Vice-President of the Management Board of PKO BP SA, effective as of 15 December 2008. According to the passed resolution Jarosław Myjak has been appointed to hold a function in PKO BP SA for a joint term of the Management Board beginning on 20 May 2008.

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

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

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

On 25 February 2008 Urszula Pałaszek resigned from the post of Vice-President of the Supervisory Board of the Bank.

On 26 February 2008, the following members of the Supervisory Board resigned from the post of Members of the Supervisory Board of the Bank:

- Marek Głuchowski,
- Agnieszka Winnik-Kalemba,
- Tomasz Siemiątkowski,
- Jerzy Michałowski.

On 26 February 2008 the Extraordinary General Meeting of PKO BP SA removed Maciej Czapiewski with immediate effect from the post of Member of the Supervisory Board of PKO BP SA starting from 26 February 2008.

On 26 February 2008 the Extraordinary General Meeting of PKO BP SA appointed the following persons to the Supervisory Board of the Bank:

- Jan Bossak,
- Eligiusz Jerzy Krześniak,
- Roman Sobiecki,
- Ryszard Wierzba,
- Marzena Piszczek,
- Jerzy Osiatyński.

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

Internal organisational units of PKO BP SA

The financial statements of PKO BP SA, comprising financial data for the year ended 31 December 2008 and comparative financial data, were prepared on the basis of financial data submitted by all organisational units of the Bank through which it performs its activities. As at 31 December 2008, these organisational units included: the Bank's Head Office in Warsaw, Dom Maklerski PKO BP SA, COK – Centrum Kart Kredytowych i Operacji Kartowych, CBE - Centrum Bankowości Elektronicznej Inteligo, 12 specialised units, 12 regional retail branches, 13 regional corporate branches, 177 independent branches, 188 subordinated branches, 55 corporate centres and 2196 agencies. Except for Dom Maklerski PKO BP SA, none of the organisational units listed above prepares separate financial statements.

Indication whether the Bank is a holding company or a significant investor and whether it prepares consolidated financial statements

PKO BP SA is the holding company of the PKO BP SA Group and a significant investor for its subsidiaries, jointly controlled entities and associates together with their affiliates. Accordingly, PKO BP SA prepares consolidated financial statements for the Group, which include the financial data of these entities.

(in PLN thousand)

Structure of the PKO BP SA Group

No.	Entity name	Registered office	Activity	Share in the share capital (%) 31.12.2008	Share in the share capital (%) 31.12.2007
PKO BP SA Group					
	Parent company				
1	**Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna**				
	Direct subsidiaries				
2	Powszechne Towarzystwo Emerytalne BANKOWY SA	Warsaw	Pension fund management	100.00	100.00
3	Centrum Finansowe Puławska Sp. z o.o.	Warsaw	Management and use of Centrum Finansowe Pulawska	100.00	100.00
4	PKO Inwestycje Sp. z o.o.	Warsaw	Real estate development	100.00	100.00
5	Inteligo Financial Services SA	Warsaw	Technical servicing of Internet banking	100.00	100.00
6	Centrum Elektronicznych Usług Płatniczych "eService" SA	Warsaw	Servicing and settlement of card transactions	100.00	100.00
7	Bankowy Fundusz Leasingowy SA	Łódź	Leasing services	100.00	100.00
8	Bankowe Towarzystwo Kapitałowe SA	Warsaw	Services, including supporting financial services	100.00	100.00
9	PKO Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	Investment fund management	75.00	75.00
10	KREDOBANK SA	Lviv, Ukraine	Financial services	98.5619	98.1815
11	PKO Finance AB	Stockholm, Sweden	Financial services	100.00	-
	Indirect subsidiaries				
	Subsidiaries of Inteligo Financial Services SA				
12	Finanse Agent Transferowy Sp. z o.o. [1]	Warsaw	Intermediary financial services	80.33	-
	Subsidiaries of PKO Inwestycje Sp. z o.o.				
13	Wilanów Investments Sp. z o.o.	Warsaw	Real estate development	100.00	100.00
14	POMERANKA Sp. z o.o.	Warsaw	Real estate development	100.00	100.00
15	PKO Inwestycje – Międzyzdroje Sp. z o.o. (former ARKADIA Inwestycje Sp. z o.o.)	Międzyzdroje	Real estate development	100.00	100.00
16	UKRPOLINWESTYCJE Sp. z o.o.	Kiev, Ukraine	Real estate development	55.00	55.00
17	Fort Mokotów Sp. z o.o.	Warsaw	Real estate development	51.00	51.00
18	WISŁOK Inwestycje Sp. z o. o.	Rzeszów	Real estate development	80.00	-
19	Baltic Dom 2 Sp. z o. o.	Warsaw	Real estate development	56.00	-
	Subsidiaries of Bankowy Fundusz Leasingowy SA				
20	Bankowy Leasing Sp. z o.o.	Łódź	Leasing services	100.00	100.00
21	BFL Nieruchomości Sp. z o.o.	Łódź	Leasing services	100.00	100.00

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

(in PLN thousand)

Additionally, the Bank holds shares in the following jointly controlled entities and associates:

Jointly controlled entities:

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

Associated entities:

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

Information about changes in the participation in the share capital of the subsidiaries is set out in Note 22 "Investments in subsidiaries, jointly controlled entities and associates".

Approval of financial statements

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

2. Summary of significant accounting policies

2.1. Compliance with accounting standards

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

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

2.2. Going concern

The financial statements of the Bank have been prepared on the basis that the Bank will be a going concern during a period of at least 12 months from the balance date of 31 December 2008. As at the date of signing these financial statements, the Management Board is not aware of any facts or circumstances that would indicate a threat to the continued activity of the Bank for at least 12 months following the balance date as a result of any intended or compulsory withdrawal or significant limitation in the activities of the Bank.

2.3. Basis of preparation of the financial statements

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

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

2.4. Foreign currencies

2.4.1. Transactions and items denominated in foreign currencies

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

1) monetary assets denominated in foreign currency are translated into Polish zloty, using a closing rate - the average NBP rate for a given currency as at the balance date;

2) non-monetary assets valued at historical cost in foreign currency are translated into Polish zloty, using exchange rate as of the date of the transaction;

3) non-monetary assets at fair value through profit or loss in foreign currency are translated into Polish zloty, using exchange rates as at the date of the determination fair value.

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

2.5. Financial assets and liabilities

2.5.1. Classification

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

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

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

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

2.5.1.2. Financial assets available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as a) financial assets at fair value through profit or loss (designated by the Bank upon initial recognition), b) held-to-maturity financial assets or c) loans and receivables.

2.5.1.3. Loans and advances

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

1) those that the Bank intends to sell immediately or in the near term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;
2) those that the Bank upon initial recognition designates as available for sale; or
3) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are classified as available for sale.

2.5.1.4. Financial assets held to maturity

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

2.5.1.5. Other financial liabilities

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

2.5.2. Accounting for transactions

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

2.5.3. Derecognition of financial instruments

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

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

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

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

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

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

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

2.5.4. Valuation

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

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

2.5.4.1. Assets and liabilities at fair value through profit or loss

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

2.5.4.2. Financial assets available for sale

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

2.5.4.3. Loans and advances and investments held to maturity

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

2.5.4.4. Other financial liabilities

Other financial liabilities are measured at amortized cost using the effective interest rate. It is not possible to reliably estimate the future cash flows and the effective interest rate, financial liabilities are measured at cost.

Debt instruments issued by the Bank are recognized as liabilities and measured at amortized cost using the effective interest rate.

2.5.4.5. Method of establishing fair value and amortized cost

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

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

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

margin equal to the margin determined in the terms of the issue. Significant change of market interest rates is reflected in the change of fair value of these instruments.

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

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

2.5.5. Derivative instruments

2.5.5.1. Recognition and measurment

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

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

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

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

2.5.5.2. Embedded derivative instruments

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

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

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

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

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

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

2.5.6. Offsetting of financial instruments

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

2.6. Transactions with a commitment to sell or buy back

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

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

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

Repo and reverse-repo transactions and sell-buy back, buy-sell back transactions are measured at amortised cost, whereas securities which are an element of a repo transaction are not derecognized in the balance sheet and are measured at the terms and conditions specified for particular securities portfolios. The difference between the sale price and the repurchase price is recognized as interest expense/income, as appropriate, and it is amortized over the term of the contract using the effective interest rate.

2.7. Investments in subsidiaries, associates and jointly controlled entities

Investments in subsidiaries, associates and jointly controlled entities are measured at cost less impairment losses.

2.8. Impairment of financial assets

2.8.1. Assets measured at amortized cost

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

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

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

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

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

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

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

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

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

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

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

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

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

2.8.2. Assets available for sale

At each balance date, the Bank makes an assessment, whether there is objective evidence that a given financial assets or group of financial assets available for sale is impaired. If any such indicators of impairment on financial assets classified as debt securities available for sale measured at fair value not issued by the State Treasury exist, an impairment allowance is calculated as the difference between the asset's carrying amount and the present value of future cash flows discounted using the zero coupon curve based on profitability curves for Treasury bonds.

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

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

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

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

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

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

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

2.9. Tangible fixed assets and intangible assets

2.9.1. Intangible assets

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

2.9.1.1. Software

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

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

2.9.1.2. Other intangible assets

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

2.9.1.3. Development costs

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

2.9.2. Tangible fixed assets

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

2.9.3. Depreciation/amortization

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

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

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

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

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

Tangible assets	Periods
Buildings, premises, cooperative rights to premises	40-60 years
Leaseholds improvements (buildings, premises)	10 years (or term of the lease if shorter)
Machinery and equipment	3-15 years
Computer hardware	4-10 years
Motor vehicles	5 years
Intangible assets	**Periods**
Software	2-10 years
Other intangible assets	5 years

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

2.9.4. Impairment of non-financial non-current assets

At each balance date, the Bank makes an assessment of whether there are any indicators of impairment of any of its non-financial non-current assets (or cash-generating units). If any such indicators exist, the Bank estimates the recoverable amount being the higher of the fair value less costs to sell and the value in use of a non-current asset (or a cash generating unit); if the carrying amount of an asset exceeds its recoverable amount, the Bank recognizes an impairment loss in the income statement.

The projection for the value in use requires making assumptions, e.g. about future cash flows that the Bank may receive from the continued use or disposal of the non-current asset (or a cash-generating unit). The adoption of different assumptions with reference to the projected cash flows could affect the carrying amount of certain non-current assets.

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

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

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

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

In respect of other assets, the loss may be reversed if there was a change in the estimates used to determine the recoverable amounts. An impairment loss may be reversed only to the level at which the book value of an asset does not exceed the book value – less depreciation – which would be determined should the impairment loss not have been recorded.

2.10. Other balance sheet items

2.10.1. Fixed assets held for sale and discontinued operations

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

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

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

2.10.2. Accruals and deferred income

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

Accruals include accruals for the cost of services performed for the Bank by counterparties, which will be recognized in following periods, and accruals for amounts due to employees (e.g. bonuses, rewards and unused holiday payments). Accruals and deferred income are shown in the balance sheet under "Other liabilities".

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

2.11. Provisions

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

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

2.12. Restructuring provision

A restructuring provision is set up when general criteria for recognizing provisions are met and detailed criteria relating to the obligation to set up provisions for restructuring costs specified in IAS 37. Specifically, the constructive restructuring obligation arises only when the Bank has a detailed, official restructuring plan and has raised justified expectations of the parties to which the plan relates that it will carry out restructuring by starting to implement the plan or by announcing the key elements of the plan to the said parties. A detailed restructuring plan specifies at least the operation or part of the operation to which the plan relates, the basic locations covered by the plan, the place of employment, functions and estimated number of employees who would have to be compensated due to their losing their jobs, the amount of expenditure which is to be incurred and the date when the plan will be implemented. The restructuring provision covers only such direct expenditures arising as a result of the restructuring which at the same time a) necessarily follow from the restructuring; and b) are not related to the Bank's on-going business operations. The restructuring provision does not cover future operating expenses.

2.13. Employee benefits

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

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

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

2.14. Contingent liabilities and commitments

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

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

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

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

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

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

2.15. Shareholders' equity

Shareholders' equity comprises capital and the other funds of the Bank in accordance with the relevant legal regulations and the Articles of Association.

2.15.1. Share capital

Share capital is stated at nominal value in accordance with Articles of Association and the Register of Entrepreneurs.

2.15.2. Reserve capital

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

2.15.3. Revaluation reserve

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

2.15.4. General banking risk fund

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

2.15.5. Other reserves

Other reserves as envisaged by the Articles of Association are created by appropriation of profits.

2.16. Financial result

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

2.16.1. Interest income and expense

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

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

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

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

2.16.2. Fee and commission income and expense

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

2.16.3. Dividend income

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

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

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

2.16.5. Gains less losses from investment securities

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

2.16.6. Foreign exchange gains

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

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

2.16.7. Other operating income and expense

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

2.17. Income tax

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

2.17.1. Current income tax

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

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

2.17.2. Deferred income tax

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

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

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

Deferred tax assets are offset with deferred tax liabilities only when there exists enforceable legal entitlement to offset current tax receivables with current tax liabilities and deferred tax is related to the same tax payer and the same tax authority.

2.18. Critical estimates

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

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

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

Assumptions about the future that were used by the Bank in performing estimates include first of all the following areas:

2.18.1. Impairment of loans and advances

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

2.18.2. Impairment of investments in subsidiaries, jointly controlled entities and associates

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

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

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

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

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

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

As assessed by the Bank, the profitability increase as at the end of the period derives from change in the overall conditions in the financial markets, mainly with reference to liquidity. A separate analysis conducted by the Bank does not indicate on the increased level of credit risk of debt securities not issued by the State Treasury in the Bank's portfolio.
Estimation of profitability increase level for debt securities available for sale neither listed on a regulated market nor issued by the State Treasury was conducted separately for debt securities issued by local government bodies and corporate entities.

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

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

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

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

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

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

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

2.19. Changes in accounting policies

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

(in PLN thousand)

Amendments to standards and interpretations, which have been published and are currently effective since 1 January 2008

Standard/ interpretation	Introduction date	Application date	Approved by the European Union	Description of potential changes/ Application to the Bank
IFRIC 11 - Group and Treasury Share Transactions	November 2006	financial year starting on or after 1 March 2007	Yes	The interpretation relates to share issue within a Group and share-based payments.
IFRIC 12 - Service Concession Arrangements	November 2006	financial year starting on or after 1 January 2008	No	This interpretation includes guidance on implementation of existing standards by operators for public-to-private service concession arrangements. IFRIC 12 applies to the arrangements, where the grantor controls or regulates what services the operator must provide within the infrastructure, to whom it must provide them, and at what price.
IFRIC 14 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	July 2007	financial year starting on or after 1 January 2008	Yes	This interpretation includes basic guidance on how to determine the limit of surplus of the asset fair value over the current value of defined benefit liability, which can be recognized as an asset. Moreover, IFRIC 14 describes how statutory or contractual minimum funding requirements can affect the measurement of the defined benefit asset or liability. This interpretation does not have a material effect on the financial statements of the Bank.

The abovementioned interpretations have no significant effect on Bank's financial statement.

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

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

(in PLN thousand)

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

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

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

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

(in PLN thousand)

IAS 1 - Presentation of Financial Statements	September 2007	financial year starting on or after 1 January 2009	Yes	The main amendments relate to the statement of changes in equity: only transactions with the owners, whereas transactions with other parties are presented as total comprehensive income; statement of total comprehensive income; changes in the names of financial statement components.
IAS 23 - Borrowing Costs	March 2007	financial year starting on or after 1 January 2009	Yes	The amendment relates to borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that take a substantial period of time to get ready for use or sale. Within the amendment the option of immediately recognising borrowing costs as an expense in the period in which they were incurred was removed. According to the amendment these costs should be capitalized.
IAS 32 - Financial Instruments: Presentation and IAS 01 - Presentation of Financial Statements	February 2008	financial year starting on or after 1 January 2009	Yes	The amendments relate to selected financial instruments, which are similar to equity instruments, but classified as financial liabilities. According to new requirement, financial instruments, such as puttable instruments and instruments that impose on the entity an obligaton to deliver to another party a pro rata share of the net assets of the entity only on liquidation, after meeting given conditions are classified as equity.
IAS 39 - Financial Instruments: Recognition and Measurement - Criteria for Hedge Accounting	July 2008	financial year starting on or after 1 July 2009	No	The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item for a financial instrument should be applied in particular situations. The amendment clarifies that an entity may not designate an inflation component of issued or acquired fixed-rate debt in a fair value hedge. Amendments do not permit also to include the time value of a one-sided risk when options are designated as a hedging instrument.
IFRS 7 - Financial Instruments: Disclosures	March 2009	financial year starting on or after 1 January 2009	No	The amendments establish a three-level hierarchy for disclosing fair value measurements and a requirement of additional disclosures of relative credibility of fair value valuation. Moreover, the amendments clarify and widen the existing requirements on disclosures about liquidity risk.
IFRIC 13 - Customer Loyalty Programmes	June 2007	financial year starting on or after 1 July 2008	Yes	The interpretation determines accounting for loyalty programmes by the entities which offer them.

(in PLN thousand)

IFRIC 15 - Agreements for the construction of real estate	July 2008	financial year starting on or after 1 January 2009	No	IFRIC 15 provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue and, accordingly, when revenue from the construction should be recognized. Moreover, IFRIC 15 indicates the timing of revenue recognition form construction contracts
IFRIC 16 - Hedges of a net investment in a foreign operation	July 2008	financial year starting on or after 1 October 2009	No	The interpretation provides guidance on whether risk arises from the foreign currency exposure to the functional currencies of the foreign operation and the parent entity, and the presentation currency of the parent entity's consolidated financial statements. This interpretation does not have a material effect on the financial statements of the Bank.
IFRIC 17 - Distributions of Non-cash Assets to Owners	November 2008	financial year starting on or after 1 July 2009	No	The interpretation provides guidance on when a dividend payable should be recognized, how an entity should measure the dividend payable and how it should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation.
IFRIC 18 Transfers of Assets from Customers	January 2009	financial year starting on or after 1 July 2009	No	The interpretation provides guidance on transfers of assets from customers, namely the circumstances in which the definition of an asset is met, the identification of the separately identifiable services (one or more services in exchange for the transferred asset), the recognition of revenue and the accounting for transfers of cash from customers.
IFRS improvements: Amendments to 20 standards			Yes	The amendments include changes in presentation, recognition and valuation as well as terminology and edition changes. Most of the amendments will apply to annual periods starting on 1 January 2009.

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

(in PLN thousand)

3. Interest income and expense

Interest and similar income

	2008	2007
Income from loans and advances to customers[1)]	7 388 610	4 927 006
Income from securities at fair value through profit or loss	433 975	549 200
Income from placements with other banks[1)]	389 275	490 256
Income from investment securities[1)]	355 460	249 718
Income from trading securities	64 046	24 527
Other[1)]	15 060	4 384
Total	**8 646 426**	**6 245 091**

Interest expense and similar charges

	2008	2007
Interest expense on customers[2)]	(2 496 984)	(1 572 859)
Interest expense on debt securities in issue[2)]	(115 315)	(17 511)
Interest expense on deposits from other banks[2)]	(60 771)	(106 663)
Other	(5 273)	(44 951)
Total	**(2 678 343)**	**(1 741 984)**

In the year ended 31 December 2008 the total amount of interest and similar income, calculated using the effective interest rate method and arising from financial assets not valued at fair value through profit or loss, amounted[*)] to PLN 8 148 405 thousand (in the year ended 31 December 2007: PLN 5 671 364 thousand). In the year ended 31 December 2008, interest expense, calculated using the effective interest rate method and arising from financial liabilities which are not valued at fair value through profit or loss, amounted[**)] to PLN (2 673 265) thousand. In the year ended 31 December 2007 interest expense amounted to PLN (1 698 032) thousand.

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

	2008	2007
Net gains and losses from financial assets and liabilities measured at amortised cost	**7 327 262**	**5 563 821**
Interest income from loans and advances to customers	7 388 610	4 927 006
Interest income from placements with other banks	389 275	490 256
Fee and commission income from loans and advances to customers	313 309	262 635
Net impairment allowance on loans and advances to customers and amounts due from other banks measured at amortised cost	(763 932)	(116 076)
Losses from financial liabilities measured at amortised cost	**(2 673 070)**	**(1 697 033)**
Interest expense on amounts due to customers	(2 496 984)	(1 572 859)
Interest expense on debt securities in issue	(115 315)	(17 511)
Interest expense on amounts due to banks	(60 771)	(106 663)
Net result	**4 654 192**	**3 866 788**

[*)] the total amount of the items marked with [1)]

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

(in PLN thousand)

4. Fee and commission income and expense

Fee and commission income

	2008	2007
Income from financial assets, which are not valued at fair value through profit or loss, of which:	**313 309**	**262 635**
Income from loans and advances	313 309	262 635
Other fee and commissions	**2 498 713**	**2 384 250**
Income from payment cards	848 610	701 759
Income from maintenance of bank accounts	780 759	748 760
Income from loan insurance intermediary and other services	225 063	202 260
Income from cash transactions	188 345	203 871
Income from portfolio and other management fees	159 570	240 330
Income from securities transactions	43 873	87 699
Income from foreign mass transactions servicing	41 181	36 878
Income from sale and distribution of marks of value	21 738	28 523
Other*	189 574	134 170
Income from trustee activities	**1 056**	**1 207**
Total	**2 813 078**	**2 648 092**

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

Fee and commission expense

	2008	2007
Expenses on payment cards	(348 243)	(283 868)
Expenses on acquisition services	(134 773)	(129 001)
Expenses on loan insurance intermediary and other services	(94 140)	(155 707)
Expenses on fee and commissions for operating services granted by other banks	(8 112)	(9 264)
Expenses on fee and commissions paid to PPUP	(5 240)	(5 735)
Other*	(89 755)	(70 745)
Total	**(680 263)**	**(654 320)**

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

5. Dividend income

	2008	2007
Dividend income from the issuers of:	**21 956**	**3 288**
Securities classified as available for sale	21 905	3 267
Securities classified as held for trading	51	21
Dividend income from subsidiaries, associates and jointly controlled entities	**108 940**	**48 825**
of which:		
PKO Towarzystwo Funduszy Inwestycyjnych SA	92 250	48 750
Centrum Finansowe Puławska Sp. z o.o.	16 626	-
Agencja Inwestycyjna Corp SA	64	75
Total	**130 896**	**52 113**

(in PLN thousand)

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

	2008	2007
Derivative instruments	(158 013)	260 798
Debt securities	(31 774)	(337 827)
Equity instruments	(5 716)	291
Other	73	(8)
Total	**(195 430)**	**(76 746)**

2008	Gains	Losses	Net result
Trading assets	11 970 841	(12 133 979)	(163 138)
Financial assets designated upon initial recognition at fair value through profit or loss	162 863	(195 155)	(32 292)
Total	**12 133 704**	**(12 329 134)**	**(195 430)**

2007	Gains	Losses	Net result
Trading assets	5 959 098	(5 709 593)	249 505
Financial assets designated upon initial recognition at fair value through profit or loss	125 063	(451 314)	(326 251)
Total	**6 084 161**	**(6 160 907)**	**(76 746)**

The total change in fair values of financial instruments at fair value through profit or loss determined with use of valuation models (where no quotations from active market were available) in the year ended 31 December 2008 amounted to PLN (157 940) thousand (in the year ended 31 December 2007: PLN 260 790 thousand).

Fair value changes in hedge accounting

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

7. Gains less losses from investment securities

Financial assets available for sale	2008	2007
Gains recognized directly in equity	11 533	-
Losses recognized directly in equity	-	(62 070)
Total result recognized directly in equity	**11 533**	**(62 070)**
Gains derecognized from equity	1 613	7 557
Losses derecognized from equity	(2 564)	(1 036)
Total result derecognised from equity	**(951)**	**6 521**
Grand total	**10 582**	**(55 549)**

8. Net foreign exchange gains

	2008	2007
Foreign exchange differences resulting from financial instruments at fair value through profit or loss	(2 207 846)	255 445
Foreign exchange differences	2 942 413	267 248
Total	**734 567**	**522 693**

(in PLN thousand)

9. Other operating income and expense

	2008	2007
Other operating income		
Recovery of expired and written-off receivables	31 150	19 469
Sundry income	22 849	23 842
Sales and disposal of tangible fixed assets, intangible assets, and assets held for sale	6 130	17 555
Sale of shares in subordinates	3 746	-
Other*	96 861	79 741
Total	**160 736**	**140 607**

* Included in “Other” are: reversal of accruals (e.g. for costs of servicing computer hardware and software), costs of consulting and advisory services, refund of costs of debt collection proceedings, reversal of impairment allowance on other receivables.

	2008	2007
Other operating expenses		
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(13 152)	(14 460)
Sundry expenses	(5 399)	(4 224)
Donations	(4 353)	(7 123)
Costs of tangible fixed assets construction and intangible assets development - not capitalized	(426)	(4 013)
Other*	(91 359)	(54 731)
Total	**(114 689)**	**(84 551)**

* Included in “Other” are: legal costs, impairment allowances for other assets and bailiffs advances.

(in PLN thousand)

10. Net impairment allowance

For the year ended 31 December 2008	Impairment allowances at the beginning of the period	Increases		Decreases			Impairment allowances at the end of period	Net impairment allowances
		Impairment allowances made during the period	Other	Decrease in impairment allowances due to derecognition of assets, not impacting the income statement	Impairment allowances reversed during the period	Other		
Financial assets available for sale, including:	**26 816**	**6 249**	**-**	**2 470**	**9 045**	**-**	**21 550**	**2 796**
carried at fair value through equity (not listed on stock exchange)	18 587	6 249	-	-	9 045	-	15 791	2 796
valued at cost (unquoted equity instruments and related derivative instruments)	8 229	-	-	2 470	-	-	5 759	-
Loans and advances to customers and amounts due from other banks valued at amortised cost	**2 307 004**	**1 577 693**	**28 067**	**470 352**	**813 761**	**-**	**2 628 651**	**(763 932)**
Non-financial sector	2 233 761	1 573 095	-	470 352	806 414	-	2 530 090	(766 681)
consumer loans	650 474	846 936	-	358 163	444 599	-	694 648	(402 337)
mortgage loans	489 851	205 493	-	49 088	158 099	-	488 157	(47 394)
corporate loans	1 093 436	520 666	-	63 101	203 716	-	1 347 285	(316 950)
Financial sector	44 059	3 271	28 067	-	307	-	75 090	(2 964)
amounts due from banks	276	-	28 067*	-	232	-	28 111	232
corporate loans	43 783	3 271	-	-	75	-	46 979	(3 196)
Budget sector	29 184	1 327	-	-	7 040	-	23 471	5 713
corporate loans	29 184	1 327	-	-	7 040	-	23 471	5 713
Tangible fixed assets	**1 957**	**532**	**-**	**477**	**96**	**-**	**1 916**	**(436)**
Intangible assets	**15 373**	**-**	**-**	**-**	**-**	**-**	**15 373**	**-**
Investments in subsidiaries, associates and jointly controlled entities	**65 136**	**309 125****	**-**	**40**	**48 075**	**-**	**326 146**	**(261 050)**
Other	**122 187**	**212 724*****	**-**	**3 192**	**86 416**	**-**	**245 303**	**(126 308)**
Total	**2 538 473**	**2 106 323**	**28 067**	**476 531**	**957 393**	**-**	**3 238 939**	**(1 148 930)**

* the value of PLN 28 067 thousand refers to impairment allowances on a foreign bank receivable. Net result from impairment on other assets has been included in "Gains less losses from financial assets and liabilities other than classified as at fair value through profit or loss" and "Net foreign exchange gains".
** including PLN 307 364 thousand which refers to impairment for KREDOBANK SA exposure; more details in Note 22
*** including PLN 48 737 thousand which refers to capital contribution to KREDOBANK SA; more details in Note 22

(in PLN thousand)

For the year ended 31 December 2007	Impairment allowances at the beginning of the period	Increases		Decreases			Impairment allowances at the end of period	Net impairment allowances
		Impairment allowances made during the period	Other	Decrease in impairment allowances due to derecognition of assets, not impacting the income statement	Impairment allowances reversed during the period	Other		
Financial assets available for sale, including:	**30 014**	**6 019**	**-**	**-**	**8 500**	**717**	**26 816**	**2 481**
carried at fair value through equity (not listed on stock exchange)	14 900	5 987	-	-	2 300	-	18 587	(3 687)
valued at cost (unquoted equity instruments and related derivative instruments)	15 114	32	-	-	6 200	717	8 229	6 168
Loans and advances to customers and amounts due from other banks valued at amortised cost	**2 333 720**	**1 170 862**	**-**	**142 792**	**1 054 786**	**-**	**2 307 004**	**(116 076)**
Non-financial sector	2 255 824	1 148 284	-	140 303	1 030 044	-	2 233 761	(118 240)
consumer loans	503 411	452 939	-	83 603	222 273	-	650 474	(230 666)
mortgage loans	530 998	181 306	-	-	222 453	-	489 851	41 147
corporate loans	1 221 415	514 039	-	56 700	585 318	-	1 093 436	71 279
Financial sector	42 834	7 690	-	2 489	3 976	-	44 059	(3 714)
amounts due from banks	329	-	-	-	53	-	276	53
corporate loans	42 505	7 690	-	2 489	3 923	-	43 783	(3 767)
Budget sector	35 062	14 888	-	-	20 766	-	29 184	5 878
corporate loans	35 062	14 888	-	-	20 766	-	29 184	5 878
Tangible fixed assets	**51 220**	**478**	**79**	**-**	**49 820**	**-**	**1 957**	**49 342**
Intangible assets	**31 681**	**-**	**-**	**-**	**16 308**	**-**	**15 373**	**16 308**
Investments in subsidiaries, associates and jointly controlled entities	**54 470**	**10 666**	**-**	**-**	**-**	**-**	**65 136**	**(10 666)**
Other	**136 812**	**52 309**	**-**	**962**	**65 972**	**-**	**122 187**	**13 663**
Total	**2 637 917**	**1 240 334**	**79**	**143 754**	**1 195 386**	**717**	**2 538 473**	**(44 948)**

(in PLN thousand)

11. Administrative expenses

	2008	2007
Staff costs	(2 269 539)	(2 155 112)
Overheads	(1 270 174)	(1 138 944)
Depreciation and amortisation expense	(361 382)	(323 755)
Taxes and other charges	(51 415)	(53 930)
Contribution and payments to Banking Guarantee Fund	(16 737)	(13 682)
Total	**(3 969 247)**	**(3 685 423)**

Wages and salaries / Employee benefits

	2008	2007
Wages and salaries	(1 896 469)	(1 791 698)
Insurance	(279 024)	(294 253)
Other employee benefits	(94 046)	(69 161)
Total	**(2 269 539)**	**(2 155 112)**

12. Income tax expense

	2008	2007
Income statement		
Current income tax expense	(949 873)	(640 233)
Deferred income tax related to temporary differences	133 283	33 079
Tax expense disclosed in the income statement	**(816 590)**	**(607 154)**
Tax expense disclosed in the equity	2 011	10 829
Total	**(814 579)**	**(596 325)**

	2008	2007
Profit before income tax	**3 697 850**	**3 327 145**
Corporate income tax calculated using the enacted tax rate 19% (2007: 19%)	(702 592)	(632 158)
Permanent differences between accounting gross profit and taxable profit, of which:	**(114 506)**	**24 345**
Recognition of impairment loss, not constituting taxable income (KREDOBANK)	(67 659)	-
Other non-tax-deductible expenses	(57 138)	30 413
Reversed provisions and positive revaluation not constituting taxable income	(19 593)	(19 169)
Other non-taxable income	21 140	9 901
Dividend income	5 294	3 366
Other	3 450	(166)
Other differences between gross financial result and taxable income, including donations	**508**	**659**
Income tax disclosed in the income statement	**(816 590)**	**(607 154)**
Effective tax rate	**22.08%**	**18.25%**
Temporary difference due to the deferred tax presented in the income statement	133 283	33 079
Total current income tax expense disclosed in the income statement	**(949 873)**	**(640 233)**

(in PLN thousand)

Current income tax liabilities/ receivables

	31.12.2008	31.12.2007
Current income tax receivables	-	187 707
Current income tax liability	470 416	-

Tax authorities can verify the correctness of income tax settlements within 5 years from the end of the accounting year in which the tax declaration was submitted. Current income liability has been settled as at March 31, 2009.

Deferred tax asset/liability

	Balance sheet		Income statement	
	31.12.2008	31.12.2007	2008	2007
Deferred tax liability				
Interest accrued on receivables (loans)	100 892	99 944	948	4 314
Capitalised interest on mortgage loans	258 759	277 827	(19 068)	(16 633)
Interest on securities	44 113	28 126	15 987	(7 895)
Valuation of securities, of which:	11 486	1 901	-	-
transferred to income statement	6 365	705	5 660	(2 535)
transferred to equity	5 121	1 196	-	-
Difference between book value and tax value of tangible assets	196 000	133 926	62 074	60 781
Other taxable temporary positive differences	3 597	2 804	793	1 603
Gross deferred tax liability	**614 847**	**544 528**	**-**	**-**
transferred to income statement	609 726	543 332	66 394	39 635
transferred to equity	5 121	1 196	-	-
Deferred tax assets				
Interest accrued on liabilities	223 004	138 252	84 752	(5 097)
Valuation of securities	27 825	33 217	-	-
transferred to income statement	14 759	22 065	(7 306)	3 008
transferred to equity	13 066	11 152	-	-
Valuation of derivative instruments	77 734	62 331	15 403	18 300
Provision for anniversary bonuses and retirement benefits	110 037	88 874	21 163	5 219
Cost of accruals	159 789	79 193	80 596	32 646
Adjustment to valuation at amortised cost	166 449	149 499	16 950	16 620
Other temporary negative differences	16 812	28 693	(11 881)	2 018
Gross deferred income tax asset, of which:	**781 650**	**580 059**	**-**	**-**
transferred to income statement	768 584	568 907	199 677	72 714
transferred to equity	13 066	11 152	-	-
Deferred tax impact on the income statement, of which:	**(166 803)**	**(35 531)**	-	-
transferred to income statement	(158 858)	(25 575)	(133 283)	(33 079)
transferred to equity	(7 945)	(9 956)	-	-
Deferred income tax asset (presented in the balance sheet)	**166 803**	**35 531**	**-**	**-**
Net deferred tax impact on the income statement	**-**	**-**	**(133 283)**	**(33 079)**

13. Earnings per share

Basic earnings per share

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

Earnings per share

	2008	2007
Profit per ordinary shareholder (PLN thousand)	2 881 260	2 719 991
Weighted average number of shares during the period (thousand)	1 000 000	1 000 000
Profit per share (PLN per share)	2.88	2.72

Earnings per share from discontinued operations

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

Diluted earnings per share

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

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

Diluted earnings per share from discontinued operations

As stated above, in the years ended ended 31 December 2008 and 31 December 2007, the Bank did not report any material income or expenses from discontinued operations.

14. Dividends paid and declared

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

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

(in PLN thousand)

15. Cash and balances with the central bank

	31.12.2008	31.12.2007
Current account with the central bank	3 419 832	2 972 067
Cash	2 336 985	1 620 394
Other funds	1 431	1 623
Total	**5 758 248**	**4 594 084**

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

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

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

16. Amounts due from banks

	31.12.2008	31.12.2007
Deposits with other banks	2 108 482	4 723 824
Loans and advances	968 264	513 629
Receivables due from repurchase agreements	603 200	14 397
Current accounts	247 292	49 846
Cash in transit	7 846	14 379
Total	**3 935 084**	**5 316 075**
Impairment allowances	(28 111)	(276)
Including amounts due from foreign bank	(28 067)	-
Net total	**3 906 973**	**5 315 799**

As at 31 December 2008, the nominal value of placements with other banks with a fixed interest rate amounted to PLN 727 578 thousand (as at 31 December 2007: PLN 4 644 000 thousand). The majority of those placements were short-term placements. The nominal value of placements with other banks with a floating interest rate amounted to PLN 1 377 712 thousand as at 31 December 2008 (as at 31 December 2007 the Bank did not have any placements with other banks with a floating interest rate). As at 31 December 2008, the total value of accrued interests of placements with other banks amounted to PLN 3 192 thousand (as at 31 December 2007: PLN 79 824 thousand).

Details on risk related to amounts due from banks was presented in Note 47 “Objectives and principles of risk management related to financial instruments”.

17. Trading assets

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

(in PLN thousand)

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

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

The average yield on debt securities issued by the State Treasury as at 31 December 2008 amounted to 5.70% for PLN and 3.80% for EUR.

The portfolio of trading assets as at 31 December 2008 comprised the following securities carried at nominal values:

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

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

The average yield on debt securities issued by the State Treasury as at 31 December 2007 amounted to 5.97% for PLN, 4.38% for EUR.

The portfolio of debt securities held for trading as at 31 December 2007 comprised the following securities carried at nominal values:

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

(in PLN thousand)

18. Derivative financial instruments

Derivative instruments used by the Bank

The Bank uses various types of derivatives with a view to manage risk involved in its business activities. As at 31 December 2008 and 31 December 2007, the Bank held the following derivative instruments:

Type of contract	31.12.2008		31.12.2007	
	Assets	Liabilities	Assets	Liabilities
IRS	2 601 250	2 554 343	882 382	814 520
FRA	128 673	124 489	146 575	144 704
FX Swap	22 350	359 114	73 193	67 132
CIRS	56 290	2 391 272	410 927	200 717
Forward	204 355	135 645	28 145	36 375
Options	574 434	585 414	15 528	16 424
Other	12 193	60	-	393
Total	**3 599 545**	**6 150 337**	**1 556 750**	**1 280 265**

The majority of the derivatives used by the Bank are forward contracts and the most frequently used types of derivatives are: IRS, FRA, FX Swap, CIRS and Forwards.

(in PLN thousand)

Derivative financial instruments as at 31 December 2008

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

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
FX swap	8 412 022	5 912 134	-	-	-	**14 324 156**	359 114	22 350
Purchase	4 119 551	2 881 423	-	-	-	**7 000 974**	-	-
Sale	4 292 471	3 030 711	-		-	**7 323 182**	-	-
FX forward	2 169 940	1 461 216	2 257 988	71 982	-	**5 961 126**	135 645	204 355
Purchase	1 092 233	722 149	1 158 628	38 634	-	**3 011 644**	-	-
Sale	1 077 707	739 067	1 099 360	33 348	-	**2 949 482**	-	-
Options	2 700 929	3 127 560	9 114 775	2 787 136	-	**17 730 400**	585 414	574 434
Purchase	1 341 215	1 584 392	4 592 486	1 395 541	-	**8 913 634**	-	-
Sale	1 359 714	1 543 168	4 522 289	1 391 595	-	**8 816 766**	-	-
Cross Currency IRS	-	514 182	2 757 368	23 967 698	7 884 073	**35 123 321**	2 391 272	56 290
Purchase	-	234 032	1 312 617	11 206 796	3 660 398	**16 413 843**	-	-
Sale	-	280 150	1 444 751	12 760 902	4 223 675	**18 709 478**	-	-
Interest rate transactions								
Interest Rate Swap (IRS)	14 720 690	21 432 000	81 083 050	147 760 870	18 013 836	**283 010 446**	2 554 343	2 601 250
Purchase	7 360 345	10 716 000	40 541 525	73 880 435	9 006 918	**141 505 223**	-	-
Sale	7 360 345	10 716 000	40 541 525	73 880 435	9 006 918	**141 505 223**	-	-
Forward Rate Agreement (FRA)	16 326 000	17 354 000	31 410 000	2 300 000	-	**67 390 000**	124 489	128 673
Purchase	7 790 000	9 300 000	15 400 000	1 150 000	-	**33 640 000**	-	-
Sale	8 536 000	8 054 000	16 010 000	1 150 000	-	**33 750 000**	-	-
Other transactions								
Credit Default Swaps (CDS)	-	-	-	207 326	-	**207 326**		11 624
Purchase	-	-	-	207 326	-	**207 326**	-	-
Other (stock market index derivatives)	-	12 962	155	-	-	**13 117**	60	569
Purchase	-	12 158	6	-	-	**12 164**	-	-
Sale	-	804	149	-	-	**953**	-	-
Total derivative instruments	**44 329 581**	**49 814 054**	**126 623 336**	**177 095 012**	**25 897 909**	**423 759 892**	**6 150 337**	**3 599 545**

(in PLN thousand)

Derivative financial instruments as at 31 December 2007

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

	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
FX swap	2 729 270	643 248	845 554	-	-	**4 218 072**	67 132	73 193
Purchase	1 356 838	324 984	432 144	-	-	**2 113 966**	-	-
Sale	1 372 432	318 264	413 410	-	-	**2 104 106**	-	-
FX forward	966 764	1 004 944	906 335	71 852	-	**2 949 895**	36 375	28 145
Purchase	486 809	499 958	448 069	35 229	-	**1 470 065**	-	-
Sale	479 955	504 986	458 266	36 623	-	**1 479 830**	-	-
Options	195 247	445 795	614 253	135 922	-	**1 391 217**	16 424	15 324
Purchase	95 177	152 629	338 580	71 110	-	**657 496**	-	-
Sale	100 070	293 166	275 673	64 812	-	**733 721**	-	-
Cross Currency IRS	-	1 095 785	1 397 535	10 545 309	8 866 607	**21 905 236**	200 717	410 927
Purchase	-	555 435	705 155	5 317 678	4 471 031	**11 049 299**	-	-
Sale	-	540 350	692 380	5 227 631	4 395 576	**10 855 937**	-	-
Interest rate transactions								
Interest Rate Swap (IRS)	10 336 000	12 814 000	78 651 500	132 685 954	15 279 760	**249 767 214**	814 520	882 382
Purchase	5 168 000	6 407 000	39 325 750	66 342 977	7 639 880	**124 883 607**	-	-
Sale	5 168 000	6 407 000	39 325 750	66 342 977	7 639 880	**124 883 607**	-	-
Forward Rate Agreement (FRA)	18 709 142	32 714 000	68 050 000	16 950 000	-	**136 423 142**	144 704	146 575
Purchase	9 600 000	16 710 000	37 400 000	10 150 000	-	**73 860 000**	-	-
Sale	9 109 142	16 004 000	30 650 000	6 800 000	-	**62 563 142**	-	-
Other transactions								
Credit Default Swaps (CDS)	-	-	-	109 575	121 750	**231 325**	376	-
Purchase	-	-	-	109 575	121 750	**231 325**	-	-
Other (stock market index derivatives)	281	8 002	1 940	-	-	**10 223**	17	204
Purchase	281	2 034	-	-	-	**2 315**	-	-
Sale	-	5 968	1 940	-	-	**7 908**	-	-
Total derivative instruments	**32 936 704**	**48 725 774**	**150 467 117**	**160 498 612**	**24 268 117**	**416 896 324**	**1 280 265**	**1 556 750**

(in PLN thousand)

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

	31.12.2008	31.12.2007
Debt securities	**4 546 497**	**8 101 534**
- issued by the State Treasury	4 373 621	7 221 217
- issued by other banks	172 876	764 018
- issued by other financial institutions	-	116 299
Total	**4 546 497**	**8 101 534**

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

According to nominal amount	31.12.2008	31.12.2007
treasury bills	2 100 000	-
Treasury bonds	2 255 500	6 271 400
USD bonds	118 472	587 424
including issued by banks	118 472	234 349
EUR bonds	95 965	1 271 610
including issued by banks	95 965	555 210

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

(in PLN thousand)

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

As at 31 December 2008	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Debt securities	**997 473**	**99 355**	**2 425 146**	**1 001 837**	**22 686**	**4 546 497**
issued by other banks	-	-	-	150 190	22 686	**172 876**
issued by the State Treasury	997 473	99 355	2 425 146	851 647	-	**4 373 621**
Total	**997 473**	**99 355**	**2 425 146**	**1 001 837**	**22 686**	**4 546 497**

As at 31 December 2007	up to 1 month	from 1 to 3 months	From 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Debt securities	**-**	**-**	**2 000 246**	**4 325 480**	**1 775 808**	**8 101 534**
issued by the State Treasury	-	-	2 000 246	3 749 175	1 471 796	**7 221 217**
issued by other banks	-	-	-	505 390	258 628	**764 018**
issued by other financial institutions	-	-	-	70 915	45 384	**116 299**
Total	**-**	**-**	**2 000 246**	**4 325 480**	**1 775 808**	**8 101 534**

(in PLN thousand)

20. Loans and advances to customers

	31.12.2008	31.12.2007
Loans and advances		
Receivables valued using the collective method (IBNR)	96 689 671	73 328 093
Receivables valued using the individual method	1 879 162	1 181 634
Receivables valued using the portfolio method	2 133 726	1 619 194
Loans and advances - gross	**100 702 559**	**76 128 921**
Allowance for impairment on exposures with portfolio impairment	(1 279 179)	(1 363 864)
Allowance for impairment on exposures with individual impairment	(648 853)	(467 191)
Allowance for impairment on exposures with collective impairment (IBNR)	(672 508)	(475 673)
Total impairment allowances	**(2 600 540)**	**(2 306 728)**
Loans and advances – net	**98 102 019**	**73 822 193**

Details on risk related to loans and advances to customers was presented in Note 47 “Objectives and principles of risk management related to financial instruments”.

Finance and operating lease agreements

Finance lease

The Bank does not have any receivables and payables according to finance lease.

Operating lease - lessee

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

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

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

Total value of future lease payments under non-cancellable operating lease	**31.12.2008**	**31.12.2007**
For period:		
up to 1 year	117 067	93 407
from 1 year to 5 years	264 929	211 329
above 5 years	147 824	144 681
Total	**529 820**	**449 417**

Lease and sub-lease payments recognized as an expense in the period from 1 January 2008 to 31 December 2008 amounted to PLN 124 146 thousand (in the period from 1 January 2007 to 31 December 2007: PLN 77 821 thousand).

(in PLN thousand)

21. Investment securities available for sale

	31.12.2008	31.12.2007
Available for sale	**8 701 479**	**5 775 876**
issued by the central bank	2 673 729	2 633 505
issued by other banks	46 756	-
issued by other financial institutions	481 128	232 899
issued by non-financial institutions	795 041	639 862
issued by the State Treasury	3 286 726	1 093 563
issued by local government bodies	1 418 099	1 176 047
Allowance for impairment on investment securities	(15 791)	(18 587)
Total net investment securities	**8 685 688**	**5 757 289**
Equity instruments available for sale	76 582	92 493
Allowance for impairment on equity instruments	(5 759)	(8 229)
Total net equity instruments available for sale	**70 823**	**84 264**
Total net investment securities	**8 756 511**	**5 841 533**

Change in investment securities available for sale:

	2008	2007
Balance at the beginning of the period	**5 841 553**	**6 805 567**
Foreign exchange differences	48 918	(1 595)
Increases, including:	9 110 374	4 464 988
Change in impairment allowance	*5 266*	*3 198*
Decreases (redemption)	(6 254 916)	(5 371 858)
Change in the fair value	10 582	(55 549)
Balance at the end of the period	**8 756 511**	**5 841 553**

Details on risk related to investment securities available for sale was presented in Note 47 “Objectives and principles of risk management related to financial instruments”.

(in PLN thousand)

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

As at 31 December 2008	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Investment securities available for sale						
issued by the central bank	-	-	-	2 673 729	-	**2 673 729**
issued by other banks	49 933	-	-	46 756	-	**96 689**
issued by other financial institutions	753	260 546	220 252	-	-	**481 551**
issued by non-financial institutions	359 826	108 290	39 502	282 939	9 160	**799 717**
issued by the State Treasury	-	-	-	2 765 486	521 240	**3 286 726**
issued by local government bodies	-	8 361	95 239	652 493	662 006	**1 418 099**
Total	**410 512**	**377 197**	**354 993**	**6 421 403**	**1 192 406**	**8 756 511**

The average yield of available-for-sale securities as at 31 December 2008 amounted to 4.94%.

As at 31 December 2008, the portfolio of debt securities available for sale, at nominal values, comprised the following:

- corporate bonds in PLN 1 162 720
- corporate bonds in EUR 32 824
- municipal bonds 1 427 563
- Treasury bonds 3 005 000
- bonds issued by the central bank, NBP 2 551 112
- Treasury bonds in EUR 271 206
- Treasury bonds in USD 88 854

(in PLN thousand)

As at 31 December 2007	up to 1 month	from 1 to 3 months	from 3 months to 1 year	from 1 to 5 years	over 5 years	Total
Securities available for sale						
issued by the central bank	-	-	-	2 633 505	-	**2 633 505**
issued by other banks	-	-	-	55 377	-	**55 377**
issued by other financial institutions	1 353	140 685	90 861	-	423	**233 322**
issued by non-financial institutions	136 030	107 292	6 546	394 154	5 716	**649 738**
issued by the State Treasury	-	-	-	613 488	480 075	**1 093 563**
issued by local government bodies	2 617	5 501	124 669	556 492	486 769	**1 176 048**
Total	**140 000**	**253 478**	**222 076**	**4 253 016**	**972 983**	**5 841 553**

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

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

- bills of exchange 2 150
- corporate bonds in PLN 833 468
- corporate bonds in EUR 24 723
- municipal bonds 1 171 442
- Treasury bonds 1 125 000
- bonds issued by National Bank of Poland 2 551 112

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

(in PLN thousand)

22. Investments in subsidiaries, associates and jointly controlled entities

As at 31 December 2008, the Bank's investments in subsidiaries, associates and jointly controlled entities have been recognised at cost adjusted by impairment allowances.

The Bank's individual shares in subsidiaries, jointly controlled entities and associates are presented below.

31 December 2008

Entity name	Gross value	Impairment	Carrying amount
Subsidiaries			
KREDOBANK SA [1]	307 364	(307 364)	-
Powszechne Towarzystwo Emerytalne BANKOWY SA	205 786	-	205 786
Centrum Finansowe Puławska Sp. z o.o.	128 288	-	128 288
Bankowy Fundusz Leasingowy SA	70 000	-	70 000
PKO Towarzystwo Funduszy Inwestycyjnych SA	69 054	-	69 054
Inteligo Financial Services SA	59 602	-	59 602
Centrum Elektronicznych Usług Płatniczych "eService" SA	55 500	-	55 500
Bankowe Towarzystwo Kapitałowe SA	18 566	(10 666)	7 900
PKO Inwestycje Sp. z o.o. [2]	4 503	-	4 503
PKO Finance AB	172	-	172
Jointly controlled entities			
Centrum Haffnera Sp. z o.o.	44 371	-	44 371
Centrum Obsługi Biznesu Sp. z o.o	17 498	-	17 498
Associates			
Bank Pocztowy SA	146 500	-	146 500
Kolej Gondolowa Jaworzyna Krynicka SA	15 531	(1 680)	13 851
Ekogips SA (in bankruptcy)	5 400	(5 400)	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	(1 036)	464
Agencja Inwestycyjna CORP SA	29	-	29
Total	**1 149 664**	**(326 146)**	**823 518**

1) Value does not include the XVIII share issue, acquired by PKO BP SA on 31 December 2008 and presented in balance sheet as receivables in the amount of PLN 48 737 thousand, as well as impairment charge on these receivables in the full amount.
2) Value does not include capital contribution of PKO BP SA, presented in balance sheet as receivables in the total amount of PLN 113 310 thousand.

(in PLN thousand)

31 December 2007

Entity name	Gross value	Impairment	Carrying amount
Subsidiaries			
Powszechne Towarzystwo Emerytalne BANKOWY SA	205 786	-	205 786
KREDOBANK SA	307 364	-	307 364
Centrum Finansowe Puławska Sp. z o.o.	128 288	-	128 288
PKO Inwestycje Sp. z o.o.	4 503	-	4 503
Inteligo Financial Services SA	59 602	-	59 602
Centrum Elektronicznych Usług Płatniczych "eService" SA	55 500	-	55 500
Bankowy Fundusz Leasingowy SA	40 000	-	40 000
Bankowe Towarzystwo Kapitałowe SA	18 566	(10 666)	7 900
PKO Towarzystwo Funduszy Inwestycyjnych SA	69 054	-	69 054
Przedsiębiorstwo Informatyki Bankowej "Elbank" Sp. z o.o. (under liquidation)	6	(6)	-
International Trade Center Sp. z o.o. (under liquidation)	33	(33)	-
Jointly controlled entities			
Centrum Obsługi Biznesu Sp. z o.o	17 498	-	17 498
Grupa Centrum Haffnera Sp. z o.o.	44 371	-	44 371
Associated			
Bank Pocztowy SA	146 500	(33 500)	113 000
Kolej Gondolowa Jaworzyna Krynicka SA	15 531	(15 531)	-
Ekogips SA (in bankruptcy)	5 400	(5 400)	-
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	-	1 500
Agencja Inwestycyjna CORP SA	29	-	29
Total	**1 119 531**	**(65 136)**	**1 054 395**

Selected information on associated entities accounted for using the equity method:

Entity name	Total assets	Total liabilities	Total revenues	Net profit (loss)	% share
31.12.2008					
Bank Pocztowy SA	2 697 837	2 414 068	248 485	27 014	25.00%
Kolej Gondolowa Jaworzyna Krynicka SA	44 648	7 794	13 408	3 714	37.53%
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	15 614	18	379	10 017	33.33%
Agencja Inwestycyjna CORP SA	3 899	2 290	13 128	451	22.31%
Total	**2 761 998**	**2 424 170**	**275 400**	**41 196**	**X**
31.12.2007					
Bank Pocztowy SA	3 100 593	2 851 637	253 816	30 431	25.00%
Kolej Gondolowa Jaworzyna Krynicka SA	36 860	2 792	11 726	1 602	37.53%
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	14 653	9 575	312	42	33.33%
Agencja Inwestycyjna CORP SA	4 027	2 486	14 471	315	22.31%
Total	**3 156 133**	**2 866 490**	**280 325**	**32 390**	**X**

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

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

In 2008, the following events occurred in PKO BP:

a) concerning KREDOBANK SA

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

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

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

As at 31 December 2008, the value of exposure to KREDOBANK SA, a strategic investment of the Bank in the Ukrainian market, in the balance sheet of PKO BP SA amounted to PLN 307 364 thousand, measured at acquisition cost. Moreover, the XVIII share issue, acquired by PKO BP SA on 31 December 2008, was presented in the balance sheet of PKO BP SA as receivables in the amount of PLN 48 737 thousand.

Global financial crisis contributed to fierce economic slowdown in Ukraine. High correlation between economic growth in Ukraine, including banking sector, and foreign capital inflow deepened the crisis in Ukraine.
In November 2008, the International Monetary Fund granted Ukraine stabilizing funds, provided the flexibility improvements are implemented to the currency system. In the last months of 2008, constraining of central bank interventions, along with the deepening process of foreign capital outflow as well as currency purchase by domestic entities caused fierce depreciation of the Ukrainian hryvna.
Banking crisis in Ukraine and the following decrease of trust to the banks resulted in withdraval of bank deposits in the last months of 2008; higher increase rate of loans than deposits resulted in deepening liquidity difficulties.

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

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

As at the balance date, the Bank carried out an impairment test to estimate the recoverable amount of investment in subsidiary company KREDOBANK SA, being the higher of the fair value less costs to sell and the value in use.

The Bank estimated the fair value on the basis of information about arm's length sale transactions of similar assets between knowledgeable, willing parties that took place in 2008. Moreover, the Bank conducted a valuation using the comparative method, using market quotations of other comparative entities on East European Stock Exchanges.

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

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

As a result of the test, both fair value and recoverable value of KREDOBANK shares was estimated as approx. nil as at the balance date. As a consequence, the Bank decided to recognise a 100% write-down in the amount of PLN 356 101 thousand as at 31 December 2008 i.e. PLN 307 364 thousand for capital investment and PLN 48 737 thousand for capital contribution to KREDOBANK SA due to the XVIII share issue, presented in the balance sheet as at 31 December 2008 as “Other assets”.

b) concerning PKO Finance AB

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

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

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

The Company’s activity is to rise funds for PKO BP SA deriving from issue of Eurobonds.

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

c) concerning Bankowy Fundusz Leasingowy SA

On 30 September 2008, an increase of share capital of Bankowy Fundusz Leasingowy SA of PLN 30 million was registered with the National Court Register.

All of the new shares were acquired by PKO BP SA. Following the above-mentioned issue, PKO BP SA holds 100% of the share capital and 100% of voting rights on the General Shareholders’ Meeting.

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

d) concerning PKO Inwestycje Sp. z o.o.

On 30 June 2008, PKO Inwestycje Sp. z o.o. reimbursed to PKO BP SA the contribution for the execution of capital expenditure projects of PLN 5.5 million.

(in PLN thousand)

23. Intangible assets

For the year ended 31 December 2008	**Patents and licenses**	**Other, including capitalised expenses**	**Total**
Net value as at 1 January 2008	809 771	117 839	927 610
Purchase	-	363 110	363 110
Impairment allowance	-	-	-
Transfers	285 737	(285 737)	-
Amortisation	(140 546)	(2 345)	(142 891)
Other changes	(245)	7 458	7 213
Net value	**954 717**	**200 325**	**1 155 042**
Gross value as at 1 January 2008			
Acquisition cost (gross value)	1 567 880	131 387	1 699 267
Accumulated amortisation and impairment allowance	(758 109)	(13 548)	(771 657)
Net value	**809 771**	**117 839**	**927 610**
Gross value as at 31 December 2008			
Acquisition cost (gross value)	1 787 570	216 154	2 003 724
Accumulated amortisation and impairment allowance	(832 853)	(15 829)	(848 682)
Net value	**954 717**	**200 325**	**1 155 042**

The most significant item of capital expenditure of the Bank relates to outlays on the Integrated Information System (ZSI). The cumulative capital expenditures incurred for the ZSI system during the years 2003 – 2008 amounted to PLN 864 500 thousand (during the years 2003 – 2007, they amounted to PLN 704 010 thousand). As at 31 Decmeber 2008 net carrying amount of the ZSI system amouted to PLN 577 925 thousand. The expected useful life of the ZSI system is 10 years. At 31 December 2008, the remaining useful life is 8 years.

For the year ended 31 December 2007	**Software**	**Other including capitalised expenses**	**Total**
Net value as at 1 January 20087	611 437	115 021	726 458
Purchase	-	296 043	296 043
Impairment allowance	16 308	-	16 308
Amortisation	(108 192)	(2 408)	(110 600)
Transfers	292 754	(292 754)	-
Other changes	(2 536)	1 937	(599)
Net value	**809 771**	**117 839**	**927 610**
Gross value as at 1 January 2007			
Acquisition cost (gross value)	1 276 516	128 640	1 405 156
Accumulated amortisation and impairment allowance	(665 079)	(13 619)	(678 698)
Net value	**611 437**	**115 021**	**726 458**
Gross value as at 31 December 2007			
Acquisition cost (gross value)	1 567 880	131 387	1 699 267
Accumulated amortisation and impairment allowance	(758 109)	(13 548)	(771 657)
Net value	**809 771**	**117 839**	**927 610**

The Bank does not produce any software internally. In the period from 1 January 2008 to 31 December 2008, PKO BP SA incurred capital expenditures for the purchase of tangible fixed assets and intangible assets in the amount of PLN 792 680 thousand (in the period from 1 January 2007 to 31 December 2007: PLN 599 943 thousand).

(in PLN thousand)

24. Tangible fixed assets

For the year ended 31 December 2008	Land and buildings	Machinery and equipment	Means of transport	Assets under construction	Investment properties	Other	Total
Gross value of tangible assets as at the beginning of the period	**1 922 591**	**2 311 757**	**12 433**	**271 305**	**39 012**	**367 183**	**4 924 281**
Increases, of which:	**40 824**	**86 840**	**558**	**432 349**	**-**	**36 928**	**597 499**
Purchases and other changes	749	111	-	432 349	-	118	433 327
Transfer from assets under construction to tangible fixed assets	40 075	86 729	558	-	-	36 810	164 172
Decreases, of which:	**(8 770)**	**(315 843)**	**(4 890)**	**(173 101)**	**(7 003)**	**(20 401)**	**(530 008)**
Disposals and sales	(7 855)	(312 932)	(4 458)	-	(23)	(19 459)	(344 727)
Transfer from assets under construction to tangible fixed assets	-	-	-	(164 172)	-	-	(164 172)
Other	(915)	(2 911)	(432)	(8 929)	(6 980)	(942)	(21 109)
Gross value of fixed assets at the end of the period	**1 954 645**	**2 082 754**	**8 101**	**530 553**	**32 009**	**383 710**	**4 991 772**
Accumulated depreciation as at the beginning of the period	**(480 722)**	**(1 858 631)**	**(10 856)**	**-**	**(6 245)**	**(295 390)**	**(2 651 844)**
Increases, of which:	**(67 133)**	**(131 131)**	**(367)**	**-**	**(1 594)**	**(19 741)**	**(219 966)**
Depreciation for the period	(66 286)	(130 666)	(311)	-	(1 594)	(19 634)	(218 491)
Other	(847)	(465)	(56)	-	-	(107)	(1 475)
Decreases, of which:	**6 046**	**313 875**	**4 660**	**-**	**-**	**20 340**	**344 921**
Disposal and sales	4 419	310 324	4 248	-	-	19 381	338 372
Other	1 627	3 551	412	-	-	959	6 549
Accumulated depreciation at the end of the period	**(541 809)**	**(1 675 887)**	**(6 563)**	**-**	**(7 839)**	**(294 791)**	**(2 526 889)**
Impairment allowances							
Opening balance	(1 257)	-	-	(700)	-	-	(1 957)
Decreases	41	-	-	-	-	-	41
Closing balance	(1 216)	-	-	(700)	-	-	(1 916)
Net book value	**1 411 620**	**406 867**	**1 538**	**529 853**	**24 170**	**88 919**	**2 462 967**
Opening balance	**1 440 612**	**453 126**	**1 577**	**270 605**	**32 767**	**71 793**	**2 270 480**
Closing balance	**1 411 620**	**406 867**	**1 538**	**529 853**	**24 170**	**88 919**	**2 462 967**

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

(in PLN thousand)

For the year ended 31 December 2007	Land and buildings	Machinery and equipment	Means of transport	Assets under construction	Investment properties	Other	Total
Gross value of tangible assets as at the beginning of the period	**1 908 948**	**2 371 953**	**23 959**	**241 951**	**41 135**	**348 716**	**4 936 662**
Increases, of which:	**2 767**	**1 453**	**79**	**305 486**	**-**	**31**	**309 816**
Purchases and other changes	2 767	1 453	79	305 486	-	31	309 816
Decreases, of which:	**(30 631)**	**(248 012)**	**(12 659)**	**(6 229)**	**(2 123)**	**(22 543)**	**(322 197)**
Disposals and sales	(23 520)	(245 372)	(12 354)	-	(1 509)	(20 924)	(303 679)
Other	(7 111)	(2 640)	(305)	(6 229)	(614)	(1 619)	(18 518)
Transfers from assets under construction to tangible fixed assets	**41 507**	**186 363**	**1 054**	**(269 903)**	**-**	**40 979**	**-**
Gross value of fixed assets at the end of the period	**1 922 591**	**2 311 757**	**12 433**	**271 305**	**39 012**	**367 183**	**4 924 281**
Accumulated depreciation as at the beginning of the period	**(425 915)**	**(1 973 790)**	**(21 979)**	**-**	**(4 649)**	**(301 727)**	**(2 728 060)**
Increases, of which:	**(64 956)**	**(131 242)**	**(1 437)**	**-**	**(1 596)**	**(15 583)**	**(214 814)**
Depreciation for the period	(64 275)	(130 361)	(1 358)	-	(1 596)	(15 565)	(213 155)
Other	(681)	(881)	(79)	-	-	(18)	(1 659)
Decreases, of which:	**10 149**	**246 401**	**12 560**	**-**	**-**	**21 920**	**291 030**
Disposals and sales	9 212	244 255	12 254	-	-	20 736	286 457
Other	937	2 146	306	-	-	1 184	4 573
Accumulated depreciation at the end of the period	**(480 722)**	**(1 858 631)**	**(10 856)**	**-**	**(6 245)**	**(295 390)**	**(2 651 844)**
Impairment allowances							
Opening balance	(50 406)	(79)	-	(700)	-	(35)	(51 220)
Increases	49 149	79	-	-	-	35	49 263
Closing balance	(1 257)	-	-	(700)	-	-	(1 957)
Net book value	**1 440 612**	**453 126**	**1 577**	**270 605**	**32 767**	**71 793**	**2 270 480**
Opening balance	**1 432 627**	**398 084**	**1 980**	**241 251**	**36 486**	**46 954**	**2 157 382**
Closing balance	**1 440 612**	**453 126**	**1 577**	**270 605**	**32 767**	**71 793**	**2 270 480**

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

(in PLN thousand)

The tangible assets item "Land and buildings, including investment properties" includes land which is not subject to depreciation.

The largest item is the perpetual usufruct right to a plot of land in Warsaw with the carrying amount of PLN 24 047 thousand, whose fair value estimated by an independent expert (on 16 October 2008) exceeded its carrying amount by approximately PLN 114 500 thousand. There are no restrictions on the Bank's rights to sell these properties, nor any contractual liabilities relating to these assets.

The amounts of income/expenses connected with investment properties of the Bank are presented below.

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

25. Other assets

	31.12.2008	31.12.2007
Trade receivables	137 089	138 873
Settlements of payment cards transactions	124 344	148 343
Derivatives settlements	50 972	24 388
Accruals and prepayments	29 729	21 377
Inventory (related to utilization, auxiliary operations and investment)	15 211	9 910
Receivables from the State budget due to distribution of Treasury stamps	8 883	8 373
Receivables relating to foreign exchange activity	8 628	15 892
Receivables from securities trading	7 255	6 614
Other*	88 446	55 929
Total	**470 557**	**429 699**

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

26. Amounts due to the central bank

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

27. Amounts due to other banks

	31.12.2008	31.12.2007
Other bank deposits	2 835 727	1 436 677
Loans and advances	2 656 004	2 049 276
Current accounts	92 550	95 000
Other money market deposits	115 171	43 502
Total amounts due to other banks	**5 699 452**	**3 624 455**

28. Other financial liabilities at fair value through profit or loss

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

(in PLN thousand)

29. Amounts due to customers

	31.12.2008	31.12.2007
Amounts due to corporate entities	**19 164 051**	**15 238 884**
Current accounts and overnight deposits	7 053 309	6 611 691
Term deposits	11 576 236	8 122 096
Loans and advances	378 009	413 770
Other	156 497	91 327
Amounts due to state budget entities	**7 279 432**	**4 688 024**
Current accounts and overnight deposits	3 873 849	3 549 004
Term deposits	3 356 859	1 031 971
Other	48 724	107 049
Amounts due to retail clients	**75 413 447**	**65 288 555**
Current accounts and overnight deposits	29 148 203	28 868 302
Term deposits	45 968 763	36 297 530
Other	296 481	122 723
Total amounts due to customers	**101 856 930**	**85 215 463**

30. Subordinated liabilities

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

As at 31 December 2008

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

As at 31 December 2007

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

Change in subordinated liabilities

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

(in PLN thousand)

31. Other liabilities

	31.12.2008	31.12.2007
Accounts payables	213 723	198 251
Deferred income	178 246	197 154
Other liabilities relating to:	963 427	1 025 916
inter-bank settlements	241 034	164 641
liabilities relating to settlements of security transactions	205 896	322 897
liabilities arising from social and legal transactions	116 903	131 650
liabilities arising from foreign currency activities	76 854	64 176
financial instruments settlements	57 764	17 447
liabilities relating to investment activities and internal operations	51 164	33 525
settlement of acquisition of machines, materials, works and services regarding construction of tangible assets	34 465	58 328
liabilities due to suppliers	29 308	28 209
liabilities due to UOKiK (the Competition and Consumer Protection Office)	22 310	16 597
liabilities arising from transactions with non-financial institutions	9 947	66 083
liabilities relating to payment cards	4 815	41 120
other*	112 967	81 243
Total	**1 355 396**	**1 421 321**

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

As at 31 December 2008 and 31 December 2007, PKO BP SA had no overdue contractual liabilities.

32. Provisions

For the year ended 31 December 2008	Provision for legal claims	Provisions for anniversary bonuses and retirement benefits	Provisions for liabilities and guarantees granted	Other provisions*	Total
As at 1 January 2008, including:	**6 841**	**320 757**	**27 624**	**97 823**	**453 045**
short term portion	**6 841**	**40 985**	**27 624**	**97 823**	**173 273**
long term portion	**-**	**279 772**	**-**	**-**	**279 772**
Increase/reassessment	-	46 609	136 062	29 446	212 117
Use	-	-	-	(14 700)	(14 700)
Release	-	(2 421)	(85 904)	(784)	(89 109)
As at 31 December 2008, including:	**6 841**	**364 945**	**77 782**	**111 785**	**561 353**
short term portion	**6 841**	**46 517**	**77 782**	**111 785**	**242 925**
long term portion	**-**	**318 428**	**-**	**-**	**318 428**

* Included in "Other provisions" is: restructuring provision of PLN 74 779 thousand and provision of PLN 25 350 thousand. For potential claims on impaired loans portfolios sold..

For the year ended 31 December 2007	Provision for legal claims	Provisions for anniversary bonuses and retirement benefits	Provisions for liabilities and guarantees granted	Other provisions*	Total
As at 1 January 2007, including	**4 886**	**317 426**	**18 382**	**83 875**	**424 569**
short term portion	**4 886**	**37 653**	**18 382**	**83 875**	**144 796**
long term portion	**-**	**279 773**	**-**	**-**	**279 773**
Increase/reassessment	1 955	3 331	48 746	69 761	123 793
Use	-	-	(39 504)	(55 813)	(95 317)
Release	-	-	-	-	-
As at 31 December 2007, including:	**6 841**	**320 757**	**27 624**	**97 823**	**453 045**
short term portion	**6 841**	**40 985**	**27 624**	**97 823**	**173 273**
long term portion	**-**	**279 772**	**-**	**-**	**279 772**

* Included in "Other provisions" is: restructuring provision of PLN 79 129 thousand and provision of PLN 9 894 thousand. For potential claims on impaired loans portfolios sold.

(in PLN thousand)

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

33. Share capital

In the years ended 31 December 2008 and 31 December 2007 there were no changes in the amount of the share capital of PKO BP SA.

As at 31 December 2008, the share capital of PKO BP SA amounted to PLN 1 000 000 thousand and consisted of 1 000 000 thousand ordinary shares with nominal value of PLN 1 each (the same as at 31 December 2007) – shares fully paid. All issued shares of PKO BP SA are not preferred shares.

The structure of PKO BP SA share capital:

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

On 10 November 2004, based on a Resolution dated 30 August 1996 on commercialization and privatization (Journal of Laws 2002, No. 171, item 1397 with subsequent amendments) and Par. 14, Resolution 1 of the Ministry of the State Treasury dated 29 January 2003 on specific rules for categorization of employees into groups, setting a number of shares to be allocated on each of such groups, and procedures for acquiring shares by authorized employees (Journal of Laws No. 35, item 303), the parent company of the group has issued its shares to its employees. As a result, the parent company's employees received 105 000 000 shares, which constitute 10.5% of the share capital of the parent company.

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

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

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

34. Other capital and retained earnings

	31.12.2008	31.12.2007
Reserve capital	7 216 986	5 591 995
Revaluation reserve	(33 874)	(42 445)
General banking risk fund	1 070 000	1 070 000
Other reserves	1 395 000	1 390 000
Total	**9 648 112**	**8 009 550**

35. Transferred financial assets which do not qualify for derecognition

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

(in PLN thousand)

36. Pledged assets

PKO BP SA had the following pledged assets:

Liabilities from sell-buy-back transactions (SBB)

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

Bank deposit guarantee fund

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

	31.12.2008	31.12.2007
Deposits guarantee fund as contributed by the Bank	238 273	202 824
Nominal value of the pledge	240 000	201 000
Type of the pledge	NBP bonds	Treasury bonds
Maturity of the pledge	01.03.2012	24.06.2008
Carrying value of the pledged asset	251 535	208 173

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

Stock exchange guarantee fund

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

	31.12.2008	31.12.2007
Stock exchange guarantee fund	7 966	8 120

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

(in PLN thousand)

37. Contingent liabilities

Underwriting programs

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

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

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

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

Issuer of securities underwritten	Type of underwritten securities	Amount to which the Bank committed in case of realisation of underwriting agreement	Contract period	Sub-issue type
Company A	corporate bonds	**725 517**	2009-12-31	Bonds Issue Agreement*
Company B	commercial bills	**299 529**	2009-12-31	Commercial Bill Issue Agreement PKO BP SA
Entity A	municipal bonds	**213 000**	2011-12-31	Bonds Issue Agreement*
Company C	corporate bonds	**149 833**	2012-01-02	Bonds Issue Agreement*
Company D	corporate bonds	**94 534**	2011-11-30	Bonds Issue Agreement*
Company E**	corporate bonds	**17 792**	2009-12-30	Bonds Issue Agreement*
Total of others, whose separate values do not exceed PLN 15 million each	municipal bonds	**49 839**		Bonds Issue Agreement*
Total		**1 550 044**		

* Relates to the Agreement for Organization, Conducting and Servicing of the Bond Issuance Program
** Debt securities denominated in EUR

All securities under the sub-issue (underwriting) program have an unlimited transferability, are not quoted on the stock exchange and are not traded on a regulated OTC market.

(in PLN thousand)

Contractual commitments

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

Loan commitments

	31.12.2008	31.12.2007
Total loan commitments to:	**26 196 875**	**24 298 778**
financial sector	706 971	642 077
non-financial sector	25 068 238	23 426 294
public sector	421 666	230 407
of which: irrevocable loan commitments	7 714 609	8 856 029

Guarantees issued

Guarantees	31.12.2008	31.12.2007
Financial sector	302 600	375 775
Non-financial sector	4 052 870	3 578 487
Public sector	204 073	262 494
Total	**4 559 543**	**4 216 756**

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

Information on provisions for contingent guarantees and financial liabilities is included in Note 32 "Provisions".

Contingent liabilities by maturity as at 31 December 2008

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Financial liabilities	13 715 875	161 208	3 540 008	4 261 722	4 518 062	**26 196 875**
Guarantee liabilities issued	1 438 278	157 129	1 134 675	1 480 767	348 694	**4 559 543**
Total	**15 154 153**	**318 337**	**4 674 683**	**5 742 489**	**4 866 756**	**30 756 418**

Contingent liabilities by maturity as at 31 December 2007

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Financial liabilities	5 993 577	818 672	7 941 418	7 429 592	2 115 519	**24 298 778**
Guarantee liabilities issued	722 130	91 207	957 373	2 050 374	395 672	**4 216 756**
Total	**6 715 707**	**909 879**	**8 898 791**	**9 479 966**	**2 511 191**	**28 515 534**

Contingent assets

	31.12.2008	31.12.2007
Received	**3 829 183**	**3 985 062**
1. financial	458 964	540 849
2. guarantees	3 370 219	3 444 213

Assets pledged as collateral for contingent liabilities

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

Right to sell or pledge collateral established for the Bank

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

38. Legal claims

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

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

a) Unfair competition proceedings

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

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

(in PLN thousand)

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

As at the date of these financial statements, four administrative proceedings are pending to invalidate decisions issued by public administration authorities with respect to properties held by the Bank. These proceedings, in the event of an unfavourable outcome for the Bank, may result in re-privatization claims being raised against the Bank. Given the current status of these proceedings, it is not possible to assess their potential negative financial effects for the Bank. Moreover, with respect to two properties claims were submitted by their former owners (court proceedings are pending), and with respect to the third property, the Bank is in the process of negotiations in order to settle the legal status. Until 31 December 2008 there had been no further developments with respect to this issue. The financial statements for the year ended 31 December 2008 do not contain any provisions in respect of the potential liabilities resulting from re-privatization claims.

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

39. Supplementary information to the cash flow statement

Cash and cash equivalents

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

	31.12.2008	31.12.2007
Cash and balances with the central bank	5 758 248	4 594 084
Current receivables from other financial institutions	2 297 563	4 407 342
Total	**8 055 811**	**9 001 426**

Cash flow from interests and dividends, both received and paid

Interest income – received	2008	2007
Income from loans and advances	6 624 311	4 835 449
Income from securities at fair value through profit or loss	431 422	827 526
Income from placements with other banks	326 754	449 790
Income from investment securities	283 330	202 603
Income from trading securities	62 151	23 847
Other	1 083 013	161 560
Total	**8 810 981**	**6 500 775**

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

(in PLN thousand)

Interest expense – paid	2008	2007
Interest expense on deposits	(1 507 024)	(1 205 097)
Interest expense on loans and advances	(90 061)	(23 207)
Interest expense on debt securities in issue	(111 152)	-
Other interest expense (mainly premium from debt securities, interest expense on cash collaterals liabilities, interest expense on current account of special purpose funds)	(892 228)	(960 827)
Total	**(2 600 465)**	**(2 189 131)**

Dividend expense - paid	2008	2007
Dividend paid to shareholders	(1 090 000)	(980 000)
Total	**(1 090 000)**	**(980 000)**

Cash flow from operating activities - other adjustments

	2008	2007
Interest accrued, discount, premium - on debt securities decreased by deferred tax on available for sale debt securities	(315 858)	(9 181)
Disposal and impairment allowances for tangible fixed assets and intangible assets	13 869	(38 062)
Valuation, impairment allowances for investments in jointly controlled entities and associates	261 049	10 665
Total	**(40 940)**	**(36 578)**

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

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

Interests and dividends	2008	2007
Interest from investment securities of the available for sale portfolio, presented in the investing activities	(283 330)	(202 603)
Dividends received, presented in the investing activities	(130 846)	(55 092)
Total interests and dividends	**(414 176)**	**(257 695)**

Change in amounts due from banks	2008	2007
Change in the balance sheet's amount	1 408 826	8 004 972
Change in impairment allowances on amounts due from banks	(27 835)	53
Exclusion of a change in the balance of cash and cash equivalents	(2 109 779)	(4 899 672)
Total change	**(728 788)**	**3 105 353**

(in PLN thousand)

Change in loans and advances to customers	**2008**	**2007**
Changes in the balance sheet's amount	(24 279 826)	(16 482 403)
Change in the impairment allowances on amounts due from customers	(293 812)	26 663
Total change	**(24 573 638)**	**(16 455 740)**

Change in other assets	**2008**	**2007**
Changes in the balance sheet's amount	(40 858)	2 648
Exclusion of acquisition of new shares issue	48 737	-
Total change	**7 879**	**2 648**

Change in amounts due to other banks	**2008**	**2007**
Changes in the balance sheet's amount	2 076 534	(251 521)
Transfer of loans and advances received from other banks/repayment of these loans and advances - to financing activities	-	(2 053 330)
Total change	**2 076 534**	**(2 304 851)**

Change in amounts due to customers	**2008**	**2007**
Changes in the balance sheet's amount	16 641 467	2 967 343
Transfer of loans and advances received from non-financial entities/repayment of these loans and advances - to financing activities	35 820	(282 064)
Total change	**16 677 287**	**2 685 279**

Change in allowances and provisions	**2008**	**2007**
Changes in the balance sheet's amount	108 308	20 098
Impairment allowances on amounts due from banks	27 835	(53)
Impairment allowances on loans and advances to customers	293 812	(26 663)
Change in the balance of deffered tax provisions related to valuation of an available-for-sale portfolio included in deferred income tax	(2 011)	10 831
Total change	**427 944**	**4 213**

Change in other liabilities	**2008**	**2007**
Changes in the balance sheet's amount	(62 055)	(486 741)
Transfer of interests payments on advances received from non-financial institution to financing activities	90 049	23 195
Transfer of interest paid on own issue	111 152	-
Total change	**139 146**	**(463 546)**

40. Transactions with the State Treasury and related entities

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

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

(in PLN thousand)

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

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

	2008	2007
Fee and commission income	4 527	5 168

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

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

	2008	2007
Fee and commission income	21 738	28 523

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

	2008	2007
Fee and commission income	36	74

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

	2008	2007
Fee and commission income	63 168	33 604

(in PLN thousand)

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

The transactions were concluded at arm's length.

Entity	31.12.2008								31.12.2007		
	Total receivables	Total liabilities	Contingent liabilities and committments	Interest income*	Fee and commission income*	Other income*	Interest expenses*	Other expenses*	Total receivables	Total liabilities	Contingent liabilities and commitments
Entity 1	655 219	-	393 730	5 899	253	-	(356)	-	305 456	-	484 204
Entity 2	30 983	-	208 517	220	3	-	(134)	-	110	-	575 038
Entity 3	208 237	-	222 355	6 891	408	-	(1 854)	-	128 395	133 387	316 550
Entity 4	126 667	-	438 578	168	125	-	(568)	-	-	-	577 300
Entity 5	98 693	-	80 000	5 276	4	-	(1 125)	-	109 345	-	92 219
Entity 6	90 575	12 432	-	3 322	2	-	(968)	-	102 651	13 240	40 597
Entity 7	72 817	68 522	-	4 766	2	-	(5 831)	-	91 021	-	-
Entity 8	70 000	50 141	180 000	1 897	9	-	(1 072)	(1 050)	-	-	-
Entity 9	69 593	75 456	12 402	1 302	27	-	(3 777)	-	-	76 653	80 123
Entity 10	51 945	-	-	1 997	1	-	(37)	-	60 912	-	-
Entity 11	41 724	-	-	1 470	4	626	(5)	(626)	35 820	-	-
Entity 12	27 408	-	-	2 256	6	471	(159)	(291)	36 062	2 490	-
Entity 13	24 999	5 872	30 714	910	45	-	(41)	-	11 912	-	39 587
Entity 14	24 769	-	231	-	-	-	-	-	-	-	-
Entity 15	21 787	-	5 497	1 171	1 730	-	(24)	-	9 373	-	29 777
Other entities' significant exposures	163 083	1 149 491	288 088	3 507	803	64	(34 920)		1 042 601	1 808 455	1 046 255
Total	**1 778 499**	**1 361 914**	**1 860 112**	**41 051**	**3 422**	**1 161**	**(50 871)**	**(1 967)**	**1 933 658**	**2 034 225**	**3 281 650**

* lack of 2007 comparable figures

In 2008 no significant impairment charges on these exposures were recognised in the income statement.

(in PLN thousand)

41. Related party transactions

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

31 December 2008

Entity	Capital relation	Net receivables	including gross loans	Liabilities	Total income	including interest and fee and commission income	Total expense	including interest and fee and commission expense	Contingent liabilities and commitments
Powszechne Towarzystwo Emerytalne BANKOWY SA	Direct subsidiary	-	-	14 848	262	79	219	219	-
Centrum Finansowe Puławska Sp. z o.o.	Direct subsidiary	88 168	84 694	23 488	22 085	5 458	41 867	1 429	-
KREDOBANK SA	Direct subsidiary	684 522	677 360	428	20 880	20 880	13	13	28 474
PKO Inwestycje Sp. z o.o.	Direct subsidiary	113 310	-	5 299	62	62	1 135	665	1 785
Inteligo Financial Services SA	Direct subsidiary	15	-	96 885	1 696	1 669	56 018	5 456	
Centrum Elektronicznych Usług Płatniczych "eService" SA	Direct subsidiary	876 625	-	37 232	4 341	3 915	40 329	40 329	2 500
Bankowy Fundusz Leasingowy SA	Direct subsidiary	595 512	186 937	24 954	38 096	37 279	10 207	1 928	365 560
Bankowe Towarzystwo Kapitałowe SA	Direct subsidiary	-	-	4 088	3	3	289	289	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	Direct subsidiary	8 165	-	6 667	234 182	141 932	1 608	1 608	467
Fort Mokotów Sp. z o.o.	Indirect subsidiary	-	-	5 018	2	2	143	143	
POMERANKA Sp. z o.o.	Indirect subsidiary	129 599	129 599	6 955	6 497	6 497	155	155	24 609
Wilanów Investments Sp. z o.o.	Indirect subsidiary	106 476	106 476	3 177	4 714	4 714	30	30	43 514
PKO Inwestycje Sp. z o.o. (former ARKADIA Inwestycje Sp. z o.o.)	Indirect subsidiary	12 667	12 667	376	1 165	1 165	4	4	-
Bankowy Leasing Sp. z o.o.	Indirect subsidiary	161 514	161 514	3 277	3 818	3 818	37	37	40 866
BFL Nieruchomości Sp. z o.o.	Indirect subsidiary	164 007	164 007	9	7 082	7 082	11	11	2 559
Finanse – Agent Transferowy Sp. z o.o.	Indirect subsidiary	-	-	6 808	5	5	25	25	-
Wisłok Inwestycje Sp. z o.o.	Indirect subsidiary	60 368	60 368	4 116	5 040	5 040	30	30	-
Baltic Dom Sp. z o.o.	Indirect subsidiary	15 260	15 260	604	1 716	1 716	52	52	-
CENTRUM HAFFNERA Sp. z o.o.	Direct jointly controlled entity	-	-	1 183	17	17	54	54	4 172
Centrum Obsługi Biznesu Sp z o.o.	Direct jointly controlled entity	33 752	33 598	27 226	2 316	2 311	622	622	-
Centrum Majkowskiego Sp. z o.o.	Indirect jointly controlled entity	-	-	8 812	4	4	318	-	-
Kamienica Morska Sp. z o.o.	Indirect jointly controlled entity	-	-	1 139	12	11	14	-	3 755
Sopot Zdrój Sp. z o.o.	Indirect jointly controlled entity	154 192	151 656	3 175	3 681	3 681	20	20	80 421
Promenada Sopocka Sp. z o.o.	Indirect jointly controlled entity	29 083	28 605	395	700	700	10	10	20 996
Bank Pocztowy SA	Associate	-	-	197	7	-	2 102	2 102	-
Kolej Gondolowa Jaworzyna Krynicka SA	Associate	1 361	1 361	1	36	36	8	8	139
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Associate	-	-	-	-	-	-	-	-
Agencja Inwestycyjna „CORP" SA	Associate	-	-	47	509	-	139	-	-
TOTAL		**3 234 596**	**1 814 102**	**286 404**	**358 928**	**248 076**	**155 459**	**55 239**	**619 817**

(in PLN thousand)

31 December 2007

Entity	Capital relation	Net receivables	including gross loans	Liabilities	Total revenues	including interest and fee and commission income	Total costs	Including interest and fee and commission costs	Contingent liabilities and commitments
Powszechne Towarzystwo Emerytalne BANKOWY SA	Direct subsidiary	-	-	688	443	405	107	107	-
Centrum Finansowe Puławska Sp. z o.o.	Direct subsidiary	96 044	93 909	31 872	5 030	5 027	38 027	718	-
KREDOBANK SA	Direct subsidiary	257 428	204 846	1 140	16 325	16 325	391	391	4 802
PKO Inwestycje Sp. z o.o.	Direct subsidiary	118 810	-	29 967	34	34	1 290	818	3 285
Inteligo Financial Services SA	Direct subsidiary	-	-	81 385	1 560	15	61 666	3 154	-
Centrum Elektronicznych Usług Płatniczych "eService" SA	Direct subsidiary	518	-	16 845	2 978	38	30 440	279	1 200
Bankowy Fundusz Leasingowy SA	Direct subsidiary	535 394	302 472	12 207	29 108	26 861	6 039	113	442 515
Bankowe Towarzystwo Kapitałowe SA	Direct subsidiary	-	-	5 986	4	4	29	29	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	Direct subsidiary	14 491	-	35 136	126 120	125 223	774	788	-
Fort Mokotów Sp. z o.o.	Indirect subsidiary	-	-	5 086	8	8	428	422	-
POMERANKA Sp. z o.o.	Indirect subsidiary	39 487	39 310	7 129	1 582	1 542	923	923	27 879
Wilanów Investments Sp. z o.o.	Indirect subsidiary	10 150	10 150	5 136	343	343	471	471	16 183
ARKADIA Inwestycje Sp. z o.o.	Indirect subsidiary	16 300	16 300	707	163	163	-	-	-
Bankowy Leasing Sp. z o.o.	Indirect subsidiary	35 480	35 480	1 160	30	30	21	21	64 520
BFL Nieruchomości Sp. z o.o.	Indirect subsidiary	35 990	35 990	1 039	1	1	17	17	2 000
Finanse – Agent Transferowy Sp. z o.o.	Indirect subsidiary	-	-	264	5	5	40	40	-
CENTRUM HAFFNERA Sp. z o.o.	Direct jointly controlled entity	-	-	4 842	18	18	325	325	3 582
Centrum Obsługi Biznesu Sp z o.o.	Direct jointly controlled entity	30 057	29 891	544	1 292	1 292	76	38	1 001
Centrum Majkowskiego Sp. z o.o.	Indirect jointly controlled entity	-	-	15 834	475	475	6	6	-
Kamienica Morska Sp. z o.o.	Indirect jointly controlled entity	-	-	782	45	45	9	9	3 224
Sopot Zdrój Sp. z o.o.	Indirect jointly controlled entity	49 400	48 696	1 033	678	678	10	10	131 833
Promenada Sopocka Sp. z o.o.	Indirect jointly controlled entity	15 204	15 013	1 066	285	285	15	15	27 617
Bank Pocztowy SA	Associate	2	-	3 539	41	30	710	326	1 834
Kolej Gondolowa Jaworzyna Krynicka SA	Associate	996	-	4	91	91	35	-	508
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	Associate	-	-	10 155	1	1	223	223	-
Agencja Inwestycyjna „CORP" SA	Associate	468	-	10	1 255	-	2 340	-	-
TOTAL		**1 256 219**	**832 057**	**273 556**	**187 915**	**178 939**	**144 412**	**9 243**	**731 983**

(in PLN thousand)

42. Remuneration – PKO BP SA key management

a) Short-term employee benefits

Remuneration received from PKO BP SA

Name	Title	2008	2007
	The Management Board of the Bank		
Pruski Jerzy	President of the Bank's Management Board	154	-
Drabikowski Bartosz	Vice-President of the Bank's Management Board	176	-
Dresler Krzysztof	Vice-President of the Bank's Management Board	149	-
Mironczuk Tomasz	Vice-President of the Bank's Management Board	176	-
Myjak Jarosław	Vice-President of the Bank's Management Board	10	-
Papierak Wojciech	Vice-President of the Bank's Management Board	149	-
Zarzycki Mariusz	Vice-President of the Bank's Management Board	112	-
Remuneration of The Management Board Members who ceased their functions in 2008 or 2007			
Klimczak Mariusz	Vice-President of the Bank's Management Board	260	128
Juszczak Rarał	President of the Bank's Management Board	270	237
Duda-Uhryn Berenika	Vice-President of the Bank's Management Board	206	97
Działak Robert	Vice-President of the Bank's Management Board	204	206
Kwiatkowski Wojciech	Vice-President of the Bank's Management Board	103	200
Michalak Aldona	Vice-President of the Bank's Management Board	112	102
Skowroński Adam	Vice-President of the Bank's Management Board	205	124
Świątkowski Stefan	Vice-President of the Bank's Management Board	205	169
Skrzypek Sławomir	Acting President and Vice-President of the Bank's Management Board	-	112
Obłękowski Jacek	Vice-President and Member of the Bank's Management Board	-	160
Sokal Zdzisław	Vice-President of the Bank's Management Board	-	120
Total short-term employee benefits of the Bank's Management Board		**2 491**	**1 655**
	The Supervisory Board of the Bank		
Piszczek Marzena	Chairman of the Bank's Supervisory Board	29	-
Krześniak Eligiusz	Vice-Chairman of the Bank's Supervisory Board	29	-
Bossak Jan	Member of the Bank's Supervisory Board	29	-
Osiatyński Jerzy	Member of the Bank's Supervisory Board	29	5
Pałaszek Urszula	Member of the Bank's Supervisory Board	37	34
Sobiecki Roman	Member of the Bank's Supervisory Board	29	-
Wierzba Ryszard	Member of the Bank's Supervisory Board	29	-
Głuchowski Marek	Chairman of the Bank's Supervisory Board	9	76
Siemiątkowski Tomasz	Secretary of the Bank's Supervisory Board	9	34
Michałowski Jerzy	Member of the Bank's Supervisory Board	9	34
Winnik-Kalemba Agnieszka	Member of the Bank's Supervisory Board	9	34
Czapiewski Maciej	Member of the Bank's Supervisory Board	9	24
Skowroński Adam	Member of the Bank's Supervisory Board	-	31
Total short-term employee benefits of the Bank's Supervisory Board		**253**	**272**
Total short-term employee benefits		**2 744**	**1 927**

(in PLN thousand)

Remuneration received from related entities (other than State Treasury and State Treasury's related entities)

Name	Title	2008	2007
The Management Board of the Bank			
Pruski Jerzy	President of the Bank's Management Board	116	-
Drabikowski Bartosz	Vice-President of the Bank's Management Board	38	-
Dresler Krzysztof	Vice-President of the Bank's Management Board	102	-
Mironczuk Tomasz	Vice-President of the Bank's Management Board	56	-
Papierak Wojciech	Vice-President of the Bank's Management Board	54	-
Zarzycki Mariusz	Vice-President of the Bank's Management Board	64	-
Klimczak Mariusz	President of the Bank's Management Board	179	68
Juszczak Rafał	President of the Bank's Management Board	171	395
Działak Robert	Vice-President of the Bank's Management Board	110	168
Kwiatkowski Wojciech	Vice-President of the Bank's Management Board	62	83
Skowroński Adam	Vice-President of the Bank's Management Board	56	23
Świątkowski Stefan	Vice-President of the Bank's Management Board	88	91
Skrzypek Sławomir	Acting President and Vice-President of the Bank's Management Board	-	5
Total short-term employee benefits of the Bank's Management Board		**1 096**	**833**
The Supervisory Board of the Bank			
Głuchowski Marek	Chairman of the Bank's Supervisory Board	41	65
Winnik-Kalemba Agnieszka	Member of the Bank's Supervisory Board	50	222
Total short-term employee benefits of the Bank's Supervisory Board		**91**	**287**
Total short-term employee benefits		**1 187**	**1 120**

b) Post-employment benefits

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

c) Other long-term benefits

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

d) Benefits due to termination of employment

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

e) Share-based payments

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

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

	31.12.2008	31.12.2007
Employees	1 217 814	850 624
The Management Board members	150	5 036
The Supervisory Board members	71	513
Total	**1 218 035**	**856 173**

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

43. Fair value of financial assets and financial liabilities

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

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

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

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

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

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

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

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

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

(in PLN thousand)

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

	31.12.2008		**31.12.2007**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash and balances with the central bank	5 758 248	5 758 248	4 594 084	4 594 084
Amounts due from banks	3 906 973	3 907 048	5 315 799	5 310 999
Loans and advances to customers	98 102 019	97 797 651	73 822 193	74 225 703
consumer loans	20 017 539	20 109 730	17 696 722	17 712 915
mortgage loans	45 036 665	44 938 998	32 610 135	32 938 680
corporate loans	33 047 815	32 748 923	23 515 336	23 574 108
Other financial assets	352 382	352 382	352 393	352 393
Amounts due to the central bank	2 816	2 816	1 279	1 279
Amounts due to other banks	5 699 452	5 700 257	3 624 455	3 624 162
Amounts due to clients	101 856 930	101 837 809	85 215 463	85 220 184
due to corporate entities	19 164 051	19 164 008	15 238 884	15 238 938
due to state budget entities	7 279 432	7 279 431	4 688 024	4 688 059
due to retail clients	75 413 447	75 394 370	65 288 555	65 293 187
Subordinated liabilities	1 618 755	1 629 537	1 614 885	1 619 115
Other financial liabilities	1 355 396	1 355 396	1 421 321	1 421 321

44. Trustee activities

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

45. Sale of impaired loan portfolios

The Bank did not enter any securitization transactions, although:

- in 2008, three transactions of sale of balance sheet and off-balance sheet receivables classified as lost were concluded. One of these transactions was concluded with a securitization fund (an entity not related to the Bank), and two were concluded with loan collection companies. Approximately 140 thousand receivables with a total value of PLN 1.22 billion were sold.

- during the years 2005 - 2006, the Bank sold a number of receivables classified as default (both balance sheet and off-balance sheet receivables) which were due to the Bank from corporate entities and retail clients. About 137 000 receivables were sold in total, with a total value of approximately PLN 2 billion. Due to the fact that the buyers are allowed to raise claims with regard to the receivables sold to them within the deadlines set out in the respective debt sale agreements, the Bank recognized provisions for potential claims, including those that had been raised until the date of these financial statements. In 2007 the Bank did not sell any portfolios of receivables.

- The total carrying amount of securitization provisions created in connection with sale transactions as at 31 December 2008 was PLN 25 350 thousand (as at 31 December 2007: PLN 9 894 thousand). The Bank did not receive any securities as a result of these transactions.

(in PLN thousand)

46. Differences between previously published financial statements and the related information in these financial statements

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

INCOME STATEMENT
OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA

Title (in relation to changed positions)	**2007** presented previously	**2007** comparative data	**Difference**	
Interest and similar income	6 270 988	6 245 091	(25 897)	1)
Interest expense and similar charges	(1 767 881)	(1 741 984)	25 897	1)
Fee and commission expense	(610 997)	(654 320)	(43 323)	1), 3)
Net income from financial instruments at fair value through profit or loss	(77 701)	(76 746)	955	1), 2)
Other operating income	116 415	140 607	24 192	1), 2)
Other operating expenses	(61 000)	(84 551)	(23 551)	1), 2), 4)
Administrative expenses	(3 727 150)	(3 685 423)	41 727	3), 4)

1) Change in the presentation of selected items of income and expenses of the brokerage house, Dom Maklerski PKO BP SA
2) Change in the presentation of selected items of income and expense from financial operation
3) Change in the presentation of costs on account of KIR, BIK, SWiFT services
4) Change in the presentation of non planned amortisation and depreciation

BALANCE SHEET
OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA

Item (relates to restated items)	**31.12.2007** presented previously	**31.12.2007** comparative data	**Difference**	
Amounts due from banks	5 346 882	5 315 799	(31 083)	5)
Amounts due to customers	85 246 546	85 215 463	(31 083)	5)

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

CASH FLOW STATEMENT
OF THE POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA

Item (relates to resteted items)	**31.12.2007** presented previously	**31.12.2007** comparative data	**Difference**	
Cash at the end of the period	9 032 509	9 001 426	(31 083)	5)

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

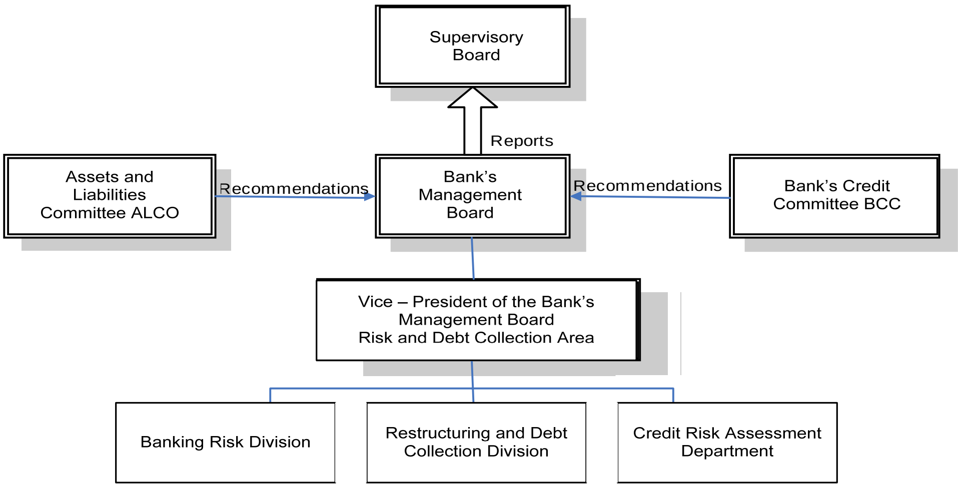
47. Objectives and principles of risk management

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

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

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

Organisational risk management model



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

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

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

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

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

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

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

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

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

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

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

Influence of the global crisis on bank risk management

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

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

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

- undertook intensive actions aimed at gaining new deposits from retail clients,
- issued a recommendation to retain the whole profit for the year 2008 in the Bank,
- reflected the economic conditions deriving from the financial crisis in the banking risk measurement methods (among others in respect of stress test scenarios, liquidity contingency plans, interest rate and currency risk measures, implementation of Early Warning System),
- expanded scope and frequency of management reports in respect of risk presented for the Management Board
- adjusted the credit policy to the amended market conditions (among others, the Bank tightened criteria concerning granting loans denominated in foreign currency to retail customers, increased the amount of the required client's own contribution with respect to mortgage loans, introduced restrictions on crediting clients with high credit risk and increased credit risk margins for new corporate and consumer loans).

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

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

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

Credit risk

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

The Bank applies the following principles of credit risk management:

- each loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk relating to potential and concluded loan transactions is measured on a cyclical basis, taking into consideration changes in external conditions and in the financial standing of the borrowers,
- credit risk assessment of exposures which are significant due to their risk levels is subject to additional verification by credit risk assessment teams, which are independent of the business teams,

- terms of loan contracts that are offered to a client depend on the credit risk generated by the contract,
- loan granting decisions are made only by authorised persons, within their authority,
- credit risk is diversified by geographical location, by industry, by product and by clients,
- expected credit risk is mitigated by setting appropriate credit margins and appropriate allowances for credit losses.

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

Rating and scoring methods

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

The Bank assesses the credit risk of retail clients on two levels: the client's borrowing capacity and his creditworthiness. The assessment of borrowing capacity involves an examination of the client's financial situation, whereas the creditworthiness assessment involves scoring and evaluating the client's credit history obtained from external sources and internal records of the Bank. In 2008 the Bank continued developing such credit risk assessment methods relating to retail clients. Among other things, it extended the behavioural scoring system by adding more revolving facilities offered by the Bank to retail clients, such as credit cards and Inteligo revolving loans. In this period, the Bank also updated the minimum values of the parameters used for assessing the borrowing capacity of retail clients applying for consumer loans, mortgage loans, credit cards, revolving loans. The changes in the parameter values involved increasing, among others, the minimum fixed expenses of a household and its outgoings on consumption.

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

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

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

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

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

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

Within the verification of the clients' situation as at 31 December 2008 and till today the Bank identified a group of clients, whose financial standing may deteriorate due to concluded treasury transactions and significant negative valuation as well as clients for whom the rating was decreased of who defaulted. As a result of the above-mentioned actions, the Bank recognised additional impairment losses on loan exposures of chosen clients in the amount of approx. PLN 170 million.

Early Warning System (EWS)

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

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

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

Portfolio risk measurement

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

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

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

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

Collateral policy

Bank collateral management is meant to secure properly the interests of the Bank by way of establishing collateral that will ensure the highest possible level of recovery in the event of realisation of collateral.

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

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

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

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

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

- in the case of substantial loans (in terms of value), several types of collateral are established. If possible, personal guarantees are combined with collateral established on assets;
- liquid types of collateral (i.e. collateral established on liquid assets, which the Bank is likely to dispose of quickly for a price approximating the value of the assets put up as collateral) are preferred;
- types of collateral which are exposed to a risk of significant adverse fluctuations of value are treated as auxiliary collateral;
- when an asset is accepted as collateral, an assignment of rights from the insurance policy relating to this asset or the insurance policy issued to the Bank are accepted as additional collateral;
- effective establishment of collateral in compliance with the loan agreement is necessary to make the funds available.

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

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

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

Credit risk management tools

Basic credit risk management tools used by the Bank include:

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

(in PLN thousand)

Credit risk reporting

The Bank prepares monthly and quarterly credit risk reports for i.a. ALCO, the Credit Committee, the Management Board and the Supervisory Board. The reports contain information about the historical credit risk amounts and credit risk forecasts.

Bank's exposure to credit risk

Amounts due from banks	Exposure	
	31.12.2008	31.12.2007
Amounts due from banks impaired	28 486	276
of which assessed on an individual basis	28 486	276
Amounts due from banks not impaired	3 906 598	5 315 799
neither past due nor impaired	3 905 135	5 315 794
past due but not impaired	1 463	5
Gross total	**3 935 084**	**5 316 075**
Impairment allowances	**(28 111)**	**(276)**
Net total	**3 906 973**	**5 315 799**

Loans and advances to customers	Exposure	
	31.12.2008	31.12.2007
Loans and advances impaired	3 161 595	2 317 186
of which assessed on an individual basis	1 438 770	701 412
Loans and advances not impaired	97 540 964	73 811 735
neither past due nor impaired	92 553 616	72 067 850
past due but not impaired	4 987 348	1 743 885
Gross total	**100 702 559**	**76 128 921**
Impairment allowances	**(2 600 540)**	**(2 306 728)**
Net total	**98 102 019**	**73 822 193**

Investment securities available for sale – debt securities	Exposure	
	31.12.2008	31.12.2007
Debt securities impaired	18 104	34 598
of which assessed on an individual basis	18 104	34 598
Debt securities not impaired	8 683 375	5 741 277
neither past due nor impaired	8 683 375	5 741 277
with external rating	6 007 211	3 727 068
with internal rating	2 600 720	2 014 209
without rating	75 444	-
Gross total	**8 701 479**	**5 775 875**
Impairment allowances	**(15 791)**	**(18 587)**
Net total	**8 685 688**	**5 757 288**

Other assets – other financial assets	Exposure	
	31.12.2008	31.12.2007
Other assets impaired	33 606	23 926
Other assets not impaired	351 865	352 377
neither past due nor impaired	338 075	350 192
past due but not impaired	13 790	2 185
Gross total	**385 471**	**376 303**
Impairment allowances	**(33 089)**	**(23 910)**
Net total (carrying amount)	**352 382**	**352 393**

(in PLN thousand)

Maximum exposure to credit risk

The table below presents maximum exposure to credit risk of the Bank as at 31 December 2008 and as at 31 December 2007, excluding collaterals value and connected with them improvement of credit situation stated at net carrying amount.

Balance sheet items	31.12.2008	31.12.2007
Operations with the central bank	**3 419 832**	**2 972 067**
Amounts due from banks	**3 906 973**	**5 315 799**
Trading assets – debt securities	**1 491 524**	**1 193 255**
issued by the State Treasury	1 491 398	1 193 129
issued by local government bodies	126	126
Derivative financial instruments	**3 599 545**	**1 556 750**
Other financial instruments at fair value through profit or loss - debt securities	**4 546 497**	**8 101 534**
issued by the State Treasury	4 373 621	7 221 217
issued by central banks	-	-
issued by other banks	172 876	764 018
issued by other financial institutions	-	116 299
Loans and advances to customers	**98 102 019**	**73 822 193**
Financial entities (other than banks)	2 545 376	1 465 194
corporate loans	2 545 376	1 465 194
Non-financial entities	92 364 724	68 706 705
consumer loans	20 017 539	17 696 722
mortgage loans	45 036 665	32 610 135
corporate loans	27 310 520	18 399 848
State budget entities	3 191 919	3 650 294
corporate loans	3 191 919	3 650 294
Investment securities available for sale - debt securities	**8 685 688**	**5 757 288**
issued by the State Treasury	3 286 726	1 093 563
issued by central banks	2 673 729	2 633 505
issued by other banks	46 756	-
issued by other financial institutions	481 128	232 899
issued by non-financial institutions	779 250	621 274
issued by local government bodies	1 418 099	1 176 047
Other assets - other financial assets	**352 382**	**352 393**
Total	**124 104 460**	**99 071 279**

Off-balance sheet items	31.12.2008	31.12.2007
Irrevocable liabilities granted	7 714 609	8 856 029
Guarantees granted	3 186 778	2 104 557
Letters of credit granted	551 760	562 155
Guarantees of issue (underwriting)	821 005	1 550 044
Total	**12 274 152**	**13 072 785**

In 2008 volume of loan portfolio significantly increased by 30%. The highest increase was observed in the non-financial sector. There was a decline in the volume of loans and advances granted to state budget entities.

(in PLN thousand)

Analysis of portfolio by rating class

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

The following loan portfolios are covered by the rating system:

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

Financial assets neither past due nor impaired	31.12.2008	31.12.2007
Amounts due from banks	**3 905 135**	**5 315 794**
of which:		
with rating	2 002 997	4 723 824
without rating	1 902 138	591 970
Loans and advances to customers	**92 553 616**	**72 067 850**
with rating – financial, non-financial and public sector (corporate loans)	30 829 548	15 839 982
A (first rate)	1 184 628	389 843
B (very good)	2 474 397	2 008 431
C (good)	4 639 476	3 517 194
D (satisfactory)	9 373 219	4 370 414
E (average)	6 811 983	3 699 164
F (acceptable)	6 345 845	1 854 936
with rating – non-financial sector (consumer and mortgage loans)	58 560 511	45 718 387
A (first rate)	12 909 565	18 764 198
B (very good)	14 809 811	15 755 337
C (good)	23 649 272	7 629 870
E (average)	4 382 491	2 526 869
F (acceptable)	2 809 372	1 042 113
without rating – non-financial sector (other consumer and mortgage loans)	3 163 557	10 509 481
Other assets – other financial assets	**338 075**	**350 192**
Total	**96 796 826**	**77 733 836**

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

Structure of investment securities available to sale – debt securities and amounts due from other banks, neither past due nor impaired, by external rating class:

Structure of debt securities and interbank deposits, neither past due nor impaired by external rating class is presented below:

(in PLN thousand)

31 December 2008

Rating/ portfolio	held for trading		at fair value through profit or loss			available for sale				Interbank deposits
	issued by the State Treasury	issued by local government bodies	issued by the State Treasury	issued by other banks	issued by other financial institutions	issued by the State Treasury	issued by central banks	issued by other banks	issued by other financial institutions	
AAA	-	-	-	-	-	-	-	-	-	-
AA- to AA+	-	-	-	23 943	-	-	-	-	-	900 319
A- to A+	1 491 398	-	4 373 621	148 933	-	3 286 726	2 673 729	12 567	-	838 752
BBB- to BBB+	-	-	-	-	-	-	-	34 189	-	257 658
BB- to BB+	-	-	-	-	-	-	-	-	-	-
B- to B+	-	-	-	-	-	-	-	-	-	6 268
without rating	-	126	-	-	-	-	-	-	75 444	105 485
Total	**1 491 398**	**126**	**4 373 621**	**172 876**	**-**	**3 286 726**	**2 673 729**	**46 756**	**75 444**	**2 108 482**

31 December 2007

Rating/ portfolio	held for trading		at fair value through profit or loss			available for sale				Interbank deposits
	issued by the State Treasury	issued by local government bodies	issued by the State Treasury	issued by other banks	issued by other financial institutions	issued by the State Treasury	issued by central banks	issued by other banks	issued by other financial institutions	
AAA	-	-	-	-	-	-	-	-	-	237 300
AA- to AA+	-	-	-	542 259	-	-	-	-	-	3 099 167
A- to A+	1 193 129	-	7 221 217	221 759	-	1 093 563	2 633 505	-	-	1 263 508
BBB- to BBB+	-	-	-	-	-	-	-	-	-	123 849
BB- to BB+	-	-	-	-	-	-	-	-	-	-
B- to B+	-	-	-	-	-	-	-	-	-	-
without rating	-	126	-	-	116 299	-	-	-	-	-
Total	**1 193 129**	**126**	**7 221 217**	**764 018**	**116 299**	**1 093 563**	**2 633 505**	**-**	**-**	**4 723 824**

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

Entities with rating	31.12.2008	31.12.2007
	carrying amount	carrying amount
A (first rate)	21 313	97 430
B (very good)	448 931	320 840
C (good)	1 403 775	650 690
D (satisfactory)	391 905	309 841
E (average)	153 571	530 570
F (acceptable)	181 225	104 838
TOTAL	**2 600 720**	**2 014 209**

Concentration of credit risk within the Bank

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

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

(in PLN thousand)

Concentration by the biggest business entities

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

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

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

As at 31 December 2008, the level of concentration risk with respect to individual exposures was low – the biggest exposure to a single entity was equal to 9.6% of the Bank's own funds.

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

31.12.2008			31.12.2007		
No.	**Exposure***	**Share in the loan portfolio****	**No.**	**Exposure***	**Share in the loan portfolio****
1.	656 139	0.65%	1.	522 063	0.69%
2.	592 759	0.59%	2.	411 531	0.54%
3.	457 525	0.45%	3.	307 286	0.40%
4.	412 857	0.41%	4.	304 498	0.40%
5.	334 019	0.33%	5.	291 115	0.38%
6.	305 746	0.30%	6.	273 340	0.36%
7.	292 682	0.29%	7.	268 399	0.35%
8.	243 106	0.24%	8.	264 861	0.35%
9.	242 046	0.24%	9.	259 316	0.34%
10.	235 382	0.23%	10.	255 336	0.34%
11.	235 221	0.23%	11.	204 178	0.27%
12.	233 201	0.23%	12.	201 004	0.26%
13.	231 369	0.23%	13.	190 227	0.25%
14.	230 981	0.23%	14.	179 210	0.24%
15.	218 941	0.22%	15.	176 649	0.23%
16.	218 030	0.22%	16.	175 053	0.23%
17.	217 275	0.22%	17.	170 245	0.22%
18.	215 637	0.21%	18.	169 608	0.22%
19.	201 442	0.20%	19.	162 951	0.21%
20.	197 176	0.20%	20.	152 094	0.20%
Total	**5 971 534**	**5.92%**	**Total**	**4 938 964**	**6.48%**

*Total exposure includes loans, advances, purchased debts, discounts on bills of exchange, realized guarantees and interest receivable.
**The value of the loan portfolio does not include off-balance sheet and capital exposures.

(in PLN thousand)

Concentration of credit risk by the largest groups

As at 31 December 2008, concentration of credit risk by the largest capital groups was low - the greatest exposure of the Bank towards a capital group amounted to 14.7% of the Bank's own funds and was due to a consolidation process of companies from the power supply industry.

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

31.12.2008			31.12.2007		
No.	Exposure*	Share in the loan portfolio**	No.	Exposure*	Share in the loan portfolio**
1	1 654 951	1.65%	1	2 119 387	2.79%
2	1 402 841	1.39%	2	1 426 492	1.88%
3	1 315 589	1.31%	3	1 116 920	1.47%
4	1 283 533	1.28%	4	1 095 926	1.44%
5	792 757	0.79%	5	787 510	1.03%
Total	**6 449 671**	**6.41%**	**Total**	**6 546 235**	**8.61%**

*Total exposure includes loans, advances, purchased debts, discounts on bills of exchange, realized guarantees, interest receivable, debt securities, off-balance sheet and capital exposures.
**The value of the loan portfolio does not include off-balance sheet and capital exposures.

Concentration of credit risk by industry

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

Analysis of exposure to industry segments as at 31 December 2008 and 31 December 2007 is presented in the table below.

Section	Description	31.12.2008		31.12.2007	
		Exposure	Number of entities	Exposure	Number of entities
D	Industrial processing	27.02%	13.49%	24.97%	15.17%
G	Wholesale and retail trade, repair of motor vehicles and personal and household goods	17.89%	30.65%	16.25%	31.70%
K	Property management, lease and services related to the running of business activities	13.17%	10.73%	10.91%	9.28%
L	Public administration and national defense. obligatory social security and public health insurance	8.85%	0.60%	14.40%	0.68%
F	Construction	6.25%	12.88%	4.93%	10.87%
E	Electricity, gas and water production and supply	3.38%	0.19%	4.52%	0.16%
Other exposure		23.44%	31.46%	24.02%	32.14%
Total		**100.00%**	**100.00%**	**100.00%**	**100.00%**

The Bank's exposure increased compared with 31 December 2007 with respect to all sectors except Fishery, Mining, Public Administration and National Defence (total decrease of PLN 0.5 billion). The biggest increases were recorded in the following sectors: "Manufacturing" (+ PLN 3.3 billion), "Trade" (+ PLN 2.2 billion), "Real estate management, rental and services relating to business activities" (+ PLN 1.9 billion).
Combined exposure to three largest sectors: "Manufacturing", "Wholesale and retail trade" and "Real estate management, rental and services relating to business activities" constitutes 58% of the total portfolio of loans granted to business entities.

(in PLN thousand)

Concentration of credit risk by geographical regions

Region	31.12.2008	31.12.2007
Poland		
mazowiecki	18.59%	18.00%
śląsko-opolski	12.52%	13.56%
wielkopolski	10.28%	10.78%
małopolsko-świętokrzyski	9.26%	9.10%
dolnośląski	7.77%	8.22%
zachodnio-pomorski	7.24%	7.22%
lubelsko-podkarpacki	6.54%	6.98%
łódzki	6.24%	6.81%
pomorski	7.17%	6.60%
kujawsko-pomorski	5.17%	5.71%
warmińsko-mazurski	3.55%	3.77%
podlaski	3.08%	3.19%
other	2.59%	0.06%
Total	**100.00%**	**100.00%**

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

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

Concentration of credit risk by currency

As at 31 December 2008, the share of currency exposures in the total credit portfolio of the Bank amounted to 27.8%. The greatest parts of currency exposures, other than PLN, are those in CHF (79.6% of currency credit portfolio), whose share in the loan portfolio increased by 6.6 p.p. (y/y).

Concentration of credit risk by currency (%)

Currency	31.12.2008	31.12.2007
PLN	72.16%	80.00%
Foreign currencies, of which:	27.84%	20.00%
CHF	22.17%	15.60%
EUR	4.09%	3.50%
USD	1.57%	0.90%
GBP	0.01%	0.00%
Total	**100.00%**	**100.00%**

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

Other types of concentration

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

(in PLN thousand)

Renegotiated receivables

The purpose of the restructuring activity of the Bank is to maximize the effectiveness of non-performing loan management. The aim is to receive the highest possible recoveries and, at the same time, incur the minimal possible costs relating to these recoveries which, in the case of debt collection activities, are very high.

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

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

As a result of signing a restructuring agreement the loan being restructured is reset from overdue to current. Evaluation of the ability of a debtor to fulfil the restructuring agreement conditions (debt repayment according to the agreed schedule) constitutes an element of the restructuring process. Active restructuring agreements are monitored by the Bank on an on-going basis.

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

Financial assets	Carrying amount	
	31.12.2008	31.12.2007
Loans and advances to customers, by gross value	**100 702 559**	**76 128 921**
including renegotiated	**72 732**	**177 416**
Financial entities (other than banks)	-	90
corporate loans	-	90
Non-financial entities	70 717	175 383
consumer loans	18 336	25 043
mortgage loans	35 381	53 341
corporate loans	17 000	96 999
State budget entities	2 015	1 943
corporate loans	2 015	1 943

Past due financial assets

Financial assets which are past due at the reporting date but not impaired include the following financial assets:

Financial assets	31.12.2008			31.12.2007		
	up to 3 months	over 3 months	Total	up to 3 months	over 3 months	Total
Financial instruments at fair value through profit or loss	-	-	**-**	40	-	**40**
Loans and advances to clients:	4 944 966	42 382	**4 987 348**	1 708 254	35 631	**1 743 885**
financial sector	916	-	**916**	426	-	**426**
non-financial sector	4 465 732	42 382	**4 508 114**	1 598 175	35 631	**1 633 806**
public sector	478 318		**478 318**	109 653	-	**109 653**
Other assets – other financial assets	13 790	-	**13 790**	2 185	-	**2 185**
Total	**4 958 756**	**42 382**	**5 001 138**	**1 710 479**	**35 631**	**1 746 110**

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

(in PLN thousand)

Individually determined to be impaired financial assets

	31.12.2008	31.12.2007
Amounts due from banks	**28 486**	**276**
Loans and advances to customers	**1 438 770**	**701 412**
Financial entities	14 436	17 240
corporate loans	14 436	17 240
Non-financial entities	1 414 795	674 543
consumer loans	18 525	6 850
mortgage loans	105 716	131 862
corporate loans	1 290 554	535 831
State budget entities	9 539	9 629
corporate loans	9 539	9 629
Financial assets available for sale	**23 862**	**42 056**
issued by financial entities	2 599	2 674
issued by non-financial entities	21 263	39 382
Total	**1 491 118**	**743 744**

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

- for loans and advances to customers: ceiling mortgages and ordinary mortgages, registered pledges, promissory notes and transfers of receivables - with a total amount of PLN 1 200 747 thousand,
- for financial assets available for sale: blank promissory notes, registered pledges on the bank account and on debtor's shares - with a total nil value.

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

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

(in PLN thousand)

Credit risk of financial institutions

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

Interbank portfolio*					
Counterparty	Instrument type				Total
	Deposits	Securities	Credit Default Swap	Other derivatives	
Counterparty 1	222 135	-	-	-	222 135
Counterparty 2	196 098	-	-	-	196 098
Counterparty 3	168 084	-	-	2 480	170 564
Counterparty 4	159 803	-	-	8 700	168 503
Counterparty 5	154 077	-	-	(17 350)	154 077
Counterparty 6	-	-	118 472	(193 941)	118 472
Counterparty 7	100 000	-	-	(3 401)	100 000
Counterparty 8	-	-	88 854	(78 015)	88 854
Counterparty 9	-	83 448	-	-	83 448
Counterparty 10	-	-	-	70 308	70 308
Counterparty 11	-	-	-	61 528	61 528
Counterparty 12	26 656	-	-	33 994	60 650
Counterparty 13	-	-	-	54 085	54 085
Counterparty 14	50 000	-	-	-	50 000
Counterparty 15	-	41 724	-	(104)	41 724
Counterparty 16	-	20 862	-	-	20 862
Counterparty 17	9 655	-	-	(40 332)	9 655
Counterparty 18	-	95 965	(88 854)	-	7 111
Counterparty 19	6 259	-	-	-	6 259
Counterparty 20	-	-	-	4 191	4 191

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

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

Interbank portfolio*					
Counterparty**	Instrument type				Total
	Deposit	Securities	Credit Default Swap	Other derivatives	
Counterparty 21	379 100	-	-	14 974	394 074
Counterparty 22	335 965	-	-	-	335 965
Counterparty 23	300 000	-	-	5 890	305 890
Counterparty 24	293 280	-	-	-	293 280
Counterparty 25	276 889	-	-	3	276 891
Counterparty 26	232 386	-	-	15 464	247 850
Counterparty 14	219 040	17 910	-	-	236 950
Counterparty 27	-	-	158 275	46 333	204 608
Counterparty 10	204 155	-	-	(5 664)	204 155
Counterparty 3	179 100	-	-	(331)	179 100
Counterparty 28	100 000	-	-	65 231	165 231
Counterparty 29	150 000	-	-	12 373	162 373
Counterparty 30	150 000	-	-	(496)	150 000
Counterparty 16	-	150 451	(24 350)	-	126 101
Counterparty 20	100 000	-	-	25 792	125 792
Counterparty 9	100 000	-	-	25 307	125 307
Counterparty 31	108 746	-	-	5 286	114 032
Counterparty 32	-	-	73 050	34 790	107 840
Counterparty 33	100 000	-	-	-	100 000
Counterparty 34	100 000	-	-	-	100 000

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

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

(in PLN thousand)

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

Out of the 13 counterparties listed in the table above as at 31 December 2008, with whom the Bank carried out derivative instrument transactions, 12 counterparties signed master agreements with the Bank (counterparties: 3, 4, 5, 6, 7, 8, 10, 11, 12, 13, 15, 17). Exposure to counterparty 20 (who did not sign master agreement with the Bank) was restricted to short-term FX swap transactions. Master agreements allow for offsetting of mutual liabilities in the event of bankruptcy of any of the parties to the transaction. As at 31 December 2008 PKO BP SA had 23 master agreements signed with domestic banks and 31 with foreign banks and lending institutions. In addition to this, the Bank is a party to 17 CSA (Credit Support Annex) agreements which enable it to hedge its exposure from derivative instruments and 2 ISMA (International Securities Market Association) agreements which allow for an offsetting of liabilities arising from REPO and BSB/SBB transactions.

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

Geographical localization of counterparties:

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

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

(in PLN thousand)

Counterparty structure by rating

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

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

Management of foreclosed collateral

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

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

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

The carrying amounts of assets taken over in exchange for debts as at 31 December 2008 and 31 December 2007 are presented in Note 25, "Other assets", in line item "Non-current assets held for sale".

Market risk

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

Interest rate risk

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

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

Value at Risk (VaR) is defined as the potential loss resulting from a change in the present value of the future cash flows from a financial instrument, while keeping an assumed level of confidence and holding period. The Bank adopts a variance-covariance method with a confidence level of 99% for the purpose of determining VaR. In its interest rate risk management the Bank uses, among others, VaR determined for particular financial instruments and for the Bank's portfolios.

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

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

The main tools used in interest rate risk management include:

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

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

Repricing Gap	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
PLN (PLN thousand)								**31.12.2008**
Periodic gap	(4 942 713)	6 770 631	11 376 342	1 416 117	(7 163 638)	(707 711)	24 038	**6 773 066**
Cumulative gap	(4 942 713)	1 827 918	13 204 260	14 620 377	7 456 739	6 749 028	6 773 066	**-**
PLN (PLN thousand)								**31.12.2007**
Periodic gap	(14 265 905)	29 055 517	4 008 211	(8 716 047)	(1 305 678)	(201 666)	152 558	**8 726 990**
Cumulative gap	(14 265 905)	14 789 612	18 797 823	10 081 776	8 776 098	8 574 432	8 726 990	**-**
USD (USD thousand)								**31.12.2008**
Periodic gap	44 859	(156 960)	(28 162)	6 439	(14 779)	21 630	15 060	**(111 914)**
Cumulative gap	44 859	(112 101)	(140 263)	(133 824)	(148 604)	(126 974)	(111 914)	**-**
USD (USD thousand)								**31.12.2007**
Periodic gap	(196 090)	160 709	(36 656)	(46 478)	-	5 357	(24 525)	**(137 683)**
Cumulative gap	(196 090)	(35 381)	(72 037)	(118 515)	(118 515)	(113 158)	(137 683)	**-**

EUR (EUR thousand)								**31.12.2008**
Periodic gap	(314 370)	(17 992)	51 775	37 842	(13 962)	31 639	(7 973)	**(233 040)**
Cumulative gap	(314 370)	(332 361)	(280 586)	(242 745)	(256 706)	(225 067)	(233 040)	**-**

EUR (EUR thousand)								**31.12.2007**
Periodic gap	220 133	74 639	(12 427)	(17 114)	8 344	1 730	(47 010)	**228 295**
Cumulative gap	220 133	294 772	282 345	265 231	273 575	275 305	228 295	**-**

CHF (CHF thousand)								**31.12.2008**
Periodic gap	4 983 161	(4 900 577)	(2 780)	(1 577)	(97)	-	3 092	**81 222**
Cumulative gap	4 983 161	82 584	79 804	78 227	78 130	78 130	81 222	**-**

CHF (CHF thousand)								**31.12.2007**
Periodic gap	3 153 166	(3 156 417)	(1 091)	(2 374)	-	(330)	3 005	**(4 041)**
Cumulative gap	3 153 166	(3 251)	(4 342)	(6 716)	(6 716)	(7 046)	(4 041)	**-**

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

Exposure of the Bank to interest rate risk was within accepted limits. The Bank was mainly exposed to PLN interest rate risk, which represents about 83% of Bank's value at risk (VaR) as at 31 December 2008 and about 48% as at 31 December 2007.

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

Name of sensitivity measure	**31.12.2008**	**31.12.2007**
VaR for a 10-day time horizon (PLN thousand)*	72 337	36 300
Parallel move of interest rate curves by +200 base points (PLN thousand)	499 041	101 905

* VaR calculated as at 31.12.2007 reflects the changes in the VaR methodology introduced in 2008 in connection with financial crisis. VaR calculated according to the methodology used on December, 12 2007 amounted to PLN 10 521 thousand.

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

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

Currency risk

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

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

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

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

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

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

The main tools used in currency risk management include:

1) written procedures for currency risk management,
2) limits and thresholds for currency risk,
3) defining allowable transactions in foreign currencies and the exchange rates used in such transactions.

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

The level of the currency risk was low both as at 31 December 2008 and as at 31 December 2007.

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

Name of sensitivity measure	31.12.2008	31.12.2007
VaR for a 10-day time horizon (PLN thousand)	11 297*	1 646
Change of PLN +15% (PLN thousand)**	10 631	6 975

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

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

The Bank's currency positions are presented in the table below:

	31.12.2008	31.12.2007
	Currency position (PLN thousand)	**Currency position (PLN thousand)**
USD	(97 267)	(32 684)
EUR	20 134	(32 882)
CHF	(10 304)	37 786
GBP	(1 497)	(3 137)
Other (Global Net)	18 062	11 637

The volume of currency positions is a key factor determining the level of currency risk on which the Bank is exposed (except for volatility of foreign exchange rates). The level of currency positions is determined by all foreign currency transactions, which are concluded by the Bank, both balance sheet (such as loans) and off-balance sheet (such as derivatives, CIRS transactions in particular). In accordance with the currency risk management principles at the Bank, the daily currency position opened by the Bank within the banking book (such as disbursement of loans denominated in foreign currency in PLN, repayment of loans denominated in foreign currency by the clients, exposure currency conversion) is closed every day, also using derivative instruments. This means that the currency position of the Bank at the end of the day may constitute only of generated new position in banking book on this day and currency position in trading book within the limits, which results in a low exposure of the Bank to currency risk (with reference to own funds, VaR for a 10-day time horizon for the Bank's currency position amounted to approx. 0.09%).

Currency structure

The tables below present currency exposure by the specific types of assets, liabilities and contingent liabilities and commitments.

	Currency translated to PLN – 31.12.2008				
	PLN	**EUR**	**CHF**	**Other**	**Total**
ASSETS, of which					
Cash and balances with the central bank	5 439 916	158 624	17 693	142 015	**5 758 248**
Amounts due from banks	1 072 185	1 554 911	82 106	1 225 882	**3 935 084**
Loans and advances to custsomers	73 557 038	3 866 255	22 362 049	917 217	**100 702 559**
Securities	14 244 665	384 793	-	191 247	**14 820 705**
Tangible assets	8 145 158	-	-	-	**8 145 158**
Other assets and derivatives	4 171 865	113 819	393	79 364	**4 365 441**
TOTAL ASSETS (GROSS)	106 630 827	6 078 402	22 462 241	2 555 725	**137 727 195**
DEPRECIATION / AMORTISATION / IMPAIRMENT	(6 380 152)	(70 812)	(28 881)	(2 523)	**(6 482 368)**
TOTAL ASSETS (NET)	**100 250 675**	**6 007 590**	**22 433 360**	**2 553 202**	**131 244 827**
EQUITY AND LIABILITIES, of which					
Amounts due to the central bank	2 816	-	-	-	**2 816**
Amounts due to other banks	2 545 840	3 940	2 656 016	493 656	**5 699 452**
Amounts due to customers	96 040 953	3 466 685	111 077	2 238 215	**101 856 930**
Subordinated liabilities	1 618 755	-	-	-	**1 618 755**
Provisions	561 353	-	-	-	**561 353**
Other liabilities, derivatives and deferred tax liabilities	7 615 013	271 288	7 387	82 461	**7 976 149**
Equity	13 529 372	-	-	-	**13 529 372**
TOTAL EQUITY AND LIABILITIES	**121 914 102**	**3 741 913**	**2 774 480**	**2 814 332**	**131 244 827**
CONTINGENT LIABILITIES GRANTED	**25 899 924**	**3 047 516**	**1 121 951**	**687 027**	**30 756 418**

(in PLN thousand)

	Currency translated to PLN – 31.12.2007				
	PLN	**EUR**	**CHF**	**Other**	**Total**
ASSETS, of which:					
Cash and balances with the central bank	4 375 365	118 655	7 655	92 409	**4 594 084**
Amounts due from banks	2 417 096	2 204 573	158 241	536 165	**5 316 075**
Loans and advances to customers	61 392 063	2 337 488	11 902 820	496 550	**76 128 921**
Securities	13 297 131	1 272 759	-	602 932	**15 172 822**
Tangible assets	7 743 081	-	-	-	**7 743 081**
Other assets and derivatives	2 057 647	151 768	1 717	65 518	**2 276 650**
TOTAL ASSETS (GROSS)	91 282 383	6 085 243	12 070 433	1 793 574	**111 231 633**
DEPRECIATION / AMORTISATION / IMPAIRMENT	(5 856 818)	(12 857)	(20 682)	(1 022)	**(5 891 379)**
TOTAL ASSETS (NET)	**85 425 565**	**6 072 386**	**12 049 751**	**1 792 552**	**105 340 254**
EQUITY AND LIABILITIES, of which:					
Amounts due to the central bank	1 279	-	-	-	**1 279**
Amounts due to other banks	585 378	827 344	2 050 374	161 359	**3 624 455**
Amounts due to customers	78 909 784	888 680	29 139	5 387 860	**85 215 463**
Subordinated liabilities	1 614 885	-	-	-	**1 614 885**
Provisions	452 515	505	-	25	**453 045**
Other liabilities, derivatives and deferred tax liabilities	2 502 257	82 245	10 540	106 544	**2 701 586**
Equity	11 729 541	-	-	-	**11 729 541**
TOTAL EQUITY AND LIABILITIES	**95 795 639**	**1 798 774**	**2 090 053**	**5 655 788**	**105 340 254**
CONTINGENT LIABILITIES GRANTED	**24 774 515**	**2 770 532**	**640 513**	**329 974**	**28 515 534**

Derivative instrument risk

The objective of derivative risk management is to monitor the use of derivative instruments and to keep derivative risk within the range defined by the general risk profile of the Bank. Derivative risk management in the Bank is fully integrated with the management of other risks, such as: interest rate, currency, liquidity and credit risk. The principles of derivative risk management define the risks related to derivative transactions and the tasks for individual organizational units in the process of derivative risk management.

The Bank measures the derivative instrument risk using, among others, the Value at Risk (VaR) model described in the section on interest rate risk or currency risk, depending on the risk factor which affects the value of the instrument.

The main tools used in derivative risk management are as follows:

1) written procedures for derivative risk management,
2) limits and thresholds set for the risk related to derivative instruments,
3) master agreements (ISDA – (International Swaps and Derivatives Accociation), ZBP (Polish Bank Association)) specifying, among others, settlement mechanisms.

Risk management is carried out by imposing limits on the individual derivative instruments included in the Bank's trading and banking portfolios, monitoring limits, observation and reporting risk level.

Master agreements concluded by the Bank with the major business partners based on the standards developed by the Polish Bank Association (domestic banks) and ISDA (foreign banks and credit institutions), which allow offsetting mutual liabilities, both due (mitigation of settlement risk) and not yet due (mitigation of pre-settlement risk), are particularly important for mitigating the risk associated with derivative instruments. Additional collateral for exposures, resulting from derivative instruments are collateral deposits escrowed by counterparties as a part of CSA agreement (Credit Support Annex).

(in PLN thousand)

Liquidity risk

The objective of liquidity risk management is to shape the structure of the Bank's balance sheet and contingent liabilities and commitments to ensure the continuous liquidity of the Bank, taking into account the nature of its activities and requirements which may occur due to changes in market environment.

The Bank's policy concerning liquidity is based on keeping a portfolio of liquid securities and stable deposits. In its liquidity risk management policy, the Bank also uses money market instruments, including NBP open market operations.

The Bank makes use of the following liquidity risk measures:

1) the contractual liquidity gap method and the liquidity gap in real terms method,
2) the surplus liquidity method,
3) analysis of stability of deposit and loan portfolios,
4) stress testing.

The main tools for liquidity risk management in PKO BP SA are as follows:

1) written procedures for liquidity risk management,
2) limits and thresholds mitigating liquidity risk,
3) deposit, investment and derivative transactions, including structural currency transactions and transactions for sale or purchase of securities,
4) transactions ensuring long-term financing of Bank's lending activities.

To ensure an adequate liquidity level, the Bank 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.

Liquidity gaps in real terms presented below include: adjustments to real terms concerning permanent balances on deposits from non-financial institutions and their maturity, adjustments to real terms concerning permanent balance on loans in current account of non-financial subjects and its maturity, which constitute the main differences between the gap in real and nominal terms.

	a'vista	0 - 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 36 months	36 - 60 months	over 60 months
								31.12.2008
Adjusted gap	4 568 859	5 852 435	(2 914 818)	(1 798 141)	1 989 986	4 250 513	1 924 376	**(13 873 210)**
Cumulative adjusted gap	4 568 859	10 421 294	7 506 476	5 708 335	7 698 321	11 948 833	13 873 210	-
								31.12.2007*
Adjusted gap	3 206 133	14 321 024	3 330 792	3 042 761	5 591 174	8 832 298	2 052 784	**(40 376 966)**
Cumulative adjusted gap	3 206 133	17 527 157	20 857 949	23 900 710	29 491 884	38 324 182	40 376 966	-

* The amounts have been brought to comparability in accordance with the methodology of liquidity gap realignment in force as at 31 December 2008.

In all time horizons, the Bank's cumulative adjusted liquidity gap in real terms as at 31 December 2008 and 31 December 2007 was positive. This means a surplus of assets receivable over liabilities payable.

The table below presents liquidity reserve as at 31 December 2008 and 31 December 2007.

Name of sensitivity measure	31.12.2008	31.12.2007
Liquidity reserve to 1 month* (PLN million)	6 666	9 248

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

On 15 December 2008 the Bank introduced new deposit products. The liquidity reserve to 1 month as at 10 January 2009 amounted to approximately PLN 8 930 000 thousand.

As at 31 December 2008, the level of permanent balances on deposits from non-financial entities constituted approximately 94% of all deposits of the Bank's non-financial clients, while as at 31 December 2007 the level of permanent balances on deposits constituted approximately 96% of all deposits of the Bank's non-financial clients.

Financial crisis observed in the market significantly affected the environment in which the banks operate, which refers also to Polish banking sector. The main difficulty related to the crisis constituted limited trust in the interbank market, which resulted in limited liquidity of this market. This contributed to the necessity of gaining deposits by the banks from non-financial clients, which inevitably led to the increase of the offered interest rates paid.

Facing aggravating crisis, the Bank's Management Board took steps to mitigate the possible risks. The Bank appointed a special working group, whose objective was to assess the current situation in the financial market, to report to Management Board members on a daily basis and to discuss the situation during Management Board meetings on a weekly basis.

Under crisis situation on financial markets the Bank took actions aimed at effective liquidity risk management, which may be confirmed by the following factors:

- no limits for supervisory liquidity measures of the Bank were exceeded,
- the Bank did not have any difficulties with holding the obligatory funds to cover the obligatory reserve at the National Bank of Poland (NBP) without the need of taking a lombard loan,
- the Bank did not take advantage of the supporting operations and financing operations in foreign currencies offered by the National Bank of Poland (NBP).

The above mentioned extraordinary actions were accompanied by standard risk monitoring as well as development of risk measurement methods, along with their adjustment to the observed market conditions, such as modification of structure of limits and thresholds for liquidity risk with reference to the minimal liquidity reserve held by the Bank.

In order to reduce the risk within the Group and due to the deeper crisis in the Ukrainian market, the Bank granted financial support to its subsidiary company KREDOBANK SA.

(in PLN thousand)

Current and non-current assets and liabilities of the Bank as at 31 December 2008

	Short-term	Long-term	Impairment allowances	Total (carrying amount)
Assets				
Cash and balances with the central bank	5 758 248	-	-	**5 758 248**
Amounts due from banks	3 057 721	877 363	(28 111)	**3 906 973**
Financial assets held for trading	1 340 931	155 216	-	**1 496 147**
Derivative financial instruments	3 599 545	-	-	**3 599 545**
Financial instruments at fair value through profit or loss	3 521 974	1 024 523	-	**4 546 497**
Loans and advances to customers	20 628 373	80 074 186	(2 600 540)	**98 102 019**
Investment securities available for sale	1 142 702	7 613 809	-	**8 756 511**
Other assets	3 250 940	2 299 918	(471 971)	**5 078 887**
TOTAL ASSETS	**42 300 434**	**92 045 015**	**(3 100 622)**	**131 244 827**
Liabilities				
Amounts due to the central bank	2 816	-	-	**2 816**
Amounts due to other banks	2 973 138	2 726 314	-	**5 699 452**
Derivate financial instruments	6 150 337	-	-	**6 150 337**
Amounts due to customers	90 622 850	11 234 080	-	**101 856 930**
Subordinated liabilities	-	1 618 755	-	**1 618 755**
Other liabilities	2 028 110	359 055	-	**2 387 165**
TOTAL LIABILITIES	**101 777 251**	**15 938 204**	**-**	**117 715 455**
EQUITY	**-**	**13 529 372**	**-**	**13 529 372**
TOTAL EQUITY AND LIABILITIES	**101 777 251**	**29 467 576**	**-**	**131 244 827**

Current and non-current assets and liabilities of the Bank as at 31 December 2007

	Short-term	Long-term	Impairment allowances	Total (carrying amount)
Assets				
Cash and balances with the central bank	4 594 084	-	-	**4 594 084**
Amounts due from banks	5 121 224	194 851	(276)	**5 315 799**
Financial assets held for trading	337 058	865 861	-	**1 202 919**
Derivative financial instruments	1 556 750	-	-	**1 556 750**
Financial instruments at fair value through profit or loss	2 000 246	6 101 288	-	**8 101 534**
Loans and advances to customers	21 338 923	54 789 998	(2 306 728)	**73 822 193**
Investment securities available for sale	615 554	5 225 999	-	**5 841 553**
Other assets	2 088 905	2 965 949	(149 432)	**4 905 422**
TOTAL ASSETS	**37 652 744**	**70 143 946**	**(2 456 436)**	**105 340 254**
Liabilities				
Amounts due to the central bank	1 279	-	-	**1 279**
Amounts due to other banks	1 575 403	2 049 052	-	**3 624 455**
Derivate financial instruments	1 280 265	-	-	**1 280 265**
Amounts due to customers	84 067 734	1 147 729	-	**85 215 463**
Subordinated liabilities	-	1 614 885	-	**1 614 885**
Other liabilities	1 410 605	463 761	-	**1 874 366**
TOTAL LIABILITIES	**88 335 286**	**5 275 427**	**-**	**93 610 713**
EQUITY	**-**	**11 729 541**	**-**	**11 729 541**
TOTAL EQUITY AND LIABILITIES	**88 335 286**	**17 004 968**	**-**	**105 340 254**

(in PLN thousand)

Outstanding contractual maturities of the Bank as at 31 December 2008

	Up to 1 month	1 - 3 months	3 months - 1 year	1 – 5 years	Over 5 years	Contractual value	Carrying amount
Liabilities:							
Amounts due to the central bank	2 816	-	-	-	-	2 816	**2 816**
Amounts due to other banks	2 355 325	629 482	34 097	2 821 132	-	5 840 035	**5 699 452**
Amounts due to customers	61 570 663	17 465 715	11 532 200	12 407 953	3 853	102 980 384	**101 856 930**
Subordinated liabilities	-	-	126 135	506 893	2 121 604	2 754 632	**1 618 755**
Other liabilities	380 988	148 334	785 447	23 638	16 989	1 355 396	**1 355 396**
Derivatives	6 476 728	5 399 820	7 228 909	21 651 941	5 876 889	46 634 287	**6 150 337**
Off-balance sheet financial liabilities	13 715 875	161 208	3 540 008	4 261 722	4 518 062	26 196 875	
Off-balance guarantee liabilities issued	1 438 278	157 129	1 134 675	1 480 767	348 694	4 559 543	

Outstanding contractual maturities of the Bank as at 31 December 2007

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value	Carrying amount
Liabilities:							
Amounts due to the central bank	1 279	-	-	-	-	1 279	**1 279**
Amounts due to other banks	907 381	592 907	140 684	2 278 983	-	3 919 954	**3 624 455**
Amounts due to customers	61 453 937	9 748 903	12 959 039	1 286 410	11 004	85 459 293	**85 215 463**
Subordinated liabilities	-	-	102 244	408 138	2 130 822	2 641 204	**1 614 885**
Other liabilities	699 896	661 003	16 205	19 734	24 483	1 421 321	**1 421 321**
Derivatives	3 224 597	2 105 843	6 298 003	14 551 912	6 236 867	32 417 222	**1 280 265**
Off-balance sheet financial liabilities	5 993 577	818 672	7 941 418	7 429 592	2 115 519	24 298 778	
Off-balance guarantee liabilities issued	722 130	91 207	957 373	2 050 374	395 672	4 216 756	

Operational risk and compliance risk

Operational risk management objectives and policies

Operational risk is defined as the risk of occurrence of a loss due to non-compliance or unreliability of internal processes, people and systems or external events. The purpose of operational risk management is to optimize operational efficiency by reducing operating losses, costs streamlining and improving the timing and adequacy of the response of the Bank to events which are beyond its control.

The Bank's internal regulations determine unambiguously the segregation of duties in the area of operational risk management. According to these regulations, the entirety of issues connected to operational risk management is supervised by the Management Board, which:

- sets goals of operational risk management,
- establishes operational risk policy,
- approves operational risk reports.

Operational risk management is performed through systemic solutions as well as regular ongoing management of the risk.

Systemic management of operational risk includes building internal regulations and using other tools related to operational risk, in the scope of:

- human resources,
- organization of the Bank,
- accounting,
- communication and IT technologies,
- security,
- internal processes,
- customer service processes,
- outsourcing of banking activities.

Systemic operational risk management is centralised at the Bank's head office level. Each business and support line has a designated unit which is responsible for identification and monitoring of operational threats and taking adequate steps to ensure an acceptable level of operational risk.

The ongoing operational risk management consists of:

- prevention of operational threats arising at a stage of product development - both in internal processes and systems,
- undertaking steps aimed at limiting the number and scale of occurring threats ('operational events'),
- eliminating negative effects of operational events,
- registering data on operational events.

The ongoing operational risk management is conducted by every organizational unit of the Bank.

A vital role in the process of operational risk management is fulfilled by the Banking Risk Division, which coordinates identification, measurement, reporting and monitoring of operational risk in the Bank.

In order to limit exposure to operational risk, the Bank applies solutions of various kinds, such as:

- control solutions,

- human resources management (proper staff selection, enhancement of professional qualification of employees, motivation packages),
- setting threshold values of Key Risk Indicators (KRI),
- contingency plans,
- insurances,
- outsourcing.

The selection of instruments, which are used to limit operational risk, is made in consideration with:

- availability and adequacy of the instruments,
- nature of an activity or a process, in which operational risk was identified,
- importance of risk,
- cost of instrument's implementation.

In addition, internal regulations prevent the Bank from engaging in excessively risky activities. If such activity is already in place, the regulations call for abandonment of it, or for limitation of its scope. The level of operational risk is regarded as excessive if potential benefits are lower than potential operational losses for a given type of activity.

Measurement of operational risk is conducted with the use of:

- accumulation of data on operational events,
- results of internal audit,
- results of functional internal control,
- results of self-assessment of operational risk,
- Key Risk Indicators (KRI).

The Bank continuously monitors the level of KRI and operating events which exceed threshold values for operational risk.

Reporting on operational risk of the Bank is conducted on a half-yearly basis. The Management Board and the Supervisory Board of the Bank receive the reports. Reports include the following information:

- operational risk profile of the Bank, resulting from identification and assessment of threats and assessment,
- results of measurement and monitoring of operational risk,
- operational events and their financial effects,
- the most important projects and ventures undertaken in the scope of operational risk management.

In the second half of 2008, the Bank commenced execution of projects aimed at development of the operating risk measurement methods used and application of a specialist IT tool supporting the operating risk management process.

Compliance risk management objectives and policies

Compliance risk is defined as the risk of legal sanctions, incurring financial losses or losing reputation or reliability due to failure of the Bank, its employees or entities acting on its behalf to comply with the provisions of the law, internal regulations, standards adopted by the Bank, including ethical standards.

The objective of compliance risk management is to strengthen the image of the Bank as of entities that are reliable, fair, honest and compliant with law and adopted standards. This is achieved through mitigating compliance risk, reputation risk and legal sanction risk.

Compliance risk management involves in particular:

- preventing involvement of the Bank in illegal activities;
- ensuring data protection;
- development of ethical standards and monitoring of their application;
- conflict of interest management;
- preventing situations where the Bank's employees could be perceived as pursuing their own interest in the professional context;
- professional, fair and transparent formulation of offers of products, advertising and marketing messages;
- prompt, fair and professional consideration of complaints, requests and quality claims of clients.

Compliance risk management tasks are executed at the Bank by the Operating and Compliance Risk Department.

Capital adequacy

Capital adequacy is the maintenance of a level of capital by PKO BP SA 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 Bank's activities.

The process of managing the Bank's capital adequacy comprises:

1) identifying and monitoring of all of significant risks;
2) assessing internal capital to cover the individual risk types and total internal capital;
3) monitoring, reporting, forecasting and limiting of capital adequacy;
4) performing internal capital allocations to business segments, client segments and entities in the Group in connection with profitability analyses;
5) using tools affecting the capital adequacy level (including: tools affecting the level of equity, the scale of equity item reductions and the level of the loan portfolio).

The main measures of capital adequacy are:

- the capital adequacy ratio whose minimum level in accordance with the Banking Act is 8%;
- the ratio of equity to internal capital whose acceptable minimum level in accordance with the Banking Act is 1.0.

The capital adequacy level of the Bank in 2008 remained on a safe level and was significantly above the statutory limits.

Compared with 31 December 2007, the Bank's capital adequacy level dropped by 0.63 pp., which was mainly due to high dynamics in the growth of the loan portfolio and the negative effect of implementing Basel II on the capital requirement level.

The crisis in the financial markets limited the possibility of using the financial market for an eventual subordinated debt issue. Additionally, due to the recent significant change of foreign exchange rates and the related revaluation of the Bank's loan portfolio within the period September – December 2008, the volume of loan portfolio increased, which resulted in an additional increase in the capital requirement in respect of credit risk.

Own funds

Own funds comprise basic funds, supplementary funds and short-term capital.

Basic funds are comprised of the following items:

1) principal funds comprising: share capital, reserve capital, other reserve capital,
2) general banking risk fund,
3) retained earnings,
4) net profit prior to approval and net profit for the current reporting period, calculated based on appropriate accounting standards, decreased by any expected charges and dividends, in amounts not exceeding amounts audited by certified public accountants, in accordance with the Banking Act, Article 127, Point 2c.

Basic funds are reduced by deducting the following items:

1) intangible assets stated at carrying amount,
2) the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies – in the amount of 50% of the value of such exposures,
3) unrealised losses on debt and equity instruments classified as available for sale.

Supplementary funds are comprised of the following items:

1) subordinated liabilities,
2) unrealised gains on debt and equity instruments classified as available for sale – in the amount of 60% of their pre-tax value.

Moreover, the supplementary funds are reduced by 50% of the value of the Bank's equity exposures to financial institutions, lending institutions, domestic banks, foreign banks and insurance companies. If the amount of reduction would result in supplementary funds falling below nil, the amount is subtracted from the basic funds.

The own funds of the Bank include also short-term capital:

- as at 31 December 2007, the own funds of the Bank include short-term capital for the six-month period ended 31 December 2007, due to including a part of approved profit for the first six-month period ended 30 June 2007 in the calculation of the funds,
- as at 31 December 2008, the own funds of the Bank include short-term capital for the six-month period ended 31 December 2008, due to including the approved profit for the first six-month period ended 30 June 2008 in the calculation of the funds.

In 2008, the Bank's own funds increased by PLN 2 845 851 thousand, which was mainly due to the contribution of the net profit for the first half of 2008 and a part of the net profit for the second half of 2007. Overall, approximately 60% of the net profit for the year 2007 has been transferred to the Bank's equity.

(in PLN thousand)

The structure of the Bank's own funds is presented in the table below:

BANK'S OWN FUNDS	31.12.2008	31.12.2007
Basic funds (Tier 1 capital)	**11 003 657**	**8 324 410**
Share capital	1 000 000	1 000 000
Reserve capital	7 216 986	5 591 995
Other reserves	1 395 000	1 390 000
General banking risk fund	1 070 000	1 070 000
Net profit for the current period in the part verified by a certified auditor after deduction of forecasted charges	1 824 745	653 720
Unrealised losses on debt and equity instruments classified as available for sale	(41 820)	(54 607)
Intangible assets	(1 155 042)	(927 610)
Equity exposures	(306 212)	(399 088)
Supplementary funds (Tier 2 capital)	**1 294 488**	**1 202 935**
Subordinated liabilities classified as suplementary funds	1 600 700	1 600 700
Unrealised profits on debt and equity instruments classified as available for sale (up to 60% of their values before tax)	-	1 323
Equity exposures	(306 212)	(399 088)
Short-term equity (Tier 3 capital)	**91 048**	**15 997**
TOTAL EQUITY	**12 389 193**	**9 543 342**

Capital requirements (Pillar 1)

From January 2008, the Bank calculates capital requirements in accordance with Resolution No. 1/2007 of the Banking Supervision Authority dated 13 March 2007 (Basel II): in respect of credit risk – using the standardized approach; in respect of operational risk – using the basic indicator approach, and in respect of market risk – using the basic approach.

The scale of the Bank's trading activities is significant, therefore the total capital requirements constitute sum of the capital requirements for:

1) credit risk – including credit risk of the banking book and counterparty credit risk,
2) market risk – including foreign exchange risk, commodities risk, equity securities risk, specific risk of debt instruments, general risk of interest rates,
3) operational risk,
4) other types of capital requirements in respect of:
    - settlement/delivery risk,
    - the risk of exceeding the exposure concentration limit and the large exposure limit,
    - the risk of exceeding the capital concentration threshold.

Implementation of Basel II as of the beginning of 2008 resulted in an increase in the total capital requirement for the Bank of approximately PLN 0.5 billion, which was mainly due to introducing a new capital requirement for operational risk (+ PLN 1.0 billion), accompanied by a decrease in the capital requirement in respect of credit risk (- PLN 0.5 billion). An increase in the capital requirement in respect of credit risk resulted from a significant increase in the volume of loan portfolio (32%) in 2008. Except for increase in sales of loans, growth of loan portfolio volume was determined by foreign exchange rates increase in the second half of 2008.

(in PLN thousand)

The tables below show the Bank's exposure to credit risk and other types of risk. The amounts as at 31 December 2008 have been calculated in accordance with the so-called Basel II, and as at 31 December 2007 – in accordance with Basel I.

Capital requirements	31.12.2008	31.12.2007
Credit risk	**7 462 777**	**6 183 450**
credit risk (banking book)	7 300 610	6 159 178
counterparty risk (trading book)	162 167	24 272
Market risk	**202 677**	**248 023**
foreign exchange risk	-	-
commodities risk	-	-
equity securities risk	1 069	1 187
specific risk of debt instruments	167 505	192 781
general risk of interest rates	34 103	54 055
Operational risk	**1 156 386**	**-**
Other kinds of risk*	-	**-**
Total capital requirements	**8 821 840**	**6 431 473**
Capital adequacy ratio	**11.24**	**11.87****

* Includes capital requirements in regards to the settlement and delivery risks, the risk of exceeding the exposure concentration limit and the large exposure limit, and the risk of exceeding the capital concentration threshold.

** As a result of the publication and implementation of the Banking Supervisory Authority Resolution 2/2007, the capital adequacy ratio for the comparative period is prepared under a different basis (at 31 December 2008, capital requirement have been calculated in accordance with the New Basel Acord, where the basic difference between this and the calculation as at 31 December 2007 are a new methodologies for calculation of credit and operational risk requirements)

The Bank calculates capital requirements on account of credit risk, according to the following formula:

– in case of balance sheet items – a product of a carrying amount, a risk weight and 8% (considering collateral),

– in case of contingent liabilities and commitments – a product of nominal value of liability, a risk weight and 8% (considering collateral),

– in case of off-balance sheet transactions (derivative instruments) – a product of risk weight, balance sheet equivalent of off-balance sheet transaction and 8%; the value of the balance sheet equivalent is calculated in accordance with the mark-to-market method.

The structure of the capital requirement for credit risk and a risk weighted value on account of specific risk of instruments from the trading portfolio of the Bank as at 31 December 2008 is as follows:

Instrument type	Carrying amount	Risk - weighted value
Cash	2 336 985	-
Receivables	104 183 560	78 179 070
Debt securities	11 232 351	218 200
Other securities, shares	894 342	499 490
Non-current assets	3 618 009	2 462 967
Other	4 469 498	587 614
Total banking book	**126 734 745**	**81 947 341**
Debt securities	4 505 459	1 468 578
Equity securities held for trading in the trading book	4 623	4 623
Total trading book	**4 510 082**	**1 473 201**
Total	**131 244 827**	**83 420 542**

(in PLN thousand)

Instrument type	Nominal value*	Balance sheet equivalent	Risk - weighted value
Derivatives			
Interest rate instruments:	*208 895 223*	*3 444 430*	*1 290 843*
FRA	67 390 000	140 173	50 638
IRS	141 505 223	3 304 257	1 240 205
Foreign currency instruments:	*29 771 816*	*1 875 855*	*1 145 381*
Currency forwards (including embedded instruments)	3 011 644	234 941	230 036
SWAP (including current transaction)	7 421 299	46 486	9 589
CIRS	16 413 843	910 274	279 372
Options (delta equivalents - purchase of options)	2 925 030	684 154	626 384
Other instruments:	*461 125*	*226 210*	*27 661*
SBB	-	-	-
CDS	207 326	32 356	6 471
Others (options, futures on stock indicies, repo)	253 799	193 854	21 190
Total derivatives	239 128 164	5 546 495	2 463 885
Of which:			
banking book	44 127 146	1 616 891	436 796
trading book	195 001 018	3 929 604	2 027 089

* the above nominal values for SBB and repo transactions constitute a difference between fair values of underlying assets, operations and amounts received or granted.

Instrument type	Nominal value	Balance sheet equivalent	Risk - weighted value
Line-of-credit contingent liabilities liabilities and other financial liabilities	26 196 875	8 048 647	6 780 998
Guarantees granted	3 186 778	1 782 844	1 816 613
Letters of credit granted	551 760	275 878	275 878
Total banking book	**29 935 413**	**10 107 369**	**8 873 489**
Guarantees of issue	821 005	821 005	658 148
Total trading book	**821 005**	**821 005**	**658 148**

The structure of the capital requirement for credit risk and a risk weighted value on account of specific risk of instruments from the trading portfolio of the Bank as at 31 December 2007 is as follows:

Instrument type	Carrying amount	Risk - weighted value
Cash	1 620 394	-
Receivables	79 361 230	65 318 623
Debt securities	11 712 303	152 804
Other securities, shares	1 254 958	510 353
Non-current assets	3 198 090	2 270 481
Other	4 960 139	3 196 312
Total banking book	**102 107 114**	**71 448 573**
Debt securities	3 223 475	1 089 407
Equity securities held for trading in the trading portfolio of the Bank	9 665	9 665
Total trading book	**3 233 140**	**1 099 072**
Total	**105 340 254**	**72 547 646**

(in PLN thousand)

Instrument type	Nominal value*	Balance sheet equivalent	Risk - weighted value
Derivatives			
Interest rate instruments:	*198 743 607*	*1 570 805*	*314 161*
FRA	73 860 000	243 635	48 727
IRS	124 883 607	1 327 170	265 434
Foreign currency instruments:	*14 823 346*	*887 745*	*178 305*
Currency forwards (including embedded instruments)	1 470 065	16 275	3 255
SWAP (including current transaction)	2 268 825	22 688	4 538
CIRS	11 049 299	845 774	169 155
FX Futures	-	-	-
Options (delta equivalents - purchase of options)	35 157	3 008	1 357
Other instruments:	*231 606*	*28 021*	*5 605*
SBB	281	28	6
CDS	231 325	27 993	5 599
Total derivatives	**213 798 559**	**2 486 571**	**498 071**
Of which			
banking book	38 221 527	1 149 344	229 872
trading book	175 577 032	1 337 228	268 199

* the above nominal values for SBB and repo transactions constitute a difference between fair values of underlying assets, operations and amounts received or granted.

Instrument type	Nominal value	Balance sheet equivalent	Risk – weighted value
Line-of-credit contingent liabilities and other financial liabilities	24 298 778	2 640 377	2 612 758
Guarantees granted	2 104 557	1 631 996	1 631 942
Letters of credit granted	562 155	280 758	280 487
Other	1 165 441	827 244	780 617
Total banking book	**28 130 931**	**5 380 374**	**5 305 804**
Underwriting guarantees	9 107	-	-
Guarantees of issue	1 550 044	1 550 044	1 342 804
Total trading book	**1 559 151**	**1 550 044**	**1 342 804**

Internal capital (Pillar 2)

As of the beginning of 2008, internal capital is designated in accordance with Resolution No 4/2007 of the Banking Supervision Authority of 13 March 2007 on detailed principles for functioning of risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating and maintaining internal capital (NBP Journal of 2007, No. 3, item 6).

Internal capital is the amount of capital estimated by the Bank that is necessary to cover all of the significant risks characteristic of the Bank's activities and the effect of changes in the business environment, taking account of the anticipated risk level.

The internal capital in PKO BP SA is intended to cover each of the significant risk types:

1) credit risk, including default risk;
2) market risk (including currency risk, interest rate risk and liquidity risk);
3) operational risk;
4) business risk (including strategy risk and reputation risk).

The total internal capital of the Bank is the sum of internal capital amount necessary to cover all of the significant risks for the Bank.

The correlation coefficient for different types of risk and different companies of the Bank's Group used in the internal capital calculation is equal to 1.

The Bank regularly monitors the significance of the individual risk types relating to the Bank's activities.

Disclosures (Pillar 3)

In accordance with § 6 of Resolution 6/2007 of the Banking Supervision Authority of 13 March 2007, on the detailed principles and methods for banks to disclose qualitative and quantitative information concerning capital adequacy and the scope of the information to be announced, the Powszechna Kasa Oszczędności Bank Polski SA, which is the holding company within the meaning of §3 of the resolution, publishes information about capital adequacy in a separate document on an annual basis, not later than within 30 days of the date of authorization of the annual financial statements by the Annual General Shareholders' Meeting.

Details of the scope of capital adequacy information disclosed, the method of its verification and publication are presented in the PKO BP SA Capital Adequacy Information Policies, which are available on the Bank's website (www.pkobp.pl).

48. Influence of the global crisis on the Bank's results

The Bank's financial results of 2008 were considerably affected by deterioration of economic condition both in Poland and in Ukraine, which originated from a serious economic collapse of the United States and the Euro zone, as well as overall crisis on financial markets. The crisis led to industrial activity slowdown, inter-bank market liquidity deterioration, investments decline, shrinking labour market and downturn on stock exchanges.

A depreciation of the Polish currency contributed to an increase in the exposure of long-term loans denominated in foreign currencies granted by the Bank and to higher costs of derivatives' settlement by the clients which resulted in higher risk of default of corporate clients which had open FX derivative transactions with the Bank. Due to the sustained negative influence of the valuation increase on financial results and liquidity of the counterparties in the first months of 2009, to fairly reflect the influence of this event on the financial result of the year 2008 with reference to negative information gathered after 31 December 2008 but before the date of preparing the financial statements, the parent entity conducted a recoverability analysis of exposures and recognised the analysis results in derivative financial instruments with non-financial corporate clients valuation as at 31 December 2008. Additionally, the Bank took into consideration the negative impact of the crisis for valuation of derivative contracts settled with foreign financial institutions.

Exposures of non-financial corporate entities due to the negative (for clients) valuation of derivative instruments in the banking sector (including PKO BP SA) also negatively affected the valuation of loan exposures granted to those clients by the parent entity. Taking into account information gathered after 31 December 2008 but before the date of preparing the financial statements, the parent entity conducted a recoverability analysis of loan exposures and reflected the analysis's results in the valuation as at 31 December 2008.

Additionally the parent company applied current credit spreads in valuation of commercial bonds, taking into account negative impact of the change in macroeconomic situation.

Due to the impact of the global crisis the Bank adjusted the credit policy to the changing market conditions. Taking into account the crisis impact on the corporate entities' and retail clients' standing affecting on the increase of the credit risk, the Bank (applying very conservative risk appetite) recognised the impairment allowances both for the credit and capital exposures. The range and structure appropriately reflects impact of the crisis on the financial statements.

Additionally, the Bank's deposits policy was affected by the crisis of trust and higher price of money in the global interbank market resulting in the increase of cost of financing and the demand for stable base of financing (including term deposit).

Regardless of the aforementioned events, in 2008 the Bank has recorded the high financial result, including net interest income and net fee and commission income, while its market share has become unchanged and the Group has gained the leading position in the the banking sector as regards the total assets in the result of loans and deposits volume increse.

49. Post balance sheet events

With reference to the Extraordinary Shareholders Meeting of KREDOBANK SA's resolution on the increase in share capital of KREDOBANK SA, on 16 February 2009 the Management Board of the PKO BP SA approved acquisition of new issued shares of KREDOBANK up to the amount of USD 133 million along with a premature repayment of all subordinated loans in the amount of USD 38 million granted by PKO BP SA to KREDOBANK SA.

The Management Board of PKO BP SA has convened the Extraordinary General Shareholders' Meeting as at 6 April 2009. In accordance with the agenda, the Extraordinary General Shareholders' Meeting will adopt resolutions on changes in the Bank's Supervisory Board.

Signatures of all Members of the Management Board of the Bank

03.04.2009	Jerzy Pruski	President of the Board	.... (signature)
03.04.2009	Bartosz Drabikowski	Vice-President of the Board	.... (signature)
03.04.2009	Krzysztof Dresler	Vice-President of the Board	.... (signature)
03.04.2009	Tomasz Mironczuk	Vice-President of the Board	.... (signature)
03.04.2009	Jarosław Myjak	Vice-President of the Board	.... (signature)
03.04.2009	Wojciech Papierak	Vice-President of the Board	.... (signature)
03.04.2009	Mariusz Zarzycki	Vice-President of the Board	.... (signature)

Signature of person responsible for maintaining the books of account

03.04.2009

Danuta Szymańska

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(signature)

PKO BANK POLSKI

SPÓŁKA AKCYJNA

THE PKO BP SA DIRECTORS' REPORT FOR THE YEAR 2008

WARSAW, APRIL 2009

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1. INTRODUCTION

1.1 Key financial indicators of PKO BP SA

NET PROFIT	PLN 2 881.3 million	5.9%	(y/y)	the result of increase in result on business activities by 24.9% (y/y), with 7.7% (y/y) increase in costs.
RESULTS ON BUSINESS ACTIVITIES*	PLN 8 816.0 million	24.9%	(y/y)	due to the increase in interest result by 32.5% (y/y) and in foreign exchange result by 40.5% (y/y).
NET INTEREST INCOME	PLN 5 968.1 million	32.5%	(y/y)	the result of 32.9% (y/y) increase in net loan portfolio volume and higher deposit margins.
FEE AND COMMISION INCOME	PLN 2 132.8 million	7.0%	(y/y)	the result of increase in fee and commission income due to granted loans as well as 2.7 % (y/y) increase in the number of banking cards and transactions made using those cards offset by a decrease in fee and commission income from management fees.
COSTS	PLN -3 969.2 million	7.7%	(y/y)	the result of 10.9% (y/y) increase in non-staff related expenses and staff costs by 5.3% (y/y).
ROE net	22.8%	- 2.2	pp.	the result of 5.9% (y/y) increase in net profit and increase in equity by total of 15.3% (y/y).
ROA net	2.4%	- 0.2	pp.	with 24.6% (y/y) increase in assets.

** Result on business activities defined as operating profit before administrative expenses, net impairment allowance.*

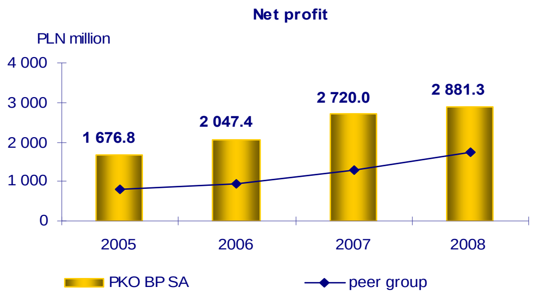
2008 was a very good year in terms of financial results realised by PKO BP SA. Nevertheless, there should be noted events, that took place in the second half of the year in the financial markets, including the Polish market, that confirmed the adequacy of strategy adopted by PKO BP SA, which bases on dynamic business activities development supported by stable deposit and capital base, along with efficiency enhancing and controlling of administrative expenses.

In 2008, net profit of the Bank amounted to PLN 2 881.3 million, which constitutes a change of PLN 161.3 million compared with the previous year. Such result was determined by the following factors:

- ⇒ high growth rate of result on business activities of PKO BP SA, which amounted to PLN 8 816.0 million (+24.9% y/y),
- ⇒ efficiency enhancement in cost management, which increased by 7.7% (y/y). Due to high growth rate of income of PKO BP SA, the C/I ratio declined by 7.2 pp. to 45.0% (y/y),
- ⇒ increase in the Bank's assets by PLN 25.9 billion (y/y) to PLN 131.2 billion resulting from intensive sales of loans financed by the increase in amounts due to customers of PKO BP SA,
- ⇒ effective structure of the balance sheet – significant increase in deposits of PKO BP SA by PLN 16.6 billion enabled a dynamic growth of the loan portfolio by 32.9% (y/y). As at the end of 2008, the ratio of loans to deposits within the Bank amounted to 96.3%, remaining at a lower level than the average for the banking sector.

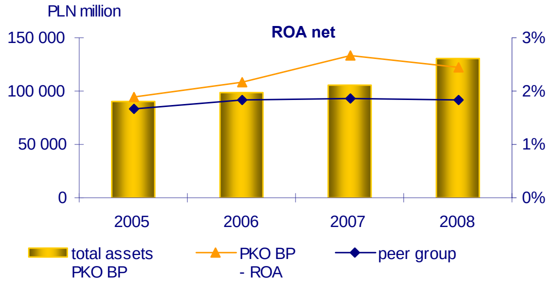
High net profit in 2008 resulted in high return on equity of PKO BP SA. ROE net amounted to 22.8% and remained stable compared with the previous year.

1.2 PKO BP SA against its peer group[1]



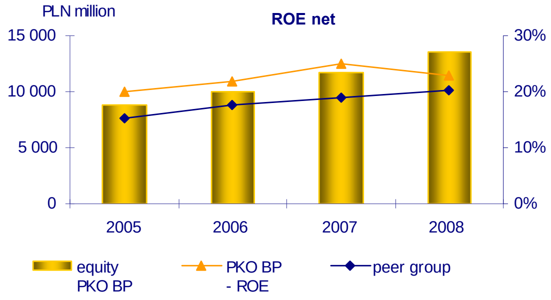
Relatively favourable macroeconomic situation in the Polish economy, growing scale of operations and increase in interest rates contributed to increase in financial results of the banks in the first three quarters of 2008. Negative trends appeared in the 4th quarter of 2008 and were a reflection of the financial crisis on international markets.

In 2008, PKO BP SA also achieved record profits, significantly above the average of its peer group.



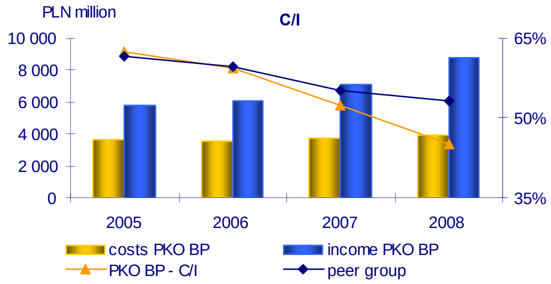
Fast growth rate, resulting from aggressive development strategy pursued by particular institutions in order to quickly win the market, was reflected in increased total assets of the banks.

The PKO BP SA 's active policy also contributed to a significant increase in its total assets, accompanied by high return on assets (ROA net amounted to 2.4% as at the end of 2008, compared with 2.7% as at the end of 2007).



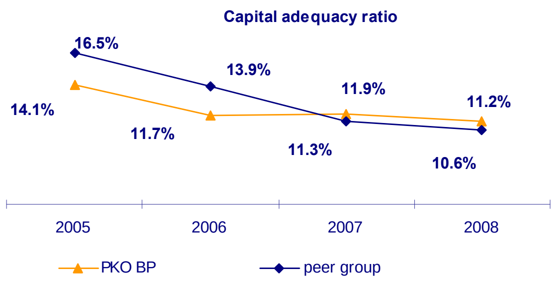
In 2008 net profit of the banking sector was significantly higher than in the same period of 2007. Better results were mainly the effect of increase in interest result combined with a corresponding slower growth of operating expenses.

In 2008, PKO BP SA maintained its profitability at a stable level (ROE net amounted to 22.8% as at the end of 2008, compared with 25.0% in 2007).



The accelerated growth of business resulted in an increase in operating expenses in the banking sector, both in staff costs and overhead expenses. Regardless of this increase in costs, the cost to income ratio (C/I) of the banks decreased (on a year-on-year basis), because the growth rate of income significantly exceeded the growth rate of costs.

In 2008 PKO BP SA also significantly improved the relation of costs to income, which remained significantly lower than average in the peer group.



The capital adequacy of the banking sector in 2008 remained at the level, which allows a further stable development.

The capital adequacy ratio in PKO BP SA was maintained at a considerably higher level than in the peer group, mainly due to capital accumulation.

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[1] *Peer group includes: Pekao SA, BRE Bank SA, ING Bank Śląski SA, BZ WBK SA. Ratios calculations are based on data available in financial statements issued by the banks constituting peer group. Data are weighted by total assets.*

2. EXTERNAL ENVIRONMENT

2.1 Macroeconomic factors

In 2008 there was a deterioration of economic situation in the US and EU and financial crisis on the international markets, followed by a substantial downfall of domestic economy. In 2008, GDP growth rate amounted to 4.8% (y/y), with a decrease from 6.0% in the first half of 2008 to 3.7% in the second half of 2008. Among the factors which contributed to deceleration of the GDP growth, the decrease in the growth rate of gross capital expenditure on fixed assets due to a dramatic fall in new capital expenditure projects realized by the companies was the most significant. The dynamics of private consumption remained at a stable, high level (exceeding 5%). Despite a strong decline in export sales, the contribution of foreign trade to the GDP growth was only minimally negative, due to the fact that there was also a slight fall in the dynamics of imports.

In 2008, the average inflation rate measured by reference to the consumer price index increased to 4.2%, from 2.5% in 2007. During the first eight months of the year, the inflation rate increased to 4.8% (y/y), as a result of a high growth in prices of foods and fuels (the global effect of high prices for raw materials), and an increase in core inflation, in an environment of high demand in the economy and high growth rate of salaries and wages. As a result of slump in fuel prices (which in turn was a consequence of decrease of price and demand on fuels) there was a significant decrease in inflation rate (to 3.3% y/y in December) in the last months of 2008. The appreciation of the Polish zloty noted in the first half of the year had a dampening effect on inflation, but the reversal of the trend in the zloty market reduced the scale of inflation decrease towards the end of the year.

In accordance with the "Monetary Policy Guidelines for 2008", the monetary policy objective was to maintain inflation at 2.5%, with a symmetrical tolerance range for deviations of +/- 1 percentage point. An increase in inflation above the inflation target in the monetary policy horizon, in the context of high dynamics of wages in the economy and strong domestic demand, led the Monetary Policy Council to continue the cycle of monetary policy tightening (commenced in 2007). As a result, by June interest rates were increased by 100 basis points to 6.0% for the NBP reference rate. The deepening of the global financial crisis which was reflected in deterioration in the global, and subsequently, domestic macroeconomic situation; and the loosening of the monetary policy worldwide (e.g. Fed, ECB) contributed to a reversal of the monetary policy bias and to interest rates cuts in November and December 2008 totalling 100 basis points, to a level of 5.0% for the NBP reference rate.

After a period of strong appreciation of PLN which lasted until July 2008, a net outflow of foreign capital from emerging markets (including Poland), resulting from increase in risk aversion (to historically high levels) due to financial crisis aggravation, resulted in sharp decrease of PLN exchange rate (in particular during the 4th quarter of 2008). This effect resulted in PLN exchange rate decreasing by 16.5% as compared to EUR, 21.5% as compared to USD and almost 30% as compared to CHF.

The spillover of the financial crisis to the Polish interbank market required the NBP to take new measures supporting banking sector, mainly starting to provide liquidity to commercial banks, both in the national currency (through repo operations) and in foreign currencies, particularly CHF (through FX swap transactions).

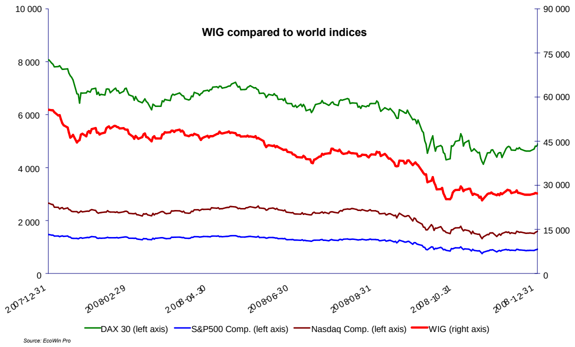
The slowdown in economic growth in the second half of the year resulted in the deterioration of the situation in the labour market, which was very good in the first months of 2008. During 2008, the registered unemployment rate decreased by 2 pp. to 9.5% in December 2008, and in October it fell to as low as 8.8%. In the last months of the year, the employment and salary growth rates also decreased notably.

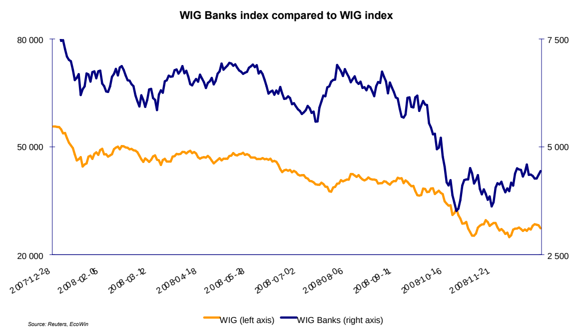
2.2 Situation on the Stock Exchange

In 2008, situation on Warsaw Stock Exchange was strongly influenced by the negative indicators on the foreign stock exchanges and uncertainty concerning future standing of the Polish economy. As a result, investors became more risk-averse and there was an outflow of both domestic and foreign capital from the stock exchange.

Changes in the main share price indices on WSE were strongly positively correlated with the changes of share prices in the USA and Europe. WIG Index has fallen by 49.8% y/y, while WIG Banks by 55.2% y/y. Market capitalization of all listed companies at the end of 2008 declined by 70% y/y and reached PLN 465.5 billion.

Situation on the WSE determined banking and financial non-banking markets. The negative consequences were mostly experienced by the investment funds, whose assets decreased by almost 45% y/y, i.e. to PLN 73.7 billion. During 2008 investment funds recognized a net outflow of almost PLN 29 billion (balance of inflows and redemptions).





2.3 Situation of the Polish banking sector

The global financial crisis resulted in changes of banking environment with consequences clearly visible in the 4th quarter of 2008. Decrease of trust resulted in reduced availability of financing on interbank market. This situation, as well as reduced financing from foreign based parent companies, resulted in increased competition on deposit market. Cost of capital for banking operations has risen. Moreover, the banks have tightened the loan granting criteria.

Lending activity

The first three quarters of 2008 were a period of extensive growth in lending activity, positively affected by the favourable macroeconomic situation, fast growth in deposits and inflow of foreign funds and the loosening of credit policies by banks.

In the last quarter of 2008, the situation reversed. Due to the impact of the global crisis, the deteriorating economic outlook and significant reduction in liquidity in the interbank market (especially in CHF), banks tightened their credit policies and limited sales of loans denominated in foreign currencies. Increase of loans volume derived mainly from Polish currency depreciation increasing the value in Polish zloty of loans denominated in foreign currencies. As at the end of 2008, loans denominated in foreign currencies constitute 33% of all loans.

During 2008, loans volume grew by 37% y/y (by PLN 169 billion), including 45.5% y/y increase in consumer loans, 28% y/y increase in corporate loans. Mortgage loan portfolio was the fastest growing (by 65% y/y), as 70% of this consisted of loans denominated in foreign currencies.

Financing sources of activities

Major financing source of credit activity in 2008 were foreign funds. Banks owned by foreign investors received financing within their groups. Polish banking sector received PLN 77 billion from foreign financial institutions, of which PLN 64 billion came from foreign banks.

In the second half of 2008, the period of cheap and easily available sources of financing ended. The financing conditions changed, and banks had to adjust their strategies to the new situation. Continuing credit growth exceeding the deposit growth, liquidity pressures and limited access to financing from the interbank market, and in particular, the possibility of losing financial support from foreign parent banks resulted in an increasing demand from banks for stable sources of financing. The need to have its own, stable deposit base became an important driver of the banks' policies towards customers. Total amounts due to customers grew by 20% y/y (approximately PLN 96 billion) mainly as a result of 24% (y/y) growth of amounts due to retail clients. Amounts due to corporate entities increased by 3.7% y/y.

Results of the banking sector in 2008

Poor financial results of the banks in the last quarter of 2008 significantly reduced the annual profit dynamics in the banking sector. In the same period, unfavourable situation in the area of FX derivatives materialized, the borrowers' situation deteriorated, as did the quality of the loan portfolio. The growth rate of net profit in the banking sector exceeding 20% y/y as at the end of 3rd quarter fell to 8% y/y. Sector's net profit amounted to PLN 14.7 billion. Negative position of net impairment allowance increased threefold compared to 2007.

Net interest income in the banking sector increased by 23% y/y. Substantial increase in loans and their interest rates enabled the banks to retain high interest income. In the 4th quarter of 2008 interest expenses increased dynamically, as a result of an aggressive pricing policy implemented by Bank's in order to expand financing base.

The efficiency of the banking sector remained at a high level. ROE ratio amounted to 22.4%, ROA – 2%. However, the unfavorable situation in the 4th quarter had a dampening effect on the growth tendency – the level as at the end of 2008 was lower than in the previous periods. Operating costs ratio (C/I) amounted to 53.9%, i.a. as a result of increase in number of branches and employment.

Increasing operating risk affecting the bank's higher capital requirements contributed to the decrease in capital adequacy ratio. Its average level in the banking sector accounted for 10.8%, compared with 12.1% as at the end of 2007.

2.4 The main areas of risk and anti-crisis measures on the Polish market

Liquidity risk

In 2008, the liquidity situation in the banking sector changed:

– the gap between loans and deposits widened (to 109%);
– the period of easily available external financing came to an end:
    - ⇒ as a result of trust crisis, the interbank market stagnated,
    - ⇒ the cost of financing in the international financial markets increased,
    - ⇒ the risk that a flow of funds from foreign parent companies would stop increased as a result of deterioration in their financial position.
– the deposit market became the main source of financing the lending activities.

Capital

The change in regulations on capital adequacy (based on the principles of the New Capital Accord) caused increase of total bank's capital requirement (including credit risk and operational risk). Increase in the loan portfolio volume increased capital requirements. Despite growth in own funds, capital adequacy deteriorated and the capital adequacy ratio fell to 10.8% from 12.1% in 2007.

Credit risk

Under conditions of deteriorating overall economic situation the risk of loan portfolio quality deterioration increased – net impairment allowance increased by 173% (y/y). Banks tightened conditions and criteria of loan granting, including: margins, assessing the debt capacity, required collateral. Further deterioration of financial situation negatively influencing standing of individual and corporate clients may result in the increase of credit risk.

Currency risk – fierce depreciation of Polish zloty

A strong depreciation of the Polish currency in the second half of 2008 contributed to:

– a material increase in the volume of loans denominated in foreign currencies;
– a decrease in the value of collateral;
– a higher default risk of corporate clients relating to settlements of derivative transactions (currency options).

The weak zloty contributed to higher costs which banks have to incur to renew swaps used to finance long-term loans denominated in foreign currencies. In future periods, a weakening zloty may result in losses due to materialization of credit risk associated with loans denominated in foreign currencies and in an increase of liquidity risk.

Anti-crisis measures

The government adopted *The Plan for Stability and Growth.* The majority of initiatives included in the Plan will be implemented in 2009. The Plan envisages supplying Polish economy with PLN 91.3 billion during 2009 and 2010 and includes:

- activities supporting stability of the financial system, including guarantees for bank deposits and guarantees for interbank loans,
- activities supporting economic growth, including reduction of fiscal and para-fiscal liabilities and increasing the investment demand,
- the anti-crisis plan includes:
  - ⇒ increasing the availability of loans for enterprises,
  - ⇒ support for the financial market institutions,
  - ⇒ strengthening the system of guarantees and warranties for SME,
  - ⇒ accelerating investments financed with the EU funds,
  - ⇒ introduction of a higher investment relief for newly established firms, removing barriers to investments in the data communications infrastructure, improving the position of recipients of power.

The National Bank of Poland announced *The Trust Package* for banks, in order to:

- enable banks to obtain funds in PLN for periods longer than one day,
- enable banks to obtain funds in foreign currencies,
- increase the ability to obtain liquidity in PLN by expanding the list of collateral eligible to secure transactions with the NBP.

2.5 Regulatory environment

In 2008, the banking sector was affected by the following new regulations:

- Resolutions 1-5 of the Commission for Banking Supervision dated 13 March 2007 (NBP Official Journal Nos. 2 and 3, with subsequent amendments), which have implemented the EU directives based on the New Capital Accord to the Polish law;
- Resolution 9/2007 of the Commission for Banking Supervision dated 13 March 2007 on determining liquidity norms applicable to banks (NBP Official Journal No 3), effective as of 1 January 2008, which obliged banks from 30 June, to comply with the four supervisory current- and long term liquidity measures specified in this resolution and to report exceeds,
- Resolutions of the Banking Guarantee Fund Board, which, as of 1 January 2008, amended banks' obligations with respect to the setting up of a guaranteed money protection fund and the obligatory annual payments to be made to the Banking Guarantee Fund,
- Decree of the President of the Council of Ministers dated 27 December 2007 on payments to cover costs of banking supervision (Journal of Laws No. 249, item 1855), which set out the level of costs incurred by the banks due to being covered, as of 1 January 2008, by financial supervision;
- Decree of the Council of Ministers dated 24 December 2007 on the specific accounting principles for investment funds (Journal of Laws No. 248, item 1859), effective from 31 December 2007;
- Financial Supervision Authority recommendations on review of credit policies and lending procedures, and preparing amendments to Recommendation S (Recommendation SII published on 17 December 2008) and recommendation T (in progress), which contributed to the tightening of lending policies by banks;
- The act of 4 September 2008 – amendment to the Banking Act (Journal of Laws 192, item 1179), which imposed additional information duties on banks, related to widened access to bank secrecy (effective as of 12 November 2008),
- Amendment to the Act on the Social Security System (Journal of Laws of 2007, no. 11, item 74), changing the additional costs of labor by decreasing the pension contribution payable by employers as of 1 January 2008,

- Resolution No. 12/1170/2007 of the Warsaw Stock Exchange Council of 4 July 2007 implementing new corporate governance rules (*Good Practices for Companies Listed on the WSE)*, effective from 1 January 2008, which, *inter alia*, imposed new information requirements on issuers;
- The act of 7 November 2008 – amendment to the Value Added Tax Act and other acts (Journal of Laws No. 209, item 1320), effective as of 1 December 2008 (introduced simplifications for VAT registered companies).

The situation of banks was also affected by:

- 'Trust Package' of the National Bank of Poland aimed at improving liquidity on the interbank market by, among others:
  - ⇒ repo operations with maturity date of 3 months,
  - ⇒ introducing currency SWAP operations,
  - ⇒ using currency deposits as a refinanced loans collateral,
  - ⇒ introducing modifications in lombard loan operational system.
- Implementation of a uniform system of payments in Euro (SEPA), which introduces uniform principles, rules and standards for domestic and trans-border payments in Euro. The directive of the Parliament and of the Council of European Union of 13 November 2007 (PSD) constitutes the legal basis for SEPA.

3. FINANCIAL RESULTS OF PKO BP SA[2]

PKO BP SA did not publish any forecasts of financial results for the year 2008.

3.1 Factors influencing results of PKO BP SA in 2008

First three quarters of 2008 were a period of prosperity for both PKO BP SA and the whole Polish banking sector. In this period, PKO BP SA generated 93.1 % of its net profit for the year 2008. Net interest income increased by 32.5% (y/y) as a result of dynamic growth in sales of loans and interest on loans (growth of market interest rates), which allowed to maintain high interest income.

Net profit of PKO BP SA in the 4th quarter of 2008 was influenced by worsening economic situation in Poland, following steep economic downturn in USA and the Eurozone as well as economic slowdown in Ukraine, where a subsidiary company of PKO BP SA, Kredobank SA, operates. Crisis aggravation in high developed economies led to sudden limitation of the capital inflow to the Ukrainian market, which in turn resulted in significant deterioration of perspectives of financial situation of enterprises and banks in this country.

In the 4th quarter of 2008 interest expenses grew rapidly as a result of attractive deposit offer for the customers of PKO BP SA. Moreover, depreciation of PLN resulted in sharp value increase of foreign currency denominated balance sheet items, creating an urgent demand for new financing.

Despite that situation, the Bank has managed to cope with all the challenges. Banks efficiency remained at high level - ROE amounted to 22.8% as at the end of 2008. However, negative events of the 4th quarter had a dampening effect on the growth tendency – ROE level achieved as at the end of 2008 was lower than in previous quarters.

High level of capital adequacy of PKO BP SA was enough to cover increasing capital demand resulting from increase in credit action. As at the end of 2008, it amounted to 11.24%, while the minimum threshold was set at 8% according to the Banking Act.

In the 4th quarter of 2008, PKO BP SA recognized a write-down on capital exposure in the subsidiary company Kredobank SA in the amount of PLN (-)356.1 million. Without this adjustment, the net result of PKO BP SA would have amounted to PLN 3 237.4 million in 2008.

3.2 Income statement

In 2008, net profit of PKO BP SA ("the Bank") amounted to PLN 2 881.3 million ((+) 5.9% y/y).

In the income statement of PKO BP SA for the year 2008 the sum of income items amounted to PLN 8 816.0 million and was PLN 1 758.5 million higher than in 2007 (increase by 24.9% y/y).

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

Table 1. Income statement of PKO BP SA (PLN million)

INCOME STATEMENT OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA

	2008	2007	Change (in PLN)	Change (%)
Interest income	8 646.4	6 245.1	2 401.3	38.5%
Interest expense	(2 678.3)	(1 742.0)	(936.4)	53.8%
Net interest income	**5 968.1**	**4 503.1**	**1 465.0**	**32.5%**
Fee and commission income	2 813.1	2 648.1	165.0	6.2%
Fee and commission expense	(680.3)	(654.3)	(25.9)	4.0%
Net fee and commission income	**2 132.8**	**1 993.8**	**139.0**	**7.0%**
Dividend income	130.9	52.1	78.8	2.5x
Net income from financial instruments designated at fair value through profit or loss	(195.4)	(76.7)	(118.7)	2.5x
Gains less losses from investment securities	(1.0)	6.5	(7.5)	-114.6%
Net foreign exchange gains	734.6	522.7	211.9	40.5%
Other operating income	160.7	140.6	20.1	14.3%
Other operating expenses	(114.7)	(84.6)	(30.1)	35.6%
Net other operating income and expense	**46.0**	**56.1**	**(10.0)**	**-17.9%**
Net impairment allowance	(1 148.9)	(44.9)	(1 104.0)	25.6x
Administrative expenses	(3 969.2)	(3 685.4)	(283.8)	7.7%
Operating profit	**3 697.9**	**3 327.1**	**370.7**	**11.1%**
Profit before income tax	**3 697.9**	**3 327.1**	**370.7**	**11.1%**
Income tax expense	(816.6)	(607.2)	(209.4)	34.5%
Net profit	**2 881.3**	**2 720.0**	**161.3**	**5.9%**

Table 2. Main income statement items of PKO BP SA (PLN million)

Income statement item	2008	2007	Change (%)	Comment
Net interest income	5 968.1	4 503.1	32.5% ↑	(+) 32.5% (y/y) mainly as a result of increase in deposit margins due to higher market interest rates and increase in the volume of loan portfolio.
Net fee and commission income	2 132.8	1 993.8	7.0% ↑	(+) 7.0% (y/y) mainly as a result of increase in fee and comission income related to loans and increase in the number of payment cards (by +2.7% y/y) and related card transactions; offset by a decrease in comission income from management fees.
Other net income	715.1	560.6	27.6% ↑	(+) 27.6% (y/y) as a result of: 1) higher by PLN 78.8 million dividend income, 2) increase of foreign exchange result by 40.5% (y/y) - the effect of higher spreads between PLN interest rate and foreign interests rates and the effect of an increase in sales of loans denominated in foreign currencies, offset by a decrease in net income from financial activities deriving from increased risk aversion in financial markets.
Administrative expenses	(3 969.2)	(3 685.4)	7.7% ↓	Increase of 7.7% (y/y) and C/I at the level of 45.0% (-7.20 pp. y/y) as a result of: 1) overhead costs increase of 10.9% (y/y) - i.a. as a result of increase in advertising and promotional costs, 2) staff costs increase of 5.3% offset by employment reduction of 1463 full time equivalents (y/y), offset by an increase in income items of 24.9% (y/y).
Net impairment allowance	(1 148.9)	(44.9)	25.6x ↓	A 25.6 fold increase (y/y) as a result of: 1) impairment loss on subsidiary company Kredobank SA in the amount of PLN (-)356.1 million, 2) deterioration in the quality of the consumer loan portfolio and an increase in impairment charges for corporate loans. Without considering impairment loss on Kredobank SA, the result in 2008 would have amounted to PLN (-)792.8 million. i.e. a 17.6 fold increase.

Net interest income

Net interest income indicated high growth rate of 32.5% compared to last year and amounted to PLN 5 968.1 million. Dynamic growth of income was possible due to significant increase of PKO BP SA's loan portfolio as well as widening of deposit margins under conditions of growing interest rates in 2008. As a consequence, average interest on loans amounted to 8.6% and average interest on deposits in 2008 amounted to 2.7%. Positive tendencies related to net interest income were continued also due to efficient balance sheet structure, i.e. dynamic growth of loans was accompanied by significant growth of amounts due to customers of PKO BP SA. Nevertheless, the positive influence of interest rates level in the first half of 2008 was partially offset in the second half of the year – as a result of observed increase in costs of deposit base acquisition and narrowing interest margins due to growing competition and change in liquidity of banking sector (crisis in international financial markets).

Structure of interest income:

– the structure of interest income is dominated by income from loans and advances to customers whose share in interest income amounted to 85.5% (i.e. PLN 7 388.6 million in 2008), which reflects the dynamic growth of loan portfolio, especially growth of mortgage loan portfolio.

– income from financial assets designated at fair value through profit or loss decreased from 8.8 pp. as at the end of 2007 to 5.0 pp. as at the end of 2008.

Interest expenses:

– the main factor determining increase in interest expense was the deposit policy adopted by PKO BP SA aimed at comprehensive and competitive offer for customers, which contributed to increase of interest expense on customers by 58.8% y/y.

– interest expense on debt securities issued in 2007 increased more than 6 fold (as a result of accumulation through 12 months of 2008).

Table 3. Interest income and expense of PKO BP SA (PLN million)

NET INTEREST INCOME OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA

Items	2008	Structure 2008	2007	Structure 2007	Change 2008/2007
Interest income, of which:	**8 646.4**	**100.0%**	**6 245.1**	**100.0%**	**38.5%**
Loans and advances to customers	7 388.6	85.5%	4 927.0	78.9%	50.0%
Financial assets designated at fair value through profit or loss	434.0	5.0%	549.2	8.8%	-21.0%
Placements with other banks	389.3	4.5%	490.3	7.9%	-20.6%
Investment securities	355.5	4.1%	249.7	4.0%	42.3%
Trading securities	64.0	0.7%	24.5	0.4%	2.6x
Other	15.1	0.2%	4.4	0.1%	3.4x
Interest expenses, of which:	**(2 678.3)**	**100.0%**	**(1 742.0)**	**100.0%**	**53.8%**
Amounts due to customers	(2 497.0)	93.2%	(1 572.9)	90.3%	58.8%
Debt securities in issue	(115.3)	4.3%	(17.5)	1.0%	6.6x
Placements with other banks	(60.8)	2.3%	(106.7)	6.1%	-43.0%
Other	(5.3)	0.2%	(45.0)	2.6%	-88.3%
Net interest income	**5 968.1**	**x**	**4 503.1**	**X**	**32.5%**

Net fee and commission income

Net fee and commission income amounted to PLN 2 132.8 million, which implicates a change of 7,0% compared to previous year, of which:

– a positive trend related to the position constitutes increase in income from loans and advances,

– income from banking cards increased significantly. Net income from payment cards is determined by both increase in the number of payment cards and, above all, related card transactions.

At the same time, net fee and commission result in 2008 was significantly affected by the downturn on capital markets, which determined the level of commission income from portfolio and other management fees (its share in the total fee and commission income decreased by 3.4 pp. compared to 2007).

Table 4. Fee and commission income of PKO BP SA (PLN million)

NET FEE AND COMMISSION INCOME OF POWSZECHNA KASA OSZCZEDNOSCI BANK POLSKI SA

Items	2008	Structure 2008	2007	Structure 2007	Change 2008/2007
Fee and commission income, of which:	**2 813.1**	**100.0%**	**2 648.1**	**100.0%**	**6.2%**
Payment cards	848.6	30.2%	701.8	26.5%	20.9%
Maintenance of bank accounts	780.8	27.8%	748.8	28.3%	4.3%
Credit related fee and commissions	313.3	11.1%	262.6	9.9%	19.3%
Loan insurance intermediary	225.1	8.0%	202.3	7.6%	11.3%
Cash transactions	188.3	6.7%	203.9	7.7%	-7.6%
Portfolio and other management fees	159.6	5.7%	240.3	9.1%	-33.6%
Securities transactions	43.9	1.6%	87.7	3.3%	-50.0%
Other*	253.5	9.0%	200.8	7.6%	26.3%
Fee and commission expenses, of which:	**(680.3)**	**100.0%**	**(654.3)**	**100.0%**	**4.0%**
Payment cards	(348.2)	51.2%	(283.9)	43.4%	22.7%
Acquisition services	(134.8)	19.8%	(129.0)	19.7%	4.5%
Loan insurance intermediary	(94.1)	13.8%	(155.7)	23.8%	-39.5%
Other**	(103.1)	15.2%	(85.7)	13.1%	20.2%
Net fee and commission income	**2 132.8**	**x**	**1 993.8**	**x**	**7.0%**

** Included in "Other" are: commissions received: for public offering services, for servicing bond sale transactions and for home banking and revenues from arrangement fees, fees received from the State budget due to distribution of Treasury stamps, mass foreign operations, trust services, guarantees granted, issued letters of credit and other similar operations.*

*** included in "Other" are: commissions paid to PPUP, commissions paid to other banks, fees paid by DM to Warsaw Stock Exchange (GPW), National Depository for Securities (KDPW), cost of currency turnover, accounting and clearing services, commissions paid to intermediaries.*

Administrative expenses

Administrative expenses amounted to PLN 3 969.2 million, which represents a change of PLN 283.8 million compared with the previous year. Increase in advertising and promotional costs deriving from more intensive promotional activities of PKO BP SA was significant. At the same time staff costs increased by PLN 114.4 million, i.e. by 5.3% as compared to 2007.

Simultaneously, a dynamic growth of PKO BP SA income (24.9% compared with 2007) considerably exceeded the growth of administrative expenses. As a result, the operating efficiency of PKO BP SA increased (as reflected by a significant decrease in the C/I ratio – by 7.2 pp. compared to 2007).

Table 5. Administrative expenses of PKO BP SA (PLN million)

ADMINISTRATIVE EXPENSES OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA

Items	2008	Structure 2008	2007	Structure 2007	Change 2008/2007
Staff costs	(2 269.5)	57.2%	(2 155.1)	58.5%	5.3%
Overhead and other costs	(1 338.3)	33.7%	(1 206.6)	32.7%	10.9%
Depreciation and amortisation	(361.4)	9.1%	(323.8)	8.8%	11.6%
TOTAL	**(3 969.2)**	**100%**	**(3 685.4)**	**100%**	**7.7%**

Net impairment allowance

Net impairment allowance reflects a conservative approach of PKO BP SA to credit risk, which is believed to translate into stable financial results in the coming years. The increase in net impairment allowance (25.6x y/y) was a consequence of:

- deterioration of economic situation in the second half of 2008 which influenced financial standing of the Bank's clients;
- a change in the risk profile related to consumer loans resulting from an increase in the share of the *consumer finance* loan (the product of the highest profitability and credit risk) in the entire portfolio;
- recognising allowance for the investment in Kredobank SA as a response to the outcome of the review of the credit portfolio, and deterioration of economic situation on the Ukrainian market.

Main financial indicators

The main financial indicators are presented in the table below:

Table 6. Main financial indicators of PKO BP SA

RATIOS			
Items	**As at 31.12.2008**	**As at 31.12.2007**	**Change**
ROA gross (gross profit / average total assets)	3.1%	3.2%	-0.12 pp.
ROA net (net profit / average total assets)	2.4%	2.7%	-0.22 pp.
ROE gross (gross profit / average total equity)	29.3%	30.6%	-1.29 pp.
ROE net (net profit / average total equity)	22.8%	25.0%	-2.18 pp.
C/I (costs to income ratio)	45.0%	52.2%	-7.2 pp.

3.3 Balance sheet of PKO BP SA

Main items of the balance sheet

The year 2008 was important in terms of the net profit and total assets of PKO BP SA. Significant events in financial markets in the second half of the year confirmed the adequacy of policy adopted by PKO BP SA, which is based on stable business activities development along with a balance in sale of loans and deposits.

Total assets of PKO BP SA reached PLN 131.2 billion and increased by PLN 25.9 billion (i.e. by 24.6% y/y) compared to 2007, resulting in PKO BP SA becoming the biggest financial institution of the Polish banking sector.

Loans and advances to customers grew by PLN 24.3 billion, i.e. 32.9% (y/y), which was mainly financed by the increase in amounts due to customers of PLN 16.6 billion (+19,5% y/y).

Within equity and liabilities, a significant increase was recorded in other liabilities – 2.7 fold increase (y/y). This increase was mainly due to changes in the valuation of derivative financial instruments.

Table 7. Main balance-sheet items of PKO BP SA (PLN million)

BALANCE SHEET OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA					
Items	**As at 31.12.2008**	**Structure 2008**	**As at 31.12.2007**	**Structure 2007**	**Change 2008/2007**
Cash and balances with the central bank	5 758.2	4.4%	4 594.1	4.4%	25.3%
Amounts due from banks	3 907.0	3.0%	5 315.8	5.0%	-26.5%
Loans and advances to customers	98 102.0	74.7%	73 822.2	70.1%	32.9%
Securities	14 799.2	11.3%	15 146.0	14.4%	-2.3%
Other assets	8 678.4	6.6%	6 462.2	6.1%	34.3%
TOTAL ASSETS	**131 244.8**	**100.0%**	**105 340.3**	**100.0%**	**24.6%**
Amounts due to other banks	5 702.3	4.3%	3 625.7	3.4%	57.3%
Amounts due to customers	101 856.9	77.6%	85 215.5	80.9%	19.5%
Debt securities in issue and subordinated liabilities	1 618.8	1.2%	1 614.9	1.5%	0.2%
Other liabilities	8 537.5	6.5%	3 154.6	3.0%	2,7x
TOTAL LIABILITIES	**117 715.5**	**89.7%**	**93 610.7**	**88.9%**	**25.7%**
Total equity	13 529.4	10.3%	11 729.5	11.1%	15.3%
TOTAL LIABILITIES AND EQUITY	**131 244.8**	**100.0%**	**105 340.3**	**100.0%**	**24.6%**

Loans and advances to customers

As at the end of December 2008, loans and advances to customers amounted to PLN 98.1 billion (a growth of PLN 24.3 billion compared to 2007). As far as loans and advances are concerned, the largest increase was noted in loans and advances to the non-financial sector, which grew by PLN 23.7 billion (mainly caused by growth of mortgage loans – growth by PLN 12.4 billion, i.e. 38.1% (y/y), along with an increase in portfolio of corporate loans to non-financial sector - growth by PLN 8.9 billion as compared to 2007 (+) 48.4 y/y).

Table 8. Loans and advances to customers of PKO BP SA – structure by type (PLN million)

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

Structure	As at 31.12.2008	Structure 2008	As at 31.12.2007	Structure 2007	Change 2008/2007
Gross loans and advances to customers, of which:	**98 102.0**	**100.0%**	**73 822.2**	**100.0%**	**32.9%**
financial sector (other than banks)	2 545.4	2.6%	1 465.2	2.0%	73.7%
non-financial sector	92 364.7	94.2%	68 706.7	93.1%	34.4%
consumer loans	*20 017.5*	*20.4%*	*17 696.7*	*24.0%*	*13.1%*
mortgage loans	*45 036.7*	*45.9%*	*32 610.1*	*44.2%*	*38.1%*
corporate loans	*27 310.5*	*27.8%*	*18 399.8*	*24.9%*	*48.4%*
public sector	3 191.9	3.3%	3 650.3	4.9%	-12.6%

Loan maturity structure is dominated by long term loans which is due to significant increase in mortgage loans granted by PKO BP SA. Share of long term loans increased by 7.5 pp. compared to 2007. Reverse change is related to short term loans with due date below one year.

Table 9. Loans and advances to customers of PKO BP SA – structure by contractual terms (PLN million)

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

Term structure	As at 31.12.2008	Structure 2008	As at 31.12.2007	Structure 2007	Change 2008/2007
Contractual values of gross loans and advances, of which:	**100 702.6**	**100.0%**	**76 128.9**	**100.0%**	**32.3%**
short-term	20 628.4	20.5%	21 338.9	28.0%	-3.3%
long-term	80 074.2	79.5%	54 790.0	72.0%	46.1%
Impairment allowances, adjustment and accrued interests	**(2 600.5)**	**x**	**(2 306.7)**	**X**	**12.7%**
Net loans and advances	**98 102.0**	**x**	**73 822.2**	**X**	**32.9%**

Detailed information on the maturities of loans and advances to customers of PKO BP SA is included in notes to the financial statements of PKO BP SA.

Amounts due to customers

In 2008, PKO BP SA recorded a dynamic growth in the volume of deposits (19.5% (y/y), i.e. PLN 16.6 billion in nominal terms). As a result of active deposit policy the Bank presented a comprehensive offer of deposits for its customers. Consequently, the volume of deposits increased in all client groups (Table 10).

Table 10. Amounts due to customers of PKO BP SA – structure by type (PLN million)

AMOUNTS DUE TO CUSTOMERS OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA

Structure	As at 31.12.2008	Structure 2008	As at 31.12.2007	Structure 2007	Change 2008/2007
Amounts due to corporate entities	19 164.1	18.8%	15 238.9	17.9%	25.8%
Amounts due to state budget entities	7 279.4	7.1%	4 688.0	5.5%	55.3%
Amounts due to retail clients	75 413.4	74.0%	65 288.6	76.6%	15.5%
Total amounts due to customers	**101 856.9**	**100.0%**	**85 215.5**	**100.0%**	**19.5%**

Liabilities maturing within 1 month dominate in the ageing structure of amounts due to customers, although in connection with the introduction of an attractive offer of deposits (Table 16) their share dropped significantly (by 12.1 pp.) and the share of amounts due with longer maturities increased as follows:

- the share of liabilities with maturity from 1 to 3 months increased by 5.6 pp. (y/y),
- the share of liabilities with maturity from 1 to 5 years increased by 10.5 pp. (y/y).

As at the end of 2008, the following regions had the biggest share in the geographical structure of the deposit base[3] (excluding interbank deposits and cash on Internet accounts): mazowiecki (27.3%), śląsko-opolski (12.1%) and wielkopolski (10.7%). Their combined share in the total balance of deposits of PKO BP SA amounted to 50.1% and was 1.8 pp. higher than as at the end of 2007.

[3] Structure on the basis of Bank's Management Information.

Table 11. Amounts due to customers of PKO BP SA – structure by contractual terms (PLN million)

AMOUNTS DUE TO CUSTOMERS
OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA

Term structure	As at 31.12.2008	Structure 2008	As at 31.12.2007	Structure 2007	Change 2008/2007
up to 1 month	61 570.7	59.8%	61 453.9	71.9%	0.2%
from 1 to 3 months	17 465.7	17.0%	9 748.9	11.4%	79.2%
from 3 months to 1 year	11 532.2	11.2%	12 959.0	15.2%	-11.0%
from 1 year to 5 years	12 408.0	12.0%	1 286.4	1.5%	9.6x
above 5 years	3.9	0.0%	11.0	0.0%	-65.0%
Accrued interests	(1 123.5)	x	(243.8)	x	4.6x
Total	**101 856.9**	**x**	**85 215.5**	**x**	**19.5%**

Own funds and capital adequacy ratio

Own funds increased by 15.3% y/y and constituted 10.3% of total equity and liabilities of PKO BP SA as at the end of year 2008. Including high dynamics of Bank's liabilities, own funds share in total equity and liabilities has decreased by 0.8 pp.

As at the end of 2008, capital adequacy ratio amounted to 11.24%. This level significantly exceeds the minimum threshold of that ratio as determined in the Banking Act. Capital adequacy measured by capital adequacy ratio remained at high level mainly due to capital accumulation along with dynamic growth of loan portfolio of PKO BP SA.

Table 12. Equity of PKO BP SA (PLN million)

EQUITY OF
POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA

Items	As at 31.12.2008	Structure 2008	As at 31.12.2007	Structure 2007	Change 2008/2007
Equity, of which:	**13 529.4**	**100.0%**	**11 729.5**	**100.0%**	**15.3%**
Share capital	1 000.0	7.4%	1 000.0	8.5%	0.0%
Reserve capital	7 217.0	53.3%	5 592.0	47.7%	29.1%
Other reserves	1 395.0	10.3%	1 390.0	11.9%	0.4%
General banking risk fund	1 070.0	7.9%	1 070.0	9.1%	0.0%
Revaluation reserve	(33.9)	-0.3%	(42.4)	-0.4%	-20.2%
Retained earnings	-	0.0%	-	0.0%	x
Net profit for the period	2 881.3	21.3%	2 720.0	23.2%	5.9%
Own funds	**12 389.2**	**x**	**9 543.3**	**x**	**29.8%**
Capital adequacy ratio (%)	**11.24**	**x**	**11.87***	**x**	**-0.63 pp.**

** As a result of the publication and implementation of the Banking Supervisory Authority Resolution 2/2007, the capital adequacy ratio for the comparative period is prepared under a different basis (at 31 December 2008, capital requirement have been calculated in accordance with the New Basel Accord, where the basic difference between this and the calculation as at 31 December 2007 are new methodologies for calculation of credit and operational risk requirements)*

4. BUSINESS DEVELOPMENT

4.1 Direction of development

Powszechna Kasa Oszczędności Bank Polski has been and will be a universal bank with a Polish profile for whom the client is the most important asset. Keeping its strong position in retail banking and the leading role in the market of housing loans, the Bank strengthens its position related to the service of legal entities, including small and medium enterprises. The Bank ensures effective management of capital provided by its shareholders and creates conditions for its employees to thrive professionally.

In 2008, PKO BP SA focused on achieving its main strategic goals. The Bank consolidates its leading position on the Polish market in the most effective segment of retail banking in the following ways: it improves the efficiency and quality of customer service, expands the range of products and services, adopts a rational pricing policy. One of the most important challenges in 2008 was providing stable financing base for PKO BP SA – strengthening the Bank's position on deposit market, in particular retail clients deposits. This process commenced in September 2008.

In the corporate banking segment, the important aims were focused on increase in effectiveness of the service model, which involves expanding the range of products and services in line with modifications made to the sales and customer service model. It allowed the Bank to become a partner of Polish enterprises.

PKO BP SA is going to focus on developing the companies which expand the PKO BP SA Group's product offer, in particular leasing and by developing factoring services. Consistent employment of the strategy will result in further strengthening of PKO BP SA market position.

In 2008, the Bank continued the implementation of the Integrated IT System (ZSI) software. As a result the ZSI has been introduced into all Bank's branches and agencies. This constituted a final step in the creation of one of the largest and the most complex IT projects in Poland. Currently products used by all branches and agencies for more than 11 million accounts are processed in this system. Introduction of ZSI has been an important step towards further restructuring of Bank's operations.

4.2 Market share of PKO BP SA

PKO BP SA is a market leader in the banking sector in terms of assets and equity.

Compared to 2007, PKO BP SA maintained its market shares at a stable level. Regarding deposits, it is worth to point out the increase of share in the respect of corporate entities and high market share in respect of retail customers (as the result of implementation starting from September 2008, competitive and comprehensive proposal for the clients).

With reference to the loan and advances to customers, PKO BP SA recognized increase in the market share in respect of corporate entities, which enabled keeping the leader position on the Polish credits' market.

Table 13. Equity of PKO BP SA (PLN million)

MARKET SHARE OF POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SA*

	As at 31.12.2008	As at 31.12.2007	Change 2008/2007
Loans and advances to:	**16.0**	**16.6**	**-0.6 pp.**
retail clients, of which:	19.2	22.5	-3.3 pp.
consumer loans	17.3	20.0	-2.7 pp.
mortgage loans	20.4	24.4	-4.0 pp.
corporate clients	12.8	11.6	1.2 pp.
Amounts due to:	**17.3**	**17.3**	**0.0 pp.**
retail clients	23.2	25.8	-2.6 pp.
corporate clients	10.9	9.5	1.4 pp.

** Data source: NBP reporting system – WEBIS.*

4.3 Business segments[4]

4.3.1 Retail segment

Activities of PKO BP SA aimed at retail client, including private banking clients, were mainly focused on increasing attractiveness and modernisation of product range as well as quality improvement of customer service along with increase in sales efficiency.

In the retail segment, PKO BP SA focused on providing comprehensive banking services which, on the one hand satisfy the credit needs, and on the other – the deposit and settlements needs of the clients. The bank intensified its sales of consumer loans (mainly the “Max Pożyczka, Mini Rata” cash loan) and mortgage loans.

In the 4th quarter of 2008, PKO BP SA introduced a series of actions stemming from high volatility of external conditions. As a result of PLN depreciation, the value of foreign currency loan portfolio increased, particularly of mortgage loans. Sales of mortgage loans in foreign currencies have decreased, while at the same time market share of sales of mortgage loans in PLN increased.

Tense situation on financial markets resulted in intensification of market competition for retail deposits. This resulted in the introduction a new, broad deposit offer for retail clients in the 4th quarter of 2008.

The increase in total deposits of retail clients was mainly due to the introduction of new deposit products (Max Lokata, Progresja 18-miesięczna) and a savings account. In the personal and private banking segment, PKO BP SA offered, in addition to traditional forms of saving, advanced structured products. This actions provided financing for further development of credit action.

The Bank made efforts to improve the quality of the service and make changes to the standard of providing personal and private banking services. Moreover, cycles of training courses were organized for employees (product training courses, the PKO Academy).

Completion of Alnova system introduction in 3rd quarter of 2008 was one of the most important developments in retail segment. The system functionalities provide a strong basis for the Bank to develop competitive advantage, both in respect of range of products offered and cooperation with clients.

[4] In this chapter Bank's management information is presented; any differences in total balances and percentages result from rounding; gross loans and advances to customers presented without interest due and interest not due.

Table 14. Loans and advances to customers in the retail segment (PLN million)

Items	As at 31.12.2008	As at 31.12.2007*	Change 2008/2007
Gross loans and advances to customers, of which:			
- retail and private banking	18 820	16 414	14.7%
- small and medium entities	9 762	6 907	41.3%
- mortgage banking	41 396	30 299	36.6%
- housing market clients (including refinanced by the State budget)	6 053	4 467	35.5%
Total	**76 032**	**58 087**	**30.9%**

** data for the year 2007 restated for comparative purposes*

Table 15. Amounts due to customers in the retail segment (PLN million)

Items	As at 31.12.2008	As at 31.12.2007	Change 2008/2007
Client deposits, of which:			
- retail and private banking	65 749	53 767	22.3%
- small and medium entities	8 239	6 958	18.4%
- housing market clients	9 966	10 290	-3.1%
Total deposits	**83 954**	**71 014**	**18.2%**

The activities of PKO BP SA were focused on improving the quality of the service and the Bank's competitive position in the small and medium enterprises segment (SME) by implementing a new service model (proper segmentation of customers with regard to their income potential), as well as on introducing numerous changes to the product offer. The most important ones include the introduction of four sales packages and the Quick Investment Loan (Szybki Kredyt Inwestycyjny, SKI). The changes in the SME segment brought significant volume increases, both on the credit side (41.3%) and on the deposit side (18.4%).

For small and medium enterprises segment's sake, taking advantages of synergy effect within the PKO BP SA Group, in 2008 process of sale of leasing products through Bank' branch network was prepared and implemented.

Table 16. Products of PKO BP SA in the retail segment in 2008

New products and services	Activity
Max Lokata	The Bank offered one year subscribed deposit called 'Max Lokata' with an interest rate of 6%. The product offered flexibility in terms of making partial payments during the agreed-upon period. The deposit was one of the most attractive on the market. The total volume collected within the deposit amounted to PLN 7.5 billion.
Term Deposit 9, 12, 15	From 22 September to 31 December 2008, the Bank offered 9-, 12-, 15-month term deposits with a fixed interest rate. The interest rate depends on the saving period, for a 9-month period it amounted to 5% annually, for a 12-month period to 5.5% annually and for a 15-month period accounted for 6.0% annually. The minimum amount of the deposit was PLN 5 000. The Group has collected almost PLN 1 billion on Term Deposit 9,12,15.
Progresja Term Deposit	From 22 September to 31 December 2008, the Bank offered a 18-month Term Deposit called 'Lokata Progresja' with a fixed interest rate of 7% annually (for the 18-month period the interest rate will amount to 10.5%) The deposit allowed for cash withdrawals without losing accrued interest which depended on the saving period. The minimum amount of the term deposit was PLN 5 000. There was no possibility to roll the deposit over to the next period. The Bank has collected PLN 10.3 billion on Progresja Term Deposit.
Saving account	Saving account is an a'vista account, which enables clients to have interest rate similar to that of term deposit providing a limited transactional functionality at the same time. The product was introduced in PKO BP SA in 2008 in the following three segments: 1. saving account for Inteligo account (April 2008) with interest rate up to 5.3% (for deposits of PLN 100 000 or higher), 2. saving account for PKO BP SA (October 2008) with an attractive 5% interest rate annually. Since 12 December 2008, the Bank made the offer more attractive by increasing the interest rate for saving account to 6% for customers who have deposited over PLN 50 000. 3. saving account in GPB for Poles working in the United Kingdom – sold by London branch of the Bank PKO BP SA (August 2008). Till the end of 2008 more than PLN 1.3 billion has been collected, and the trend was continued in the first months of 2009.
Standard deposits	Increasing the price attractiveness of standard term deposits – interest rate increase of approx. 1 pp. for all terms and amount brackets from 22 September 2008.
Investment products	The Bank offered numerous investment/ structured products, dedicated mainly to the personal and private banking segment (16-month structured deposit based on the PLN/EUR exchange rate, Trend Spotter Indexed Bonds, "Tygrys gospodarczy" ("Economic Tiger") Indian Bonds, Power Bonds, bonds of the agricultural goods market, structured bonds based on the Spectrum investment strategy).
Bankassurance	The Bank extended its offer of insurance products for retail and SME clients (Superochrona Domów i Lokali Mieszkalnych, SuperAssistance Zdrowie, Dom i Samochód, SuperAssistance Biznes, SuperUbezpieczenie Podróżne, Ubezpieczenie na szóstkę). The deposit with an insurance policy "Gwarantowany Zysk", which was introduced to the Bank's offer in cooperation with PZU Życie SA, was also sold successfully (sales of almost PLN 1 billion).
Product packages	New deposit products, BUSINESS PACKAGES (debut, development, comfort, success), were added to the offer on 14 February 2008. The individual packages include products and services which satisfy the needs of firms at different stages of their development.
SKI	On 18 February 2008 new product was introduced – Szybki Kredyt Inwestycyjny (Quick Investment Loan). It was designed to maximize customers' satisfaction by providing fast and easy access to loan.
Rating Sales Package	On 1 September 2008 new lease product was introduced (Pakiet Sprzedażowy Rating). This product is a part of agreement between the Bank and Bankowy Fundusz Leasingowy.
Electronic Banking	The following new functionalities were introduced to Inteligo electronic accounts in 2008: - savings account for individuals was implemented; - the terms for obtaining Inteligo revolving loans were changed significantly; - a new version of the WAP service was introduced; - encrypted bank statements were implemented. This new function is particularly useful for holders of business accounts and all clients who want the financial data contained in their bank statements to be kept strictly confidential.

Current accounts, Inteligo and banking cards

Table 17. Accounts and payment cards of PKO BP SA (thousands of units)

Items	As at 31.12.2008	As at 31.12.2007	Change 2008/2007
Total number of accounts, of which:	**6 366**	**6 207**	**159**
- Inteligo current accounts	692	659	34
Total number of banking cards, of which:	**7 493**	**7 296**	**197**
- credit cards	1 046	1 010	37

Table 18. Operational data in the retail segment – branches, ATMs, and agencies

Items	As at 31.12.2008	As at 31.12.2007	Change 2008/2007
Total number of branches	1 228	1 233	-5
- Retail Market Area:	**1 160**	**1 150**	**10**
Regional retail branches	12	12	-
Independent branches*	496	574	-78
Subordinated branches	652	564	88
Number of ATM's	**2 313**	**2 106**	**207**
Number of Agencies	**2 196**	**2 240**	**-44**

**decrease as a result of change in type and branches operational model*

Continued restructuring of the Bank's own branches network was an important element of the Bank's activity in the retail segment. These activities were focused on:

- network optimization – 183 branches were modernized;
- introduction of a new model of network management by changing the typology of branches. Independent and subordinated branches were replaced with three types of branches (branches A, B and C), the type of branch being dependent on, inter alia, the number of employees and the micro-market growth potential.

The network of the Bank's own ATMs was extended by adding 207 new ATMs (the total number is now 2 313), which allowed the Bank to reduce the costs of cash operations and increase the availability of services for the clients. Furthermore, the process of the modernization of self-service devices was completed.

The network of agencies remains an important supplement to Bank branches and ATMs.

The Super Express programme was introduced in the PKO BP SA sales network. Its aim is to increase the efficiency of sales. The programme was focused on four main areas:

- branch organization;
- training, motivating and supporting the sales staff;
- central cross-selling actions;
- sales monitoring.

Centralization of crediting processes was commenced in 2008. The processes of granting and managing mortgage loans for retail clients were centralized. Five Credit Analysis Centres were established. In each of them, there is a unit of the Bank's Settlement Centre, which provides post-sales services. To date, 72% of the branches have been covered by the centralization process, which it is anticipated will be completed in the second half of 2009.

PKO BP SA opened a branch in the UK and began cooperation with the National Westminster Bank PLC on the basis of an exclusive agreement. The PKO BP SA branch in London offers (among other things) products dedicated to the British market, e.g. a savings account in GBP.

4.3.2 Corporate segment

In year 2008, PKO BP SA focused on further strengthening its market position and the image of PKO BP SA as a financial institution active on the corporate market.

In 2008, the corporate banking segment at PKO BP SA comprised business entities with a turnover exceeding PLN 5 million a year and local and central administration units (state budget entities).

2008 was a year of dynamic development for the PKO BP SA corporate banking segment (its growth significantly exceeded the market growth rate). The Bank increased its share in both the loan and the deposit market. The loan portfolio grew by more than 40.5% y/y (the market growth amounted to 28% on a year-to-year basis). At the same time, the deposit portfolio grew by 25.8% y/y in all segments of corporate and state budget clients (the market growth amounted to 12% y/y). The dynamic development in corporate banking was a result of the growing scale of the Bank's cooperation with its existing clients (cross-selling) and obtaining new clients. In 2008, the PKO BP SA corporate banking segment attracted more than 1 700 new clients, thus increasing its client base by almost 12%, which was the highest result in the history of this segment at PKO BP SA.

Market share of corporate segment increased for loans by 1.2 pp. to the level of 12% and for the deposits by 1.4 pp. to the level of 10.9% respectively.

Table 19. Gross loans and advances to customers and deposits in the corporate segment (PLN million)

Items	As at 31.12.2008	As at 31.12.2007	Change 2008/2007
Gross corporate loans	25 251	17 974	40.5%
Corporate deposits	17 036	13 542	25.8%

Due to the stability of PKO BP SA, its impeccable reputation on the market and the fact that the Bank does not rely on external financing, the clients started to see PKO BP SA as one of the safest institutions in the Polish banking sector (*safe heaven*). Corporate clients reduced the scale of their investments and shifted their attention to revolving loans and overdrafts. PKO BP SA adjusted its credit and transaction offer to the current situation in a flexible manner. The Bank took steps to increase monitoring and establish closer relationships with its clients. The Bank evaluated the prospects of higher risk sectors. However, unlike a number of other banks, PKO BP SA did not limit financing for new clients. The Bank launched client and product review programmes in order to link credit margins to the marginal cost of financing credit activity and the risk profile (risk based pricing), without the need to limit structural financing and financing of development activities.

Table 20. Significant activities in the corporate segment

Scope of activity	Activity
loan activity	In 2008 the Bank organized: - 9 syndicated loans in the total amount of PLN 1 186.1 million (the Banks' share), - 11 bilateral loans which amounted to PLN 2 230.2 million, - according to the Corporate regions data, Bank has drawn 2 296 credit agreements for a total amount of PLN 11,5 billion.
deposit activity	In 2008 the corporate segment deposit portfolio has increased by more than PLN 1.2 billion.
issue of non-treasury debt securities	In 2008 the Bank entered into 2 contracts for the issue of corporate bonds, in the total amount of PLN 250 million.

PKO BP SA is the forerunner and the leader in complex services European funds beneficiaries. In financing application in action "4.4. New investments of a high innovative potential" of Operational Program Innovative Economy" the loans granted by PKO BP SA amounted to PLN 490.3 million (14% of the market share). The PKO BP SA's offer – The European program – has been several times honored and rewarded in the banks' offers rankings. The experience connected with implementation of assistance programs, allowed the Bank to gain the leading position among the banks servicing supported enterprises.

In 2008, PKO BP SA was also the leader on the market for providing financing and services in respect of the issue of non-treasury debt securities to public finance sector entities. The Bank improved its position and at the same time increased its revenues in this sector. In the 4th quarter of 2008, the Bank was also the leader in financing large local administration units (individual loans exceeding PLN 100 million).

Table 21. Significant activities in the budget segment

Scope of activity	Activity
loan activity	In 2008 Bank took part in tenders for financing of budget clients and signed 84 contracts for a total amount of more than PLN 800 million.
deposit activity	In 2008 the budget segment deposit portfolio has increased by more than PLN 2.3 billion.
issue of non-treasury debt securities	In 2008 the Bank has signed 35 agreement for the issue of municipal bonds for a total amount of PLN 311.2 million and has become market leader in this segment with 40% share in the market (total value of municipal bonds issued by PKO BP SA amounted to PLN 1.8 billion).

The corporate banking sales network comprises Regional Corporate Branches and Corporate Centres (which report to Regional Corporate Branches), and employs 165 advisors and 14 product specialists. In 2008, in order to improve operating efficiency and adapt the network to the clients' needs, the management functions were concentrated in 55 Corporate Centres.

Table 22. Operational data in the corporate segment – branches

Items	As at 31.12.2008	As at 31.12.2007	Change 2008/2007
Total number of branches	1 228	1 233	-5
- Corporate Market Area:	**68**	**83**	**-15**
Regional Corporate Branches	13	13	0
Corporate Centers	55	70	-15

Product strategy

Strategy of non-credit product development in 2008 has been focused on three main areas: clients, products and processes.

Clients

According to the clients' opinion poll (more than 50% of votes), introducing modern corporate client customer service model, has been one of the most important strategic goals of transaction banking. The model was based on best practices in European transaction banking. The model of customer services, being a factor distinguishing PKO BP SA among peer group, is going to be continuously developed in 2009, in particular in the field of new IT systems designed to monitor quality of services.

In respect of product's sale support, especially regarding the managing financial assets, starting from the 3rd quarter 2008 the centralized specialists team for products' sale was created and the centralized team for implementation of transaction products was established. The new organizational form makes the corporate customers database available for the products' specialists in order to increase the cross-sale of non-credit products, which in turn allows the diversification of revenue amounts in respect of credit and non-credit products and maximizes the rate of return on capital employed.

The increase in the effectiveness of sales activities and continous strive for better quality of provided services led to the introduction of a new model for negotiated term deposits. This new sales model allowed significant increase in sales volume (40%).

Products

In 2008 PKO BP SA focused on mass implementation of the centralized IT system. Simultaneously, the corporate segment, according to previously adopted strategy, introduced new products, not only to enhance competitive standing, but also to increase total assets and improve ROE indicator. The goal has been accomplished by, i.a. introducing innovative products, described in table below:

Table 23. New products and services of PKO BP SA in the corporate segment

New products and services	Activity
liquidity management products	Liquidity management products (implemented in 4th quarter of 2008) – automatisation and widening functionalities of products, involving current account consolidation. The products provide the possibility to manage enterprises and municipalities current liquidity.
Mikrorachunki service	Mikrorachunki (implemented in 2nd quarter of 2008) – a product designated for municipalities, courts and other entities engaged in process of collecting and settlement of recognizance's, bid bonds, collaterals and other fees, allowing for the process to be automated.
prepaid cards	Prepaid cards (implemented in 4th quarter of 2008) – prepaid cards in contradiction to Electronic Payment Instrument have a wide range of possible usages, especially in the area of automatisation of payouts of different types of benefits. This includes doles, scholarships. Product is designated for municipalities, schools and universities and other business entities.

Development of electronic banking platform – iPKO Biznes – has been a strategic challenge in transaction banking products sector. The platform itself is a response to growing expectations of internet banking clients. In 2008 the Bank has acquired more than 1 900 active internet banking clients. Further development of the platform, along with improving its competitive standing and functionality will be a challenge for 2009.

Processes

Financial crisis has forced banks to act more proactively in optimising operating expenses. Standardisation and centralisation of operating processes that begun in 2008 will become a base for reorganisation of business processes in corporate segment in 2009. The reorganisation is aimed at lightening corporate segment of all activates not related to sales and transferring those activities to business operations cells, without changes in employment. This action shall have a direct impact on Bank's effectiveness, both in sale of credit and non-credit products of the Bank and PKO BP SA Group.

In 2009 and in the following years corporate segment, together with other segments is prepared to constantly increase the total assets of PKO BP SA, by expanding credit and deposit action, basing on acquiring diversified financing sources and increasing cross selling (in the area of transaction banking).

4.3.3 Investment segment

In 2008, the global financial markets were affected by a serious crisis. The bankruptcy of the American investment bank Lehman Brothers caused an avalanche sale of assets on a global scale. The world's leading central banks implemented aid programmes to restore market liquidity. As part of such programmes, the governments carried out a coordinated interest rate reductions and in some cases took over shares in financial institutions.

Price decreases on the global stock markets and unfavourable conditions in the real economy also led to a deterioration in the mood on the capital market. 2008 was a year of economic downturn. The main Warsaw Stock Exchange index, WIG, lost over 50% compared to 2007; the largest companies' index, WIG20, dropped by 48%; mWIG40 dropped by 63%.

Despite limitation of activity by other competitors on the Polish money and capital market, PKO BP SA remained (especially in the 4th quarter) one of the most active financial institutions in 2008.

Table 24. Activities and achievements of PKO BP SA in the investment segment – treasury activities

	Investment activity	Activity
Treasury Activities	sales of treasury products	**Development strategy and result** 2008 was another year of growth of the Bank's activity in this market segment. Foreign exchange operations generated very good results, the turnover realized on SPOT transactions increased by 30%, which led to an increase in the Bank's profit. The Bank actively executed its strategy of developing the sales of treasury products with high added value. The share of both exchange rate and interest rate derivative transactions in the total sales of treasury products increased by 20% compared with the previous year. **Risk** PKO BP intensively monitors exposure to credit risk of its clients. Transactions are concluded with clients on the basis of framework agreements. These agreements, as well as the products' rules and regulations, contain provisions confirming that the client has performed an independent assessment of the risks and benefits associated with different types of transactions. It should also be noted that derivative transactions are only concluded in connection with the real risk of the client declared as at the transaction date, resulting from cash flows in foreign currencies and/or interest rates, and therefore they are of the nature of hedging transactions.
	interbank market	**Results achieved** The Bank maintained a high level of turnover on the interbank interest rate and currency markets. As at the end of December 2008, the Bank's share in the IRS and SPOT transactions market amounted to 11% and 7% respectively. As a result of its active approach, the Bank ranked 4th in the Treasury Securities Dealer ranking (among competing banks). The Bank also performed the function of a Money Market Dealer. In order to guarantee secure trading, in 2008 the Bank concluded framework and hedging agreements, both with domestic and foreign entities. **Risk** Due to its strong market position and knowledge of financial markets the Bank is able to support sales actively by applying solutions with high added value. At the time of high volatility of the financial markets, the Bank paid particular attention to stabilizing its deposit base. The Bank actively managed liquidity risk and market risks (including the interest rate and currency risk), focusing on minimizing exposure. The funds obtained were invested in short-term Treasury securities and NBP bills. The rate of obtaining funds in CHF, which had been maintained on a high level until the end of September, in line with increasing credit activity, slowed down visibly in the 4th quarter of 2008. The Bank maintained a portfolio of investment securities, which was financed with a surplus of deposits denominated in PLN, EUR and USD. State Treasury bonds constituted the largest component of this portfolio, and bonds issued by financial institutions constituted a small percentage (3%)..

Table 25. Activities and achievements of PKO BP SA in the investment segment – brokerage activities

	Investment activity	Activity
Brokerage Activities	stock market	Turnover on the stock market amounted to almost PLN 19 million, which gave PKO BP SA a 6% share in the market and the 7th position (up one level in relation to the previous year). The amount of turnover generated as a result of performing the function of a stock market animator was PLN 5 billion, and the number of agreements signed by the Bank with the issuers and the Warsaw Stock Exchange acting in its role of market animator and issuer was 39 and 29 respectively, which gave the Bank the 4th position. Turnover on the NewConnect stock market amounted to almost PLN 65 million and gave PKO BP SA the 4th position (with the largest number of serviced companies, i.e. 30).
	primary market	On the primary market PKO BP SA acted as an offeror for the following companies: Selena FM, SONEL, Krosno. The Bank acted as a selling consortium member for the following companies: Zakłady Azotowe TARNÓW, PZ Cormay, Power Media, CAM Media, AD Drągowski, Enea, Domex-Bud Dev, IZNS. PKO BP SA provided preliminary services with respect to the incentive programmes of the following companies: TIM S.A. and Elektrotim S.A. The Bank also processed subscriptions for convertible bonds and then shares as part of the 2007 incentive programme for Drozapol-Profil. In line with its assumptions regarding development of primary market services, PKO BP SA carried out subscriptions for four issues of structured bonds issued by Barclays Bank PLC in London, and commenced the distribution of 32 investment funds. Overall, as at the end of 2008, the Bank provided services to 144 Funds managed by 10 Investment Fund Companies.
	bond market	Due to the situation on the capital market and a significant increase in the aversion to risk, Treasury bonds became an important element of the PKO BP SA product offer. As the only distributor of retail Treasury bonds, PKO BP SA offered its clients in 2008 four types of bonds with both fixed and variable interest rates. Turnover on the bond market increased by nearly 45% compared with the previous year, which allowed the Bank to maintain its leading position on the market.
	number of securities accounts	As at the end of 2008, PKO BP SA maintained 327.9 thousand securities accounts, including 90.6 thousand securities and cash accounts and 237.3 thousand active registration accounts. The number of securities accounts maintained puts PKO BP SA in 5th position among 40 members of the National Depository for Securities. The award granted to the Bank by the Warsaw Stock Exchange for being the most active participant of the *NewConnect* market confirmed the Bank's high position on the capital market.

Table 26. Activities and achievements of PKO BP SA in the investment segment – trustee activities

	Investment activity	Activity
Trustee activities	market strategy	The Bank is a direct participant in the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych) and the Securities Register (at the National Bank of Poland). The Bank provides its clients with trustee services. As a member of the Council of Depositary Banks and the Council of Non-treasury Debt Securities by the Polish Bank Association, PKO BP SA takes part in developing regulations and market standards. In 2008, PKO BP SA launched depositary services for pension and investment funds. Since November 2008, the Bank provides depositary services to OFE WARTA SA.
	value of trustee assets	As at the end of the year 2008, market value of trustee assets amounted to PLN 20 billion, which represents a 6 fold increase compared to 2007.

4.4 International co-operation

Co-operation with the European Bank for Reconstruction and Development

PKO BP SA participated in the *Loan Window* programme forming part of the "EU/EBRD SME Finance Facility" (based on a Loan Agreement with the European Bank for Reconstruction and Development concluded on 21 February 2003 for the financing of small and medium-sized enterprises). By 30 June 2008, 3 139 loans had been granted totalling EUR 63.34 million. The cooperation with EBRD within the framework of the "EU/EBRD Finance Facility" ended in 2008.

Co-operation with other foreign institutions

In 2008 PKO BP SA:

- completed 4 ISDA Master Agreement with foreign banks, 4 Credit Support Annexes to the previous ISDA agreement and completed an agreement with the Council of Europe Development Bank, granting the Bank a credit line of EUR 100 million for co-financing the investment needs of small- and medium-sized enterprises,
- completed a loan agreement and 6 revolving loans with the directly related entity (operating in banking sector) in total amount of USD 201 million (transaction at an arm's length),
- completed two agreements with *National Westminster Bank PLC* on the basis of which co-operation with *NatWest* was prolonged till 28 February 2009.

4.5 Activities in the area of promotion and image building

In 2008 PKO BP SA's activities in the area of promotion focused on actions intended to:

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

As part of promoting the products and services of PKO BP SA, promotional campaigns of particular products were organized, as well as image-building campaigns and direct marketing activities intended to attract new clients and strengthen relations with the existing business partners. In 2008, public relations activities were conducted based on sponsoring and charity activities. PKO BP SA, as a patron and sponsor, supported the organization of cultural and sport events, social and community projects, in the framework of creative sponsoring programmes.

Sponsorship activities

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

Table 27. Structure of the main sponsorship areas of PKO BP SA (percentage)

Area	Number of projects	Share in budget (%)	Share in budget (PLN)
PKO Bank Polski Blisko Ciebie (Close to You)	294	42%	10 891 103
PKO Bank Polski Reprezentacji Olimpijskiej	80	43%	11 360 490
PKO Bank Polski Kulturze Narodowej	187	10%	2 396 491
Sector sponsorship	102	5%	1 447 721
TOTAL	**663**	**100%**	**26 095 805**

Table 28. Sponsorship activities by amount (PLN)

Sponsorship activities (by amount)	Number of projects
0 – 100 000	642
100 000 – 500 000	15
more than 500 000	5

42% of the budget was assigned for activity within the area "PKO Bank Polski Blisko Ciebie". The supported initiatives intended to show the Bank as an organization that is dynamic, modern, friendly, and open to the needs of local communities. Actions undertaken were aimed at education and social sponsorship.

Sports projects constituted 43% of the budget and were realized within the area of the Bank's Olympic-related activities "PKO Bank Polski Reprezentacji Olimpijskiej". The agreement which was concluded in 2007 with the Polish Olympics Committee was extended. On the basis of the agreement, PKO BP SA became the sponsor of the Polish Olympic Movement. PKO BP SA continued also cooperation with the Polish handball association Związek Piłki Ręcznej w Polsce and with the women's basketball team LOTOS PKO BP Gdynia.

About 10% of PKO BP SA's sponsoring budget was earmarked for cultural and national heritage projects, which is the effect of realizing the programme "PKO Bank Polski Kulturze Narodowej" (PKO BP for national culture), which started in 2001. The purpose of the programme is to create the image of PKO BP SA as the patron of culture and national heritage. The most important cultural events of the prior year sponsored by PKO BP SA included: the exhibition "Voyage to the interwar period" organized by the National Museum in Warsaw.

The following internal regulations regulate the sponsorship and charity activities:

1. "Regulations on marketing activities in PKO BP SA"
2. "Mode of marketing activities in PKO BP SA"

In accordance with the internal regulations of PKO BP SA in 2008, sponsorship activities do not require the acceptation of the Supervisory Board. The Supervisory Board did not assess the sponsorship activities.

PKO BP SA monitors on an ongoing basis the realization of particular sponsorship projects (media range, amount of participants, brand exposition) and orders research concerning sponsorship and image (both qualitative and quantitative).

Cyclical research conducted by ABC Rynek i Opinie (Sponsoring Monitor 2005/2006/2007/2008) indicates that the sponsorship activities of PKO BP SA is the most visible of all banks conducting such activities.

Charity activities

Charity activities play an important role in forming a positive image of PKO BP SA as a socially sensitive institution. Apart from the image issues, participation in charity activities creates the possibility of contacts with opinion-setting circles and local authorities.

Table 29. Main areas of charity activities

Area	Number of donations	Share in budget (%)	Amount paid (PLN)
Social aid	314	40%	1 757 852
Health	239	25%	1 088 735
Education and entrepreneurship	211	15%	663 600
Culture and national heritage	41	14%	618 577
Sport and leisure	68	3%	135 250
Other	36	2%	105 200
TOTAL:	**909**	**100%**	**4 369 214**

Table 30. Sponsorship activities by amount (PLN)

Charity activities (by amount)	Number of donations
0 – 5 000	772
5 001 – 20 000	131
20 001 – 100 000	4
more than 100 000	2

A spectacular event in the area of protection of culture and national heritage was the purchase of letters from the field post office, which operated during the Warsaw Uprising, by the Museum of the Warsaw Uprising. Another event also related to the war period was the erection of the monument commemorating the Uprising in the Warsaw Ghetto. The renovation of works of art of the Raczyński Library in Poznań was also provided with additional financing.

In the area of social aid, the agreement with Fundacja Polsko-Niemieckie Pojednanie, which was signed in 2007, is in force. The Bank provides additional finance to the humanitarian and social aid programme for former Home Army (Armia Krajowa) soldiers. This is a joint initiative under the aegis of the President of the Republic of Poland.

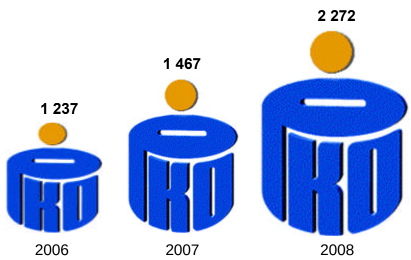
PKO BP SA supported the scholarship fund for underprivileged talented children, educational and entrepreneurship projects and was engaged in the issues of health protection and promotion as well as sport and entertainment.

Prizes and awards granted to PKO BP SA

In 2008 PKO BP SA has been granted numerous prizes and awards, including:

1. "Business - Friendly Bank" – 10 branches of PKO BP SA were the finalists in the 9th contest organized by the Polish Commercial Chamber, Polish-American Foundation for Counseling Small and Medium Business, and the Warsaw Institute of Banking.
2. Financial Order for 2008 granted by the Institute of Business Analyses and the editors of the "*Home & Market*" monthly for PKO BP SA, for the SUPERKONTO account.
3. Dom Maklerski PKO BP SA was granted two awards by the Warsaw Stock Exchange: for the most active market maker on the Main Market of the Warsaw Stock Exchange in 2007, for the most active market maker on the *NewConnect* Market in 2007.
4. Leopards – awards granted by bankers for the most admired creation of the bank brand image – PKO BP SA ranked 3rd in the retail banking category.
5. "European Medal" for the iPKO Biznes product offer. This was already the 16th edition of the undertaking organized by the Office of the Committee for European Integration and Business Centre Club.
6. The Bank received the "Golden Statuette of the Most Trusted Brand" in the category of "Bank" in the biggest European consumer survey "*The Most Trusted Brands 2008"* conducted by the "Reader's Digest".
7. 1st place, in the ranking of the 50 biggest Polish banks, organized by the "Bank" magazine, for the best financial results.
8. Award of the "Dlaczego" magazine and the student portal www.korba.pl for the products and brands most liked by students - PKO BP SA won in two categories – "student bank" and "student employers".
9. Donor of the Year for PKO BP SA and Inteligo Financial Services SA for supporting the programme for the Polish Artificial Heart.
10. Diamond to the Golden Statue of Leader of Polish Business during the Summer BCC Gala.
11. "Brand of the best reputation 2008" received in the "Finance" category, granted by the Independent Polish Brands Reputation Ranking.
12. 1st place in the SEO/SEM ranking (search engine optimization/search engine marketing). The ranking is based on a detailed analysis of the level of presence and activity of the bank in web search engines.
13. Once again PKO BP SA won the ranking for the strongest brand in the financial sector, organised by Rzeczpospolita. This position has been held already for three years. In category of the most valuable brands in Poland PKO BP SA is ranked second. The valuation of PKO BP SA brand was accounted for PLN 2.3 billion. It means that the value of the brand has increased by 55% (y/y).

Value of the PKO BP SA brand*



* valuation of Rzeczpospolita for the strongest brand ranking purposes (PLN million)

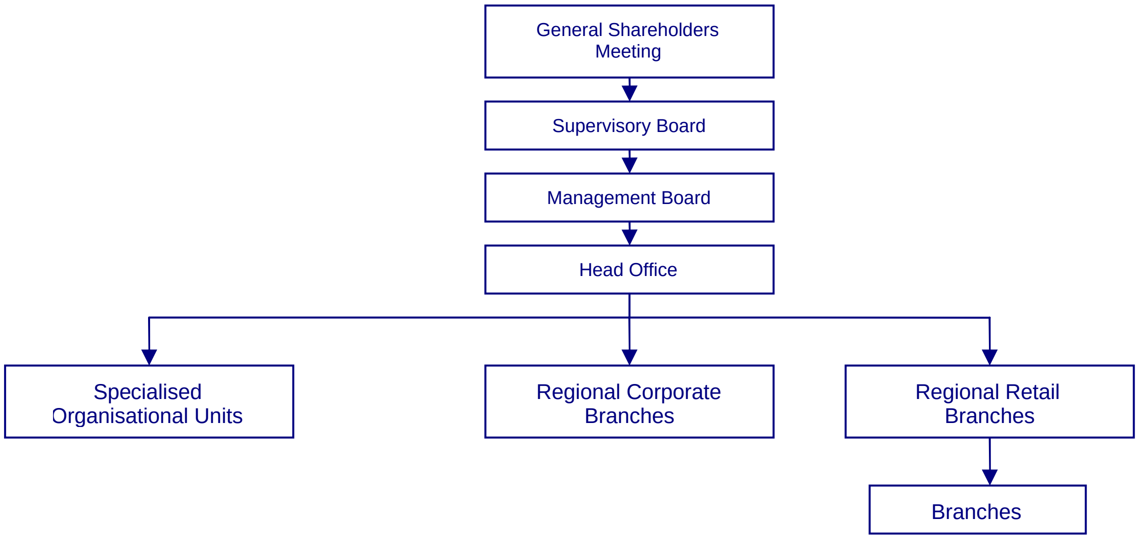
For the purposes of the ranking, a worldwide used method 'relief from royalty' was adopted. It is based on hypothetical licensing fees that the owner would have to pay to licensee if he did not hold the ownership right to the brand. Such a fee is settled in relation to net income on sales. The value of the brand was calculated as a sum of discounted future license fees (after tax).

14. 1st place in the "*PremiumBrand*" ranking, in the "finance" category. This is a promotional project aimed at determining a list of the most valued brands operating on the Polish market. The ranking is developed on the basis of investigations carried out by TNS OBOP.
15. For the fourth time PKO Visa *Infinite* card has won the prestigious credit cards ranking organized by the *Forbes* magazine.
16. The Title of Warsaw Culture Patron granted by the Warsaw Town Hall. PKO BP SA received the title for "the biggest financial contribution for the organization of culture events".
17. PKO BP SA received a laureate title of the Polish Certification Programme 'Client's Friendly Company' (4th edition), indicating joining the Top 20 group of companies and institutions deserving such a title and special promotional logo.

5. INTERNAL ENVIRONMENT

5.1 Organisation of PKO BP SA

Table 31. Organisational structure of PKO BP SA



Activities relating to the Bank's organization carried out in 2008 concerned mainly the structures responsible for selling products and services and were aimed at increasing their efficiency and improving their management. In particular, a new specialized unit was established to execute tasks relating to the processing of retail customers' applications for mortgage housing loans. Additionally, the organization of the distribution network was changed, in particular by implementing a new customer service model and a new typology of departments, which adjusted the branches' structures to the market potential. Furthermore, dedicated advisors were appointed for different customer segments. These changes have improved the quality of customer service, sales efficiency and sales management.

Moreover, in order to improve the management and supervision of the individual elements of the Bank's organizational structure, changes were made to the organization of isolated areas of the Bank's operations and their individual functions supervised by particular Management Board members. The structure of the Head Office organizational units and special organizational units was also changed.

5.2 Principles of risk management

Risk management is one of the most important internal processes in PKO BP SA as well as in the other entities comprising the PKO BP SA Group. The objectives of risk management are to ensure an adequate level of security and profitability of business operations in the changing legal and economic environment.

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

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

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

4th quarter of 2008 was characterized by higher interbank market risk and aggressive policy of banks in the area of retail clients deposits. At the end of III quarter of 2008 PKO BP made its retail deposits offer more attractive that enable the bank to limit the negative influence of the market situation. From the point of view of higher variability of currency rate and limited availability of long term CHF transactions PKO BP Management Board on current basis monitors market situation and takes adequate decisions. Moreover PKO BP SA actively manages the decrease of banks mutual trust by adjusting its internal regulations to the actual market situations.

Due to the deprecation of polish currency towards EUR and USD, PKO BP SA analyzes the potential influence of currency rates fluctuations and the changes in economy in Poland with reference to debtors. PKO BP SA monitors the change of credit profiles of the debtors in order to adjust it to the changing needs of the debtors and economic environment.

5.2.1 Credit risk

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

PKO BP SA applies the following principles of credit risk management:

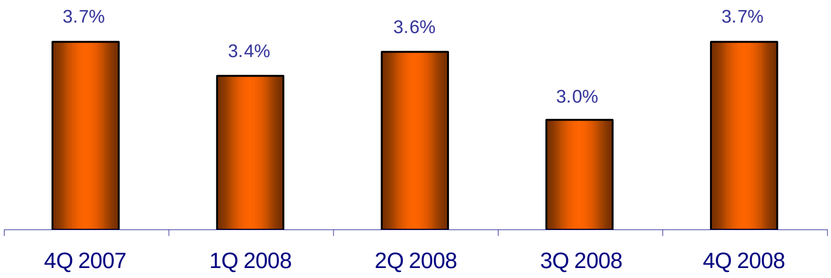
- each loan transaction is subject to comprehensive credit risk assessment, which is reflected in an internal rating or credit scoring,
- credit risk relating to potential and concluded loan transactions is measured on a cyclical basis, taking into consideration changes in external conditions and in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

The above-mentioned policies are executed by PKO BP SA 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 PKO BP SA. These methods are verified and developed to ensure compliance with the internal ratings based requirements (IRB).

In 2008, PKO BP SA continued developing such credit risk assessment methods relating to retail clients. Among other things, it extended the behavioural scoring system by adding more revolving facilities offered by PKO BP SA to retail clients, such as credit cards and Inteligo revolving loans. In 2008, PKO BP SA also updated the minimum values of the parameters used for assessing the borrowing power of retail clients applying for consumer loans, mortgage loans, credit cards, revolving loans. The changes in the parameter values involved increasing, among others, the minimum fixed expenses of a household and its outgoings on consumption.

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

Chart 1. Share of non-performing loans of PKO BP SA (in compliance with IFRS)



In the 4th quarter of 2008, the volume of non-performing loans in corporate market area increased as a result of deterioration in the clients' financial standing.

In 2008, due to the ongoing financial crisis which affected financial institutions in particular, the Bank performed reviews of these institutions more often than in prior years. As a result, the Bank reduced the credit and settlement limits granted to these institutions, limited the range of transactions performed and shortened the periods for which such transactions are concluded.

5.2.2 Market risk

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

Interest rate risk

Purpose of interest rate risk management is to identify areas of interest rate risk and shaping the structure of balance sheet and off-balance sheet liabilities in a manner that maximizes net assets value and net interest income within the adopted interest rate risk profile.

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

Exposure of PKO BP SA to interest rate risk was within accepted limits. PKO BP SA was mainly exposed to PLN interest rate risk which amounted to 83% of Value at Risk of PKO BP SA (VaR) as at 31 December 2008 and 48% as at 31 December 2007.

VaR and stress-test analysis of PKO BP SA exposure to interest rate risk is presented in the table below:

Table 32. VaR and stress test analysis of the Bank's exposure to the interest rate risk (PLN thousand)

Name of sensitivity measure	31.12.2008	31.12.2007
VaR for a 10-day time horizon	72 337	36 300*
Parellel move of interest rate curves by +200 base points (PLN thousand)	499 041	101 905

** VaR calculated as at 31 December 2007 reflects the changes in the VaR methodology introduced in 2008 due to the financial crisis. VaR calculated according to the methodology used on 31December 2007 amounted to PLN 10 521 thousand.*

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

Currency risk

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

PKO BP SA measures currency risk using the Value at Risk model and stress tests.

VaR of PKO BP SA and stress test analysis of PKO BP SA financial assets exposed to currency risk are stated cumulatively in the table below:

Table 33. VaR of the Bank and stress test analysis of the financial assets of PKO BP SA (PLN thousand)

Name of sensitivity measure	31.12.2008	31.12.2007
VaR for a 10-day time horizon	11 297*	1 646
Change of currency/PLN (15%)**	10 631	6 975

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

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

The level of currency risk was low both as at 31 December 2008 and as at 31 December 2007.

The Bank's currency positions are presented In the table below:

Table 34. The Bank's currency positions (PLN thousand)

Currency	Currency position as at 31.12.2008	Currency position as at 31.12.2007
USD	(97 267)	(32 684)
EUR	20 134	(32 882)
CHF	(10 304)	37 786
GBP	(1 497)	(3 137)
Other (global net)	18 062	11 637

Liquidity risk

The objective of liquidity risk management is to shape the structure of PKO BP SA's balance sheet and off-balance sheet liabilities to ensure the continuous liquidity of the Bank, taking into account the nature of its activities and requirements which may occur due to changes in the market environment.

The PKO BP SA's policy concerning liquidity is based on keeping a portfolio of liquid securities and accumulation of stable deposit base. In its liquidity risk management policy, the Bank also uses money market instruments, including NBP open market operations.

To ensure an adequate liquidity level, PKO BP SA 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. Liquidity reserve as at the end of 2008 and as at the end of 2007 is presented below:

Table 35. Liquidity reserve of PKO BP SA

	31.12.2008	31.12.2007
Liquidity reserve up to 1 month* (PLN million)	6 666	9 248

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

On 15 December 2008 the Bank introduced new deposit products. As at 10 January 2009, the liquidity reserve up to 1 month amounted to approx. PLN 8 930 million.

As at 31 December 2008, the level of permanent balances on deposits from non-financial entities constituted approximately 94% of all deposits of PKO BP SA's non-financial clients, while as at 31 December 2007 the level of permanent balances on deposits constituted approximately 96% of all deposits of PKO BP SA's non-financial clients.

5.2.3 Operational risk

Operational risk is defined as the risk of occurrence of a loss due to non-compliance or unreliability of internal processes, people and systems or external events. The purpose of operational risk management is to optimize operational efficiency by reducing operating losses, costs streamlining and improving the timing and adequacy of the response of the PKO BP SA 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 PKO BP SA's head office level.

The ongoing operational risk management is conducted by every organizational unit of the Bank.

In order to limit exposure to operational risk, PKO BP SA applies solutions of various kinds, such as:

- control solutions,
- human resources management (proper staff selection, enhancement of professional qualification of employees, motivation packages),
- setting threshold values of Key Risk Indicators (KRI),
- contingency plans,
- insurances,
- outsourcing
- business contuinity plan.

In the second half of 2008 PKO BP SA commenced work in the area of implementation of key operational risk indicators and IT system supporting operational risk management process.

5.2.4 Compliance risk

Compliance risk is defined as the risk of legal sanctions, incurring financial losses or losing reputation or reliability due to failure of the Bank, its employees or entities acting on its behalf to comply with the provisions of the law, internal regulations, standards adopted by the Bank, including ethical standards.

The objective of compliance risk management is to strengthen the image of the PKO BP SA as of institution that is reliable, fair, honest and compliant with law and adopted standards. This is achieved through mitigating compliance risk, reputation risk and legal sanction risk as well as mitigating risk of potential financial loss or legal sanction that may be caused by violation of laws and regulations.

Compliance risk management involves in particular:

- preventing involvement of the Bank in illegal activities;
- ensuring data protection;
- development of ethical standards and monitoring of their application;
- conflict of interest management;
- preventing situations where the Bank's employees could be perceived as pursuing their own interest in the professional context;
- professional, fair and transparent formulation of offers of products, advertising and marketing messages;
- prompt, fair and professional consideration of complaints, requests and quality claims of clients.

5.2.5 Capital adequacy

Capital adequacy is the maintenance of a level of capital by PKO BP SA 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 PKO BP SA's activities.

The process of managing PKO BP SA's capital adequacy comprises:

- identifying and monitoring of all of significant risks,
- assessing internal capital to cover the individual risk types and total internal capital,
- monitoring, reporting, forecasting and limiting of capital adequacy,
- performing internal capital allocations to business segments, client segments and entities in the PKO BP SA Group in connection with profitability analyses,
- using tools affecting the capital adequacy level (including: tools affecting the level of own funds, the

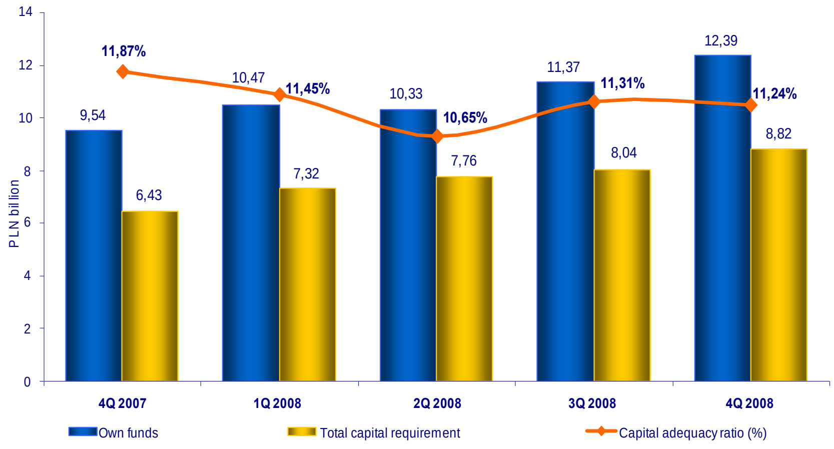
scale of own funds item reductions and the level of the loan portfolio).

Main measures of capital adequacy are:

- the capital adequacy ratio whose minimum level in accordance with the Banking Act is 8%;
- the ratio of equity to internal capital whose acceptable minimum level in accordance with the Banking Act is 1.0.

The capital adequacy level of the Bank in 2008 remained on a safe level and was significantly above the statutory limits.

Chart 2. Chart 2. Capital adequacy of PKO BP SA



Compared with 31 December 2007, PKO BP SA's capital adequacy level dropped by 0.63 pp., which was mainly due to high growth rate of the loan portfolio and the negative effect of implementing Basel II on the capital requirement level.

In 2008, the value of own funds of PKO BP SA increased by PLN 2.85 billion, which was mainly due to contribution of approximately 60% of the net profit for 2007 and 100% of the net profit for the first half of 2008.

Since January 2008, PKO BP SA calculates capital requirements in accordance with Resolution No. 1/2007 of the Banking Supervision Authority dated 13 March 2007 (Basel II): in respect of credit risk – using the standardized approach; in respect of operational risk – using the basic indicator approach, and in respect of market risk – using the basic approach.

In 2008, the increase in the capital requirement in respect of credit risk resulted from a significant increase in the volume of loan portfolio (32.9%). Except for increase in sales of loans, growth of loan portfolio volume was determined by foreign exchange rates increase in the second half of 2008. The increase in the capital requirement of PKO BP SA in respect of operational risk (using the basic indicator approach) was due to an increase of result on banking activities in 2008.

Implementation of Basel II as of the beginning of 2008 resulted in an increase in the total capital requirement for the Bank of approximately PLN 0.5 billion, which was mainly due to introducing a new capital requirement for operational risk (+ PLN 1.0 billion), accompanied by a decrease in the capital requirement in respect of credit risk (- PLN 0.5 billion).

Chart 3. Capital requirements of PKO BP SA

5.3 Organisational and capital structure

Investment activities

PKO BP SA holds stocks and shares in other financial and non-financial entities. The main direct and indirect investments of PKO BP SA are presented below.

Table 36. Subsidiaries, associates and jointly controlled entities of PKO BP SA

No.	Entity name	Cost (PLN thousand)	Voting rights on General Shareholding Meeting (%)
Subsidiaries			
1	KREDOBANK SA [1]	356 102	98.5619
2	Powszechne Towarzystwo Emerytalne BANKOWY SA	205 786	100
3	Centrum Finansowe Puławska Sp. z o.o.	128 288	100
4	PKO Inwestycje Sp. z o.o.*	117 813	100
5	Bankowy Fundusz Leasingowy SA	70 000	100
6	PKO Towarzystwo Funduszy Inwestycyjnych SA	69 055	75
7	Inteligo Financial Service SA	59 602	100
8	Centrum elektronicznych Usług Płatniczych eService SA	55 500	100
9	Bankowe Towarzystwo Kapitałowe SA	18 566	100
10	PKO Finance AB	172	100
Jointly controlled entities			
11	CENTRUM HAFFNERA Sp. z o.o.	44 371	49.43
12	Centrum Obsługi Biznesu Sp. z o.o.	17 498	41.44
Associates			
13	Bank Pocztowy SA	146 500	25.0001
14	Kolej Gondolowa Jaworzyna Krynicka SA	15 531	36.71
15	Ekogips SA – in liquidation	5 400	23.52
16	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	33.33
17	Agencja Inwestycyjna CORP SA	29	22.31

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

[1] both cost and share in capital of KREDOBANK SA include the XVIII share issue, acquired by PKO BP SA on 31 December 2008, and presented in the balance sheet of PKO BP SA as receivables

Subsidiaries of PKO BP SA were established with an aim to support the basic business activities of PKO BP SA within sales goals through complementation of the offer as well as providing services to PKO BP SA and increase of the Bank's share in the international financial markets.

Table 37. Indirect subsidiaries of PKO BP SA

No.	Entity name	Cost (PLN thousand)	Voting rights on General Shareholding Meeting (%)
Subsidiaries of PKO Inwestycje Sp. z o.o.			
1	Wilanów Investments Sp. z o.o.*	82 981	100
2	POMERANKA Sp. z o.o. *	19 000	100
3	PKO Inwestycje - Międzyzdroje Sp. z o.o.*	7 575	100
4	Baltic Dom 2 Sp. z o.o.	6 619	56
5	WISŁOK Inwestycje Sp. z o.o.*	2 800	80
6	Fort Mokotów Sp. z o.o. *	2 040	51
7	UKRPOLINWESTYCJE Sp. z o.o.	519	55
Subsidiaries of Bankowy Fundusz Leasingowy SA			
8	Bankowy Leasing Sp. z o.o.	1 309	100
9	BFL Nieruchomości Sp. z o.o.	1 109	100
Subsidiary of Inteligo Financial Services SA			
10	Finanse Agent Transferowy Sp. z o.o. [1]	7 600	80.33
Subsidiaries of Inteligo Financial Services SA			
11	Sopot Zdrój Sp. z o.o.*	58 923	100
12	Promenada Sopocka Sp. z o.o.	10 058	100
13	Centrum Majkowskiego Sp. z o.o.	6 609	100
14	Kamienica Morska Sp. z o.o.	976	100

** value of shares at acquisition cost, inclusive of specific capital injections.*
[1] other shares of Finanse Agent Transferowy Sp. z o.o. are in possesion of Powszechne Towarzystwo Emerytalne BANKOWY SA – a subsidiary of PKO BP SA

More information relating to the subsidiaries of PKO BP SA are included in the Directors' Report of the PKO BP SA Group.

Changes in organisation of subordinated entities

In 2008, there were following changes in capital and organisational structure within the subordinated entities:

1. Shares acquisition of PKO Finance AB

According to the contract signed by PKO BP SA and Svenska Standardbolag AB (Sweden), the Bank acquired 100% shares of Aktiebolaget Grundstenen 108756 (Sweden) with a nominal value of PLN 170 thousand and changed the name from Aktiebolaget Grundstenen 108756 to PKO Finance AB. The Company's activity is to rise funds for PKO BP SA deriving from issue of eurobonds.

2. Shares acquistion in increased share capital of Bankowy Fundusz Leasingowy SA

PKO BP SA acquired shares within the increase of share capital of Bankowy Fundusz Leasingowy SA with a nominal value of PLN 30 million. Following the above-mentioned issue, PKO BP SA holds 100% of the share capital of the company.

3. Shares acquistion in increased share capital of Kredobank SA

On 31 December 2008, PKO BP SA acquired shares within the capital increase of KREDOBANK SA with total nominal value of UAH 130 445 018.52. As a result of above-mentioned acquisition PKO BP SA increased its share in share capital and voting rights on General Shareholders Meeting from 98.1815% to 98.5619%.

4. Reimbursement of a capital contribution made by PKO BP SA to PKO Inwestycje Sp. z o.o.

PKO Inwestycje Sp. z o.o. (PKO BP SA subsidiary) returned to PKO BP SA a capital contribution received for an execution of investment projects of PLN 5.5 million.

5. Change of the name ARKADIA Inwestycje Sp. z o.o.

A change of name of ARKADIA Inwestycje Sp. z o.o. – a subsidiary of PKO Inwestycje Sp. z o.o - to PKO Inwestycje – Międzyzdroje Sp. z o.o. was registered.

6. Capital contribution to PKO Inwestycje – Międzyzdroje Sp. z o.o.

PKO Inwestycje Sp. z o.o. made a capital contribution to PKO Inwestycje – Międzyzdroje (former ARKADIA Inwestycje Sp. z o.o.) in the amount of PLN 4 074 800.

7. Shares acquistion in increased share capital of PKO Inwestycje – Międzyzdroje Sp. z o.o.

PKO Inwestycje Sp. z o.o. acquired shares in increased share capital of PKO Inwestycje – Międzyzdroje Sp. z o.o. in the total amount of PLN 1 500 thousand. Following the above-mentioned issue, PKO Inwestycje Sp. z o.o. held 100% of the share capital and 100% of the voting rights on Shareholders' Meeting.

8. Chares acquisition of WISŁOK Inwestycje Sp. z o.o.

PKO Inwestycje Sp. z o.o. acquired 80% of shares in newly established entity WISŁOK Inwestycje Sp. z o.o. with total nominal value of PLN 400 thousand .Entity was founded to execute a housing project in Rzeszów called "Osiedle Wisłok".

9. Capital injection to WISŁOK Inwestycje Sp. z o.o.

PKO Inwestycje Sp. z o.o. made a capital injection into WISŁOK Inwestycje Sp. z o.o. in the amount of PLN 2 400 thousand.

10. Acquisition of shares of Baltic Dom 2 Sp. z o.o.

PKO Inwestycje Sp. z o.o. concluded 3 transactions in which it purchased shares in Baltic Dom 2 Sp. z o.o. with a nominal value of PLN 28 thousand, representing 56% of the entity's share capital and entitling to 56% of votes at the Shareholders' Meeting. The entity carries out works related to the execution of a housing project ("Sarnia Dolina") in Jankowo near Gdańsk.

11. Capital contribution to Finanse Agent Transferowy Sp. z o.o.

Powszechne Towarzystwo Emerytalne BANKOWY SA – direct subsidiary of PKO BP SA – made a capital contribution to Finanse Agent Transferowy Sp. z o.o. in the amount of PLN 1 500 thousand.

12. Shares acquistion in increased share capital of Finanse Agent Transferowy Sp. z o.o.

Inteligo Financial Services SA (direct subsidiary of PKO BP SA) acquired shares in increased share capital of Finanse Agent Transferowy Sp. z o.o. with total nominal value amounting to PLN 7 600 thousand, representing 80.33% of entity's share capital and entitling to 80.33% of votes at the Shareholders' Meeting. At the same time, as a result of above-mentioned acquisition, share of PTE BANKOWY SA – former only shareholder – decreased to 19.67%.

13. Disposal of FINDER SA shares

Disposal of all shares of FINDER SA held by Bankowe Towarzystwo Kapitałowe SA – subsidiary of PKO BP SA took place. Disposed shares package represented 46.42% of entity's share capital and entitled to 46.42% of votes at the Shareholders' Meeting.

Additionally, in 2008 shares of International Trade Center Sp. z o.o. in liquidation and Przedsiębiorstwo Informatyki Bankowej „Elbank" Sp. z o.o. in liquidation were derecognised due to the lack of prerequisites to concede above-mentioned shares as assets within IFRS apprehension.

Investment plans

Building a strong financial group is one of the directions of development of PKO BP SA. The Bank's activities are aimed at improving the effectiveness of capital employed. PKO BP SA is going to focus on development of the companies which expand the PKO BP SA Group's product offer. The Bank may invest in other financial sector entities operating on the Polish market and in Central and Eastern Europe. PKO BP SA has the capabilities to conduct capital expenditure projects. The structure of financing of potential investments will be each time tailored to the funds held by the Bank at the particular moment.

Related party transactions

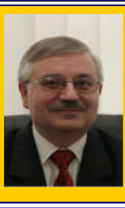
In 2008 PKO BP provided the following services to its related parties (subordinated entities): keeping bank accounts, accepting deposits, granting loans and advances, issuing debt securities, providing guarantees and conducing spot foreign exchange transactions.

The list of significant transactions between PKO BP SA and its subordinates, including loans and advances to subordinates as at 31 December 2008, was presented in the financial statements of PKO BP SA for the year 2008.

5.4 Agreements, benefits and competences of the authorities of PKO BP SA

Competences of the Members of the Management Board of PKO BP SA

Managament Board of PKO BP SA	Competences
	**Jerzy Pruski - President of the Management Board of PKO BP SA** Since 20 May 2008, Jerzy Pruski has filled in the position of the President of the Board of PKO Bank Polski, appointed by the decision of the Supervisory Board as a result of a contest for this position. In the years 1991 - 1997 he worked at LG Petro Bank, where he - as a Vice-President of the Board - was among others responsible for credit risk and the network of branches. In the years 1998 - 2004, he was a member of the Monetary Policy Board, and in the period from March 2004 to February 2008 he was the First Deputy President of the National Bank of Poland. In the years 2006-2007 he represented NBP in the Financial Supervision Authority and Bank Supervision Authority. In 1983, he graduated from the faculty of economics at University of Łódź, where in 1989 he also was granted the title of doctor of economic sciences. In 1989, he completed a scholarship at the Oslo University and in 1990 he graduated from a one-year course at the Windsor University in Canada. He participated in many national and foreign research programmes in scope of monetary policy and banking system.
	**Bartosz Drabikowski - Vice-President of the Management Board in charge of Finance, Accounting and Settlement as well as Quality.** He graduated from the Technical University of Łódź, the Polish National School of Public Administration, Warsaw School of Economics, the Polish Institute of International Affairs, and Executive MBA Programme. Professional career: the Ministry of Finance - the Advisor to the Minister, Deputy Director, and Financial Institutions Department Director. In the years 2006 - 2008 he served as member of the Management Board of the National Clearing House. For several years he served as member of the Banking Supervision Authority, member of the Securities and Exchange Commission and deputy member of the Payment System Board at the National Bank of Poland. He also served as member of many institutions of the European Union. Currently he acts as the Chairman of the Supervisory Boards of Inteligo Financial Services SA and Bankowy Faktoring SA.
	**Krzysztof Dresler - Vice-President of the Management Board in charge of Risk and Debt Recovery.** He graduated from the Department of Finance and Banking of the Warsaw School of Economics. Assistant professor in Collegium of International Finance. Employee of the National Depository for Securities from 1996 to 2001. In March 2001 he joined PKO BP first as the Director of the Financial Risk Department, and subsequently he worked as Director of the Planning and Controlling Department. Since March 2007 he has been working for Xelion, a unit of the UniCredit Group. In May 2008 he was appointed Managing Director in charge of the Assets and Liabilities Management Department at Pekao SA. He underwent an internship at the Depository Trust Company in New York. He completed courses for investment advisors Chartered Financial Analyst (CFA) and a course for Chief Financial Officers. He also completed a course for managers based on the MBA programme. He is a member of the Global Association of Risk Professionals and the Professional Risk Management International Association as well as the Polish Association of Business Economists.
	**Tomasz Mironczuk - Vice-President of Management Board in charge of Investment Banking.** He graduated from the Department of Economics at the Białystok Branch of Warsaw University. In 1994 he earned the degree of Master of Arts in Economics at the Central European University, Prague College, Economics Department. He participated in numerous trainings in the field of securitisation, risk management and financial instruments. He started his professional career in 1994 at the Treasury Department of Polski Bank Rozwoju. He also acted as Director of the Financial Instruments Trading Department. In the years 1998 - 2001 he worked at BRE Bank SA as the Vice-Director of the Derivatives Division at the Monetary Operations Department and as the Vice-Director of the Assets and Liabilities Management Division at the Monetary Operations Department. In the years 2001 - 2008 he worked at Bank BPH SA as the Director of the Treasury Area - Treasurer. In the years 2002 - 2006 he acted as member of the Supervisory Board of MTS CeTO SA and in the years 2006 - 2008 as Chairman of the Supervisory Board of MTS CeTO SA.
	**Jarosław Myjak - Vice-President of the Management Board in charge of Corporate Market.** He earned the degree of Master of Arts at the Faculty of American Studies and the Faculty of Law at Adam Mickiewicz University. He completed a judge training programme. Professional carrer: from 1991 to 1994 he worked as lawyer for Altheimer & Gray Sp. z o.o.; from 1994 to 2004 he worked for Commercial Union Polska Ubezpieczenia na Życie as President of the Management Board and President of AVIVA. He served as Vice-President of the Management Board of The Polish Chamber of Insurance. He served as member of the Polish Business Roundtable (1998-04); He served as member of the Supervisory Board of Citibank Handlowy (2004-06); He served as Vice-President of the Polish Confederation of Private Employers "Lewiatan" (2004-07). He served as Vice-President of the Management Board of PKO BP SA (2006). In the years 2007-08 he worked as lawyer at Dewey & LeBouef law office. Member of Supervisory Boards of BGŻ SA, PZU Życie SA (2008).
	**Wojciech Papierak - Vice-President of the Management Board in charge of Retail Market.** He graduated from the Law and Administration Faculty at the University of Łódź. Positions held: from 1993 to 1995 Polski Bank Inwestycyjny SA; Powszechny Bank Gospodarczy in Łódź; from 1998 to 2000 Director of the Retail Banking Department at PKO BP SA; from 2000 to 2003 he worked for BRE BANK SA as Director of the Commercial Retail Management Department and Director of the Operational Retail Support Department; from 2002 to 2006 he worked at the Settlement and Information Centre CERI sp. z o.o., as Member of the Management Board, Managing Director and subsequently President of the Management Board and CEO. Between November 2006 and June 2008 he served as Vice Chairman of the Management Board of Nordea Bank Polska SA in charge of Operations, Logistics and Security.
	**Mariusz Zarzycki - Vice-President in charge of Information Technology and Services.** He graduated from the Faculty of Economics at the University of Łódź and the University of Stockholm. Professional career: in 1992 Bank Przemysłowy SA in Łódź, where he worked in the Organisational and Legal Department, the Credit Department and the IT Department. Between 1993 and 1998 Powszechny Bank Gospodarczy SA as deputy Director for Organisational Department; subsequently as Director of the Support Department, the Banking Technology Department and IT Department. He took an active part in the consolidation process of the Pekao SA Group. In the years 1998-2008 he worked for BRE Bank SA as Director of the Information Technology for Retail Banking, Director of Department for Development of Information Technology, Director for Information Technology. In years 2002 - 08 President of the Management Board of *ServicePoint* (IT company belonging to BRE Bank).

Supervisory Board of PKO BP SA	Competences
	**Marzena Piszczek - Chairman of the Supervisory Board** Doctor of Economics, graduated from Management Department of the Economics University in Cracow, faculty member of the Chair of Finance of the Economics University in Cracow, post-graduated from EDHEC France and IESE Spain. She has a wealth of experience in consulting in the field of finance management and in Supervisory Boards - e.g. budget expert at the Chancellery of the President of the Council of Ministers. Experience in banking sector: in years 1994 - 95 she was responsible for budgeting, bank accounting and co-operation on the implementation of a new IT system in Pierwszy Polsko-Amerykański Bank SA. Since February 2008 she has been acting as Director of the Branch of the Ministry of State Treasury in Cracow.
	**Eligiusz Jerzy Krześniak - Deputy Chairman of the Supervisory Board** Doctor of Laws, graduated from Wroclaw University, studies also in Germany and the United States; barrister in Warsaw, partner in the international law office Squire Sanders & Dempsey L.L.P. and a partner in its Warsaw-based Office. Author of books and publications in the field of Polish, German and American commercial law, including issues regarding corporate governance and management of companies. A guest speaker at numerous conferences and at barrister trainning programme. He is a member of several commisions at the District and Supreme Bar Council. He is entered on the list of arbitrators of the arbitration tribunal and on the list of mediators of the Centre for Economic Conciliation. He specialises in advising on corporate issues and aspects related to intellectual property, leading merger and acquisition efforts, as well as supporting IT and outsourcing projects.
	**Jan Bossak - Member of the Supervisory Board** graduated from Foreign Trade Department in SGPiS (now Warsaw School of Economics). Intern of Japan Government, doctor of Osaka University (1972-74). In 1983 he underwent academic training at the Vienna Institute for Comparative Economic Studies. He completed the Exectutive Corporate Finance course at the University of Minnesota (1991) and the International Finance course at LSE in London (1995). He is a Professor of Economics in the Chair of International Comparative Studies in the College of Economic Analyses at the Warsaw School of Economics. Earlier he was an academic secretary of Institute of Business Cycle and Foreign Trade (1983-87) and the director of Institute of the World's Economy in Warsaw School of Economics (1990-93). In the years 1991-1992 he acted as President of the Polish-American Entrepreneurship Fund, in the years 1995-1997 he acted as President of the Second National Investment Fund (Drugi Narodowy Fundusz Inwestycyjny SA) and between 1999 ad 2003 he acted as President of Erste Securities Polska SA. Founder (2000) and Vice-President of Polish-Japanese Economic Committee. He l released by the World Bank, the Japanese government agency APO and the Silk Route Institute based in Xi'an in China.
	**Jerzy Osiatyński - Member of the Supervisory Board** A professor with a post-doctoral degree in economic science; graduated from the Main School of Planning and Statistics (currently the Warsaw School of Economics). He completed his post-graduate studies and gave classes at the University of Cambridge. He worked at Polish Acedemy of Sciences. In the years 1998-2001 he served as Member of Parliament. in 1989-91 he acted as Minister - Manager of the Central Planning Office, in 1992-93 Minister of Finance. As a representative of the World Bank, he acted as advisor for the governments of Ukraine, the Republic of Moldova, Romania, Tajikistan, Krygyzstan, Kazakhstan and Macedonia. He still serves as advisor to the UNDP on issues regarding economic policy in the transformation countries. He served as a member of the Supervisory Board of PKO BP SA (since 25 March 2002 until his resignation on 31 January 2007). A specialist and author of numerous academic works about the theory of economics and history of economic doctrine.
	**Urszula Pałaszek - Member of the Supervisory Board** graduated from the Faculty of Economics of Warsaw University (where in the years 1991-1999 she worked as assistant professor) and University of Sussex in Great Britain. Between 1991 and 1994 she served as an expert in NICOM Consulting Ltd., and since the end of 1992 until March 1993 as a specialist at the Department of Capital Investments at PKO BP SA. Between 1994 and 1995 she was employed at the post of banking advisor at the Investment Banking Department at Polski Bank Inwestycyjny SA. At the end of 1995 she joined the Ministry of State Treasury, where she worked as advisor at the Department of National Investment Funds and Mass Privatisation Programmes and as Director of the Financial Institutions Department. She also has a wealth of experience in Supervisory Boards of commercial partnerships. Currently she serves as Chairwoman of the Supervisory Board of the Polish Reinsurance Company in Warsaw.
	**Roman Sobiecki - Member of the Supervisory Board** He holds a post-doctoral degree in economics. At present he works at the Faculty of Market and Competition Analysis. Member of the Board of the Collegium of Business Administration of the Warsaw School of Economics and Deputy Dean of the said Collegium. He has a wealth of experience in economic practice: he worked at the Capital Investment Department at Bank Ochrony Środowiska S.A. (1998-1999), at the post of Director of the Internal Control Office at PTE Epoka SA (1999-2000), as advisor in corporate governance at the Political Office of the Ministry of State Treasury (1996-1997), as a member in Supervisory Boards of commercial companies. Member of the Chapter of Award 'Bank friendly to the entrepreneurs'. Author and co-author of over 70 books and publications in the fields of economics and entrepreneurship.
	**Ryszard Wierzba - Member of the Supervisory Board** Professor of the Economics, head of the Faculty of Finance at the Gdańsk University (Management Department) and Deputy Director of the Gdańsk Academy of Banking at the Gdańsk Institute for Market Economics. He gained professional experience in Bank Inwestycyjny, also by serving as Deputy Chairman of the Supervisory Board of Bank Gdański SA, member of the Supervisory Board of Bank Handlowy in Warsaw. Member of the Presidium of the Coordinating Committee for Qualification Standards in Polish Banking set up by the Polish Bank Association. Moreover, he acts as member of the Committee of Financial Sciences of the Polish Academy of Sciences and the Comité Jean Fourastié society in Paris. Author and co-author of numerous scientific publications and reports.

Agreements concluded between the issuer and managing persons

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

In 2008, two agreements were signed with each of the Management Board's members, providing for compensation in the case of their resignation or dismissal without a valid reason:

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

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

Benefits provided to members of management and supervisory boards

Full information on remunerations and other benefits provided to members of the Bank's Management and Supervisory Boards during the reporting period has been presented in Note 42 in Notes to the Financial Statements of PKO BP SA for the year 2008.

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

PKO BP SA had 12 proxies on 1 January 2008; two proxies were appointed during the year and six were dismissed. As at 31 December 2008, the Bank had 8 proxies.

In 2008, the Bank's Management Board held 72 meetings and adopted 403 resolutions.

Major actions and decisions of the Management Board, which affected the Bank's financial position and operations, are presented in different parts of this Directors' Report.

On 20 May 2008, the Annual General Shareholders' Meeting of PKO BP SA was held. The resolutions adopted by the General Shareholders' Meeting have been executed.

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

Table 34 presents Bank's shares held by members of Management and Supervisory Boards as at 31 December 2008. The nominal value is PLN 1 per share.

Members of the PKO BP SA Supervisory Board and the Management Board did not hold shares and participations in PKO BP SA's subsidiaries as at 31 December 2008.

Table 38. Shares held by Members of Management or Supervisory Board of PKO BP SA as at 31 December 2008

No.	Name	Number of shares as at 31.12.2007	Purchase	Disposal	Number of shares as at 31.12.2008
I.	**Management Bard of the Bank**				
1.	Jerzy Pruski, President of the Bank's Management Board	x	x	x	0
2.	Bartosz Drabikowski, Vice-President of the Bank's Management Board	x	x	x	0
3.	Krzysztof Dresler, Vice-President of the Bank's Management Board	x	x	x	0
4.	Tomasz Mironczuk, Vice-President of the Bank's Management Board	x	x	x	0
5.	Jarosław Myjak, Vice-President of the Bank's Management Board	x	x	x	0
6.	Wojciech Papierak, Vice-President of the Bank's Management Board	x	x	x	2500
7.	Mariusz Zarzycki, Vice-President of the Bank's Management Board	x	x	x	0
II.	**Supervisory Bard of the Bank**				
1.	Marzena Piszczek, Chairman of the Bank's Supervisory Board	x	x	x	0
2.	Eligiusz Jan Krześniak, Vice-Chairman of the Bank's Supervisory Board	x	x	x	0
3.	Jan Bossak, member of the Bank's Supervisory Board	x	x	x	0
4.	Jerzy Osiatyński, member of the Bank 's Supervisory Board	x	x	x	0
5.	Urszula Pałaszek, member of the Bank's Supervisory Board*	0	0	0	0
6.	Roman Sobiecki, member of the Bank's Supervisory Board	x	x	x	0
7.	Ryszard Wierzba, member of the Bank's Supervisory Board	x	x	x	0

** acting member of the Supervisory Board as at 31 December 2007.*

5.5 Human resources in PKO BP SA

5.5.1 Remuneration and incentive system of PKO BP SA

Taking into account the structural conditions and market trends, the Management Board of PKO BP SA decided to implement, as of January 2008, an entirely new remuneration and incentive system. In the new system, the level of variable component of the salary is determined by the degree of achievement of the targets set. The procedure for target setting and performance measures used depend on the type of position and classification to one of the three employee groups: management, widely understood sales and processing-support. The new system is based mainly on the Management by Objectives (MbO) model. Incentives in the new system are directly linked to the process of setting targets and objectives. As the individual remuneration is linked with the level and quality of performance of the tasks specified, the variable component of the remuneration is strengthened and represents an additional salary incentive. The system focuses on setting objectives which are aligned with the direction of development of the entire organisation; these tasks are then cascaded to particular organizational units and individual employees.

The three pillars of the new remuneration and incentive system are as follows:

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

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

3. **III Pillar, the so-called Support Bonus System**, in to form of premiums. This is a typical "participatory" solution, whereby award is granted for the achievement of targets by a person managing a given group of employees (a directors' contribution to the completion of tasks) and an organizational unit. This pillar applies to those employee groups/position where it is more difficult, or even impossible, to set additional, measurable goals and tasks for an individual. Given the nature of their jobs, such employees have an indirect, but significant impact on the degree of

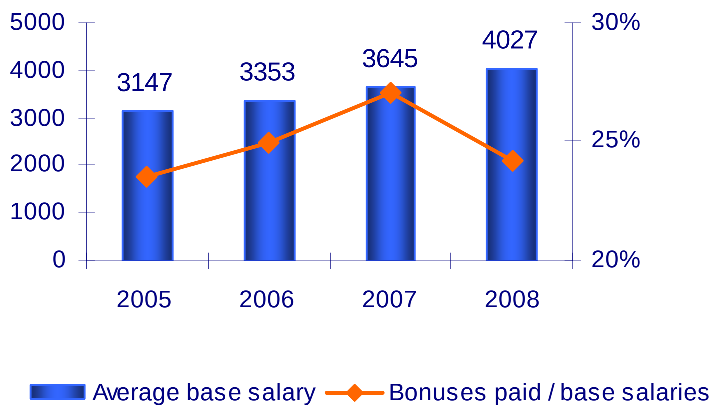
completion of the tasks assigned to their superiors and the organization as such, and thus participate in the results achieved by PKO BP SA as a whole.

5.5.2 Remuneration policy

The primary legal act that regulates the remuneration system at the Bank is the Company Collective Labour Agreement (Zakładowy Układ Zbiorowy Pracy) dated 28 march 1994 (with 6 subsequent amendments). In year 2008, there where no systemic changes regarding CCLA. CCLA covers all employees working for the Bank on the basis of employment contracts, except for members of the Management Board, whose salaries are subject to the limitations resulting from the so-called "Cap Act".

Average basic salary and the payroll cost structure: the relationship between the (performance-related) bonuses and basic salaries paid is presented in the following table:

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



As at 1 March 2008 the Bank's employees received pay rises. The amounts of the pay rises were determined individually within the allocated budget.

5.5.3 Benefits for employees

Benefits from the Company Social Benefits Fund granted in 2008 to the Bank's current and former employees and their families are presented in the table below:

Table 39. Benefits granted by Company Social Benefits Fund to the employees in 2008

Type of benefit	Number of beneficiaries	Total money granted (PLN)
Refundable benefits*	6 806	75 518 020
Non-refundable benefits**	48 832	17 859 319
Total	55 638	93 377 339

** housing loans*

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

PKO BP SA ensures free-of-charge, comprehensive medical care to its employees, whose scope, in addition to mandatory benefits to be provided under the applicable provisions of the Polish Labour Code, includes additional medical care according to various packages addressed to particular employee groups. Whereby:

– all packages enable employees to have unlimited access to doctors in all areas of specialization and to diagnostic tests ordered by these doctors. Ensuring access to a wide scope of medical services to all employees is an important component of the package of additional benefits provided by PKO BP SA to its employees,

– medical care services are provided by LUX MED Sp. z o.o. which cooperates with various subcontractors to ensure access to these services to PKO BP SA's employees in all branches country-wide.

5.5.4 Number of employees

Due to employment optimisation and redundancies planned for 2008, after consultation with the trade unions as regards dismissal for reasons not related to employees, on 30 November 2008 an "Agreement on policies and procedures to be followed when terminating employment contracts with PKO BP SA employees for reasons unrelated with the employee performance" was signed. In 2008, 1 751 employees were dismissed as part of group redundancies.

Those employees who were made redundant for reasons unrelated to their performance received severance pay specified in the Act of 13 March 2003 and other monetary benefits exceeding the scope required in the Act, and further assistance to mitigate the unfavourable effects of dismissal, including reimbursement of the costs of training allowing them to align their qualifications to the needs of the labour market.

Table 40. Number of employees in PKO BP SA in years 2005-2008

Unit	Employment as at the end of December (full-time equivalents)			
	2005	2006	2007	2008
Regional Retail Branches	22 968	22 264	18 103	17 749
Regional Corporate Branches	780	748	634	598
Head Office	1 972	1 873	2 084	2 261
Specialised Organisational Units	7 760	7 070	9 838	8 588
Bank total	33 479	31 955	30 659	29 196
employment reduction	-	1 524	1 296	1 463

Collective disputes

In the reported period, there were no collective disputes at PKO BP SA.

Terminating, suspending, concluding the company or collective labour agreement

The Company Collective Labour Agreement (CCLA) at the Bank was not terminated or suspended in the reported period.

5.5.5 Training policy

In 2008, personnel development activities were focused on building loyal and competent staff, able to operate in a difficult economic environment, adapting easily and quickly to changes in the economic environment and achieving high performance objectives. Changes implemented in the Bank were based on the assumption that the management cadre consists of professionals with broad competencies and good management skills, goal-oriented and able to make good, objective decisions.

In 2008, the Bank's training activities were focused on the following:

– actively engaging employees in the process of knowledge-sharing at all levels of the organization, and preparing selected bank's employees to train other staff members during internal training;
– preparing the employees to implement new technologies – improving the professional qualifications of key employees in the Bank, consistent with the modernization of PKO BP SA and their assuming new roles within the organization;
– improving sales effectiveness – developing skills relating to: identification of clients' needs, client-orientation, improving selling techniques and building stable relations between sales staff and the clients, in order to ensure a high quality of client service;
– developing employees' knowledge, consistent with the current and future needs of PKO BP SA and its employees, given also the dramatic increase in the role of knowledge and competence in PKO BP SA's business environment;
– supporting the management in professional development in the area of effective management of PKO BP SA's staff.

These activities were supported by harmonization of the principles of nominating employees for training courses, standardizing the contents of the training and examining the increase in the resulting knowledge and competencies, as well as promoting solutions for improving internal communication, knowledge sharing and change management.

The adoption of the internal cascading model of training and continuing the gradual implementation of distance learning training contributed to a more effective use of the training budget while maintaining the expected level of training.

In 2008, PKO BP SA's employee participated, on average, in two training courses, where:

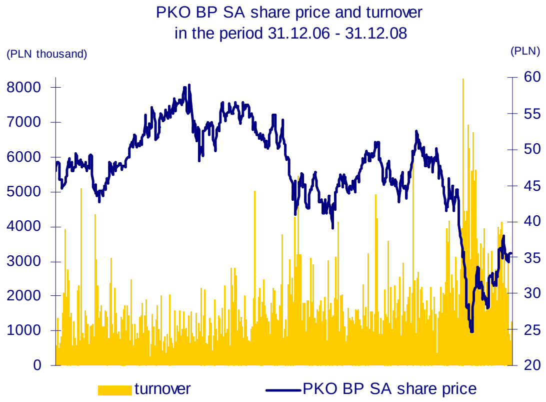
- 75% of the participants took part in internal training – conducted by lecturers, employees of the Bank,
- almost 8% of all participants are representatives of the Bank's management.

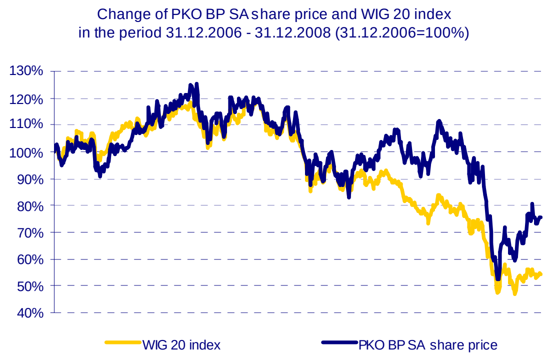
6. INVESTOR RELATIONS

6.1 Share price of PKO BP SA and its competitors

Share price of PKO BP SA

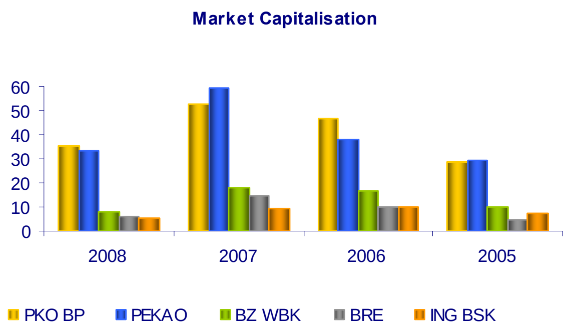
In 2008, the share price of PKO BP SA was mainly determined by situation on the Warsaw Stock Exchange (GPW).

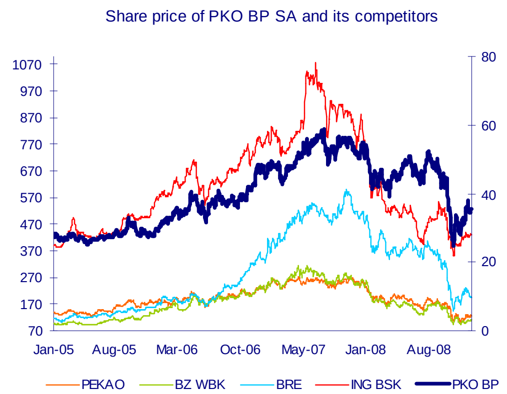




The average share price of PKO BP SA in 2008 amounted to PLN 42.81 per share, and its highest level of PLN 52.50 per share was noted on 31 July 2008. Fluctuations of Bank's share prices were determined by aggravating global financial crisis which led to the outflow of the foreign capital and decrease in the prices of major stock exchange indices.
The average daily turnover of PKO BP SA's shares in 2008 accounted for 2 136 thousand units and the largest volume of 8 253 thousand units was noted on 10 October 2008.

Share prices and market capitalisation of competing banks





6.2 Co-operation with rating agencies

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

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

In 2008, Moody's Investors Service:

– issued 2 credit opinions (27 June and 18 December) in which it maintained paid ratings awarded on 31 October 2007 at unchanged levels;
– on 15 September 2008, it awarded a rating to the Eurobond issue programme in the amount of EUR 3.0 billion (EMTN) established by PKO Finance AB on behalf of PKO BP; the unsecured debt issued under the programme received the same rating as PKO BP SA's financial reliability rating.

The ratings awarded free-of-charge by the other agencies also did not change in 2008.

Table 41. Ratings and co-operation with rating agencies in 2008

Rating with a charge	
Moody's Investors Service	
Long-term rating for deposits in foreign currencies	A2 with a stable perspective
Sort-term rating for deposits in foreign currencies	Prime-1 with a stable perspective
Long-term rating for deposits in a domestic currency	Aa2 with a stable perspective
Sort-term rating for deposits in a domestic currency	Prime-1 with a stable perspective
Financial strength	C with a stable perspective
Rating not requested by the Bank	
Fitch Ratings	
Support Rating	2
Standard and Poor's	
Long-term rating for liabilities in a domestic currency	BBBpi
Capital Intelligence	
Long-term rating for liabilities in a domestic currency	A-
Sort-term rating for liabilities in a domestic currency	A2
Strength on a national scale	BBB+
Support Rating	2
Perspective for upholding the rating	Stable

7. COMPLIANCE WITH THE RULES FOR CORPORATE GOVERNANCE

7.1 The rules for corporate governance and the scope of use

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

The Bank applies the rules for corporate governance introduced in the form of a document „Good Practices of Warsaw Stock Exchange Companies" approved by the Supervisory Board of the Warsaw Stock Exchange SA on 4 July 2007 (Resolution No.12/1170/2007).

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

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

In 2008, the Bank took necessary actions in aim to closely stick to the rules included in the document „Good Practices of Warsaw Stock Exchange Companies". In its opinion, the Bank did not violate against the above-mentioned rules.

7.2 Main characteristics of PKO BP SA internal control system

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

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

Internal control system covers organizational entities of PKO BP SA, organizational units of the Head Office and subsidiaries of PKO BP SA, included in the PKO BP SA Group. The objective of the internal control system is to support decision processes which contribute to ensuring the following: the Bank's effectiveness and efficiency, truth and fairness of its financial reporting and the compliance of Bank's operations with binding laws and internal regulations of PKO BP SA.

Control mechanisms cover policies, limits and procedures relating to operating activities of the Bank and to the activities aimed at verifying the correctness of the tasks performed, such as preparation of the financial statements. The mechanisms have a control nature and are embedded in both the internal regulations and the Bank's IT system.

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

In 2008, the functional internal control function was exercised in all organisational units and in the Head Office of the Bank in the following manner:

- at the stage of legislative works, by way of defining in the internal regulations the manner and mode of realization of tasks, and appropriate control mechanisms which guarantee the correct course of their realization,
- by employees in the course of their activities concerning the scope of business of organisational teams and units,
- at the stage of verification, by employees holding managerial functions or persons authorised by said employees, by way of verification of the correctness of the tasks carried out, and in particular of their compliance with binding laws and regulations, internal regulations of PKO BP SA and prudence norms.

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

- adequacy and effectiveness of the internal control system, including the effectiveness of control mechanisms,

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

Audits are conducted based on the plan developed based on, among others, the results of prior audits, information concerning functioning of PKO BP SA, risks identified in individual areas of the Bank's business and in the processes realized, including in the process of the preparation of the financial statements.

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

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

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

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

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

On an annual basis, in a separate non-financial reporting document, disclosed is the full scope of information relating to capital adequacy, in accordance with Resolution No. 6/2007 of the Banking Supervision Commission. Currently at the website of the Bank (in the section „Investor Relations") the last report „Capital Adequacy and Risk Management (Pillar III) in the PKO BP SA Group as at 31 December 2007" is available.

7.3 Number of shares and shareholders of PKO BP SA

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

To the best knowledge of PKO BP SA, the only shareholder which holds, directly or indirectly, significant shareholding (at least 5%) is the State Treasury; as at 31 December 2008, State Treasury held 514 435 409 of the Bank's shares.

This equates to 51.24% of PKO BP SA' share capital and matches the percentage share in the total number of votes at the General Shareholders' Meeting of the Bank.

Table 42. Shareholding structure of PKO BP SA

Shareholder	As at 31.12.2007		As at 31.12.2008		Change in the period 31.12.2007 - 31.12.2008	
	Number of shares	Percentage of votes at the General Shareholders' Meeting	Number of shares	Percentage of votes at the General Shareholders' Meeting	Number of shares	Percentage of votes at the General Shareholders' Meeting
State Treasury	514 935 409	51.49%	512 435 409	51.24%	- 2 500 000	-0.25 pp.
Other shareholders	485 064 591	48.51%	487 564 591	48.76%	2 500 000	+0.25 pp.
Total	**1 000 000 000**	**100%**	**1 000 000 000**	**100%**	**-**	**0.0 pp.**

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

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

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

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

Restrictions for the transfer of ownership of the securities of PKO BP SA

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

7.4 The Memorandum of Association and manner of functioning of Annual General Meeting of PKO BP SA

Principles for amending the Memorandum of Association of PKO BP SA

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

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

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

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

- appointment and dismissal of Supervisory Board Members;
- approval of by-laws of the Supervisory Board,
- determining the manner of buyout of shares and the amount of consideration for the shares subject to buyout,
- creation and liquidation of special funds established from net profit appropriation,
- disposal by the Bank of property items or perpetual usufruct right to property, from which the Bank conducts its business,
- issuance of convertible bonds or other instruments giving the right to acquire or take up the Bank's shares.

Allowed to participate in the Annual General Meeting of the Bank are beneficiaries of rights attached to registered shares, as well as pledgees and usufructuaries having voting rights, who have been entered in the Register of Shares at least one week prior to holding the AGM, or holders of bearer shares, if they deposit with the Bank, at least one week prior to the date of the AGM at the latest, registered depository certificates issued by the entities maintaining the securities accounts and do not collect them prior to the closing of the Annual General Meeting.

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

To be valid, the authorisation shall be executed in writing and attached to the minutes of the AGM. The signature on the authorisation issued by the shareholder who is a natural person should be authenticated by a notary public. The right to represent the shareholder who is not a natural person should result from a copy of appropriate register presented at the time of the preparation of the AGM attendance list (filed as original or a copy authenticated by a notary public), or alternatively from a sequence of authorisations. The name of the person/ persons issuing authorisations on behalf of the shareholder who is not a natural person should be included in the current copy of appropriate register of the given shareholder.

Management Board Member or Bank employee may not serve as proxy at the AGM of the Bank.

Drafts of resolutions proposed by the AGM and other important materials are presented to the shareholders together with the justification and opinion of the Supervisory Board before the AGM, within the timeframe that allows reading them and preparing their assessment.

The Bank's shareholder has the right to file with the Chairman of the AGM proposals for changes or supplements to drafts of resolutions included in the AGM agenda, and these should be drafted in writing, separately for each resolution draft, and should include justification. Such proposals, after being presented to the AGM by the Chairman, are put to the vote. The AGM participant requesting to include his objections towards the given resolution in the AGM minutes may concisely justify his standpoint.

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

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

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

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

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

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

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

7.5 The Supervisory Board and the Management Board of PKO BP SA in the reporting period

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

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

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

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

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

The Supervisory Board of PKO BP SA

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

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

In 2008, the composition of the Bank's Supervisory Board was as follows:

Table 43. Supervisory Board of PKO BP SA In the reporting period

No.	Name	Function	Appointment/dismissal date
1.	Marzena Piszczek	Chairman of the Supervisory Board	Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Supervisory Board.
2.	Eligiusz Jerzy Krześniak	Vice-Chairman of the Supervisory Board	Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Supervisory Board.
3.	Jan Bossak	Member of the Supervisory Board	Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Supervisory Board.
4.	Jerzy Osiatyński	Member of the Supervisory Board	Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Supervisory Board.
5.	Urszula Pałaszek	Member of the Supervisory Board	Appointed on 26 February 2008 for the current term of the Supervisory Board.
6.	Roman Sobiecki	Member of the Supervisory Board	Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Supervisory Board.
7.	Ryszard Wierzba	Member of the Supervisory Board	Appointed on 26 February 2008 for the term, which ended on 19 May 2008 and for the current term of the Supervisory Board.

No.	Name	Function	Appointment / dismissal date
1.	Marek Głuchowski	Chairman of the Supervisory Board	Appointed on 18 April 2006; in the period from 10 January 2007 to 23 January 2007 and 27 January 2007 to 10 April 2007 appointed to act for the President of the Management Board; he resigned on 26 February 2008.
2.	Urszula Pałaszek	Vice-Chairman of the Supervisory Board	Appointed on 19 May 2005, since 20 May 2005 Vice-Chairman of the Supervisory Board; she resigned form the post of Vice-Chairman of the Supervisory Board on 25 February 2008.
		Member of the Supervisory Board	Appointed on 26 February 2008 for the current term of the Supervisory Board.
3.	Tomasz Siemiątkowski	Member of the Supervisory Board	Appointed on 18 April 2006.
		Secretary of the Supervisory Board	Since 26 June 2006; he resigned on 26 February 2008.
4.	Jerzy Michałowski	Member of the Supervisory Board	Appointed on 18 April 2006; he resigned on 26 February 2008.
5.	Agnieszka Winnik-Kalemba	Member of the Supervisory Board	Appointed on 18 April 2006; she resigned on 26 February 2008.
6.	Maciej Czapiewski	Member of the Supervisory Board	Appointed on 19 March 2007; dismissed on 26 February 2008.

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

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

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

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

In 2008, the following three Committees operated within the Supervisory Board of PKO BP SA: Audit Committee, Informatization and Strategy Implementation Committees (on 20 May 2008 transformed into Bank's Strategy Committee).

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

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

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

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

Supervisory Board Audit Committee was established in order to exercise permanent supervision over the financial audit of the Bank and the PKO BP SA Group. Included in the tasks of the Audit Committee are in particular: review of periodic and annual financial statements of the Bank (separate and consolidated), monitoring the work of external auditors of the Bank, preparation of recommendations to the Supervisory Board, which relate to assessment of Management Board conclusions concerning profit appropriation (including in particular dividend policy) and issuance of securities.

Bank Informatization Committee was established with a view to supervising information and telecommunication systems at the Bank, including implementation of the Integrated Information System. Included in the tasks of the Committee are in particular: issuing opinions on the strategic directions of informatization at PKO BP SA and analysis of the progress of works on implementation of strategic IT solutions.

Strategy Implementation Committee was established in order to exercise permanent supervision over implementation of the Strategy of PKO BP SA. Included in the tasks of the Committee are in the particular: analysis of the progress of work relating to implementation of strategic initiatives, the realization of which is prerequisite to meeting the objectives defined in the Bank's Strategy, analysis of the results of implementation of strategic initiatives, proposing supplementary or correcting measures, discussing all contentious issues and doubts resulting from the analysis of the process of implementation of the Bank's Strategy.

The Management Board of PKO BP SA

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

Table 44. Management Board of PKO BP SA in the reporting period

No.	Name	Function	Appointment date
1.	Jerzy Pruski	President of the Management Board	1) On 11 April 2008, the Supervisory Board of PKO BP SA appointed Mr. Jerzy Pruski as the acting President of the Management Board of PKO BP SA, effective as of 20 May 2008, for the joint term of the Board beginning on that date. The Supervisory Board appointed Mr. Pruski as the acting President of the Management Board of PKO BP SA for the period from 20 May 2008 to the date on which the Financial Supervision Authority approves his appointment as the President of the Management Board of PKO BP SA 2) On 17 June 2008 the Financial Supervision Authority approved the appointment of Mr. Jerzy Pruski as the President of the Management Board of PKO BP SA.
2.	Bartosz Drabikowski	Vice-President of the Management Board	Appointed on 20 May 2008 as Vice-President of the Management Board for the joint term of the Board beginning on that day.
3.	Krzysztof Dresler	Vice-President of the Management Board	1) 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. 2) On 27 October 2008 the Financial Supervision Authority approved the appointment of Mr. Krzysztof Dresler as the Member of the Management Board of PKO BP SA.
4.	Mariusz Klimczak	Vice-President of the Management Board	1) Appointed on 20 May 2008 for the joint term of the Board beginning on that day. 2) On 21 August 2008, he resigned from the post of the Vice-President of the Management Board, effective as of 30 September 2008.
5.	Tomasz Mironczuk	Vice-President of the Management Board	Appointed on 20 May 2008 for the joint term of the Board beginning on that day.
6.	Jarosław Myjak	Vice-President of the Management Board	Appointed on 9 December 2008, effective as of 15 December 2008, as Vice-President of the Management Board for the joint term of the Board beginning on 20 May 2008.
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.
8.	Mariusz Zarzycki	Vice-President of the Management Board	Appointed on 20 May 2008, effective as of 1 September 2008, as Vice-President of the Management Board for the joint term of the Board beginning on 20 May 2008.

No.	Name	Function	Appointment date
1.	Rafał Juszczak	Member of the Management Board	Appointed on 26 June 2006, effective as of 1 July 2006, as Member of the Management Board for the joint term of the Board beginning on 19 May 2005.
		Vice-President of the Management Board	On 29 September 2006 the Supervisory Board of PKO BP SA appointed Mr. Rafał Juszczak as Vice-President of the Management Board.
		Vice-President acting as the President of the Management Board	On 2 April 2007 the Supervisory Board of PKO BP SA appointed Mr. Rafał Juszczak, Vice-President of the Management Board, as the acting President of the Management Board of PKO BP SA, effective as of 11 April 2007.
		President of the Management Board	1) On 20 June 2007 the Supervisory Board of PKO SA appointed Mr. Rafał Juszczak, Vice-President of the Management Board, as the President of the Management Board of PKO BP SA. 2) On 8 August 2007, the Banking Supervisory Commission agreed on appointment of Mr. Rafał Juszczak as the President of the Management Board of PKO BP SA.
2.	Wojcech Kwiatkowski	Vice-President of the Management Board	Appointed on 29 September 2006, effective as of 1 November 2006, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005.
3.	Robert Działak	Vice-President of the Management Board	Appointed on 22 February 2007, effective as of 23 February 2007, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005
4.	Stefan Świątkowski	Vice-President of the Management Board	1) Appointed on 22 February 2007, effective as of 1 May 2007, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005. 2) On 8 August 2007, the Banking Supervisory Commission agreed on appointment of Mr. Stefan Świątkowski as the Member of the Management Board of PKO BP SA.
5.	Adam Skowroński	Vice-President of the Management Board	Appointed on 20 June 2007, effective as of 23 July 2007, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005.
6.	Aldona Michalak	Vice-President of the Management Board	Appointed on 20 June 2007, effective as of 1 July 2007, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005.
7.	Mariusz Klimczak	Vice-President of the Management Board	Appointed on 20 June 2007, effective as of 15 July 2007, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005.
8.	Barenika Duda-Uhryn	Vice-President of the Management Board	Appointed on 20 June 2007, effective as of 10 September 2007, as Vice-President of the Management Board for the joint term of the Board beginning on 19 May 2005.

Table 45. Other functions performed by the Bank's Management Board Members in the reporting period

No.	Name	Function
1.	Jerzy Pruski	1) President of the Bank's Credit Committee (from 20 May 2008 to 30 June 2008). 2) President of the Bank's Assets and Liabilities Committee (from 20 May 2008 to 30 June 2008). 3) President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of International Accounting Standard 39 (from 20 May 2008 to 30 June 2008). 4) President of the Steering Committee for the Integrated IT System (from 20 May 2008 to 8 September 2008).
2.	Bartosz Drabikowski	1) Vice-President of the Bank's Assets and Liabilities Committee (from 20 May 2008). 2) President of the Expenses Committee (from 20 May 2008). 3) Vice-President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of International Accounting Standard 39 (from 20 May 2008). 4) Vice-President of the Steering Committee for the Integrated IT System (from 20 May 2008).
3.	Krzysztof Dresler	1) President of the Bank's Credit Committee (from 1 July 2008). 2) President of the Bank's Assets and Liabilities Committee (from 1 July 2008). 3) President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of International Accounting Standard 39 (from 1 June 2008). 4) Vice-President of the Steering Committee for the Integrated IT System (from 1 July 2008).
4.	Mariusz Klimczak	1) Vice-President of the Bank's Credit Committee (to 30 September 2008). 2) Member of the Integrated IT System Project Committee (from 20 May 2008 to 30 June 2008). 3) Vice-President of the Steering Committee for the Integrated IT System (from 20 May 2008 to 30 June 2008).
5.	Tomasz Mironczuk	1) Vice-President of the Bank's Credit Committee (from 1 October 2008 to 14 December 2008). 2) Vice-President of the Expenses Committee (from 20 May 2008 to 1 July 2008).
6.	Jarosław Myjak	1) Vice-President of the Bank's Credit Committee (from 15 December 2008).
7.	Wojciech Papierak	2) Vice-President of the Expenses Committee (from 1 July 2008). 2) Member of the Integrated IT System Project Committee (from 1 July 2008). 3) Vice-President of the Steering Committee for the Integrated IT System (from 1 July 2008).
8.	Mariusz Zarzycki	President of the Steering Committee for the Integrated IT System (from 9 September 2008).

No.	Name	Function
1.	Rafał Juszczak	President of the Steering Committee for the Integrated IT System (to 20 May 2008).
2.	Robert Działak	1) Vice-President of the Expenses Committee (from 1 April 2008 to 20 May 2008). 2) Vice-President of the Steering Committee for the Integrated IT System (to 20 May 2008). 3) Member of the Integrated IT System Project Committee (to 20 May 2008).
3.	Stefan Świątkowski	1) President of the Bank's Credit Committee (to 20 May 2008) 2) President of the Bank's Assets and Liabilities Committee (to 20 May 2008). 3) President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of International Accounting Standard 39 (to 20 May 2008). 4) Vice-President of the Steering Committee for the Integrated IT System (to 20 May 2008).
4.	Adam Skowroński	1) Vice-President of the Bank's Assets and Liabilities Committee (to 20 May 2008). 2) President of the Expenses Committee (to 20 May 2008). 3) Vice-President of the Steering Committee for the Bank's adaptation to the requirements of the directive on capital requirements and of International Accounting Standard 39 (to 20 May 2008). 4) Vice-President of the Steering Committee for the Integrated IT System (to 20 May 2008).
5.	Mariusz Klimczak	Vice-President of the Bank's Credit Committee (to 30 September 2008).

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

Management Board makes decisions in the form of resolutions, which are passed by an absolute majority of votes of those present at the Management Board Meeting. In the case of a voting tie, the President of the Management Board has the casting vote. For all matters outside the scope of ordinary Bank business to be effected, resolution of the Management Board is required.

The competencies of the Management Board include all issues related to running the business of PKO BP SA which are not reserved by generally binding legal regulations or the provisions of the Memorandum of Association of PKO BP SA for the General Shareholders' Meeting or for the Supervisory Board. The Management Board passes specifically the following in the form of resolutions:

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

In 2008, there were the following committees appointed by the Management Board in which Members of the Management Board operated:

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

– taking decisions on risk limits (market, liquidity, settlement and pre-settlement risk) and investment limits, as well as the values of the coefficients adjusting the transfer prices;
– issuing recommendations in respect of:

  ⇒ forming the balance sheet structure, the financial model and the assumptions for the financial plan of PKO BP SA and its capital requirements in the light of prudence standards;
  ⇒ the principles of risk management (market, liquidity, settlement and pre-settlement) and real and economic capital;
  ⇒ the value of the cut-off points and minimum scores used in assessing credit risk;
  ⇒ the principles of the pricing policy in particular business areas and the amount of interest rates and minimum credit margins.

The Bank's Credit Committee whose purpose is to limit credit risk in PKO BP SA's credit decisions or in decisions relating to managing non-performing loans. The competences of the Committee include specifically:

- taking decisions on issues related to the segregation of duties in taking credit decisions and managing non-performing dues, industry and counterparty limits, and securing the dues of PKO BP SA;
- issuing recommendations to the Management Board of PKO BP SA concerning credit decision which exceed Committee's competences;
- issuing recommendations to the Management Board of PKO BP SA on issues relating to capital exposure in the Group entities, list of industries which are covered by industry limits or report of the highest exposures of PKO BP SA.

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

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

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

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

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

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

Expenses Committee of PKO BP SA whose tasks include specifically:

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

8. OTHER INFORMATION

Off-balance sheet commitments

At the end of 2008, guarantees and other financial off-balance sheet commitments granted with respect to related parties amounted to PLN 619.8 million and decreased by PLN 112.2 million compared to the end of 2007.

The largest commitments related to the following entities:

- Bankowy Fundusz Leasingowy SA – PLN 365.6 million,
- Sopot Zdroj Sp. z o.o. – PLN 80.4 million,
- Wilanów Investments Sp. z o.o. – PLN 43.5 million.

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

The details of related party transactions are presented in Note 41 to the financial statements.

Reacquisition of own shares

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

Information concerning dividend paid (or to be paid)

On 20 May 2008 Shareholders General Meeting took up resolution concerning dividend payout for the year 2007 in amount of PLN 1.09 per share. List of shareholders entitled to receive dividend for the year 2007 was set on 18 August 2008 and the dividend was paid out on 4 September 2008.

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

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

In 2008, the Bank disclosed in its current reports all the agreements with clients for which the total value of services arising from long-term agreements with the given client met the criteria defined in § 2 section 2 of the Decree of the Minister of Finance of 19 February 2009 on current and periodical information submitted by issuers of securities and the conditions of considering as equivalent the information required by law of a non-member country (Journal of Laws No. 33, item 259).

PKO BP SA concluded an investment loan agreement of PLN 1.23 billion for financing a part of the costs of financial assets purchased by borrowers; agreement concluded at an arm's length.

In 2008, the Bank did not conclude any significant agreements with the Central Bank or with the regulators.

As at the date of the financial statements, the Bank is not aware of any agreements as a result of which changes may occur in the future in the proportions of shares held by the current shareholders.

Guarantees and financial commitments

As at 31 December 2008, the total value of guarantees and financial commitments granted amounted to PLN 30 756.4 million, with financial commitments making up 85.2% of this amount. The total value of guarantees and financial commitments granted increased by 7.9% (y/y).

Table 46. Off-balance sheet items (PLN million)

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

Items	As At 31.12.2008	As at 31.12.2007
Financial liabilities granted	**26 196.9**	**24 298.8**
to financial entities	707.0	642.1
to non-financial entities	25 068.2	23 426.3
to public entities	421.7	230.4
of which: irrevocable	7 714.6	8 856.0
Guarantees liabilities issued	**4 559.5**	**4 216.8**
to financial entities	302.6	375.8
to non-financial entities	4 052.9	3 578.5
to public entities	204.1	262.5
Total	**30 756.4**	**28 515.5**

Loans and advances taken, guarantees and suretyships agreements

During the year 2008, PKO BP SA did not take out any loans or advances or receive any guarantees or suretyships that were not related to its operating activity.

Underwriting agreements and guarantees issued to the subsidiaries

In 2008, PKO BP SA signed an Annex to the Underwriting Agreement of a Bond Issuance Program by the Bank's subsidiary, Bankowy Fundusz Leasingowy SA as of 14 December 2006, which increased the maximum value of the bond issue programme by PLN 100 million, to the level of PLN 600 million.

As at 31 December 2008, Bankowy Fundusz Leasingowy SA issued bonds of PLN 600 million, of which PLN 186.28 million was placed in the market while PLN 413.72 million was held by PKO BP SA.

In 2008, PKO BP SA issued:

- to Centrum Elektronicznych Usług Płatniczych eService SA – a guarantee for up to maximum PLN 240 thousand to the benefit of *Garrick Investments Sp. z o.o.* as a pledge for liabilities arising from a rental agreement; the guarantee is issued for the period ending 30 September 2011,
- to Bankowy Fundusz Leasingowy SA – a guarantee for up to maximum PLN 342 thousand to the benefit of *Salzburg Center Development SA* as a pledge for liabilities arising from a rental agreement; the guarantee is issued for the period ending 18 June 2013,
- to Centrum Elektronicznych Usług Płatniczych eService SA – a guarantee for up to maximum PLN 375 thousand to the benefit of Polska Telefonia Cyfrowa Sp. z o.o. as a pledge for trading liabilities; the guarantee is issued for the period ending 30 September 2011,
- to Centrum Elektronicznych Usług Płatniczych eService SA – a guarantee for up to maximum PLN 400 thousand to the benefit of Polkomtel SA as a pledge for liabilities arising from an agreement of sales of phone cards and mobile phone recharge services; the guarantee is issued for the period ending 30 September 2011,
- to Bankowy Fundusz Leasingowy SA – a guarantee for up to maximum PLN 405 thousand to the benefit of *Salzburg Center Development SA* as a pledge for liabilities arising from a rental agreement; the guarantee is issued for the period ending 18 September 2008,
- to PKO Towarzystwo Funduszy Inwestycyjnych SA – a guarantee for up to maximum PLN 467 thousand to the benefit of *Salzburg Center Development SA* as a pledge for liabilities arising from rental agreement; the guarantee is issued for the period ending 31 July 2013,
- to Centrum Elektronicznych Usług Płatniczych eService SA – a guarantee for up to maximum PLN 600 thousand to the benefit of PTK Centertel Sp. z o.o. as a pledge for trading liabilities; the guarantee is issued for the period ending 30 September 2011.

Enforceable titles issued by the Bank

From 1 January 2008 to 31 December 2008, PKO BP SA issued 12 970 banking enforceable titles for a total amount of PLN 311 722 245.

Debt write-offs

Debt write-offs are regulated in PKO BP SA by regulations on management of non-performing loans and segregation of duties with reference to decision taking in respect of management of non-performing loans and writing off of loans and advances and liabilities of PKO BP SA.

In accordance with the above-mentioned regulations, reduction of a non-performing loan results in abandonment of debt collection procedures by the Bank on the basis of restructuring agreement, i.e. debt write-off in line with point 508 of the Civil Law.

Synthetic data on debt write-offs in 2008 were presented below:

Table 47. Debt write-offs in 2008 (PLN)

	reduced principal amount	reduced capitalised interest	reduced other interest
corporate segment	15 179 334	90 488	4 859 271
retail segment	232 146	196 503	37 427 605
Total	**15 411 480**	**286 990**	**42 286 877**

Factors which will determine future results of PKO BP SA

In the near future, results of PKO BP will be affected by economic processes which will occur in Polish and global economies and financial markets responses to them. A huge impact on future results will have the interest rate policy implemented by Monetary Policy Board (RPP) as well as other biggest central banks.

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

As at 31 December 2008, the total value of court proceedings against PKO BP SA was approximately PLN 324 142 thousand, while the total value of proceedings initiated by PKO BP SA was approximately PLN 93 815 thousand. No court proceedings with the participation of PKO BP SA are in progress, the value of which amounts to at least 10% of the equity of PKO BP SA.

Post balance sheet events

1. On 6 January 2009 Bankowy Faktoring SA was registered with the National Court Register (KRS). The company's share capital amounts to PLN 1 million. All the shares in the share capital, in the amount of PLN 1 330 thousand, were acquired by Bankowe Towarzystwo Kapitałowe SA – subsidiary of PKO BP SA.
2. The Management Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna on the basis of Art. 398 of the Code of Commercial Companies has convened the Extraordinary Shareholders' Meeting as at 6 April 2008 (Puławska 15 Street, Warsaw). In accordance with the agenda, the Extraordinary Shareholders' Meeting will adopt resolutions on changes in the Bank's Supervisory Board.
3. With reference to the Extraordinary Shareholders Meeting of Kredobank SA's resolution on the increase in share capital of Kredobank SA, on 16 February 2009 the Management Board of PKO BP SA approved acquisition of new issued shares of Kredobank SA up to the amount of USD 133 million along with a premature repayment of all subordinated loans in the amount of USD 38 million granted by PKO BP SA to Kredobank SA.

Other information relevant for the evaluation of the human resources, financial standing, and financial result of the Issuer and respective changes

Having obtained the corporate approvals and having offered to purchase 99.92% of AIG Bank Polska SA shares and 100% of AIG Credit SA shares on 28 November 2008, PKO BP SA commenced non-exclusive negotiations aimed at acquiring the shares of the above-mentioned companies. Should the share purchase agreement be signed, the shares will be purchased when the requirements resulting from the Polish law are satisfied. The shares will be purchased with PKO BP SA's own funds. PKO BP SA will inform in its current report about signing the share purchase agreement or of the failure to conclude the transaction.

Information concerning entity authorised to audit financial statements

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

Total fees payable to Ernst & Young Audit Sp. z o.o. under the contracts concluded by PKO BP SA amounted to PLN 1 830.9 thousand net for the financial year of 2008 and PLN 1 394.2 thousand net for the financial year of 2007, including:

- arising from a contract for an audit of standalone and consolidated financial statements PLN 575.0 thousand and PLN 613.0 thousand respectively,
- arising from assurance services, including reviews of financial statements PLN 0 thousand and PLN 280.0 thousand respectively,
- arising from tax advisory PLN 0 thousand and PLN 30.0 thousand respectively,
- arising form other services PLN 1 225.9 thousand and PLN 471.2 thousand respectively.

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

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

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

Declaration of the Management Board of PKO BP SA

The Management Bard of PKO BP SA certifies that, to the best of its knowledge:

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

The Management Board of PKO BP SA certifies that the entity authorized to audit the financial statements and which is performing the interim review of the consolidated financial statements, has been elected as the PKO BP SA 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 memo in compliance with applicable laws.

The PKO BP SA Directors' Report for the year 2008 consists of 63 pages.

_ _
President of the Management Board
Jerzy Pruski

_ _
Vice-President of the Management Board
Bartosz Drabikowski

_ _
Vice-President of the Management Board
Krzysztof Dresler

_ _
Vice-President of the Management Board
Tomasz Mironczuk

_ _
Vice-President of the Management Board
Jarosław Myjak

_ _
Vice-President of the Management Board
Wojciech Papierak

_ _
Vice-President of the Management Board
Mariusz Zarzycki

PRICEWATERHOUSECOOPERS

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Independent registered auditor's opinion
To the General Shareholders' Meeting and the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski SA

We have audited the accompanying financial statements of Powszechna Kasa Oszczędności Bank Polski SA (hereinafter called "the Bank"), with its registered office at 15 Puławska Street, in Warsaw which comprise:

(a) the balance sheet as at 31 December 2008, showing total assets and total equity and liabilities of PLN 131,244,827 thousand;

(b) the income statement for the year from 1 January to 31 December 2008 showing a net profit of PLN 2,881,260 thousand;

(c) the statement of changes in equity for the year ended 31 December 2008, showing an increase in equity of PLN 1,799,831 thousand;

(d) the cash flow statement for the financial year from 1 January 2008 to 31 December 2008, showing net outflows of PLN 945,615 thousand;

(e) additional information on adopted accounting policies and other explanatory notes.

The Bank's Management Board is responsible for preparing the financial statements and a Directors' Report in accordance with the applicable regulations. Our responsibility was to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the following regulations applicable in the Republic of Poland:

(a) the provisions of Chapter 7 of the Accounting Act of 29 September 1994 (Journal of Laws of 2002, No. 76, item 694 with subsequent amendments, hereinafter called "the Accounting Act");

(b) the auditing standards issued by the National Council of Registered Auditors In Poland;

(c) International Standards on Auditing.

Our audit was planned and performed to obtain reasonable assurance that the financial statements were free of material misstatements and omissions. The audit included examining, on a test basis, accounting documents and entries supporting the amounts and disclosures in the financial statements. The audit also included an assessment of the accounting policies applied by the Bank and significant estimates made in the preparation of the financial statements as well as an evaluation of the overall presentation thereof. We believe that our audit provided a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS

Independent registered auditor's opinion
To the General Shareholder's Meeting and the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski SA (cont.)

The information in the Directors' Report for the year ended 31 December 2008 has been presented in accordance with the provisions of the Decree of the Council of Ministers dated 19 October 2005 on current and periodic information to be provided by issuers of securities and complies with the information included in the audited financial statements ("the Decree" – Journal of Laws No. 209, item 1744) and is consistent with the information presented in the audited financial statements.

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

(a) have been prepared on the basis of properly maintained accounting records;
(b) comply in form and content with the applicable laws and the Bank's Memorandum of Association;
(c) give a true and fair view of the Bank's financial position as at 31 December 2008 and of the results of its operations for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union.

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

Antoni F. Reczek President of the Management Board Independent Registered Auditor No. 90011/503	Registered Audit Company No. 144

Warsaw, 8 April 2009

Powszechna Kasa Oszczędności Bank Polski SA

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

Independent Registered Auditor's Report on the 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

This report contains 41 consecutively numbered pages and consists of:

		Page
I.	General information about the Bank	2
II.	Information about the audit	5
III.	The Bank's results and financial position	6
IV.	Discussion of financial statement components	10
V.	The independent registered auditor's statement	39
VI.	Final information and comments	41

I. General information about the Bank

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

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

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 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) Based on art. 111 of the Act on trading in financial instruments dated 29 July 2005, the Bank conducts brokerage activities through a separate organizational unit (a branch office) of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Oddział – Dom Maklerski PKO Banku Polskiego w Warszawie, with its registered office in Warsaw (hereinafter referred to as "the Brokerage House of PKO BP SA").

The Brokerage House of PKO BP SA has existed since 1991. Based on Resolution No. 17/91 of the Polish Securities Exchange Commission dated 26 August 1991, the Brokerage House of PKO BP SA obtained a license for public trading in securities. By Resolution No. 24/91 of Giełda Papierów Wartościowych w Warszawie SA (the Warsaw Stock Exchange) dated 26 September 1991, the Brokerage House of PKO BP SA was entered in the register of direct participants of the National Depository for Securities.

(d) In the audited year, the Bank performed activities typical for a universal bank. At the same time, the Bank carried out brokerage activities through the Brokerage House of PKO BP SA.

I. General information about the Bank (cont.)

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

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

(f) As of the balance date there were the following related parties to the Bank:

Powszechne Towarzystwo Emerytalne BANKOWY SA	-	subsidiary
Centrum Finansowe Puławska Sp. z o.o.	-	subsidiary
PKO Inwestycje Sp. z o.o.	-	subsidiary
Inteligo Financial Services SA	-	subsidiary
Centrum Elektronicznych Usług Płatniczych eService SA	-	subsidiary
Bankowy Fundusz Leasingowy SA	-	subsidiary
Bankowe Towarzystwo Kapitałowe SA	-	subsidiary
PKO Towarzystwo Funduszy Inwestycyjnych SA	-	subsidiary
KREDOBANK SA	-	subsidiary
PKO Finance AB	-	subsidiary
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

and companies being members of the capital groups of PKO Inwestycje Sp. z o.o., Bankowy Fundusz Leasingowy SA and Powszechne Towarzystwo Emerytalne BANKOWY SA.

(g) The Bank is an issuer of securities admitted to trading on the Warsaw Stock Exchange. Taking advantage of an option permitted by the Act, since 2005 the Company has been preparing its financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

I. General information about the Bank (cont.)

(h) As the Parent of the Group, the Bank has also prepared consolidated financial statements according to IFRS as adopted by the European Union as at 31.12.2008. To better understand the Bank's financial position and its results of operations as the parent company, the financial statements should be read in conjunction with the consolidated financial statement.

(i)

II. Information about the audit

(a) PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Bank by Resolution No. 3 of the Supervisory Board dated 17 April 2008, on the basis of paragraph 15, clause 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 the 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.

III. The Bank's results and financial position

The 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).

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

- As at the balance date, total assets amounted to PLN 131,244,827 thousand and increased by PLN 25,904,573 thousand (25%) compared with 31 December 2007. The increase was financed mainly by the increase in amounts due to customers of PLN 16,641,467 thousand (20%), an increase in liabilities arising on the valuation of derivative instruments (of PLN 4,870,072 thousand, i.e. 380%), an increase in amounts due from banks (of PLN 2,074,997 thousand, i.e. 57%) and the increase in equity of PLN 1,799,831 thousand (15%).

- The balance of amounts due to customers as at the balance date amounted to PLN 101,856,930 thousand and accounted for 78% 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 due to a significant increase in amounts due to retail customers (of PLN 10,124,892 thousand, i.e. 16% compared with 31 December 2007) and to corporate customers (of PLN 3,925,167 thousand, i.e. 26% compared with 31 December 2007) – see Note 14.

- 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 as at the balance date was mainly due to an increased volume of transactions concluded and the developments in the forex market in the second half of 2008 (Note 13).

- The balance of amounts due to banks amounted to PLN 5,699,452 thousand as at the balance date and comprised mainly loans and advances received, denominated in USD, of PLN 2,656,004 thousand, and deposits from other banks of PLN 2,835,727 thousand. The change of PLN 2,074,997 thousand (57%) compared with 31 December 2007 was mainly due to an increase in the balance of deposits accepted (of PLN 1,399,050 thousand, i.e. 97%) and an increase in the valuation of loans received, reflecting the weakening of the Polish currency against US dollar (of PLN 606,728 thousand, i.e. 30%).

- As at 31 December 2008, the equity amounted to PLN 13,529,372 thousand (PLN 11,729,541 thousand as at 31 December 2007). The increase in equity of PLN 1,799,831 thousand (15%) was due to transferring a part of the net profit for 2007 (of PLN 1,624,991 thousand) to supplementary capital (Note 18).

- The value of regulatory capital amounted to PLN 12,389,193 thousand as at 31 December 2008 (PLN 9,543,342 thousand as at 31 December 2007) and exceeded the total capital requirement by PLN 3,567,353 thousand (PLN 8,821.840 at the end of 2008). The solvency ratio calculated as at the balance date based on the banking and trading portfolios amounted to 11.24% and decreased by 0.63 p.p. compared with the end of the prior year.

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

- A 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 24,279,826 thousand, i.e. 33%), in investment securities (of PLN 2,914,958 thousand, i.e. 50%) and in receivables arising on the valuation of derivatives (of PLN 2,042,795, i.e. 131%).

- As at the balance date, loans and advances to customers amounted to PLN 98,102,019 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 amounted to PLN 100,702,559 thousand as at the balance date and increased by PLN 24,573,638 thousand (32%) compared with 31 December 2007. The major portion of the increase (33%) related to mortgage loans for retail customers (Note 6).

- The quality of the loan portfolio, measured with reference to the share of impaired loans in total gross loans, improved slightly compared with the end of 2007. As at 31 December 2008, the share of impaired loans in total loans was 3.1% (3.0% as at 31 December 2007). At the same time, the coverage of impaired loans with impairment allowances was 61.0% as at 31 December 2008 and decreased by 18.0 p.p. compared with the end of the prior year. It was possible to maintain the quality of the loan portfolio at an unchanged level because of a significant increase in the value of the loan portfolio (a gross increase of 32%) resulting from intensified sales activities.

- The increase in the balance of available-for-sale investment securities to PLN 8,756,511 thousand as at the balance date resulted mainly from an increase in the Bank's exposure to bonds issued by the State Treasury (an increase of PLN 2,193,163 thousand, i.e. 201% compared with 31 December 2007).

- The balance of financial assets designated at fair value through profit or loss as at the balance date amounted to PLN 4,546,497 thousand. The decrease in the balance resulted mainly due to a decrease in the Bank's exposure to Treasury bonds (of 4,908,050 thousand, i.e. 68% compared with 31 December 2007) and bonds issued by other banks (of PLN 591,142 thousand, i.e. 77%).

- The decrease in amounts due from banks of PLN 1,408,826 thousand to PLN 3,906,973 thousand as at the balance date was mainly due to a significant decrease in deposits with other banks (of PLN 2,615,342 thousand, i.e. 55%), partly compensated by a higher balance of amounts due in respect of repo transactions (a more than fourfold increase, of PLN 588,803 thousand) and an increase in the balance of loans granted to other banks (mainly new loans granted to KREDOBANK SA totalling PLN 545,818 thousand). A decrease in amounts due from banks was accompanied with placements of surplus cash with the Central Bank (an increase in the balance of PLN 1,164,164 thousand to PLN 5,758,248).

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

- 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 liabilities due to valuation of derivative instruments.

- The operating profit for 2008 amounted to PLN 3,697,850 thousand and was PLN 370,705 thousand, i.e. 11%, higher than in 2007. The operating profit had the following major components: net interest income of PLN 5,968,083 thousand, net fee and commission income of PLN 2,132,815 thousand and net foreign exchange gains of PLN 734,567 thousand. At the same time, items decreasing the operating profit included administrative expenses of PLN 3,969,247 thousand and the net impairment allowance charge of PLN 1,148,930 thousand in 2008.

- Regardless of the fact that in 2008, the interest margin (calculated as the ratio of net interest income to interest income) decreased by 3 p.p. compared with 2007, net interest income in the audited year was 1,464,976 thousand (33%) higher than in the prior year. This was mainly due to an increase in interest income relating to increased lending in 2008. In addition, the rate of interest income on interest-bearing assets increased by 0.4 p.p. and amounted to 8.0% in 2008. The cost of borrowing decreased (from 2.0% in 2007 to 2.7% in 2008) (Note 19).

- Fee and commission income amounted to PLN 2.813.078 thousand in 2008 and increased by PLN 164,986 thousand (6%) compared with 2007, mainly due to an increase in fees and commissions relating to payment cards (of PLN 146,851 thousand, i.e. 21%). Given that fee and commission costs in 2008 increased by PLN 25,943 thousand (or 4%) compared with 2007 (to a level of PLN 680,263 thousand), this resulted in an increase in net fee and commission income for 2008 of PLN 139,043 thousand (7%) compared with 2007, which amounted to PLN 2,678,343 thousand.

- In 2008, net foreign exchange gains increased significantly, by PLN 211,874 thousand (41%) to PLN 734,567 thousand. Foreign exchange differences on revaluation of assets and liabilities in foreign currencies increased more than eleven fold in the audited years and amounted to PLN 2,942,413 thousand (PLN 267,248 thousand in 2007). The increase was partly offset by net losses on the valuation of derivatives, mainly cross-currency interest rate swaps (CIRS), used primarily for managing interest rate and currency risks, amounting to PLN 2,207,846 thousand (in 2007: net gains on the valuation of PLN 255,445 thousand) (Note 23).

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

- Net impairment allowance charge also increased by PLN 1,103,982 thousand (a more than 25-fold increase). In 2008, it amounted to PLN 1,148,930 thousand. An impairment allowance of PLN 356,101 thousand recognized in respect of investment in a subsidiary, KREDOBANK SA, in 2008 was the most important factor contributing to the level of net impairment allowance charge. The change in the balance of net impairment allowance charge in 2008 was also due to an increase in the impairment allowance for corporate loans - by PLN 387,823 thousand (i.e. 528%), and consumer loans - by PLN 171,671 (i.e. 74%) (Note 26).

- The larger scale of the Bank's activities in 2008 resulted in an increase in administrative expenses of PLN 283,824 thousand (8%) to the level of PLN 3,969,247 thousand. The increase was mainly due to an increase in overheads of PLN 131,230 thousand (12%) to PLN 1,270,174 thousand and in costs of employee benefits of PLN 114,427 thousand (5%) to PLN 2,269,539 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% and it was 7 p.p. lower than in 2007 (Note 27).

- Gross profitability (measured as the ratio of profit before tax to total income) amounted to 29.6% in the audited year and decreased by 5 p.p. compared with the prior year.

- The income tax expense for 2008 amounted to PLN 816,590 thousand. The effective tax rate for 2008 was 22% and was 4 p.p. higher than in 2007. As a result, in 2008 the Bank recorded a net profit of PLN 2,881,260 thousand, which was PLN 161,269 thousand (6%) higher comparing with 2007. In 2008, net profitability amounted to 23.1% (28.3% in 2007).

- The return on assets (calculated as the ratio of the net profit to average total assets) was 2.4% in 2008 and decreased by 0.3 p.p. compared with 2007. The return on equity in 2008 was also 2.2 p.p. lower, and amounted to 22.8% in the audited year.

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

IV. Discussion of financial statement components

BALANCE SHEET as at 31 December 2008

ASSETS	Notes	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.	5,758,248	4,594,084	1,164,164	25	4	4
Amounts due from banks	2.	3,906,973	5,315,799	(1,408,826)	(27)	3	5
Trading assets	3.	1,496,147	1,202,919	293,228	24	1	1
Derivative financial instruments	4.	3,599,545	1,556,750	2,042,795	131	3	2
Financial assets designated at fair value through profit or loss	5.	4,546,497	8,101,534	(3,555,037)	(44)	3	8
Loans and advances to customers	6.	98,102,019	73,822,193	24,279,826	33	75	70
Investment securities available for sale	7.	8,756,511	5,841,553	2,914,958	50	7	6
Investments in subsidiaries, jointly controlled entities and associates	8.	823,518	1,054,395	(230,877)	(22)	1	1
Intangible assets	9.	1,155,042	927,610	227,432	25	1	1
Tangible fixed assets	10.	2,462,967	2,270,480	192,487	8	2	2
Current income tax receivables		-	187,707	(187,707)	(100)	-	-
Deferred income tax asset	28.	166,803	35,531	131,272	369	-	-
Other assets	11.	470,557	429,699	40,858	10	-	-
Total assets		**131,244,827**	**105,340,254**	**25,904,573**	**25**	**100**	**100**

IV. Discussion of financial statement components

BALANCE SHEET as at 31 December 2008 (cont.)

EQUITY AND LIABILITIES	Notes	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	12.	5,699,452	3,624,455	2,074,997	57	4	3
Derivative financial instruments	13.	6,150,337	1,280,265	4,870,072	380	5	1
Amounts due to customers	14.	101,856,930	85,215,463	16,641,467	20	78	81
Subordinated liabilities	15.	1,618,755	1,614,885	3,870	-	1	2
Other liabilities	16.	1,355,396	1,421,321	(65,925)	(5)	1	1
Current income tax liabilities		470,416	-	470,416	-	-	-
Provisions	17.	561,353	453,045	108,308	24	1	-
Total liabilities		**117,715,455**	**93,610,713**	**24,104,742**	**26**	**90**	**88**
Share capital		1,000,000	1,000,000	-	-	1	1
Other capital		9,648,112	8,009,550	1,638,562	20	7	8
Net profit for the year		2,881,260	2,719,991	161,269	6	2	3
Total equity	18.	**13,529,372**	**11,729,541**	**1,799,831**	**15**	**10**	**12**
Total equity and liabilities		**131,244,827**	**105,340,254**	**25,904,573**	**25**	**100**	**100**

IV. Discussion of financial statement components (cont.)

INCOME STATEMENT
for the year ended 31 December 2008

	Notes	2008 PLN thousand	2007 PLN thousand	Change PLN thousand	Change (%)	2008 Structure (%)	2007 Structure (%)
Interest and similar income		8,646,426	6,245,091	2,401,335	38	69	65
Interest expense and similar charges		(2,678,343)	(1,741,984)	(936,359)	54	31	28
Net interest income	**19.**	**5,968,083**	**4,503,107**	**1,464,976**	**33**		
Fee and commission income		2,813,078	2,648,092	164,986	6	23	28
Fee and commission expense		(680,263)	(654,320)	(25,943)	4	8	10
Net fee and commission income	**20.**	**2,132,815**	**1,993,772**	**139,043**	**7**		
Dividend income	21.	130,896	52,113	78,783	151	1	1
Net income from financial instruments at fair value through profit or loss	22.	(195,430)	(76,746)	(118,684)	155	2	1
Gains less losses from investment securities		(951)	6,521	(7,472)	(115)	-	-
Net foreign exchange gains	23.	734,567	522,693	211 874	41	6	5
Other operating income	24.	160,736	140,607	20,129	14	1	1
Other operating expenses	25.	(114,689)	(84,551)	(30,138)	36	1	1
Net impairment allowance charge	26.	(1,148,930)	(44,948)	(1,103,982)	2.456	13	1
Administrative expenses	27.	(3,969,247)	(3,685,423)	(283,824)	8	45	59
Operating profit / Profit before income tax		**3,697,850**	**3,327,145**	**370,705**	11		
Income tax expense	**28.**	(816,590)	(607,154)	(209,436)	34		
Net profit		**2,881,260**	**2,719,991**	**161,269**	**6**		
Total income		12,485,703	9,615,117	2,870,586	30	**100**	**100**
Total expenses		(8,787,853)	(6,287,972)	(2,499,881)	40	**100**	**100**
Profit before income tax		**3,697,850**	**3,327,145**	**370,705**	**11**		

IV. Discussion of financial statement components (cont.)

Selected ratios summarising the Bank's financial position and results

The following ratios characterize the Bank's activities, results of operations during 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)	29.6%	34.6%
Net profitability (net profit/ total income)	23.1%	28.3%
Return on equity (net profit for the year/ average net assets) (2)	22.8%	25.0%
Return on assets (net profit for the year / average total assets) (2)	2.4%	2.7%
Profitability ratio on interest-bearing assets (interest income / average interest-bearing assets) (2)	8.0%	6.6%
Cost / Income ratio (Administrative expenses / the result on banking operation) (3)	45%	52%
Cost of borrowings (interest expenses / average interest bearing liabilities) (2)	2.7%	2.0%
Quality of assets:		
Interest-bearing assets to total assets (4)	91.6%	92.3%
Gross impaired loans to total gross loans	3.1%	3.0%
Impairment allowances on impaired loans and advances to customers to impaired loans and advances to customers	61.0%	79.0%
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	11.24%	11.87%
Regulatory capital (PLN thousand)	12,389,193	9,543,342
Total capital requirement (PLN thousand)	8,821,840	6,431,473

(1) Individual ratio percentage may differ from those presented in the 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 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 undiscounted cash flows, according to their contractual maturities as at the balance date.

IV. Discussion of financial statement components (cont.)

Balance sheet as at 31 December 2008

1. Cash and balances with Central Bank

As at 31 December 2008, cash and balances with the Central Bank amounted to PLN 5,758,248 thousand (PLN 4,594,084 thousand at the end of 2007). Of this amount, PLN 3,419,832 thousand were balances maintained in its account 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

The balances of and movements in, amounts due from banks as at respective balance dates are as follows:

	31.12.2008 PLN thousand	31.12.2007 PLN thousand	Change PLN thousand	Change (%)
Deposits with other banks	2,108,482	4,723,824	(2,615,342)	(55)
Loans and advances	940,197	513,629	454,635	89
Receivables due from repurchase agreements	603,200	14,397	588,803	4,090
Current accounts	247,292	49,846	197,446	396
Receivables due from unsettled transactions	28,067	-	28,067	-
Cash in transit	7,846	14,379	(6,533)	(45)
Total	**3,935,084**	**5,316,075**	**(1,380,991)**	**(26)**
Impairment allowances	(28,111)	(276)	(27,835)	10,085
Net total	**3,906,973**	**5,315,799**	**(1,408,826)**	**(27)**

As at 31 December 2008, 54% of the balance related to deposits with other banks (89% of the balance as at 31 December 2007). Within the balance of amounts due from banks, PLN 698,501 thousand (18%) related to loans granted to KREDOBANK SA (PLN 205,296 thousand, i.e. 4%, at the end of 2007).

Within the balance of deposits with other banks, 82% comprised deposits with banks having a rating above A- (97% as at 31 December 2007).

Receivables due from unsettled transactions of PLN 28,067 thousand relate almost entirely to transactions with derivative instruments declared as default. An impairment allowance covering 100% of these transactions was recognized. Amounts denominated in foreign currencies represented 73% of the balance (55% as at 31 December 2007).

IV. Discussion of financial statement components (cont.)

3. Trading assets

The balance of trading assets as at 31 December 2008, amounting to PLN 1,496,147 thousand, 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	**1,496,147**	**1,202,919**	**293,228**	**24**

The increase in the value of financial assets held for trading of PLN 293,228 thousand (24%) 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 (an increase of PLN 490,349 compared with November). Changes in the structure of the securities portfolio reflect the Bank's intention to invest in securities which are safe, ensure a stable rate of return and are not sensitive to fluctuations in market prices.

4. Derivative financial instruments

The balance of receivables arising on the valuation of derivative instruments increased more than twofold compared with 2007. As at 31 December 2008, it amounted to PLN 3,599,545 thousand and included the following items:

	31.12.2008	31.12.2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Interest Rate Swap (IRS)	2,786,213	1,439,884	1,346,329	94
- including CIRS	*56,290*	*410,927*	*(354,637)*	*(86)*
Currency and equity option	575,003	15,528	559,475	3,603
FX Forward	226,705	101,338	125,367	124
Other	11,624	-	11,624	-
Total	**3,599,545**	**1,556,750**	**2,042,795**	**131**

The increase in receivables arising on the valuation of interest rate swaps of 94% compared with 31 December 2007 resulted from the Bank intensifying sales of instruments used for hedging against interest rate and currency risks, mainly to the segment of corporate customers.

IV. Discussion of financial statement components

4. Derivative financial instruments (cont.)

The increase in receivables arising on the valuation of options (mainly currency options) of PLN 559,475 thousand and the twofold increase in receivables arising on the valuation of forward currency transactions resulted from a significant increase in sales of hedging instruments in 2008. The 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 as at the balance date includes a fair value adjustment resulting from an analysis of counterparty credit risk, amounting to PLN 115,448 thousand.

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 (44%) compared with the end of 2007 and amounted to PLN 4,546,497 thousand as at 31 December 2008. The balance comprises the following assets:

	31.12.2008	31.12.2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Treasury bills	2,060,454	-	2,060,454	-
Treasury bonds	2,313,167	7,221,217	(4,908,050)	(68)
Foreign bonds	172,876	880,317	(707,441)	(80)
Total	**4,546,497**	**8,101,534**	**(3,555,037)**	**(44)**

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 Bank's lower exposure to Treasury bonds, combined with a higher exposure to Treasury bills. During the audited year the Bank gradually reduced its portfolio of Treasury bonds, as part of its liquidity management activities and 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 ensure a stable rate of return and are risk-free. At the same time, throughout 2008, the Bank gradually increased its portfolio of foreign bonds issued by banks (a change of 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.

IV. Discussion of financial statement components (cont.)

6. Loans and advances to customers

a) Structure of the loan portfolio, by type

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

	31.12.2008 PLN thousand	31.12.2007 PLN thousand	Change PLN thousand	Change (%)
Financial sector (without banks)	**2,592,355**	**1,508,977**	**1,083,378**	**72**
Corporate loans	2,592,355	1,508,977	1,083,378	72
Non-Financial sector	**94,894,814**	**70,940,466**	**23,954,348**	**34**
Consumer loans	20,712,187	18,347,196	2,364,991	13
Mortgage loans	45,524,822	33,099,986	12,424,836	38
Corporate loans	28,657,805	19,493,284	9,164,521	47
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	**100,702,559**	**76,128,921**	**24,573,638**	**32**
Impairment allowances	(2,600,540)	(2,306,728)	(293,812)	13
Loans and advances – net	**98,102,019**	**73,822,193**	**24,279,826**	**33**

As at the balance date, PLN 27,145,521 thousand represented receivables in foreign currencies, gross (PLN 14,736,858 thousand as at 31 December 2007). Of this amount, 82% were amounts in Swiss francs (81% as at 31 December 2007). The Bank's share in the total loan and advances (net) of the banking sector (including cooperative banks) amounted to 16%.

b) Quality of the Bank's loan portfolio

	31.12.2008 PLN thousand	31.12.2007 PLN thousand	31.12.2008 Structure %	31.12.2007 Structure %
Impaired loans	3,161,595	2,317,186	3.1%	3.0%
Non-impaired loans	97,540,964	73,811,735	96.9%	97.0%
Loans and advances - gross	**100,702,559**	**76,128,921**	**100.0%**	**100.0%**
Impairment allowances for identified loss	(1,928,032)	(1,831,055)	74.1%	79.4%
Allowance for incurred but not reported loss (IBNR)	(672,508)	(475,673)	25.9%	20.6%
Total impairment allowances	**(2,600,540)**	**(2,306,728)**	**100.0%**	**100.0%**
Loans and advances – net	**98,102,019**	**73,822,193**		

IV. Discussion of financial statement components

6. Loans and advances to customers

b) Quality of the Bank's loan portfolio (cont.)

In 2008 the Bank sold a part of the portfolio of loans and advances to customers (balance and off-balance iems) classified as impaired loans. The total gross amount of the sold portfolio amounted to PLN 493,773 thousand.

The quality of the loan portfolio as at the balance date, measured with reference to the proportion of impaired loans, deteriorated compared with the end of 2007 and amounted to 3.1% (3.0% in 2008). At the same time, the coverage of impaired loans with impairment allowances decreased by 18 p.p. to 61.0%. Maintaining the quality of the loan portfolio at an almost unchanged level, despite the fact that additional impairment allowances of PLN 293,812 thousand were recognized, was possible due to the significant growth of the loan portfolio (an increase of PLN 24,573,638 thousand, i.e. 32% compared with 31 December 2007) resulting from intensified sales, particularly in the first three quarters of 2008. Moreover, the share of allowances for incurred but not reported losses (IBNR) in total impairment allowances was higher than in the prior year. It amounted to 25.9% as at the balance date (20.6% as at 31 December 2007).

7. Investment securities available for sale

As at 31 December 2008, the balance of investment securities available for sale amounted to PLN 8,756,511 thousand (PLN 5,841,553 thousand as at the end of the prior year), which represented an increase of PLN 2,914,958 thousand i.e. 50% compared with 31 December 2007.

	31.12.2008	31.12.2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Treasury bonds	3,286,726	1,093,563	2,193,163	201
Bonds issued by the central bank, NBP	2,673,729	2,633,505	40,224	2
Municipal bonds	1,418,099	1,176,047	242,052	21
Corporate bonds	1,184,934	852,031	332,903	39
Foreign bonds	122,200	-	122,200	-
Listed equity instruments	65,939	79,350	(13,411)	(17)
Other	4,884	7,057	(2,173)	(31)
Total	**8,756,511**	**5,841,553**	**2,914,958**	**50**

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.

IV. Discussion of financial statement components

7. Investment securities available for sale (cont.)

The balance of corporate and municipal bonds comprises bonds issued by companies and local authorities. The Bank acted as an underwriter for these bonds. The increase in the balances of both corporate and municipal bonds resulted from the large number of new issues in the first three quarters of 2008.

The balance of foreign bonds includes bonds denominated in EUR, purchased by the Bank in 2008.

8. Investments in subsidiaries, jointly controlled entities and associates

As at 31 December 2008, the balance of investments in subsidiaries, jointly controlled entities and associates amounted to PLN 823,518 thousand and decreased by PLN 230,877 thousand compared with 2007.

In accordance with IAS 27.37a, investments in subsidiaries, jointly controlled entities and associates are valued at cost, less any impairment.

	31.12.2008	31.12.2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Subsidiaries	**600,805**	**877,997**	**(277,192)**	**(32)**
- value at cost	918,835	888,702	30,133	3
- allowance for impairment losses	(318,030)	(10,705)	(307,325)	2.871
Jointly controlled entities	**61,869**	**61,869**	**-**	**-**
- value at cost	61,869	61,869	-	-
- allowance for impairment losses	-	-	-	-
Associates	**160,844**	**114,529**	**46,315**	**40**
- value at cost	168,960	168,960	-	-
- allowance for impairment losses	(8,116)	(54,431)	46,315	(85)
Shares in subsidiaries, jointly controlled entities and associates	**823,518**	**1,054,395**	**(230,877)**	**(22)**

The decrease in the balance of investment in subsidiaries, jointly controlled entities and associates resulted from, *inter alia*, recognizing impairment allowances of PLN 307,364 for shares in KREDOBANK SA. This was partly offset by a release in impairment allowances for shares in Bank Pocztowy SA (PLN 33,500 thousand) and in Kolej Gondolowa Jaworzyna Krynicka SA (PLN 15,531 thousand).

The impairment allowance of 100% recognized for shares in KREDOBANK SA resulted from an analysis of their recoverable value, performed in connection with a deterioration in the operating environment of banks in the Ukraine in 2008. In the first half of 2008, the Bank released the entire previously recognized allowance for shares in Bank Pocztowy SA. The allowance was released as a result of an impairment test performed using the discounted cash flow method, which showed that the value of this investment exceeded the carrying value, recorded at cost.

IV. Discussion of financial statement components (cont.)

9. Intangible assets

As at the balance date, intangible assets increased by PLN 227,432 thousand (25%) and comprised:

	31.12.2008 PLN thousand	31.12.2007 PLN thousand	Change PLN thousand	Change (%)
Software	1,787,570	1,567,880	219,690	14
Other, including capitalised expenses	216,154	131,387	84,767	65
Gross total	**2,003,724**	**1,699,267**	**304,457**	**18**
Accumulated amortisation	(833,309)	(756,284)	(77,025)	10
Impairment allowance	(15,373)	(15,373)	-	
Net total	**1,155,042**	**927,610**	**227,432**	**25**

The Integrated Information System (ZSI) with a net book value PLN 577,925 thousand as at the balance date was the largest component of the balance. Total outlays on ZSI amounted to PLN 160,490 thousand.

In the audited year the impairment allowance was not changed and related to unused functionalities of ZSI.

The wear-and-tear of intangible assets, measured as a ratio of accumulated amortization to gross book value was 42% as at the balance date (45% as at 31 December 2007).

10. Tangible fixed assets

As at the balance date, the net book value of tangible fixed assets amounted to PLN 2,462,967 thousand and increased by PLN 192,487 thousand compared with 31 December 2007.

	31.12.2008 PLN thousand	31.12.2007 PLN thousand	Change PLN thousand	Change (%)
Equipment and machinery	2,082,754	2,311,757	(229,003)	(10)
Land and buildings	1,954,645	1,922,591	32,054	2
Assets under construction	530,553	271,305	259,248	96
Investment properties	32,009	39,012	(7,003)	(18)
Means of transport	8,101	12,433	(4,332)	(35)
Other	383,710	367,183	16,527	5
Gross value of fixed assets	**4,991,772**	**4,924,281**	**67,491**	**1**
Accumulated amortisation	(2,526,889)	(2,651,844)	124,955	(5)
Impairment allowance	(1,916)	(1,957)	41	(2)
Net value of fixed assets	**2,462,967**	**2,270,480**	**192,487**	**8**

IV. Discussion of financial statement components

10. Tangible fixed assets (cont.)

The change in the balance resulted mainly from new capital expenditure of PLN 432,349 thousand and a decrease in the gross book value of equipment and machinery of PLN 312,932 thousand.

As at 31 December 2008 the impairment allowance amounted to PLN 1,916 thousand and concerned buildings (PLN1,216 thousand) and assets under construction (PLN 700 thousand).

The wear-and-tear of tangible fixed assets measured as the ratio of accumulated depreciation to gross book value was 51% as at the balance date, and decreased by 3 p.p. compared with the end of 2007.

11. Other assets

As at the balance date, other assets increased by PLN 40,858 thousand (10%) and comprised:

	31.12.2008	**31.12.2007**	**Change**	**Change**
	PLN thousand	**PLN thousand**	**PLN thousand**	**(%)**
Amounts due from customers	157,892	156,938	954	1
Settlements of payment cards transactions	131,974	154,187	(22,213)	(14)
Financial instruments settlements	55,628	24,388	31,240	128
Unregistered capital increase in KREDOBANK	48,737	-	48,737	-
Prepayments	29,729	21,377	8,352	39
Inventory (related to utilization, auxiliary operations and investments)	15,211	9,910	5,301	53
Receivables from the State budget due to distribution of Treasury stamps	8,883	8,373	510	6
Receivables relating to foreign exchange activity	8,628	15,892	(7,264)	(46)
Receivables from securities trading	7,255	6,614	641	10
Other	135,156	98,980	31,520	32
Gross total	**599,093**	**496,659**	**97,778**	**20**
Impairment allowance	(128,536)	(66,960)	(56,920)	85
Net total	**470,557**	**429,699**	**40,858**	**10**

As at the balance date, the amount of PLN 111,289 thousand of trade receivables accounted for settlements with a subsidiary company eService SA.

IV. Discussion of financial statement components

11. Other assets (cont.)

The balance of financial instruments settlements as at the balance date comprised mainly amortization of a premium paid in respect of options purchased amounting to PLN 42,994 thousand (PLN 15,879 thousand as at 31 December 2007).

The impairment allowance as at 31 December 2008 includes an impairment allowance of PLN 48,737 thousand covering 100% of the value of the increase in capital of KREDOBANK SA, unregistered as at the balance date. As at the balance date, other impairment allowances referred to among others trade receivables in the amount of PLN 20,803 thousand and settlements of payment card transactions in the amount of PLN 7,630 thousand.

12. Amounts due to other banks

As at the balance date, amounts due to other banks increased by PLN 2,074,997 thousand (57%) and comprised:

	31.12.2008	31.12.2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Other banks' deposits	2,835,727	1,436,677	1,399,050	97
Loans and advances	2,656,004	2,049,276	606,728	30
Other money market deposits	115,171	43,502	71,669	165
Current accounts	92,550	95,000	(2,450)	(3)
Total	**5,699,452**	**3,624,455**	**2,074,997**	**57**

New loans and advances obtained (of PLN 25,000 thousand) only slightly affected the balance. The increase in the balance of loans and advances was primarily due to the appreciation of the Swiss franc, which is the currency of the majority of foreign currency loans and advances obtained by the Bank (84% as at 31 December 2008 and 67% as at 31 December 2007, respectively).

As at the balance date, 55% of the balance represented liabilities in foreign currencies (84% as at 31 December 2007).

IV. Discussion of financial statement components (cont.)

13. 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 4,870,072 thousand (380%) compared with the end of 2007.

	31.12.2008	31.12.2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Interest Rate Swap (IRS)	5,070,104	1,159,941	3,910,163	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 transactions	494,759	103,507	391,252	378
Other	60	393	(333)	(85)
Total	**6,150,337**	**1,280,265**	**4,870,072**	**380**

The increase in the balance was mainly due to an increase in liabilities arising on the valuation of currency transactions. The Bank follows 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 337% 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.

14. Amounts due to customers

As at the balance date, amounts due to customers increased by PLN 16,641,467 thousand (20%) compared with the end of 2007.

	31.12.2008	31.12.2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Amounts due to retail clients	75,413,447	65,288,555	10,124,892	16
Amounts due to corporate entities	19,164,051	15,238,884	3,925,167	26
Amounts due to state budget entities	7,279,432	4,688,024	2,591,408	55
Total	**101,856,930**	**85,215,463**	**16,641,467**	**20**

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).

IV. Discussion of financial statement components

14. Amounts due to customers (cont.)

In the audited year, the aforementioned activities resulted in the increase of the Bank's deposit base by 20%, which amounted to PLN 101,856,930 thousand as at 31 December 2008. The Bank's share in the total amount of amounts due to customers of the banking sector (including cooperative banks) amounted to 18%.

As at 31 December 2008 the deposits to loan and advances (gross) ratio was improved and amounted to 101% (111% as at the end of previous year)

As at the balance date, 6% of the balance represented liabilities in foreign currencies (7% as at 31 December 2007). Liabilities with a contractual maturity of less than 1 month accounted for 60% of amounts due to customers (72% as at the end of 2007).

15. 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 increasing 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 of art. 127, para. 3, item 2b of the Banking Law.

IV. Discussion of financial statement components (cont.)

16. Other liabilities

Other liabilities as at the balance date amounted to PLN 1,355,396 thousand and decreased by 5% compared with 2007. The balance comprised the following items:

	31.12.2008 PLN thousand	31.12.2007 PLN thousand	Change PLN thousand	Change (%)
Accounts payables	213,723	198,251	15,472	8
Deferred income	178,246	197,154	(18,908)	(10)
Other liabilities relating to:	**963,427**	**1 025,916**	**(62,489)**	**(6)**
inter-bank settlements	241,034	164,641	76,393	46
liabilities relating to settlements of security transactions	205,896	322,897	(117,001)	(36)
liabilities arising from social and legal transactions	116,903	131,650	(14,747)	(11)
liabilities arising from foreign currency activities	76,854	64,176	12,678	20
financial instruments settlements	57,764	17,447	40,317	231
liabilities relating to investment and administration activities	51,164	33,525	17,639	53
settlement of acquisition of machines, materials, works and services regarding construction of tangible assets	34,465	58,328	(23,863)	(41)
liabilities due to suppliers	29,308	28,209	1,099	4
liabilities due to UOKiK (the Competition and Consumer Protection Office)	22,310	16,597	5,713	34
liabilities arising from transactions with non-financial institutions	9,947	66,083	(56,136)	(85)
liabilities relating to payment cards	4,815	41,120	(36,305)	(88)
other	112,967	81,243	31,724	39
Total	**1,355,396**	**1,421,321**	**(65,925)**	**(5)**

The decrease in the balance was mainly due to lower liabilities relating to the settlement of transactions with securities (a decrease of 117,001 thousand, i.e. 36% compared with 31 December 2007) and a lower balance of “other” items, resulting mainly from a significant decrease in liabilities resulting from transactions with non-financial entities (a decrease of PLN 56,136 thousand, i.e. 85%).

IV. Discussion of financial statement components (cont.)

17. Provisions

The balance of provisions as at 31 December 2008 comprised:

	31.12.2008	31.12.2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Provisions for anniversary bonuses and retirement benefits	364,945	320,757	44,188	14
Provisions for liabilities and guarantees granted	77,782	27,624	50,158	182
Provision for legal claims	6,841	6,841	-	-
Other provisions	111,785	97,823	13,962	14
Total	**561,353**	**453,045**	**108,308**	**24**

The increase in provisions as at the end of 2008 resulted mainly from recognition of a provision for unconditional off-balance sheet liabilities in the amount of PLN 77,782 thousand. The level of provisions was also affected by additional actuarial provisions created for future liabilities to employees of PLN 46,609 thousand. The change was due to the lower discounting rate used for calculating the provision, reflecting a decrease in market interest rates. Revaluation of the provision was prepared on the basis of an actuarial valuation performed at the balance date by an independent actuary, described in a report dating February 2009.

IV. Discussion of financial statement components (cont.)

18. Equity

Movements in equity in the audited year are presented in the table below:

	Share capital	*Reserve capital*	*Revaluation reserve*	*General banking risk fund*	*Other reserves*	Other Capital	Retained earnings	Net profit	TOTAL EQUITY
	PLN thousand	*PLN thousand*	*PLN thousand*	*PLN thousand*	*PLN thousand*	PLN thousand	PLN thousand	PLN thousand	PLN thousand
31.12.2007	**1,000,000**	***5,591,995***	***(42,445)***	***1,070,000***	***1,390,000***	**8,009,550**	**-**	**2,719,991**	**11,729,541**
Net change in available for sale investments less deferred tax	-	-	*8,571*	-	-	8,571	-	**-**	**8,571**
Net profit for 2008	-	-	-	-	-	-		2,881,260	**2,881,260**
Transfer of net profit from previous years	-	-	-	-	-	-	2,719,991	(2,719,991)	
Transfer from net profit to reserves	-	*1,624,991*	-	-	*5,000*	1,629,991	(1,629,991)	**-**	**-**
Transfer from net profit to dividends	-	-	-	-	-	-	(1,090,000)	**-**	**(1,090,000)**
31.12.2008	**1,000,000**	***7,216,986***	***(33,874)***	***1,070,000***	***1,395,000***	**9,648,112**	**-**	**2,881,260**	**13,529,372**

IV. Discussion of financial statement components

18. 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 2,719,991 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.

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 Bank's core capital, calculated in accordance with the Banking Law and Resolution No. 2/2007 of the Banking Supervision Commission, amounted to PLN 12,389,193 thousand as at 31 December 2008 (PLN 9,543,342 thousand as at 31 December 2007) and exceeded by PLN 3,559,517 thousand the total capital requirement which amounted to PLN 8,821,840 thousand (PLN 6,431,473 thousand as at 31 December 2007). The solvency ratio was 11.24% (11.87% as at 31 December 2007).

IV. Discussion of financial statement components (cont.)

Income statement for the year ended 31 December 2008

19. Net interest income

In 2008, net interest income increased by PLN 1,464,976 thousand (33%):

	2008 PLN thousand	2007 PLN thousand	Change PLN thousand	Change (%)
Interest and similar income:	**8,646,426**	**6,245,091**	**2,401,335**	**38**
Income from loans and advances to customers	7,296,124	4,859,524	2,436,600	50
Income from securities at fair value through profit or loss	433,975	549,200	(115,225)	(21)
Income from placements with other banks	389,275	490,256	(100,981)	(21)
Income from investment securities	355,460	249,718	105,742	42
Income from Bank Gospodarstwa Krajowego due to subsidies for loan interests	92,486	67,482	25,004	37
Income from trading securities	64,046	24,527	39,519	161
Other	15,060	4,384	10,676	244
Interest expense and similar charges:	**(2,678,343)**	**(1,741,984)**	**(936,359)**	**54**
Interest expense on amounts due to customers	(2,496,984)	(1,572,859)	(924,125)	59
Interest expense on deposits from other banks	(60,771)	(106,663)	45,892	(43)
Interest expense on debt securities in issue	(115,315)	(17,511)	(97,804)	559
Other	(5,273)	(44,951)	39,678	(88)
Net interest income	**5,968,083**	**4,503,107**	**1,464,976**	**33**

The increase in interest income of PLN 2,401,335 thousand (38%) in 2008 resulted from higher interest income on loans and advances to customers (an increase of PLN 2,436,600 thousand, i.e. 50%). 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 54%, which resulted in an increase in interest expense of PLN 936,359 thousand in 2008. Of this amount, PLN 924,125 thousand related to interest paid on amounts due to customers.

The interest margin, being the ratio of net interest income to interest income, was 69% in 2008 (72% in 2007). This was due to shrinking market margins on loans and higher cost of borrowings, particularly in the last quarter of 2008.

IV. Discussion of financial statement components (cont.)

20. Net fee and commission income

	2008	2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Fee and commission income	**2,813,078**	**2,648,092**	**164,986**	**6**
Income from payment cards	848,610	701,759	146,851	21
Income from maintenance of bank accounts	780,759	748,760	31,999	4
Income from loans and advances	313,309	262,635	50,674	19
Income from loan insurance intermediary and other services	225,063	202,260	22,803	11
Income from cash transactions	188,345	203,871	(15,526)	(8)
Income from portfolio and other management fees	159,570	240,330	(80,760)	(34)
Income from securities transactions	43,873	87,699	(43,826)	(50)
Income from foreign mass transactions	41,181	36,878	4,303	12
Income from sale and distribution of marks	21,738	28,523	(6,785)	(24)
Other	190,630	135,377	55,253	41
Fee and commission expense	**(680,263)**	**(654,320)**	**(25,943)**	**4**
Expenses on payment cards	(348,243)	(283,868)	(64,375)	23
Expenses on acquisition services	(134,773)	(129,001)	(5,772)	4
Expenses on loan insurance intermediary and other services	(94,140)	(155,707)	61,567	(40)
Expenses on fee and commissions for operating services granted by other banks	(8,112)	(9,264)	1,152	(12)
Expenses on fee and commissions paid to PPUP	(5,240)	(5,735)	495	(9)
Other	(89,755)	(70,745)	(19,010)	27
Net fee and commission income	**2,132,815**	**1,993,772**	**139,043**	**7**

Compared with 2007, net fee and commission income increased by PLN 139,043 thousand (7%) in the current financial year.

In 2008, fee and commission income increased by PLN 164,986 thousand. The increase in 2008 was mainly due to the fact that income on payment cards was PLN 146,851 thousand (21%) higher than in the prior year. Moreover, income on loans and advances granted increased significantly in the audited year (an increase of PLN 50,674 thousand, i.e. 19%) as a result of the loan portfolio growth. These commissions are deferred and recognized in the income statement on a straight line basis. They relate mainly to guarantees and sureties granted, overdrafts, working capital loans and other credit products which do not have fixed repayment schedules, and as a result, cannot be accounted for using the effective interest rate.

In 2008, fee and commission expense increased by PLN 25,943 thousand compared with 2007. The increase was mainly due to commission expense relating to payment cards being PLN 64,375 thousand higher. These expenses relate to commission for payment card organizations (VISA, MasterCard and Polcard).

IV. Discussion of financial statement components (cont.)

21. Dividend income

In 2008, dividend income amounted to PLN 130,896 thousand and was higher by PLN 78,783 thousand (151%) higher than in 2007. Dividend income comprised mainly dividends paid by PKO Towarzystwo Funduszy Inwestycyjnych SA (PLN 92,250 thousand), VISA (PLN 18,013 thousand) and Centrum Finansowe Puławska Sp. z o.o. (PLN 16,627 thousand).

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

Net income from financial instruments at fair value through profit and loss decreased by PLN 118,684 thousand (155%) in 2008 compared with the prior year:

	2008	2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Derivative instruments	(158,013)	260,798	(418,811)	(161)
Debt securities	(31,774)	(337,827)	306,053	(91)
Equity instruments	(5,716)	291	(6,007)	(2,064)
Other	73	(8)	81	(1,013)
Total	**(195,430)**	**(76,746)**	**(118,684)**	**155**

"Derivative instruments" include the result realized on and the valuation of derivatives, excluding cross-currency interest rate swaps (CIRS) whose valuation and result are included in net foreign exchange gains. The loss incurred in 2008 resulted from net losses on the valuation of derivatives (Notes 4 and 13).

"Debt securities" include the result on sales and the valuation of debt securities classified as instruments at fair value through profit or loss.

23. Net foreign exchange gains

Net foreign exchange gains amounted to PLN 734,567 thousand in 2008 and included 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). Compared with 2007, net foreign exchange gains increased by PLN 211,874 thousand (41%).

The increase in net foreign exchange gains was mainly due to a significant increase in the value of loans denominated in foreign currencies (Note 6) in 2008, resulting from a higher volume of currency loans granted in 2008 and the weakening of the Polish currency in the last quarter of 2008. Foreign exchange differences on revaluation of assets and liabilities in foreign currencies increased more than eleven fold in the audited years and amounted to PLN 2,942,413 thousand (PLN 267,248 thousand in 2007). This increase was partly offset by net losses on the valuation of derivatives, mainly cross-currency interest rate swaps (CIRS), used primarily for managing interest rate and currency risks, amounting to PLN 2,207,846 thousand (in 2007: positive valuation of PLN 255,445 thousand).

IV. Discussion of financial statement components (cont.)

24. Other operating income

In 2008, other operating income amounted to PLN 160,736 thousand and comprised:

	2008	2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Recovery of expired and written-off receivables	31,150	19,469	11,681	60
Sundry income	22,849	23,842	(993)	(4)
Sales and disposal of tangible fixed assets, intangible assets, and assets held for sale	6,130	17,555	(11,425)	(65)
Sale of shares in subordinates	3,746	-	3,746	-
Other	96,861	79,741	17,120	21
Total	**160,736**	**140,607**	**20,129**	**14**

As at the balance date "Other" included, among others, refund of costs of debt collection proceedings and costs related to restructuring of doubtful and defaulted receivables (total amount of PLN 44,940 thousand) and income from deposits withdrawn by the customers before due date amounting to PLN 25,755 thousand.

Recovery of expired and written-off receivables concerns those receivables, which in previous periods were removed from the balance sheet evidence and in the reporting period were sold or recovered (for example repay despite of prescription).

25. Other operating expenses

In 2008, other operating expenses amounted to PLN 114,689 thousand and comprised:

	2008	2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Impairment allowances for other assets	(46,368)	(17,322)	29,046	(168)
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(13,152)	(14,460)	1,308	(9)
Donations	(4,353)	(7,123)	2,770	(39)
Sundry expenses	(5,399)	(4,224)	(1,175)	28
Costs of tangible fixed assets construction and intangible assets development - not capitalized	(426)	(4,013)	3,587	(89)
Other	(44,991)	(37,409)	(7,582)	(20)
Total	**(114,689)**	**(84,551)**	**(30,138)**	**36**

The increase in other operating expenses was mainly due to increased costs of additional impairment allowances recognized in respect of other receivables.

IV. Discussion of financial statement components (cont.)

26. Net impairment allowance charge

The net impairment allowance charge was negative (impairment allowances recognized exceeded those released) and amounted to PLN 1,148,930 thousand in 2008 (an increase in the negative balance of PLN 1,103,982 thousand compared with 2007):

	2008	2007	Change	Change
	PLN thousand	PLN thousand	PLN thousand	(%)
Loans and advances to customers and amounts due from other banks valued at amortised cost	(763,932)	(116,076)	(647,856)	558
Investments in subsidiaries, associates and jointly controlled entities	(261,050)	(10,666)	(250,384)	2,347
Other	(126,308)	13,663	(139,971)	(1,024)
Financial assets available for sale	2,796	2,481	315	13
Tangible fixed assets	(436)	49,342	(49,778)	(101)
Intangible assets	-	16,308	(16,308)	(100)
Net impairment allowances	**(1,148,930)**	**(44,948)**	**(1,103,982)**	**2,456**

The change in net impairment allowance charge in 2008 was mainly due to an increase in impairment charge for corporate loans (of PLN 387,823 thousand, i.e. 528%) and consumer loans (of PLN 171,671, i.e. 74%). The detailed information on the quality of the loan portfolio is presented in Note 6.

Additionally, in 2008 the Bank recognised impairment allowance for the subsidiary KREDOBANK SA of PLN 356,101 thousand (of which PLN 48,737 thousand is presented in "Other" in the table above and relates to the increase in capital of KREDOBANK SA not registered as at the balance date). The Bank's exposure to Kredobank SA is described in Note 8 and 11. The impact of recognised impairment allowances was offset by release of impairment allowance in respect of subsidiaries: Bank Pocztowy SA (amounting to PLN 33,500 thousand) and Kolej Gondolowa Jaworzyna Krynicka SA (amounting to PLN 13,851 thousand).

The difference between the change in the amount of PLN 293,812 thousand in impairment allowance for loans and advances to customers presented in the balance sheet and the impairment charge recognized in the income statement in the amount of PLN 763.932 thousand, resulted mainly from the sale of a part of the loan portfolio to customers conducted by the Bank in the audited year. Decrease of impairment allowances resulting from the sale had no impact on the income statement in the audited year and amounted to PLN 470.352 thousand.

IV. Discussion of financial statement components (cont.)

27. Administrative expenses

In 2008, administrative expenses were PLN 283,824 thousand (8%) higher than in 2007:

	2008 PLN thousand	2007 PLN thousand	Change PLN thousand	Change (%)
Staff costs	(2,269,539)	(2,155,112)	(114,427)	5
Overheads	(1,270,174)	(1,138,944)	(131,230)	12
Depreciation and amortisation	(361,382)	(323,755)	(37,627)	12
Taxes and other charges	(51,415)	(53,930)	2,515	(5)
Contribution and payments to Banking Guarantee Fund	(16,737)	(13,682)	(3,055)	22
Total	**(3,969,247)**	**(3,685,423)**	**(283,824)**	8

The increase in staff costs in 2008 was mainly due to an increase in costs of salaries and wages of PLN 104,771 thousand (6%), to PLN 1,896,469 thousand.

Overheads also increased in 2008, mainly due to an increase in promotion and advertising costs of PLN 65,067 thousand (in connection with the promotion of many new products of the Bank) and in costs of fixed assets maintenance and lease of PLN 30,407 thousand.

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

	2008 PLN thousand	2007 PLN thousand
Administrative expenses	**3,969,247**	**3,685,423**
Average annual employment (in persons)	30,113	31,305
Administrative expenses per employee	132	118
Net profit per employee	96	87

The cost to income ratio in the audited year was 45% (52% in 2007). At the same time, the net profit per 1 employee increased significantly (an increase of 17% compared with 2007). Administrative expenses per 1 employee increased mainly due to a reduction of 1,192 employees, i.e. 3.8% (average annual).

IV. Discussion of financial statement components (cont.)

28. 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	(949,873)	(640,233)	(309,640)	48
Deferred income tax	133,283	33,079	100,204	303
Income tax disclosed in the income statement	**(816,590)**	**(607,154)**	**(209,436)**	**34**
Tax expense disclosed in the equity	2,011	10,829	(8,818)	(81)
Total	**(814,579)**	**(596,325)**	**(218,254)**	**37**

The effective tax rate for 2008 was 22% and was 4 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 PLN thousand	Balance Sheet 31.12.2007 PLN thousand	Income Statement 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**
- transferred to income statement	6,365	705	5,660
- transferred to 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 positive differences	3,597	2,804	793
Gross deferred tax liability	**614,847**	**544,528**	**66,394**

IV. Discussion of financial statement components

28. Income tax expense

(a) Deferred income tax (cont.)

	Balance Sheet 31.12.2008 PLN thousand	Balance Sheet 31.12.2007 PLN thousand	Income Statement PLN thousand
Deferred tax assets:			
Interest accrued on liabilities	223,004	138,252	84,752
Valuation of securities:	**27,825**	**33,217**	**x**
- transferred to income statement	14,759	22,065	(7,306)
- transferred to equity	13,066	11,152	x
Adjustment to valuation at amortised cost	166,449	149,499	16,950
Cost of accruals	159,789	79,193	80,596
Provision for anniversary bonuses and retirement benefits	110,037	88,874	21,163
Valuation of derivative instruments	77,734	62,331	15,403
Other	16,812	28,693	(11,881)
Gross deferred income tax asset	**781,650**	**580,059**	**199,677**
Deferred income tax asset	**166,803**	**35,531**	**133,283**

Due to the fact that as at the end of 2008 deductible temporary differences exceeded taxable ones, the Bank recognised a deferred tax asset of PLN 166,803 thousand (PLN 35,531 thousand as at the end of 2007).

IV. Discussion of financial statement components

28. Income tax expense (cont.)

(b) Current income tax

In the current financial year, income tax was calculated at 19% of the gross profit determined based on IFRS as adopted by the European Union, adjusted for non-taxable income and non-deductible costs.

	2008 PLN thousand	2007 PLN thousand	Change PLN thousand	Change (%)
Profit before income tax	**3,697,850**	**3,327,145**	**370,705**	**11**
Corporate income tax calculated using the enacted tax rate 19% (2007: 19%)	(702,592)	(632,158)	(70,434)	11
Permanent differences between accounting gross profit and taxable profit, of which:	**(114,506)**	**24,345**	**(138,851)**	**(570)**
- Other non-tax-deductible expenses	(19,593)	(19,169)	(424)	2
- Impairment allowance for KREDOBANK SA	(67,659)	-	(67,659)	-
- Reversed provisions and positive revaluation not constituting taxable income	(57,138)	30,413	(87,551)	(268)
- Other non-taxable income	5,294	3,366	1,928	57
- Dividend income	21,140	9,901	11,239	114
- Other	3,450	(166)	3,616	(2,178)
Other differences between gross financial result and taxable income, including donations	508	659	(151)	(23)
Income tax disclosed in the income statement	**(816,590)**	**(607,154)**	**(209,436)**	**34**

29. Off-balance sheet items

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

	31.12.2008 PLN thousand	31.12.2007 PLN thousand	Change PLN thousand	Change (%)
Contingent liabilities:	**30,756,418**	**28,515,534**	**2,240,884**	**8**
Financing granted	26,196,875	24,298,778	1,898,097	8
Guarantees and warranties granted – nominal value	4,559,543	4,216,756	342,787	8
Contingent assets:	**3,829,183**	**3,985,062**	**(155,879)**	**(4)**
Guarantees received	3,370,219	3,444,213	(73,994)	(2)
Other	458,964	540,849	(81,885)	(15)

The increase by PLN 2,240,884 thousand (8%) in contingent liabilities resulted from the increase in financing granted of PLN 1,898,097 thousand (8%) and the increase in guarantees and warranties granted of PLN 342,787 thousand (8%).

Contingent assets decreased in 2008 by PLN 155,879 thousand.

V. The independent registered auditor's statement

(a) The Management Board of the Bank provided all the information, explanations, and representations required by us in the course of the audit process and provided us with a representation letter confirming the completeness of the information included in the accounting records 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 Bank has up-to-date documentation of its accounting policies, approved by the Management Board. The Bank's accounting policies were tailored to its needs and ensured the specification of all the events material to the assessment of its financial position and results, taking into consideration the prudence principle. The principles have been exercised in consistency with the previous year.

(d) The closing balances as at the end of the prior year were correctly brought forward as the opening balances of the current financial year in all material respects.

(e) We have assessed the operation of the accounting system and related internal control system. Our assessment covered in particular:
- the accuracy of the documentation relating to business transactions,
- the fairness, accuracy and verifiability of the accounting records, including computerized accounting records,
- the methods used for controlling access to data and computerized data processing systems,
- the safeguarding of accounting documentation, accounting records and the financial statements.

Based on the above assessment, together with our verification of individual items of the financial statements, we concluded that the accounting system and related internal control system are a basis for expressing a general, comprehensive and unqualified opinion on the truth and fairness of these financial statements. The audit was not intended to provide a comprehensive opinion on the operations of the said systems.

(f) The additional information present all the significant information required for disclosure by International Financial Reporting Standards as adopted by the European Union.

(g) Bank's Director's Report includes all information required by the Polish Accounting Act. Information included in the Bank's Director's Report is matching to the information included in the Bank's separate financial statements.

(h) Counts of assets and equity and liabilities were carried out and reconciled in accordance with the Accounting Act, and their results were included in the accounting records for the audited year.

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

(i) During the audit, no material violations of the law were identified which had an impact on the financial statements.

(j) 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.

(k) The total regulatory requirement, together with the requirement concerning the risk of excessive capital exposure, amounted to PLN 8,821,840 thousand as at the balance date. The capital adequacy ratio as at 31 December 2008 amounted to 11.24%. As at the balance date, the Bank complied with the prudence principle in all material respects.

(l) The Bank's financial statements for the year 2007 were audited by other auditor. The registered auditor issued an unqualified opinion.

(m) The financial statements of the Bank as at and for the year ended 31 December 2007 were approved by resolution no. 4/2008 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 information and comments

This report has been prepared in relation to our audit of the annual financial statements of Powszechna Kasa Oszczędności Bank Polski SA (hereinafter referred to as the Bank), headquartered in Warsaw, at 15 Puławska Street, which comprise:

(a) The balance sheet as at 31 December 2008, showing total assets and total equity and liabilities of PLN 131,244,827 thousand;
(b) the income statement for the financial year from 1 January 2008 to 31 December 2008, showing a net profit of PLN 2,881,260 thousand;
(c) the statement of changes in equity for the financial year from 1 January 2008 to 31 December 2008, showing an increase in equity of PLN 1,799,831 thousand;
(d) the cash flow statement for the financial year from 1 January 2008 to 31 December 2008, showing net outflows of PLN 945,615 thousand;
(e) the additional notes and explanations.

The financial statements were signed by the Bank's Management Board and the person responsible for maintenance of accounting records on 3 April 2009. This report should be read in conjunction with the Independent Registered Auditor's Opinion to the Shareholders and the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski SA, 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 financial statement components. This assessment takes into account the impact of the facts noted on the truth and fairness of the financial statements as a whole.

Person 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