Bank Polski

Financial Statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna for the year ended 31 December 2011

SELECTED FINANCIAL DATA DERIVED FROM THE STAND-ALONE FINANCIAL STATEMENTS

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	for the period from 1 January to 31 December 2011	for the period from 1 January to 31 December 2010	for the period from 1 January to 31 December 2011	for the period from 1 January to 31 December 2010
Net interest income	7 504 969	6 383 776	1 812 751	1 594 190
Net fee and commission income	2 872 801	2 937 559	693 897	733 583
Operating profit	4 913 931	4 122 917	1 186 911	1 029 597
Profit before income tax	4 913 931	4 122 917	1 186 911	1 029 597
Net profit	3 953 622	3 311 209	954 958	826 893
Earnings per share for the period - basic (in PLN/EUR)	3.16	2.65	0.76	0.66
Earnings per share for the period - diluted (in PLN/EUR)	3.16	2.65	0.76	0.66
Net comprehensive income	4 075 527	3 397 331	984 403	848 400
Net cash flow from / used in operating activities	5 421 496	217 569	1 309 508	54 332
Net cash flow from / used in investing activities	(3 650 597)	(1 596 507)	(881 765)	(398 688)
Net cash flow from / used in financing activities	1 189 770	960 973	287 377	239 979
Total net cash flows	2 960 669	(417 965)	715 120	(104 376)

SELECTED FINANCIAL DATA	PLN thousand		EUR thousand	
	as at 31.12.2011	as at 31.12.2010	as at 31.12.2011	as at 31.12.2010
Total assets	188 372 690	167 238 919	42 649 133	42 228 851
Total equity	22 802 375	21 201 848	5 162 646	5 353 596
Share capital	1 250 000	1 250 000	283 010	315 633
Number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Book value per share (in PLN/EUR)	18.24	16.96	4.13	4.28
Diluted number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Diluted book value per share (in PLN/EUR)	18.24	16.96	4.13	4.28
Capital adequacy ratio	11.93%	11.99%	11.93%	11.99%
Tier 1 capital	16 225 262	15 449 560	3 673 533	3 901 109
Tier 2 capital	989 525	967 418	224 037	244 279
Tier 3 capital	133 134	145 928	30 143	36 848

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

- income statement, statement of comprehensive income 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 2011 and 2010: EUR 1 = PLN 4.1401 and EUR 1 = PLN 4.0044 respectively,
- statement of financial position items – average NBP exchange rate as at 31 December 2011: EUR 1 = PLN 4.4168 and as at 31 December 2010: EUR 1 = PLN 3.9603.

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INCOME STATEMENT
for the years ended 31 December 2011 and 31 December 2010 respectively

	Note	2011	2010
Continuing operations:			
Interest and similar income	3	11 818 059	10 107 552
Interest expense and similar charges	3	(4 313 090)	(3 723 776)
Net interest income		**7 504 969**	**6 383 776**
Fee and commission income	4	3 621 880	3 678 487
Fee and commission expense	4	(749 079)	(740 928)
Net fee and commission income		**2 872 801**	**2 937 559**
Dividend income	5	94 028	109 895
Net income from financial instruments designated at fair value	6	(78 538)	(56 489)
Gains less losses from investment securities	7	16 303	71 282
Net foreign exchange gains	8	331 367	341 348
Other operating income	9	110 791	48 012
Other operating expense	9	(67 178)	(43 308)
Net other operating income and expense		**43 613**	**4 704**
Net impairment allowance and write-downs	10	(1 812 122)	(1 767 046)
Administrative expenses	11	(4 058 490)	(3 902 112)
Operating profit		**4 913 931**	**4 122 917**
Profit before income tax		**4 913 931**	**4 122 917**
Income tax expense	12	(960 309)	(811 708)
Net profit		**3 953 622**	**3 311 209**
Earnings per share			
– basic earnings per share for the period (in PLN)	13	3.16	2.65
– diluted earnings per share for the period (in PLN)	13	3.16	2.65
Weighted average number of ordinary shares during the period (in thousand)		1 250 000	1 250 000
Weighted average diluted number of ordinary shares during the period (in thousand)		1 250 000	1 250 000

Discontinued operations:
In years 2011 and 2010, PKO Bank Polski SA did not carry out discontinued operations.

STATEMENT OF COMPREHENSIVE INCOME
for the years ended 31 December 2011 and 31 December 2010 respectively

	Note	2011	2010
Net profit		**3 953 622**	**3 311 209**
Other comprehensive income net of tax		**121 905**	**86 122**
Unrealised net gains on financial assets available for sale (gross)	7; 22	(27 600)	(15 463)
Deferred tax on unrealised net gains on financial assets available for sale	12	5 244	2 937
Unrealised net gains on financial assets available for sale (net)		(22 356)	(12 526)
Cash flow hedges (gross)	19	178 100	121 788
Deferred tax on cash flow hedges	12; 19	(33 839)	(23 140)
Cash flow hedges (net)		144 261	98 648
Total net comprehensive income		**4 075 527**	**3 397 331**

STATEMENT OF FINANCIAL POSITION
as at 31 December 2011 and 31 December 2010

	Note	31.12.2011	31.12.2010
ASSETS			
Cash and balances with the central bank	15	9 060 280	6 112 562
Amounts due from banks	16	2 320 198	2 379 239
Trading assets	17	1 311 089	1 503 649
Derivative financial instruments	18	3 065 149	1 719 764
Financial assets designated upon initial recognition at fair value through profit and loss	20	12 467 201	10 758 331
Loans and advances to customers	21	140 058 649	128 933 129
Investment securities available for sale	22	14 168 933	9 876 252
Investments in subsidiaries, jointly controlled entities and associates	23	1 497 975	1 467 507
Non-current assets held for sale		20 410	19 784
Intangible assets	24	1 522 568	1 528 267
Tangible fixed assets	25	2 013 314	2 077 140
including investment properties		248	259
Deferred income tax asset	12	384 134	462 923
Other assets	26	482 790	400 372
TOTAL ASSETS		**188 372 690**	**167 238 919**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the central bank	27	3 454	3 370
Amounts due to banks	28	5 321 390	4 164 181
Derivative financial instruments	18	2 645 281	2 404 795
Amounts due to customers	29	150 030 681	135 289 055
Debt securities in issue	30	3 105 588	-
Subordinated liabilities	31	1 614 377	1 611 779
Other liabilities	32	2 156 523	1 787 599
Current income tax liabilities	12	77 532	61 854
Provisions	33	615 489	714 438
TOTAL LIABILITIES		**165 570 315**	**146 037 071**
Equity			
Share capital	34	1 250 000	1 250 000
Other capital	35	17 598 753	16 640 639
Net profit for the year		3 953 622	3 311 209
TOTAL EQUITY		**22 802 375**	**21 201 848**
TOTAL LIABILITIES AND EQUITY		**188 372 690**	**167 238 919**
Capital adequacy ratio	51	11.93%	11.99%
Book value (in PLN thousand)		22 802 375	21 201 848
Number of shares (in thousand)	1	1 250 000	1 250 000
Book value per share (in PLN)		18.24	16.96
Diluted number of shares (in thousand)		1 250 000	1 250 000
Diluted book value per share (in PLN)		18.24	16.96

(in PLN thousand)

STATEMENT OF CHANGES IN EQUITY

for the years ended 31 December 2011 and 31 December 2010 respectively

for the year ended 31 December 2011	Share capital	Other capital						Unappropriated profits	Net profit for the period	Total equity
		Reserve capital	General banking risk fund	Other reserves	Financial assets available for sale	Cash flow hedges	Total other capital			
Note	34	35	35	35	35	35	35			
As at 1 January 2011	**1 250 000**	**12 098 111**	**1 070 000**	**3 283 412**	**(28 808)**	**217 924**	**16 640 639**	**-**	**3 311 209**	**21 201 848**
Transfer of net profit from previous years	-	-	-	-	-	**-**	-	3 311 209	(3 311 209)	**-**
Total comprehensive income, of which:	-	-	-	-	(22 356)	144 261	**121 905**	-	3 953 622	**4 075 527**
Net profit	-	-	-	-	-	-	**-**	-	3 953 622	**3 953 622**
Other comprehensive income	-	-	-	-	(22 356)	144 261	**121 905**	-	-	**121 905**
Transfer from unappropriated profits	-	800 000	-	36 209	-	**-**	**836 209**	(836 209)	-	**-**
Dividends paid	-	-	-	-	-	-	-	(2 475 000)	-	**(2 475 000)**
As at 31 December 2011	**1 250 000**	**12 898 111**	**1 070 000**	**3 319 621**	**(51 164)**	**362 185**	**17 598 753**	**-**	**3 953 622**	**22 802 375**

for the year ended 31 December 2010	Share capital	Other capital						Unappropriated profits	Net profit for the period	Total equity
		Reserve capital	General banking risk fund	Other reserves	Financial assets available for sale	Cash flow hedges	Total other capital			
Note	34	35	35	35	35	35	35			
As at 1 January 2010	**1 250 000**	**12 048 111**	**1 070 000**	**3 276 260**	**(16 282)**	**119 276**	**16 497 365**	**-**	**2 432 152**	**20 179 517**
Transfer of net profit from previous years	-	-	-	-	-	-	**-**	2 432 152	(2 432 152)	**-**
Total comprehensive income, of which:	-	-	-	-	(12 526)	98 648	**86 122**	-	3 311 209	**3 397 331**
Net profit	-	-	-	-	-	-	**-**	-	3 311 209	**3 311 209**
Other comprehensive income	-	-	-	-	(12 526)	98 648	**86 122**	-	-	**86 122**
Transfer from unappropriated profits	-	50 000	-	7 152	-	-	**57 152**	(57 152)	-	**-**
Dividends paid	-	-	-	-	-	-	-	(2 375 000)	-	**(2 375 000)**
As at 31 December 2010	**1 250 000**	**12 098 111**	**1 070 000**	**3 283 412**	**(28 808)**	**217 924**	**16 640 639**	**-**	**3 311 209**	**21 201 848**

(in PLN thousand)

STATEMENT OF CASH FLOWS

for the years ended 31 December 2011 and 31 December 2010 respectively

	Note	2011	2010
Net cash flow from operating activities			
Profit before income tax		4 913 931	4 122 917
Adjustments:		507 565	(3 905 348)
Amortisation and depreciation		452 698	445 989
(Gains) losses from investing activities	40	(7 330)	(3 947)
Interest and dividends	40	(543 927)	(541 689)
Change in amounts due from banks	40	70 852	132 506
Change in trading assets and financial assets designated upon initial recognition at fair value through profit and loss		(1 516 310)	2 307 507
Change in derivative financial instruments (asset)		(1 345 385)	310 157
Change in loans and advances to customers	40	(11 842 826)	(15 357 879)
Change in other assets	40	(83 044)	19 055
Change in amounts due to banks	40	1 157 293	(5 755)
Change in derivative financial instruments (liability)		240 486	860 425
Change in amounts due to customers	40	13 887 301	7 786 760
Change in impairment allowances and provisions	40	648 092	992 014
Change in other liabilities	40	626 866	589 205
Income tax paid		(894 437)	(1 132 941)
Other adjustments	40	(342 764)	(306 755)
Net cash from / used in operating activities		**5 421 496**	**217 569**
Net cash flow from investing activities			
Inflows from investing activities		**9 060 675**	**8 504 315**
Proceeds and interest from sale of investment securities		8 951 944	8 387 852
Proceeds from sale of intangible assets and tangible fixed assets		15 087	6 820
Other investing inflows (dividends)		93 644	109 643
Outflows from investing activities		**(12 711 272)**	**(10 100 822)**
Increase in equity of subsidiaries		(42 000)	-
Purchase of a subsidiary		(13 175)	(148 873)
Purchase of investment securities		(12 248 048)	(9 402 287)
Purchase of intangible assets and tangible fixed assets		(408 049)	(549 662)
Net cash from / used in investing activities		**(3 650 597)**	**(1 596 507)**
Net cash flow from financing activities			
Dividends paid		(2 475 000)	(2 375 000)
Proceeds from debt securities in issue		5 017 243	-
Redemption of debt securities in issue		(1 951 454)	-
Repayment of interest from issued debt securities		(108 743)	(82 590)
Long-term borrowings		908 325	3 457 895
Repayment of long-term borrowings		(200 601)	(39 332)
Net cash generated from financing activities		**1 189 770**	**960 973**
Net cash inflow/(outflow)		**2 960 669**	**(417 965)**
including currency translation differences on cash and cash equivalents		314 898	11 096
Cash and cash equivalents at the beginning of the period		8 199 997	8 617 962
Cash and cash equivalents at the end of the period	40	**11 160 666**	**8 199 997**
of which restricted	37	3 923	6 950

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1. General information

The financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (‘PKO Bank Polski SA’, ‘the Bank’) have been prepared for the year ended 31 December 2011 and include comparative data for the year ended 31 December 2010. Data has been presented in PLN thousand unless indicated otherwise.

The Bank was established in 1919 as Pocztowa Kasa Oszczędnościowa. Since 1950 the Bank 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 into 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 1 250 000 thousand.

The Bank's shareholding structure is as follows:

Name of entity	Number of shares	Number of votes %	Nominal value of 1 share	Share in equity %
As at 31 December 2011				
The State Treasury	512 406 277	40.99	PLN 1	40.99
Bank Gospodarstwa Krajowego	128 102 731	10.25	PLN 1	10.25
Other shareholders	609 490 992	48.76	PLN 1	48.76
Total	**1 250 000 000**	**100.00**	---	**100.00**
As at 31 December 2010				
The State Treasury	512 406 277	40.99	PLN 1	40.99
Bank Gospodarstwa Krajowego	128 102 731	10.25	PLN 1	10.25
Other shareholders	609 490 992	48.76	PLN 1	48.76
Total	**1 250 000 000**	**100.00**	---	**100.00**

Amendments to the Memorandum of Association of PKO Bank Polski SA

On 14 April 2011 the Extraordinary General Meeting adopted the Resolution No. 3/2011 on amending the Memorandum of Association of PKO Bank Polski SA (the content of the resolution adopted by the Bank was published in the Bank’s current report no. 13/2011). The proposed amendment to the Bank’s Memorandum of Association was presented by the State Treasury – the Bank’s shareholder. The amendments in the resolution referred to the following issues:

1) the limitation the voting rights of the shareholders and adopting a policy for votes accumulation and reduction,
2) the statutory number of members of the Supervisory Board,
3) the subject for the first meeting of the new term of office of the Supervisory Board,
4) the definition of the dominant entity and subsidiary.

The amendments to the Artcile of Association of PKO Bank Polski SA presented above, implemented by the Extraordinary General Meeting of the Bank on 14 April 2011, were registered in the National Court Register by the District Court for the capital city of Warsaw, the XIII Economic Department of the National Court Register.

As an effect of the above-mentioned amendments, the announced decrease in share of the State Treasury in equity of PKO Bank Polski SA, which may reoccur in subsequent years (although the share will not drop below 25%), will not result in limiting the control of the State Treasury over the Bank's strategic decisions.

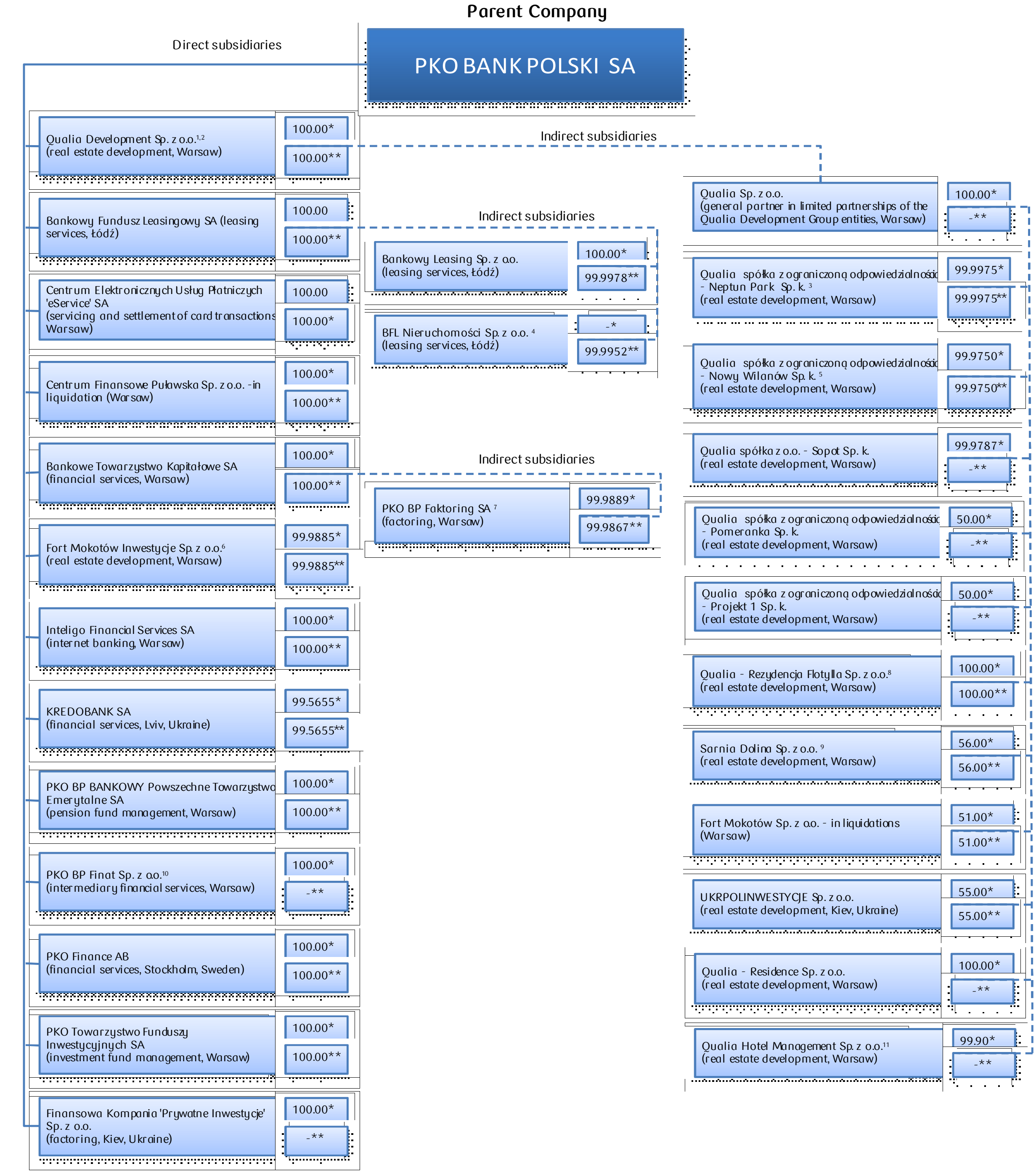
The Bank is a public company quoted on the Warsaw Stock Exchange. According to the Warsaw Stock Exchange Bulletin (Ceduła Giełdowa), the Bank is classified under the macro-sector 'Finance', sector 'Banks'.

Business activities

PKO Bank Polski SA is a universal deposit-loan commercial bank offering services to both domestic and foreign retail, corporate and other clients. PKO Bank Polski SA is licensed to hold foreign exchange and currencies and sell/buy them, as well as to perform a full range of foreign exchange services, open and hold bank accounts abroad and to deposit foreign exchange in these accounts.

Structure of the PKO Bank Polski SA Group

The PKO Bank Polski SA Group includes the following entities:

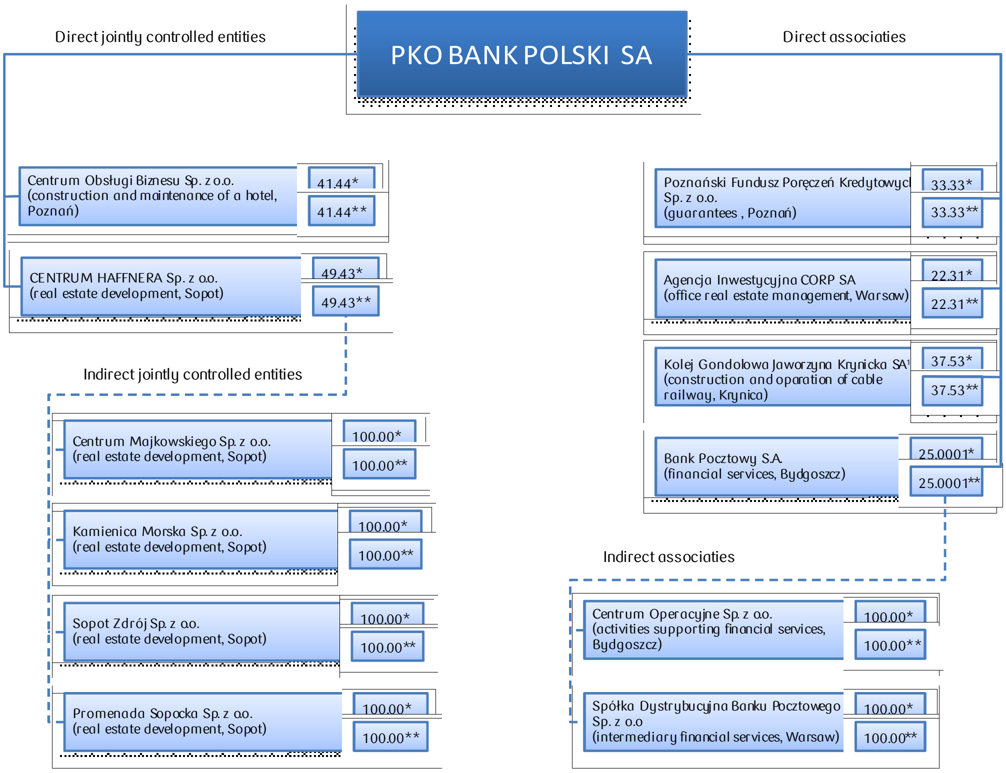


* % Share in equity as at 31.12.2011 ** % Share in equity as at 31.12.2010

1) the previous name of the entity was PKO BP Inwestycje Sp. z o.o.
2) in limited partnerships of Qualia Development Group the limited partner is Qualia Development Sp. z o.o. and the general partner is Qualia Sp. z o.o.; in the position of share capital, the total contributions made by the limited partner is presented
3) the Company was established as a result of transformation of the company PKO BP Inwestycje - Neptun Park Sp. z o.o.
4) the Company was removed from the National Court Register as a result of the merger with Bankowy Leasing Sp. z o.o.
5) the Company was established as a result of transformation of the company PKO BP Inwestycje - Nowy Wilanów Sp. z o.o.
6) the second shareholder of the entity is Qualia Development Sp. z o.o.
7) PKO Bank Polski SA holds 1 share in the Entity
8) the previous name of the entity was PKO BP Inwestycje – Rezydencja Flotylla Sp. z o.o.
9) the previous name of the entity was PKO BP Inwestycje – Sarnia Dolina Sp. z o.o.
10) formerly the subsidiary of Inteligo Financial Services SA

11) the second shareholder of the entity is Qualia Sp. z o.o.

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



* % Share in equity as at 31.12.2011   ** % Share in equity as at 31.12.2010

1) In 2011 and in 2010, shares of the entity are recognised in non-current assets held for sale.

Information on changes in the participation in the share capital of the subsidiaries is set out in Note 23 ‘Investments in subsidiaries, jointly controlled entities and associates’.

Internal organisational units of the Bank

The financial statements of the Bank comprising financial data for the year ended 31 December 2011 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 2011, these organisational units included: the Bank's Head Office in Warsaw, Dom Maklerski PKO Bank Polski SA, Centrum Operacji Kartowych, 11 specialised units, 12 regional retail branches, 13 regional corporate branches, 54 corporate centres, 1119 operational branches, the branch in the United Kingdom and 1400 agencies. None of the organisational units listed above prepares separate financial statements.

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

PKO Bank Polski SA is the parent company of the Powszechna Kasa Oszczędności Bank Polski SA Group and a significant investor for its associates and jointly controlled entities, whose owner the Bank is . Accordingly, PKO Bank Polski SA prepares consolidated financial statements for the Group, which include the financial data of these entities.

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

As at 31 December 2011, the Bank's Management Board consisted of:

- Zbigniew Jagiełło — President of the Management Board
- Piotr Alicki — Vice-President of the Management Board
- Bartosz Drabikowski — Vice-President of the Management Board
- Andrzej Kołatkowski — Vice-President of the Management Board
- Jarosław Myjak — Vice-President of the Management Board
- Jacek Obłękowski — Vice-President of the Management Board
- Jakub Papierski — Vice-President of the Management Board

During the year ended 31 December 2011, the following changes took place in the composition of the Bank's Management Board:

1. On 2 March 2011, the Supervisory Board of PKO Bank Polski SA reappointed Zbigniew Jagiełło President of the Management Board of PKO Bank Polski SA for the joint term of office of the Bank's Management Board which commenced on the date of the Ordinary General Meeting of PKO Bank Polski SA approving the financial statements of PKO Bank Polski SA for 2010.
2. On 1 April 2011, the Supervisory Board of PKO Bank Polski SA passed a resolution establishing:
    - Piotr Alicki on the position of the Vice-President of the Management Board,
    - Bartosz Drabikowski on the position of the Vice-President of the Management Board,
    - Jarosław Myjak on the position of the Vice-President of the Management Board,
    - Jacek Obłękowski on the position of the Vice-President of the Management Board,
    - Jakub Papierski on the position of the Vice-President of the Management Board.

In accordance with the resolutions passed, the above-mentioned persons were appointed to the specified positions at PKO Bank Polski SA for the joint term of office of the Bank's Management Board which commenced on the date of the Ordinary General Meeting of PKO Bank Polski SA approving the financial statements of PKO Bank Polski SA for 2010.

3. On 16 May 2011, the Supervisory Board of PKO Bank Polski SA passed a resolution appointing Andrzej Kołatkowski the Vice-President of the Bank's Management Board responsible for risk and debt collection area for the joint term of office of the Bank's Management Board, which commenced on the date of the Ordinary General Meeting of PKO Bank Polski SA approving the financial statements of PKO Bank Polski SA for 2010, provided that the approval of the Polish Financial Supervision Authority is obtained.
   On 9 August 2011, the Polish Financial Supervision Authority has approved unanimously Andrzej Kołatkowski as Vice-President of the Bank's Management Board.

During the year ended 31 December 2011, the following changes took place in the composition of the Bank's Supervisory Board:

The Ordinary General Shareholders' Meeting of the Bank convened 30 June 2011, appointed the following members of the Bank's Supervisory Board:

- Cezary Banasiński,
- Tomasz Zganiacz,
- Jan Bossak,
- Mirosław Czekaj,
- Krzysztof Kilian,
- Ewa Miklaszewska,
- Piotr Marczak,
- Marek Mroczkowski,
- Ryszard Wierzba.

The State Treasury, as Authorised Shareholder, has established the list of members of Supervisory Board to 9 and has appointed:

- Cezary Banasiński – as the Chairman of the Bank's Supervisory Board,
- Tomasz Zganiacz – as the Deputy Chairman of the Bank's Supervisory Board.

Approval of financial statements

These financial statements, reviewed by the Bank's Supervisory Board's Audit Committee on 29 February 2012, have been approved for issue by the Bank's Management Board on 23 February 2012 and will be accepted by the Bank's Supervisory Board on 29 February 2012.

2. Summary of significant accounting policies and estimates and judgements

2.1. Summary of significant accounting policies

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as at 31 December 2011, 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 2009, no. 152, item 1223 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.

The European Commission has adopted IAS 39 'Financial Instruments: Recognition and Measurement' except some decisions concerning hedge accounting. Due to the fact that the Bank applies IFRS as adopted by the European Union ('EU'), the Bank has applied the IAS 39.AG99C in the form adopted by the EU, which allows to designate as a hedged item a portion of cash flows from variable rate deposits for which the effective interest rate is lower than the reference interest rate (not including margins). The IAS 39 as issued by the International Accounting Standards Board introduces limitations in that respect.

2.2. Going concern

The financial statements of the Bank have been prepared on the basis that the Bank will continue as a going concern during a period of 12 months from the issue date, i.e. since 5 March 2012. As at the date of signing these financial statements, the Bank's Management Board is not aware of any facts or circumstances that would indicate a threat to the continued activity of the Bank for 12 months following the issue 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 at fair value through profit and 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 amortised 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 above-mentioned 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 balances denominated in foreign currencies

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

1) monetary assets denominated in foreign currency are translated into Polish zloty, using a closing rate, i.e. the average rate communicated by the National Bank of Poland for a given currency prevailing as at the balance sheet 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 and loss in foreign currency are translated into Polish zloty, using exchange rates as at the date of the determination of fair value.

Gains and losses on settlements of these transactions and the carrying amount of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Financial statements are presented in the Polish zloty, which is the functional and presentation currency of the Bank.

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 and 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 and 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 and loss

A financial asset or financial liability at fair value through profit and 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 and 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 basis,
   c) a group of financial assets, financial liabilities or both is properly managed and its performance is evaluated on a fair value basis, in accordance with the written risk management principles or investment strategy of the Bank.
3) The Bank has a policy of financial assets and liabilities management according to which financial assets and liabilities classified as held for trading and financial assets and liabilities portfolio designated upon initial recognition at fair value through profit and loss are managed separately.

2.5.1.2. Financial assets available for sale

Financial assets available for sale are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets:

a) at fair value through profit and loss (designated by the Bank upon initial recognition),

b) held-to-maturity,

c) those that meet the definition of loans and advances.

2.5.1.3. Loans, advances and other receivables

Loans and advances and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on 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 were upon initial recognition designates as at fair value through profit and loss,

2) those that the Bank upon initial recognition designates as available for sale,

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

Financial assets held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the intention and ability to hold to maturity, other than:

1) those that the Bank designates upon initial recognition as at fair value through profit and loss,

2) those that the Bank designates as available for sale,

3) those that meet the definition of loans and advances.

As at 31 December 2011 and as at 31 December 2010, the Bank did not hold any assets classified to this category.

2.5.1.5. Other financial liabilities

Other financial liabilities are the financial liabilities other than measured at fair value through profit and loss which have the nature of a deposit, 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 recognised in the books of account under trade date, irrespective of the settlement date provided in the contract.

2.5.3. Derecognition of financial instruments from a statement of financial position

Financial assets are derecognised 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 are 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 from the statement of financial position,
2) if all the risks and rewards of ownership of the financial asset are substantially retained, then the financial asset continues to be recognised in the statement of financial position,
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 in the statement of financial position to the extent of its continuing involvement in the financial asset, if control has not been retained, then the financial asset is derecognised.

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

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

Loans are derecognised when they have been extinguished, when they are expired, or when they are not recoverable. Loans, advances and other amounts due are written off against impairment allowances that were recognised for these accounts. In the case where no allowances were recognised 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 recognised 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 and loss, transaction costs that are directly attributable to the acquisition or the issue of the financial asset or liability.

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

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

Assets and liabilities designated at fair value through profit and loss are measured at fair value with the result transferred to the income statement to the item ‘net income from financial instruments at fair value through profit and 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 other comprehensive income, until the amount included in other comprehensive income is reclassified to the income statement when the asset is derecognised from the statement of financial position. Interest determined using effective interest rate from financial assets available for sale are presented in the net interest income.

2.5.4.3. Loans and advances and investments held to maturity

They are measured at amortised cost with the use of an effective interest rate with an allowance for impairment losses. If it is not possible to reliably estimate the future cash flows and the effective interest rate, financial liabilities are measured at cost.

2.5.4.4. Other financial liabilities including liabilities resulting from the issue of securities

Other financial liabilities are measured at amortised cost. If 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 recognised as financial liabilities and measured at amortised cost.

2.5.4.5. Method of establishing fair value and amortised cost

Fair value of debt and equity financial instruments (at fair value through profit and loss and available for sale), for which there is an active market is determined with reference to market value (bid price, LEVEL 1, Note 45).

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

1) equity instruments at fair value through profit and loss and available for sale equity instruments:
   a) 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 (LEVEL 2, Note 45),
   b) at valuation performed by a specialised external entity providing services of this kind (LEVEL 2 or LEVEL 3, Note 45),
2) debt instruments designated at fair value through profit and loss (LEVEL 2, Note 45):
   a) the method based on market prices of securities (the market value method),
   b) the method based on market interest rate quotation (the yield curve method),
   c) the method based on market prices of securities with similar financial characteristics (the reference asset value method),
3) available-for-sale debt instruments in the portfolio – based on one of the following methods:
   a) the method based on market prices of securities (the market value method) (LEVEL 2, Note 45),
   b) the method based on market interest rate quotation (the yield curve method), adjusted for a risk margin equal to the margin specified in the issue terms. Material changes in the market interest rates are reflected in the changes in the fair value of such instruments (LEVEL 2, Note 45),
   c) the method based on market prices of securities with similar financial characteristics (the reference asset value method) (LEVEL 2 or LEVEL 3, Note 45),
   d) in the case of securities which fair value cannot be established with the use of the methods mentioned above, the fair value is determined based on the internal valuation model (LEVEL 2, Note 45).

If it is not possible to determine fair value, equity instruments are stated at acquisition cost less impairment losses (LEVEL 3, Note 45).

Amortised cost is the amount at which the financial instrument was measured at the date of initial recognition, less principal repayments, and increased or decreased by the cumulative amortisation of any difference between that initial amount and the amount at maturity, and decreased by any impairment losses. Amortised cost is determined 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/liabilities for the given period. The calculation of this rate includes payments received/paid by the Bank which affect financial characteristics of the instrument, with exception of potential future losses related to default loans.

Commissions, fees and transaction costs which constitute an integral part of the effective return on the instrument, 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 measurement

Derivative financial instruments are recognised 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 (LEVEL 1, Note 45). 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 (LEVEL 2, Note 45).

When 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 in the net income from financial instruments at fair value through profit and loss or at net foreign exchange gains in correspondence with ‘Derivative financial instruments’. The above-mentioned recognition method applies to derivative instruments which do not qualify to the application of hedge accounting. The method of recording hedging derivatives is discussed in Note 2.5.6.

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

The notional amount of the underlying derivative 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 entering into 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 recognised separately and are valued at fair value. Valuation is presented in the statement of financial position 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 and loss’ or in the ‘Net foreign exchange gains’.

Derivative instruments are recognised 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 and loss, changes of fair value are not recognised 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 and loss’ or in the ‘Net foreign exchange gains’.

2.5.6. Hedge accounting

2.5.6.1. Hedge accounting criteria

The Bank applies hedge accounting when all the terms and conditions below, specified in IAS 39, have been met:

1) upon setting up the hedge, a hedge relationship, the purpose of risk management by the entity, and the hedging strategy was officially established. The documentation includes the identification of the hedging instrument, the hedged item or transaction, the nature of the hedged risk and the manner in which the entity will assess the effectiveness of the hedging instrument in compensating the threat of changes in fair value of the hedged item or the cash flows related to the hedged risk,
2) a hedge was expected to be highly effective in compensating changes to the fair value or cash flows resulting from the hedged risk in accordance with the initially documented risk management strategy relating to the specific hedge relationship,
3) in respect of cash flow hedges, the planned hedged transaction must be highly probable and must be exposed to changes in cash flows which may, as a result, have an impact on the income statement,
4) the effectiveness of a hedge may be reliably assessed, i.e. the fair value or cash flows related to the hedged item and resulting from the hedged risk, and the fair value of the hedging instrument, may be reliably measured,
5) the hedge is assessed on a current basis and its high effectiveness in all reporting periods for which the hedge had been established is determined.

2.5.6.2. Discontinuing hedge accounting

The Bank discontinues hedge accounting when:

1) a hedge instrument expires, is sold, released or exercised (replacing one hedge instrument with another or extending the validity of a given hedge instrument is not considered to be expiration or release if the replacement or extension of period to maturity is part of the documented hedging strategy adopted by the entity). In such an instance accumulated gains or losses related to the hedging instrument which were recognised directly in other comprehensive income over the period in which the hedge was effective are recognised in a separate item in other comprehensive income until the planned transaction is effected,
2) the hedge ceases to meet the hedge accounting criteria. In such an instance accumulated gains or losses related to the hedging instrument which were recognised directly in other comprehensive income over the period in which the hedge was effective are recognised in a separate item in other comprehensive income until the planned transaction is effected,
3) the planned transaction is no longer considered probable, therefore, all the accumulated gains or losses related to the hedging instrument which were recognised directly in other comprehensive income over the period in which the hedge was effective, are recognised in the income statement,
4) the Bank invalidates a hedge relationship.

2.5.6.3. Fair value hedge

As at 31 December 2011 and 2010, the Bank did not apply fair value hedge accounting.

2.5.6.4. Cash flow hedges

A cash flow hedge is a hedge against the threat of cash flow volatility which can be attributed to a specific type of risk related to a recorded asset or a liability (such as the whole or a portion of future interest payments on variable interest rate debt) or a highly probable planned transaction, and which could affect the income statement.

Changes in the fair value of a derivative financial instrument designated as a cash flow hedge are recognised directly in other comprehensive income in respect of the portion constituting the effective portion of the hedge. The ineffective portion of a hedge is recognised in the income statement in 'Net income from financial instruments designated at fair value through profit and loss'.

Amounts transferred directly to other comprehensive income are recognised in the income statement in the same period or periods in which the hedged planned transaction affects the income statement.

The effectiveness tests comprise the valuation of hedging transactions, net of interest accrued and foreign exchange differences on the nominal value of the hedging transactions (in case of CIRS transactions). Interests from hedging instruments are recognised in 'Net interest income', while the currency translation differences on the nominal value from the hedging transactions in 'Net foreign exchange gains' respectively.

2.6. 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 needs to be performed on a net basis, or the asset and liability are realised at the same time.

2.7. Transactions with a commitment to sell or buy back

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.

Sell-buy back transactions are recognised 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.

Buy-sell back securities are recognised under amounts due from banks or loans and advances to customers, depending on the counterparty.

Sell-buy back, buy-sell back transactions are measured at amortised cost, whereas securities which are an element of a sell-buy back transaction are not derecognised in the statement of financial position and are measured at the terms and conditions specified for particular securities portfolios. The difference between the sale price and the repurchase price is recognised as interest expense/income, as appropriate, and it is amortised over the term of the contract using the effective interest rate.

2.8. Investments in subsidiaries, jointly controlled entities and associates

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

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 recognises 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.

2.9. Impairment of financial assets

2.9.1. Assets measured at amortised 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 event 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 reorganisation 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 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 analysed for the existence of impairment evidence. If the asset is found to be impaired, an allowance is recognised 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 valued with the group method.

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 or assets held to maturity, the amount of the impairment allowance is the difference between the carrying amount of the asset and the present fair value measured as the value of future cash flows discounted (excluding future credit losses that have not been incurred) by the effective interest rate as of the date when objective evidence of the of impairment was identified.

The calculation of the present value of estimated cash flows relating to financial assets for which collateral is held takes into account cash flows arising from the realisation of the collateral, less costs to acquire 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 recovery rates 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 factors that were relevant in the past but which are no longer relevant.

In subsequent periods, if the amount of impairment loss is reduced because of an event subsequent to the impairment being recognised (e.g. improvement in debtor's credit rating) the impairment loss that was previously recognised 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 applications and developed in line with the further accumulations of historic impairment data from the existing information systems. 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 minimise the differences between the estimated and actual loss amounts.

2.9.2. Assets available for sale

At each balance date, the Bank makes an assessment, whether there is objective evidence that a given financial asset classified to financial assets available for sale is impaired. If any such indicators of impairment on financial assets classified as debt securities available for sale exist, an impairment allowance is calculated.

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 lack of contracted payments of interest or principal or late payments,
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 issuer's financial condition in the period of maintaining the exposure,
5) high probability of bankruptcy or other financial reorganisation of the issuer,
6) an increase in risk of a certain industry in the period of maintaining a significant exposure, in which the borrower operates, reflected in the industry being qualified as 'elevated risk industry'.

The Bank firstly assesses impairment on an individual basis for significant receivables.

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 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 accumulated losses from other comprehensive income to the income statement.

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

Impairment losses recognised against equity instruments are not reversed through profit and loss.

2.10. Leasing

The Bank is a party of operating lease agreements based on which it accepts fixed assets for chargeable use for a period determined in the agreement. The Bank adopts the extent to which the risks and benefits from owning a leased asset fall to the lessor and to the lessee, as the basis for classifying the lease agreements.

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

2.11. Tangible fixed assets and intangible assets

2.11.1. Intangible assets

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

2.11.1.1. Software

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

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

2.11.1.2. Other intangible assets

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

2.11.1.3. Development costs

Research and development costs are included in intangible assets in connection with future economic benefits and meeting specific terms and conditions, i.e. if there is a possibility and intention to complete and use the internally generated intangible asset, there are appropriate technical and financial resources to finish the development and to use the asset and it is possible 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.

2.11.2. Tangible fixed assets

Tangible fixed assets are stated at the end of the reporting period at acquisition cost or cost of production, less accumulated depreciation/amortisation and impairment losses.

Properties accounted for investment properties are valued according to accounting principles applied to tangible fixed assets.

2.11.3. Capital expenditure accrued

Carrying amount of tangible fixed assets and intangible assets is increased by additional expenditures incurred during their maintenance, when:

1) probability exists that the Bank will achieve future economic benefits which can be assigned to the particular tangible fixed asset or intangible assets (higher than initially assessed, measured at e.g. by useful life, improvement of service quality, maintenance costs),
2) acquisition price or production cost of tangible fixed assets and intangible assets can be reliably estimated.

2.11.4. Depreciation/amortisation

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

Depreciation of tangible fixed assets and investment properties and amortisation 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 amortisation 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 non-financial 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/amortisation periods for basic groups of tangible fixed assets, investment properties and intangible assets applied by PKO Bank Polski SA:

Tangible fixed assets	Periods
Buildings, premises, cooperative rights to premises (including investment property)	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
Means of transport	5 years
Intangible assets	**Periods**
Software	2-15 years
Other intangible assets	5 years

Costs related 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.

2.11.5. Impairment allowances 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 recognises an impairment loss in the income statement. The projection for the value in use requires making assumptions, e.g. about future expected 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 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 allowance is recognised if the book value of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment allowances 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 impairment allowances may be reversed if there was a change in the estimates used to determine the recoverable amounts. An impairment allowance 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 allowances not have been recorded.

2.12. Other items in the statement of financial position

2.12.1. Non-current assets held for sale and discontinued operations

Non-current assets held for sale include assets which 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, started to seek actively for a buyer and finish the sale process. 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 recognised 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 or fair value less costs to sell. Impairment allowances for non-current assets held for sale are recognised 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 separate 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.

In case of non-current assets, for whose qualification criteria for the group of non-current assets held for sale are no longer fulfilled, the Bank makes reclassification from non-current assets held for sale to the proper category of assets. Non-current assets withdrawn from assets held for sale are valued at lower of two values:

1) carrying amount before the moment of qualification to assets held for sale, less depreciation, which would have been included if the asset (or group of assets to be sold) would not have been qualified as held for sale,
2) recovery amount for the day of decision of sales abandonment.

2.12.2. Accruals and deferred income

Accruals and deferred income mainly comprise fee and commission income recognised using the straight-line method and other income received in advance, which will be recognised in the income statement in future reporting periods.Accruals and deferred income are shown in the statement of financial position under 'Other liabilities'.

Prepayments and deferred costs include particular kinds of expenses which will be recognised in the income statement in future reporting periods. Prepayments and deferred costs are shown in the statement of financial position under 'Other assets'.

2.13. 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.

2.14. Restructuring provision

A restructuring provision is set up when general criteria for recognising provisions are met as well as the detailed criteria related to the legal or constructive obligation to set up provisions for restructuring costs specified in IAS 37 are met. Precisely, the constructive obligation of restructurisation and recognising provisions 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 above-mentioned parties. A detailed restructuring plan specifies at least activities or part of the activities to which the plan relates, the basic locations covered by the plan, the place of employment, functions and estimated number of employees who are to be compensated due to their contract termination, the amount of expenditure which is to be incurred and the date when the plan will be implemented. Legal obligation to recognise a restructuring provision results from the Act dated 13 March 2003 on detailed principles of employment termination from reasons independent from employees (Journal of Laws 2003, No 90, item 844 with subsequent amendments). According to the Act, an employer is obliged to discuss an intention of mass redundancies with the company's trade unions, in particular with regard to the possibilities of avoidance or reduction of the scale of mass redundancies. An employer is also obliged to discuss employees' issues related to redundancies including, in particular, possibilities of retraining or professional trainings, as well as new job opportunities for dismissed employees.

The restructuring provision covers only such direct expenditures arising as a result of the restructuring which at the same time:

1) necessarily result from the restructuring,
2) are not related to the Bank's on-going business operations.

The restructuring provision does not cover future operating expenses.

2.15. Employee benefits

According to the Collective Labour Agreement ('Zakładowy Układ Zbiorowy Pracy'), all employees of PKO Bank Polski 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 sheet 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 recognised in the income statement.

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

2.16. Borrowing costs

Borrowing costs which can be directly assigned to the purchasing, construction or production of a qualifying asset, the Bank activates as a part of the purchase price or cost of creation of that assets if there is a probability that they will bring economic benefits and on condition that the purchase price or cost of creation can be measured reliably.

Other borrowing costs are recognised by the Bank as an expense in the period in which they are incurred.

2.17. Contingent liabilities and commitments

As regards operating activities, the Bank concludes transactions, which, at the time of their inception, are not recognised in the statement of financial position 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 recognised in the statement of financial position, 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 recognised in accordance with IAS 37.

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

At initial recognition, 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 recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 'Revenue'.

2.18. Shareholders' equity

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

2.18.1. Share capital

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

2.18.2. Reserve capital

Reserve capital is created according to the Memorandum of Association of the Bank, from the appropriation of net profits and from share premium less issue costs and it is to cover the potential losses which might result from the Bank's activities.

2.18.3. Other comprehensive income

Other comprehensive income comprises the effects of valuation of financial assets available for sale and the amount of the related deferred tax, as well as the effective part of cash flow hedging resulting from hedge accounting and the related deferred tax.

2.18.4. General banking risk fund

General banking risk fund in PKO Bank Polski 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.

2.18.5. Other reserves

Other reserves are created from the appropriation of net profits. It is uniquely to cover the potential losses in the statement of financial position.

2.19. Determination of a financial result

The Bank recognises 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.

2.19.1. Interest income and expense

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

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

Interest income in case of financial assets or group of similar financial assets for which an impairment allowance values are calculated from present values of debt (that is net of impairment allowance) by using current effective interest rate method used for discounting future cash flows for the purposes of estimating losses due to impairment.

Interest income/expense in respect of derivative financial instruments classified as held for trading are recognised in 'Net income from financial instruments at fair value through profit and loss' or 'Net foreign exchange gains' (applied to CIRS), with the exception of derivative instruments classified as hedging instruments into hedge accounting, which have been presented in interest income.

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

2.19.2. Fee and commission income and expense

Fee and commission income is generally recognised 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 directly to creation of loans, and other receivables, as well as amounts charged by the Bank for services performed over a period exceeding 3 months, which are recognised on a straight-line basis. Fee and commission income also includes fee and commission recognised on a straight-line basis, received on loans granted with unspecified schedule of cash flows for which the effective interest rate cannot be determined.

2.19.3. Dividend income

Dividend income is recognised in the income statement of the Bank at the date on which shareholders' rights to receive the dividend have been established.

2.19.4. Net income from financial instruments at fair value

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

2.19.5. 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 and held to maturity.

2.19.6. Foreign exchange gains

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

The Bank recognises both realised and unrealised foreign exchange gains and losses on fair value measurement of unrealised currency options. From an economic point of view, the method of presentation of net gains/losses on currency options applied allows the symmetrical recognition of net gains/losses on currency options and on spot and forward transactions concluded to hedge such options (transactions hedging the currency position generated as a result of changes in the market parameters affecting the currency option position).

The effects of fair value movements and the result realised on the Gold Index option are also included in the foreign exchange gains due to the fact that the Bank treats gold as one of the currencies, in line with the provisions of the Resolution No. 76/2010 of the Polish Financial Supervision Authority dated 10 March 2010 on the scope and detailed principles for setting capital requirements in relation to the individual risk types (Polish Financial Supervision Authority's Journal of Laws of 2010, No. 2, item 11 with subsequent amendments).

Monetary assets and liabilities presented in the statement of financial position and off-balance sheet items denominated in foreign currency are translated into Polish zloty using the average National Bank of Poland rate prevailing for a given currency as at the balance sheet date. Impairment allowances for loan exposures and other receivables denominated in foreign currencies, which are created in Polish zloty, are updated in line with a change in the valuation of the foreign currency assets for which these impairment allowances are created. Realised and unrealised foreign exchange differences are recorded in the income statement.

2.19.7. Other operating income and expense

Other operating income and expense include 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. 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 and donations.

2.20. Income tax

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

2.20.1. 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, allowances on receivables and provisions for contingent liabilities and commitments.

While calculating corporate income tax, regulations resulting from the Act on corporate income tax dated 15 February 1992 have been taken into consideration (Journal of Laws from the year 2000, No. 54, item 654 with subsequent amendments). Simultaneously, the regulations of Decree of the Minister of Finance dated 7 May 2001 on extending the deadlines for paying corporate income tax prepayments for banks granting mortgage loans (Journal of Laws No. 43, item 482) are taken into consideration. Capitalised interest not paid by the borrower and not subject to temporary redemption by the State budget is deferred to the date of actual repayment or redemption of such interest in the deferred tax as a positive temporary difference.

2.20.2. Deferred income tax

The amount of deferred tax is calculated as the difference between the tax base and book value of assets and liabilities for financial reporting purposes. The Bank recognises deferred income tax assets and liabilities. An amount of deferred tax recognised in profit and loss is determined using the balance method – as a change in deferred income tax assets and liabilities. Deferred tax assets and deferred tax liabilities are presented in the statement of financial position 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 recognised in other comprehensive income, where changes in the balance of a deferred tax liability or deferred tax asset are accounted for in correspondence with other comprehensive income. The calculation of deferred tax takes into account the balance of the deferred tax asset and deferred tax liability at the beginning and at the end of the reporting period.

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

Deferred tax assets and liabilities are measured using tax rates that are expected to apply in the period when the asset is realised 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 the enforceable legal entitlement to offset current tax receivables with current tax liabilities exists and deferred tax is related to the same taxpayer and the same tax authority.

2.21. Critical estimates and judgements

While preparing financial statements, 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 interchangeably 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 recognised 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 recognised in the period in which the adjustments were made and in the future periods.

The most significant areas in which the Bank performs critical estimates are presented below:

2.21.1. Impairment of loans and advances

An impairment loss is incurred when there is objective evidence of impairment due to one or more 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 possibilities of accumulations of historic impairment data from the existing information systems and applications. As a consequence, acquiring new data 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 minimise 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 of the Bank individually determined to be impaired, the estimated impairment allowance would decrease by PLN 212 million or increase by PLN 384 million respectively (as at 31 December 2010 would decrease by PLN 181 million or increase by PLN 378 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, i.e. the positions for which an individual method is applied.

2.21.2. 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 assess the potential influence of change of the yield curve on the transaction valuation. Upwards movement of yield curve by 50 bp. would result in decrease of non-option derivative instruments valuation by PLN 77 million (as at 31 December 2010: PLN 35 million). A similar downwards movement would result in valuation increase by PLN 82 million (as at 31 December 2010: PLN 37 million), including the instruments covered by hedge accounting: a drop of PLN 83 million (2010: PLN 42 million) for upward movement of yield curve and increase of PLN 88 million (2010: PLN 50 million) for downward movement of yield curve.

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

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 external 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 jubilee bonuses and retirement benefits expected to be paid in the future. The Bank performed a reassessment of its estimates as at 31 December 2011, on the basis of calculation conducted by an independent actuary. The provisions calculated equate to discounted future payments, taking into account staff turnover, and relate to the period ending on the balance sheet date. An important factor affecting the amount of the provision is the adopted discount rate. Change in the discount rate of by 0.25 pp. would contribute to an decrease/increase in the amount of the provision for retirement and pension benefits and jubilee bonuses by approx. PLN 9 million (as at 31 December 2010, an increase/decrease in financial discount rate by 0.5 pp. affected a decrease/increase in the value of the provision for retirement and pension benefits and jubilee bonuses by about PLN 19 million). Gains and losses of the calculations conducted by an actuary are recognised in the income statement.

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

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

In estimating useful economic 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.

If the useful life of assets being subject to depreciation and classified as land and buildings was changed by +/- 10 years, it would influence the financial result as follows: a decrease in depreciation costs by PLN 25 million or an increase in depreciation costs by PLN 134 million respectively (as at 31 December 2010 respectively: a decrease in deprecation cost by PLN 25 million or an increase in depreciation cost by PLN 149 million).

(in PLN thousand)

2.22. Changes in Accounting Policies

Amendments to standards and interpretations which have come into force since 1 January 2011 and have been applied by the Bank

Standard/ interpretation	*Introduction date*	*Application date*	*Approved by the European Union*	*Description of changes*
Amendments to IAS 24 'Related party disclosure'	November 2009	Financial year starting on or after 1 January 2011	Yes	The amendments introduce simplifications within requirements that refer to the disclosure of information by the entities related to state institutions and precise the definition of the related party. These changes have no significant influence on the level of disclosures in the financial statements of the Bank. Appropriate disclosures of the transactions of the Bank as a government related entity are included in Note 41 'Transactions with the State Treasury and related entities'.
Amendments to IAS 32 'Classification of rights issues'	October 2009	Financial year starting on or after 1 February 2010	Yes	The amendments relate to rights issue accounting (rights issues, options, warrants) denominated in the currency different from the functional currency of the issuer. According to the amendments, if some conditions are met, it is required to disclose rights issue as equity regardless of the currency that the settlement price is set at. These changes do not apply to the Bank due to the fact that the Bank does not issue rights issues, options, warrants denominated in the currency different from the functional currency of the issuer.
Amendments to IFRS 1 'First-time adoption of IFRS'	January 2010	Financial year starting on or after 1 July 2010	Yes	The amendments introduce additional exemptions for first-time adopters regarding disclosures required by amendments to IFRS 7 issued in March 2009 regarding fair value valuation and liquidity risk. These changes do not apply to the Bank due to the fact that the Bank presents financial statements in accordance with IFRS from 2005.
IFRIC 19 'Extinguishing financial liabilities with equity instruments'	November 2009	Financial year starting on or after 1 July 2010	Yes	This IFRIC clarifies the accounting principles when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. This IFRIC requires the equity instrument to be measured at fair value and a gain or loss to be recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. This information does not apply to the financial statements of the Bank due to lack of such transactions in 2011 and 2010.

(in PLN thousand)

Standard/ interpretation	*Introduction date*	*Application date*	*Approved by the European Union*	*Description of changes*
Amendments to IFRIC 14 'Prepayments of a minimum funding requirement'	November 2009	Financial year starting on or after 1 January 2011	Yes	This interpretation provides guidelines on how to disclose earlier prepayments of a minimum funding requirement as an asset of a paying entity. This information does not apply to the financial statements of the Bank due to lack of such transactions in 2011 and 2010.
Amendments to IFRS 2010 (amendments to 7 standards)	May 2010	Most amendments are effective for financial year starting on 1 January 2011	Yes	The amendments comprise changes related to the presentation, disclosure and valuation. They also include terminology and editing changes. Amendments to IFRS 2010 included: IFRS 7. In the scope of the valuation of non-controlling interests and contingent consideration, IAS 1 concerning an entity's choice as to the presentation of the analysis of other comprehensive income (in the statement of changes in equity or in the explanatory notes to the financial statements). These improvements do not have a material effect on the financial statements of the Bank. The relevant disclosures in respect of IFRS 7 are presented in Note 49 'Risk Management in PKO Bank Polski SA'. Amendments to IFRS 3 did not apply to the transactions concluded in the years 2011 and 2010. Additionally, the Bank applies the solution of presenting an analysis of other comprehensive income in the statement of changes in equity.

New standards and interpretations and amendments to existing standards and interpretations, which have been published, but are not yet effective nor applied by the Bank

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*
Amendments to IFRS 1 'Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters'	December 2010	Financial year starting on or after 1 July 2011	No	The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value, and to use that fair value as the deemed cost in the opening IFRS statement of financial position. The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques due to no active market and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes. These changes do not apply to the Bank due to the fact that the Bank presents financial statements in accordance with IFRS from 2005.

(in PLN thousand)

Standard/ interpretation	*Introduction date*	*Application date*	*Approved by the European Union*	*Description of potential changes*
Amendments to IFRS 7 'Transfers of Financial Assets'	October 2010	Financial year starting on or after 1 July 2011	Yes	The amendments require additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remaining in the entity's balance sheet. Disclosures are also required to enable to understand the amount of any associated liabilities, and the relationship between the certain financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. These changes will be applicable to the financial statements of the Bank for 2012 and will require the Bank's broader disclosures, however it is estimated that Bank's scale of changes would not be significant.
Amendments to IAS 12 'Recovery of Underlying Assets'	December 2010	Financial year starting on or after 1 January 2012	No	The amendments relate to measuring deferred tax liabilities and deferred tax assets relating to investment property measured using the fair value model in IAS 40, Investment Property and introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, 'Income Taxes – Recovery of Revalued Non-Depreciable Assets', which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, 'Property, Plant and Equipment', was incorporated into IAS 12 after excluding from its scope guidance on investment properties measured at fair value. The above changes will possibly apply for the first time to the financial statements of the Bank for the year 2013, provided that they are adopted by the European Union. As of today, due to a lack of such transactions in the Bank, it is estimated that the above amendments shall not apply to the financial statements of the Bank.

(in PLN thousand)

Standard/ interpretation	*Introduction date*	*Application date*	*Approved by the European Union*	*Description of potential changes*
Amendments to IAS 1 'Presentation of Financial Statements'	June 2011	Financial year starting on or after 1 July 2012	No	The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. Additionally, the title of statement of comprehensive income has changed to 'statement of profit or loss and other comprehensive income'. The above changes will apply for the first time to the financial statements of the Bank for the year 2012, provided that they are adopted by the European Union. Moreover the above change has a presentation character and will not have material impact on the Bank's disclosures.
Amended IAS 19 'Employee Benefits'	June 2011	Financial year starting on or after 1 January 2013	No	The amendments introduce new requirements for the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The above changes will apply for the first time to the financial statements of the Bank for the year 2013, provided that they are adopted by the European Union. As of today it is estimated that the amendments will not have material impact on the Bank.
Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities'	December 2011	Financial year starting on or after 1 January 2014	No	The amendments introduce application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes i.a. clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The above changes will possibly apply for the first time to the financial statements of the Bank for the year 2014, provided that they are adopted by the European Union. The above additional explanations do not seem to have material impact on the Bank.
Amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities'	December 2011	Financial year starting on or after 1 January 2013	No	The amendments introduce an obligation of new disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.

(in PLN thousand)

Standard/ interpretation	*Introduction date*	*Application date*	*Approved by the European Union*	*Description of potential changes*
				The above changes will possibly apply for the first time to the financial statements of the Bank for the year 2013, provided that they are adopted by the European Union. These changes will have a presentation character and will require from the Bank additional disclosures if it will be applicable for the events from 2013.
IFRS 9, 'Financial Instruments Part 1: Classification and Measurement'	November 2009, in October 2010 supplemented with the problem of classification and measurement of financial liabilities, in December 2011 changed the effective date	Financial year starting on or after 1 January 2015	No	The standard introduces the model allowing only two categories of the financial assets classification: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The classification is to be made at initial recognition and it depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income. The above changes will apply for the first time to the financial statements of the Bank for the year 2015, provided that they are adopted by the European Union. The European Union makes commencing work on the adaptation conditional upon the IASB issuing a version of IFRS 9 which includes Section 2 'Impairment' and Section 3 'Hedge Accounting', which as of today are in the draft phase. The impact of IFRS 9 on the adopted accounting policies has not yet been evaluated. In 2012, an analysis is to be performed in respect of the gap arising from the new classification and valuation of financial assets and liabilities within the scope of part 1 of IFRS 9.
IFRS 10 'Consolidated Financial Statements'	May 2011	Financial year starting on or after 1 January 2013	No	The new standard replaces all of the guidance on control and consolidation in IAS 27 'Consolidated and separate financial statements' and in the interpretation SIC-12 'Consolidation - special purpose entities'. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.

(in PLN thousand)

Standard/ interpretation	***Introduction date***	***Application date***	***Approved by the European Union***	***Description of potential changes***
				The above changes will possibly apply for the first time to the financial statements of the Bank for the year 2013, provided that they are adopted by the European Union. Based on preliminary analyses, the new standard does not seem to have a significant influence on the Bank.
IFRS 11 'Joint Arrangements'	May 2011	Financial year starting on or after 1 January 2013	No	The new standard replaces IAS 31 'Interests in Joint Ventures' and the interpretation SIC-13 'Jointly Controlled Entities – Non-Monetary Contributions by Ventures'. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. At the same time, the existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity method is mandatory for all participants in joint ventures. The above changes will possibly apply for the first time to the financial statements of the Bank for the year 2013, provided that they are adopted by the European Union. In the case of the Bank it is estimated, that the scope of changes will not be material.
IFRS 12 'Disclosure of Interest in Other Entities'	May 2011	Financial year starting on or after 1 January 2013	No	The new standard applies to entities that have an interest in a subsidiary, a joint ventures, an associate or an unconsolidated structured entity. The standard replaces the disclosure requirements currently found in IAS 28 'Investments in associates'. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint ventures and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

(in PLN thousand)

Standard/ interpretation	*Introduction date*	*Application date*	*Approved by the European Union*	*Description of potential changes*
				The above changes will apply for the first time to the financial statements of the Bank for the year 2013, provided that they are adopted by the European Union. The changes applied will require additional disclosures to the Bank's financial statements, but it is estimated that due to the current wide range of disclosures about the Group's entities in case of the Bank the additional scope of disclosures will not be material.
IFRS 13 'Fair Value Measurement'	May 2011	Financial year starting on or after 1 January 2013	No	The new standard aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements. The above changes will apply for the first time to the financial statements of the Bank for the year 2013, provided that they are adopted by the European Union. As of today it is estimated that due to the character of the new IFRS the scope of changes will not be material.
Revised IAS 27 'Separate Financial Statements'	May 2011	Financial year starting on or after 1 January 2013	No	IAS 27 was changed in connection with the publication of IFRS 10 'Consolidated Financial Statements'. The objective of revised IAS 27 is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10. The above changes will apply for the first time to the financial statements of the Bank for the year 2013, provided that they are adopted by the European Union. It is estimated that the additional scope of disclosures, due to the current extensive range of disclosures about the Group's entities will not be material.
Revised IAS 28 'Investments in Associates and Joint Ventures'	May 2011	Financial year starting on or after 1 January 2013	No	The amendment of IAS 28 resulted from the IASB's project on joint ventures. The Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.

Standard/ interpretation	*Introduction date*	*Application date*	*Approved by the European Union*	*Description of potential changes*
				The above changes will possibly apply for the first time to the financial statements of the Bank for the year 2013, provided that they are adopted by the European Union. According to the accounting policies subsidiaries and associates are recognised at cost less impairment losses.
IFRIC 20 'Stripping Costs in the Production Phase of a Surface Mine'	October 2011	Financial year starting on or after 1 January 2013	No	The interpretation clarifies that costs from the stripping activity are accounted for expenses of the current production in accordance with the principles of IAS 2, 'Inventories', to the extent that benefits from the stripping activity are realised in the form of inventory produced. To the extent the stripping activity leads to the benefits representing improved access to ore, the entity should recognise these costs as a 'stripping activity asset' within non-current assets, subject to certain criteria of interpretation being met. In accordance with the range of activity of the Bank, IFRIC 20 does not apply.

The Management Board does not expect the introduction of the above-mentioned standards and interpretations to have a significant influence on the accounting policies applied by the Bank with the exception of IFRS 9 (an influence of IFRS 9 on accounting principles applied by the Bank have not been assessed yet). The Bank intends to apply them in the periods indicated in the relevant standards and interpretations (without early adoption), provided that they are adopted by the EU.

(in PLN thousand)

NOTES TO THE INCOME STATEMENT

3. Interest income and expense

Interest and similar income

	2011	2010
Interest income calculated using the effective interest rate method, with respect to financial assets, which are not designated at fair value through profit and loss, of which:	**10 367 111**	**8 834 794**
Income from loans and advances to customers	9 581 320	8 246 231
Income from investments securities available for sale	557 750	437 053
Income from placements with banks	218 682	147 682
Other	9 359	3 828
Other income, of which:	**1 450 948**	**1 272 758**
Income from derivative hedging instruments	814 275	649 116
Income from financial assets designated upon initial recognition at fair value	561 826	494 702
Income from trading assets	74 847	128 940
Total	**11 818 059**	**10 107 552**

In the 'Income from derivative hedging instruments' the Bank presents interest income from derivative instruments designated for hedge accounting that are effective hedging instruments in the respect of cash flow hedges. Details of hedging relationships applied by the Bank are included in Note 19 'Derivative hedging instruments'.

In the year ended 31 December 2011, interest income from impaired loans amounted to PLN 385 425 thousand (in the year ended 31 December 2010, it amounted to PLN 320 718 thousand). This income has been included in the position 'Income from loans and advances to customers'.

Interest expense and similar charges

	2011	2010
Interest expense calculated using the effective interest rate method, with respect to financial liabilities, which are not designated at fair value through profit and loss, of which:	**(4 310 998)**	**(3 703 305)**
Interest expense on amounts due to customers	(4 133 424)	(3 586 343)
Interest expense on debt securities in issue	(130 568)	(82 191)
Interest expense on deposits from banks	(45 684)	(31 218)
Premium expense on debt securities available for sale	(1 322)	(3 553)
Other expense	**(2 092)**	**(20 471)**
Total	**(4 313 090)**	**(3 723 776)**

(in PLN thousand)

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

	2011	2010
Net gains and losses from financial assets measured at amortised cost	**8 645 465**	**7 312 926**
Interest income from loans and advances to customers	9 581 320	8 246 231
Fee and commission income from loans and advances	574 044	524 110
Interest income from placements with banks	218 682	147 682
Net impairment allowance on loans and advances to customers and amounts due from banks measured at amortised cost	(1 728 581)	(1 605 097)
Losses from financial liabilities measured at amortised cost	**(4 309 676)**	**(3 699 752)**
Interest expense on amounts due to customers	(4 133 424)	(3 586 343)
Interest expense on debt securities in issue	(130 568)	(82 191)
Interest expense on bank deposits	(45 684)	(31 218)
Net result	**4 335 789**	**3 613 174**

4. Fee and commission income and expense

Fee and commission income

	2011	2010
Income from financial assets, which are not designated at fair value through profit and loss, of which:	**574 044**	**524 110**
Income from loans and advances	574 044	524 110
Other commissions	**3 045 030**	**3 152 718**
Income from payment cards	1 020 600	963 363
Income from maintenance of bank accounts	903 972	908 208
Income from loan insurance	515 499	653 501
Income from maintenance of investment funds (including management fees)	187 566	170 269
Income from cash transactions	148 325	165 437
Income from securities transactions	70 295	73 231
Income from servicing foreign mass transactions	47 966	44 754
Income from sale and distribution of court fee stamps	18 625	26 255
Other*	132 182	147 700
Income from fiduciary activities	**2 806**	**1 659**
Total	**3 621 880**	**3 678 487**

* Included in 'Other' are i.a.: commissions received for servicing bond sale transactions, commissions of the Brokerage House (Dom Maklerski) for servicing Initial Public Offering issue and commissions for servicing indebtedness of borrowers against the State budget.

Fee and commission expense

	2011	2010
Expenses on payment cards	(373 697)	(329 381)
Expenses on loan insurance	(133 488)	(150 842)
Expenses on acquisition services	(117 603)	(133 935)
Expenses on settlement services	(20 971)	(21 071)
Expenses on fee and commissions for operating services rendered by banks	(11 340)	(10 113)
Other*	(91 980)	(95 586)
Total	**(749 079)**	**(740 928)**

* Included in 'Other' are i.a.: fee and expenses paid by the Brokerage House (Dom Maklerski) to Warsaw Stock Exchange (GPW) and the National Depository for Securities (KDPW).

(in PLN thousand)

5. Dividend income

	2011	2010
Dividend income from the issuers of:	**6 800**	**5 663**
Securities classified as available for sale	6 416	5 411
Securities classified as held for trading	384	252
Dividend income from subsidiaries, jointly controlled entities and associates of which:	**87 228**	**104 232**
PKO Towarzystwo Funduszy Inwestycyjnych SA	48 200	61 209
CEUP eService SA	22 200	29 000
Centrum Finansowe Puławska Sp. z o.o.	-	12 492
Agencja Inwestycyjna CORP-SA SA	112	107
Inteligo Financial Services SA	16 716	1 424
Total	**94 028**	**109 895**

6. Net income from financial instruments designated at fair value

	2011	2010
Derivative instruments [1)]	(88 585)	(103 782)
Debt securities	7 003	45 847
Structured bank securities designated at fair value through profit and loss [1)]	3 630	-
Equity instruments	(612)	1 427
Other [1)]	26	19
Total	**(78 538)**	**(56 489)**

In the net income from financial instruments at fair value, position ‘Derivative instruments’, in financial year ended 31 December 2011, an ineffective portion related to cash flow hedges was recognised and it amounted to PLN (64 342) thousand (in financial year ended 31 December 2010, an ineffective portion related to cash flow hedges was recognised and it amounted to PLN (82 879) thousand).

2011	Gains	Losses	Net result
Trading assets	10 505 703	(10 593 970)	(88 267)
Financial assets designated upon initial recognition at fair value through profit and loss	61 461	(51 732)	9 729
Total	**10 567 164**	**(10 645 702)**	**(78 538)**

2010	Gains	Losses	Net result
Trading assets	8 474 400	(8 568 293)	(93 893)
Financial assets designated upon initial recognition at fair value through profit and loss	54 093	(16 689)	37 404
Total	**8 528 493**	**(8 584 982)**	**(56 489)**

The total change in fair values of financial instruments at fair value through profit and loss determined with use of valuation models (where no quotations from active market were available) in the year ended 31 December 2011 amounted to PLN (84 929)[*)] thousand and in the year ended 31 December 2010: PLN (103 763) thousand[*)] (LEVEL 2, Note 45).

*The total amount of the items marked with[1)] presented in Note 6 ‘Net income from financial instruments designated at fair value’

(in PLN thousand)

7. Net gains/(losses) on investment securities

	2011	2010
Losses/gains recognised directly in other comprehensive income	(43 903)	(86 745)
Total result recognised directly in other comprehensive income	**(43 903)**	**(86 745)**
Gains derecognised from other comprehensive income	17 348	73 756
Losses derecognised from other comprehensive income	(1 045)	(2 474)
Total result derecognised from other comprehensive income, recognised in profit and loss	**16 303**	**71 282**
Total result retained in other comprehensive income	**(27 600)**	**(15 463)**

8. Net foreign exchange gains

	2011	2010
Currency translation differences resulting from financial instruments designated at fair value through profit and loss	523 174	(1 026 841)
Other currency translation differences	(191 807)	1 368 189
Total	**331 367**	**341 348**

9. Other operating income and expense

	2011	2010
Other operating income		
Sundry income	19 134	20 289
Sales and disposal of tangible fixed assets, intangible assets and assets held for sale	15 087	6 820
Recovery of expired and written-off receivables	5 274	4 495
Sale of shares in subsidiaries, jointly controlled entities and associates	-	545
Other*	71 296	15 863
Total	**110 791**	**48 012**

*In 2011 the item 'Other' includes i.a. revenue from the settlement of sale of the training and recreation center in the amount of PLN 33 956 thousand.

	2011	2010
Other operating expense		
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(11 491)	(4 561)
Donations	(11 356)	(4 180)
Sundry expenses	(4 696)	(4 378)
Other	(39 635)	(30 189)
Total	**(67 178)**	**(43 308)**

(in PLN thousand)

10. Net impairment allowance and write-downs

For the year ended 31 December 2011	Note	Value at the beginning of the period	Increases: Recognised during the period	Increases: Other	Decreases: Decrease due to derecognition of assets and settlement	Decreases: Reversed during the period	Value at the end of the period	Net – impact on the income statement
Investment securities available for sale	**22**	**13 578**	**1 971**	**-**	**-**	**47**	**15 502**	**(1 924)**
Debt securities available for sale		13 045	-	-	-	47	12 998	47
Equity securities not admitted to trading		533	1 971	-	-	-	2 504	(1 971)
Amounts due from banks	**16**	**32 570**	**1 061**	**4 296**	**341**	**3 876**	**33 710**	**2 815**
Loans and advances to customers measured at amortised cost	**21**	**4 265 484**	**5 122 158**	**63 604**	**1 077 694**	**3 390 762**	**4 982 790**	**(1 731 396)**
non-financial sector		4 246 632	5 108 922	63 604	1 077 087	3 383 585	4 958 486	(1 725 337)
consumer loans		1 499 403	2 230 235	11 802	722 545	1 567 827	1 451 068	(662 408)
mortgage loans		907 343	1 056 783	38 775	90 183	677 744	1 234 974	(379 039)
corporate loans		1 839 886	1 821 904	13 027	264 359	1 138 014	2 272 444	(683 890)
financial sector		5 718	5 966	-	605	2 554	8 525	(3 412)
corporate loans		5 718	5 966	-	605	2 554	8 525	(3 412)
budget sector		13 134	7 270	-	2	4 623	15 779	(2 647)
corporate loans		13 134	7 270	-	2	4 623	15 779	(2 647)
Non-current assets held for sale		**1 281**	**-**	**-**	**3**	**-**	**1 278**	**-**
Tangible fixed assets	**25**	**18 381**	**16**	**-**	**17 254**	**1 000**	**143**	**984**
Intangible assets	**24**	**18 017**	**-**	**-**	**-**	**-**	**18 017**	**-**
Investments in subsidiaries, jointly controlled entities and associates	**23**	**450 962**	**24 707**	**-**	**-**	**-**	**475 669**	**(24 707)**
Other, of which:		**404 246**	**251 548**	**263**	**169 121**	**193 654**	**293 282**	**(57 894)**
provisions on legal claims and liabilities and guarantees granted	33	222 448	188 826	260	144 956	152 555	114 023	(36 271)
Total		**5 204 519**	**5 401 461**	**68 163**	**1 264 413**	**3 589 339**	**5 820 391**	**(1 812 122)**

In the item 'Decrease due to derecognition of assets and settlement' for the year ended 31 December 2011 the amount of PLN 144 956 thousand has been presented, in relation to exemption of the Bank from guarantee, before the date, for which it has been granted.

(in PLN thousand)

Net impairment allowance and write-downs

For the year ended 31 December 2010	Note	Value at the beginning of the period	Increases: Recognised during the period	Increases: Other	Decreases: Decrease due to derecognition of assets and settlement	Decreases: Reversed during the period	Value at the end of the period	Net – impact on the income statement
Investment securities available for sale	**22**	**15 576**	**-**	**-**	**1 198**	**800**	**13 578**	**800**
Debt securities available for sale		13 183	-	-	138	-	13 045	-
Equity securities not admitted to trading		2 393	-	-	1 060	800	533	800
Amounts due from banks	**16**	**27 109**	**4 541**	**1 078**	**-**	**158**	**32 570**	**(4 383)**
Loans and advances to customers measured at amortised cost	**21**	**3 414 945**	**4 000 692**	**26 642**	**776 817**	**2 399 978**	**4 265 484**	**(1 600 714)**
non-financial sector		3 382 144	3 980 172	26 642	768 655	2 373 671	4 246 632	(1 606 501)
consumer loans		1 325 580	1 720 258	3 217	638 488	911 164	1 499 403	(809 094)
mortgage loans		643 055	773 226	20 377	14 221	515 094	907 343	(258 132)
corporate loans		1 413 509	1 486 688	3 048	115 946	947 413	1 839 886	(539 275)
financial sector		11 305	5 461	-	8 162	2 886	5 718	(2 575)
corporate loans		11 305	5 461	-	8 162	2 886	5 718	(2 575)
budget sector		21 496	15 059	-	-	23 421	13 134	8 362
corporate loans		21 496	15 059	-	-	23 421	13 134	8 362
Non-current assets held for sale		**-**	**1 281**	**-**	**-**	**-**	**1 281**	**(1 281)**
Tangible fixed assets	**25**	**1 166**	**29 418**	**-**	**12 203**	**-**	**18 381**	**(29 418)**
Intangible assets	**24**	**15 373**	**2 644**	**-**	**-**	**-**	**18 017**	**(2 644)**
Investments in subsidiaries, jointly controlled entities and associates	**23**	**435 889**	**15 073**	**-**	**-**	**-**	**450 962**	**(15 073)**
Other, of which:		**315 840**	**338 810**	**2**	**25 929**	**224 477**	**404 246**	**(114 333)**
provisions on legal claims and liabilities and guarantees granted	33	117 483	272 125	2	194	166 968	222 448	(105 157)
Total		**4 225 898**	**4 392 459**	**27 722**	**816 147**	**2 625 413**	**5 204 519**	**(1 767 046)**

(in PLN thousand)

11. Administrative expenses

	2011	2010
Employee costs	(2 224 040)	(2 197 253)
Overheads	(1 184 695)	(1 147 788)
Depreciation and amortisation	(452 698)	(445 989)
Taxes and other charges	(60 320)	(57 698)
Contribution and payments to the Bank Guarantee Fund	(136 737)	(53 384)
Total	**(4 058 490)**	**(3 902 112)**

Wages and salaries/employee benefits

	2011	2010
Wages and salaries, of which:	(1 885 849)	(1 863 618)
actuarial provision for anniversary bonuses and retirement benefits	(16 250)	(43 432)
Social Security, of which:	(276 264)	(274 572)
contributions for retirement pay and pensions*	(224 564)	(220 464)
Other employee benefits	(61 927)	(59 063)
Total	**(2 224 040)**	**(2 197 253)**

*Total expense incurred by the Bank related to contributions for retirement pay and pensions

Finance and operating lease agreements

Finance lease

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

Operating lease – lessee

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 recognised 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 of the above are arm's length agreements.

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

Total value of future lease payments under irrevocable operating lease	31.12.2011	31.12.2010
For the period:		
up to 1 year	139 811	122 768
from 1 year to 5 years	320 565	280 186
above 5 years	60 519	83 420
Total	**520 895**	**486 374**

Lease and sub-lease payments recognised as an expense of a given period from 1 January 2011 to 31 December 2011 amounted to PLN 161 520 thousand (in the period from 1 January 2010 to 31 December 2010: PLN 147 133 thousand).

(in PLN thousand)

12. Income tax expense

	2011	2010
Income statement		
Current income tax expense	(910 115)	(1 019 630)
Deferred income tax related to temporary differences	(50 194)	207 922
Tax expense in the income statement	**(960 309)**	**(811 708)**
Tax expense in other comprehensive income related to temporary differences	(28 595)	(20 203)
Total	**(988 904)**	**(831 911)**

	2011	2010
Profit before income tax	**4 913 931**	**4 122 917**
Corporate income tax calculated using the enacted tax rate 19% in force in Poland	(933 647)	(783 354)
Permanent differences between accounting gross profit and taxable profit, of which:	**(28 613)**	**(28 938)**
Exposure impairment allowance not constituting taxable expense/income	(36 356)	(37 503)
Other non-tax deductible expenses	(10 309)	(12 042)
Dividend income	17 859	20 501
Other permanent differences	193	106
Other differences between gross financial result and taxable income, including donations	**1 951**	**584**
Income tax in the income statement	**(960 309)**	**(811 708)**
Effective tax rate	**19.54%**	**19.69%**
Temporary difference due to the deferred tax presented in the income statement	(50 194)	207 922
Total current income tax expense in the income statement	**(910 115)**	**(1 019 630)**

Current income tax liabilities/receivables

	31.12.2011	31.12.2010
Current income tax liabilities	77 532	61 854

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 tax liability of the Bank for the year 2011 will be settled as at 31 March 2012.

Deferred tax asset/liability

	Statement of financial position		Income statement	
	31.12.2011	**31.12.2010**	**2011**	**2010**
Deferred tax liability				
Interest accrued on receivables (loans)	176 076	111 398	(64 678)	(22 944)
Capitalised interest on performing mortgage loans	190 844	211 576	20 732	26 870
Interest on securities	58 187	44 537	(13 650)	(6 824)
Valuation of derivative instruments, of which:	94 471	98 859	-	-
transferred to income statement	9 514	47 741	38 227	(34 784)
transferred to other comprehensive income	84 957	51 118	-	-
Valuation of securities, of which:	16 414	-	-	-
transferred to income statement	15 443	-	(15 443)	-
transferred to other comprehensive income	971	-	-	-
Difference between book value and tax value of tangible fixed assets	293 318	258 027	(35 291)	(21 855)
Gross deferred tax liability, of which:	**829 310**	**724 397**	**-**	**-**
transferred to income statement	743 382	673 279	(70 103)	(59 537)
transferred to other comprehensive income	85 928	51 118	-	-
Deferred tax asset				
Interest accrued on liabilities	391 527	406 364	(14 837)	79 945
Valuation of derivative financial instruments, of which:	16 093	19 470	-	-
transferred to income statement	16 093	19 470	(3 377)	2 060
Valuation of securities, of which:	24 550	57 395	-	-
transferred to income statement	11 580	50 640	(39 060)	39 368
transferred to other comprehensive income	12 970	6 755	-	-
Provision for employee benefits	126 714	118 613	8 101	8 442
Loan impairment allowances	414 558	335 477	79 081	98 983
Adjustment to straight-line basis and effective interest rate valuation	211 011	218 000	(6 989)	26 493
Other temporary negative differences	28 991	32 001	(3 010)	12 168
Gross deferred income tax asset, of which:	**1 213 444**	**1 187 320**	**-**	**-**
transferred to income statement	1 200 474	1 180 565	19 909	267 459
transferred to other comprehensive income	12 970	6 755	-	-
Total deferred tax impact, of which:	**384 134**	**462 923**	-	-
transferred to income statement	457 092	507 286	(50 194)	207 922
transferred to other comprehensive income	(72 958)	(44 363)	-	-
Deferred income tax asset (presented in the statement of financial position)	**384 134**	**462 923**	**-**	**-**
Net deferred tax impact on the income statement	**-**	**-**	**(50 194)**	**207 922**

13. Earnings per share

Basic earnings per share

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

Earnings per share

	2011	2010
Profit per ordinary shareholder (in PLN thousand)	3 953 622	3 311 209
Weighted average number of ordinary shares during the period (in thousand)	1 250 000	1 250 000
Earnings per share (in PLN per share)	3.16	2.65

Earnings per share from discontinued operations

In the periods ended respectively 31 December 2011 and 31 December 2010 the Bank did not report any discontinued operations.

(in PLN thousand)

Diluted earnings per share

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

There were no dilutive instruments in the Bank in 2011 or 2010.

Diluted earnings per share from discontinued operations

In the periods ended respectively 31 December 2011 and 31 December 2010 the Bank did not report any discontinued operations.

14. Dividends paid (in total or per share) on ordinary shares and other shares

Pursuant to the Resolution No. 8/2011 of the Ordinary General Shareholders' Meeting of Powszechna Kasa Oszczędności Bank Polski SA passed on 30 June 2011, the dividend for 2010 amounted to PLN 2 475 000 thousand, i.e. PLN 1.98 per share.

The list of shareholders eligible to receive dividend for 2010 was determined as at 31 August 2011, and the payment was made on 15 September 2011.

As at 31 December 2011 the Bank did not decide on whether to pay dividends. In accordance with the Bank's policy on paying dividends, the Management Board of the Bank, while placing proposals on paying dividends, will take into consideration the necessity to ensure an appropriate level of the capital adequacy ratio and the capital necessary to the Bank's development amounting to 40% of the Bank's net profit for a given calendar year.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

15. Cash and balances with the central bank

	31.12.2011	31.12.2010
Current account with the central bank	6 845 759	3 782 717
Cash	2 214 202	2 328 669
Other funds	319	1 176
Total	**9 060 280**	**6 112 562**

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 2011, this interest rate was 4.275%.

As at 31 December 2011 and 31 December 2010, there were no further restrictions as regards the use of these funds.

(in PLN thousand)

16. Amounts due from banks

	31.12.2011	31.12.2010
Deposits with banks	1 914 393	1 501 919
Current accounts	279 622	557 408
Loans and advances granted	158 162	345 620
Cash in transit	1 731	6 862
Gross total	**2 353 908**	**2 411 809**
Impairment allowances, of which:	(33 710)	(32 570)
impairment allowances on exposure to a foreign bank	(33 283)	(31 734)
Net total	**2 320 198**	**2 379 239**

Details on risk related to amounts due from banks was presented in Note 50.2 ‘Credit risk management’.

17. Trading assets

	31.12.2011	31.12.2010
Debt securities	**1 300 164**	**1 491 053**
issued by the State Treasury, of which:	1 268 471	1 483 144
Treasury bonds	1 219 069	1 483 144
Treasury bills	49 402	-
issued by non-financial institutions, corporate bonds	14 947	509
issued by local government bodies, municipal bonds	14 783	7 390
issued by banks, BGK bonds	1 724	-
issued by other financial institutions, corporate bonds	239	10
Shares in other entities - listed on stock exchange	**10 925**	**12 596**
Total	**1 311 089**	**1 503 649**

(in PLN thousand)

Trading assets at carrying amount by maturity as at 31 December 2011 and as at 31 December 2010

As at 31 December 2011	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
Trading assets	**68 409**	**51 918**	**507 069**	**497 725**	**175 043**	**1 300 164**
issued by the State Treasury	68 317	50 092	501 826	474 429	173 807	**1 268 471**
issued by non-financial institutions	92	821	620	13 414	-	**14 947**
issued by local government bodies	-	778	4 623	8 405	977	**14 783**
issued by banks	-	-	-	1 465	259	**1 724**
issued by other financial institutions	-	227	-	12	-	**239**
Total	**68 409**	**51 918**	**507 069**	**497 725**	**175 043**	**1 300 164**

As at 31 December 2011 the average yield on debt securities issued by the State Treasury and included in the trading assets portfolio amounted to 4.61%. As at 31 December 2011, the Bank's portfolio did not include Treasury securities denominated in foreign currencies.

The portfolio of debt securities held for trading as at 31 December 2011 comprised the following securities carried at nominal values:

- Treasury bonds 1 236 644
- Treasury bills 50 000
- Corporate bonds 14 900
- Municipal bonds 14 337
- BGK bonds 1 686

(in PLN thousand)

As at 31 December 2010	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
Trading assets	**-**	**292**	**860 158**	**254 749**	**375 854**	**1 491 053**
issued by other financial institutions	-	-	10	-	-	**10**
issued by other non-financial institutions	-	-	-	509	-	**509**
issued by the State Treasury	-	102	859 530	249 224	374 288	**1 483 144**
issued by local government bodies	-	190	618	5 016	1 566	**7 390**
Total	**-**	**292**	**860 158**	**254 749**	**375 854**	**1 491 053**

As at 31 December 2010 the average yield on debt securities issued by the State Treasury and included in the trading assets portfolio amounted to 4.79%. As at 31 December 2010, the Bank's portfolio did not include Treasury securities denominated in foreign currencies.

The portfolio of debt securities held for trading as at 31 December 2010 comprised the following securities carried at nominal values:

- Treasury bonds 1 520 742
- Municipal bonds 7 249
- Corporate bonds 523

(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 2011 and 31 December 2010, the Bank held the following derivative instruments:

	31.12.2011		31.12.2010	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Hedging instruments	516 925	342 598	153 921	555 983
Other derivative instruments	2 548 224	2 302 683	1 565 843	1 848 812
Total	**3 065 149**	**2 645 281**	**1 719 764**	**2 404 795**

Type of contract	31.12.2011		31.12.2010	
	Assets	**Liabilities**	**Assets**	**Liabilities**
IRS	1 941 725	1 925 161	1 447 916	1 553 029
FX Swap	438 331	139 720	62 204	83 613
CIRS	419 640	421 039	126 219	687 977
Forward	119 293	56 271	18 356	42 972
Options	106 492	70 112	46 397	25 382
FRA	38 117	31 965	12 157	11 107
Other	1 551	1 013	6 515	715
Total	**3 065 149**	**2 645 281**	**1 719 764**	**2 404 795**

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 2011

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

	up to 1 month	1- 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
FX swap	21 083 789	9 126 101	10 647 681	137 381	-	**40 994 952**	139 720	438 331
Purchase of currency	10 609 912	4 618 540	5 346 158	66 712	-	**20 641 322**	-	-
Sale of currency	10 473 877	4 507 561	5 301 523	70 669	-	**20 353 630**	-	-
FX forward	1 791 631	2 619 474	3 200 974	426 898	-	**8 038 977**	56 271	119 293
Purchase of currency	898 463	1 312 740	1 614 283	213 824	-	**4 039 310**	-	-
Sale of currency	893 168	1 306 734	1 586 691	213 074	-	**3 999 667**	-	-
Options	1 463 178	3 694 347	5 122 277	3 009 547	-	**13 289 349**	70 112	106 492
Purchase	737 441	1 862 104	2 647 709	1 845 542	-	**7 092 796**	-	-
Sale	725 737	1 832 243	2 474 568	1 164 005	-	**6 196 553**	-	-
Cross Currency IRS	-	-	6 868 896	35 395 814	2 710 629	**44 975 339**	421 039	419 640
Purchase	-	-	3 422 487	17 483 131	1 342 072	**22 247 690**	-	-
Sale	-	-	3 446 409	17 912 683	1 368 557	**22 727 649**	-	-
Interest rate transactions								
Interest Rate Swap (IRS)	35 442 482	41 119 688	135 036 726	156 132 608	23 222 768	**390 954 272**	1 925 161	1 941 725
Purchase	17 721 241	20 559 844	67 518 363	78 066 304	11 611 384	**195 477 136**	-	-
Sale	17 721 241	20 559 844	67 518 363	78 066 304	11 611 384	**195 477 136**	-	-
Forward Rate Agreement (FRA)	42 157 000	48 763 000	65 082 000	2 000 000	-	**158 002 000**	31 965	38 117
Purchase	21 579 000	22 946 000	31 621 000	1 000 000	-	**77 146 000**	-	-
Sale	20 578 000	25 817 000	33 461 000	1 000 000	-	**80 856 000**	-	-
Other transactions								
Other (including stock market index derivatives)	1 682 190	4 114	409 747	36 216	-	**2 132 267**	1 013	1 551
Purchase	644 005	903	208 859	35 586	-	**889 353**	-	-
Sale	1 038 185	3 211	200 888	630	-	**1 242 914**	-	-
Total derivative instruments	**103 620 270**	**105 326 724**	**226 368 301**	**197 138 464**	**25 933 397**	**658 387 156**	**2 645 281**	**3 065 149**

(in PLN thousand)

Derivative financial instruments as at 31 December 2010

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

	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total	Fair value (negative)	Fair value (positive)
Currency transactions								
FX swap	13 472 316	4 136 351	157 816	-	-	**17 766 483**	83 613	62 204
Purchase of currency	6 718 392	2 076 477	78 988	-	-	**8 873 857**	-	-
Sale of currency	6 753 924	2 059 874	78 828	-	-	**8 892 626**	-	-
FX forward	2 005 928	2 165 896	3 101 234	149 193	-	**7 422 251**	42 972	18 356
Purchase of currency	1 000 904	1 078 990	1 535 756	73 127	-	**3 688 777**	-	-
Sale of currency	1 005 024	1 086 906	1 565 478	76 066	-	**3 733 474**	-	-
Options	2 309 507	2 601 855	2 779 398	1 063 314	-	**8 754 074**	25 382	46 397
Purchase	1 166 247	1 297 847	1 383 949	517 322	-	**4 365 365**	-	-
Sale	1 143 260	1 304 008	1 395 449	545 992	-	**4 388 709**	-	-
Cross Currency IRS	1 885 130	303 795	5 133 837	28 861 974	2 783 575	**38 968 311**	687 977	126 219
Purchase	902 828	145 600	2 526 216	14 080 858	1 353 021	**19 008 523**	-	-
Sale	982 302	158 195	2 607 621	14 781 116	1 430 554	**19 959 788**	-	-
Interest rate transactions								
Interest Rate Swap (IRS)	29 696 000	31 596 212	90 355 656	132 765 966	20 420 516	**304 834 350**	1 553 029	1 447 916
Purchase	14 848 000	15 798 106	45 177 828	66 382 983	10 210 258	**152 417 175**	-	-
Sale	14 848 000	15 798 106	45 177 828	66 382 983	10 210 258	**152 417 175**	-	-
Forward Rate Agreement (FRA)	22 013 000	30 732 000	37 825 000	1 850 000	-	**92 420 000**	11 107	12 157
Purchase	11 950 000	14 616 000	18 250 000	800 000	-	**45 616 000**	-	-
Sale	10 063 000	16 116 000	19 575 000	1 050 000	-	**46 804 000**	-	-
Other transactions								
Other (including stock market index derivatives)	4 045 978	18 693	6 306	400 000	-	**4 470 977**	715	6 515
Purchase	2 022 989	11 181	111	200 000	-	**2 234 281**	-	-
Sale	2 022 989	7 512	6 195	200 000	-	**2 236 696**	-	-
Total derivative instruments	**75 427 859**	**71 554 802**	**139 359 247**	**165 090 447**	**23 204 091**	**474 636 446**	**2 404 795**	**1 719 764**

(in PLN thousand)

19. Derivative hedging instruments

As at 31 December 2011, the Bank applies the following hedging strategies:

1) hedges against fluctuations in cash flows from mortgage loans in CHF and negotiated term deposits in PLN, resulting from the risk of fluctuations in interest rates and foreign exchange rates, using CIRS transactions,
2) hedges against fluctuations in cash flows from floating interest rate loans in PLN, resulting from the risk of fluctuations in interest rates, using IRS transactions,
3) hedges against fluctuations in cash flows from floating interest rate loans in EUR, resulting from the risk of fluctuations in interest rates, using IRS transactions,
4) hedges against fluctuations in cash flows from floating interest rate loans in CHF, resulting from the risk of fluctuations in interest rates, using IRS transactions.

As at 31 December 2010, the Bank used the fair value hedge described in point 1-3 above.

As at 31 December 2011 and as at 31 December 2010, the Bank did not use the fair value hedge.

The characteristics of the cash flow hedges applied by the Bank are presented in the table below:

Hedging strategy:	**Hedges against fluctuations in cash flows from mortgage loans in CHF and negotiated term deposits in PLN, resulting from the risk of fluctuations in interest rates and in foreign exchange rates, using CIRS transactions**
Type of hedge relationship	Hedge accounting of cash flow (macro cash flow hedge)
Description of hedge relationship	Elimination of the risk of cash flow fluctuations generated by mortgage loans denominated in CHF and negotiated term deposits in PLN resulting from fluctuations in reference interest rates in CHF and PLN, and changes in foreign exchange rates CHF/PLN during the hedged period.
Hedged risk	Currency risk and interest rate risk.
Hedging instrument	CIRS transactions where the Bank pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal amount defined in CHF and PLN respectively.
Hedged position	1) The portfolio of floating rate mortgage loans denominated in CHF. 2) The portfolio of short-term negotiable term deposits, including renewals in the future (high probability of occurrence). The Bank designated the hedged position according to the regulations of IAS 39.AG.99C as adopted by the EU.
Hedge effectiveness	Hedge effectiveness is verified through the use of prospective and retrospective effectiveness tests. The tests are performed monthly.
Periods in which cash flows are expected and in which they should have an impact on the financial result	January 2012 to October 2026

Hedging strategy:	**Hedges against fluctuations from loans in PLN at float rate, resulting from the risk of fluctuations in interest rates, using IRS transactions**
Type of hedge relationship	Hedge accounting of cash flow (macro cash flow hedge)
Description of hedge relationship	Elimination of the risk of cash flow fluctuations generated by floating rate PLN loans resulting from the interest rate risk in the period covered by the hedge.
Hedged risk	Interest rate risk.
Hedging instrument	IRS transactions where the Bank pays coupons based on variable 3M WIBOR, and receives coupons based on a fixed rate on the nominal amount for which they were concluded.
Hedged position	The portfolio of loans in PLN indexed to the variable 3M WIBOR rate.
Hedge effectiveness	Hedge effectiveness is verified through the use of prospective and retrospective effectiveness tests. The tests are performed monthly.
Periods in which cash flows are expected and in which they should have an impact on the financial result	January 2012 to December 2013

Hedging strategy:	**Hedges against fluctuations from loans in EUR at float rate, resulting from the risk of fluctuations in interest rates, using IRS transactions**
Type of hedge relationship	Hedge accounting of cash flow (macro cash flow hedge)
Description of hedge relationship	Elimination of the risk of cash flow fluctuations generated by floating rate EUR loan portfolio resulting from the interest rate risk in the period covered by the hedge.
Hedged risk	Interest rate risk.
Hedging instrument	IRS transactions where the Bank pays coupons based on variable 3M EURIBOR, and receives coupons based on a fixed rate on the nominal amount for which they were concluded.
Hedged position	The portfolio of loans in EUR indexed to the variable EURIBOR rate.
Hedge effectiveness	Hedge effectiveness is verified through the use of prospective and retrospective effectiveness tests. The tests are performed monthly.
Periods in which cash flows are expected and in which they should have an impact on the financial result	January 2012 to June 2016

Hedging strategy:	**Hedges against fluctuations from loans in CHF at float rate, resulting from the risk of fluctuations in interest rates, using IRS transactions**
Type of hedge relationship	Hedge accounting of cash flow (macro cash flow hedge)
Description of hedge relationship	Elimination of the risk of cash flow fluctuations generated by floating rate CHF loan portfolio resulting from the interest rate risk in the period covered by the hedge.
Hedged risk	Interest rate risk.
Hedging instrument	IRS transactions where the Bank pays coupons based on variable 3M LIBOR CHF, and receives coupons based on a fixed rate on the nominal amount for which they were concluded.
Hedged position	The portfolio of loans in CHF indexed to the variable 3M LIBOR CHF rate.
Hedge effectiveness	Hedge effectiveness is verified through the use of prospective and retrospective effectiveness tests. The tests are performed monthly.
Periods in which cash flows are expected and in which they should have an impact on the financial result	January 2012 to July 2016

Cash flow hedges

The fair value of derivative instruments constituting cash flow hedges related to the interest rate and/or foreign exchange rate as at 31 December 2011 and as at 31 December 2010, respectively:

Type of instrument:	Carrying amount/fair value					
	31.12.2011			31.12.2010		
	Assets	Liabilities	Total	Assets	Liabilities	Total
IRS	175 566	1 643	**173 923**	103 219	18 755	**84 464**
CIRS	341 359	340 955	**404**	50 702	537 228	**(486 526)**
Total	**516 925**	**342 598**	**174 327**	**153 921**	**555 983**	**(402 062)**

The nominal value of hedging instruments by maturity.

Type of instrument:	Nominal value as at 31 December 2011				
	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
IRS in PLN thousand	500 000	5 330 000	526 000	-	**6 356 000**
IRS					
in PLN thousand	-	-	2 084 730	-	**2 084 730**
in EUR thousand	-	-	472 000	-	**472 000**
IRS					
in PLN thousand	-	-	908 325	-	**908 325**
in CHF thousand	-	-	250 000	-	**250 000**
CIRS					
in PLN thousand	-	1 998 315	15 714 023	1 362 488	**19 074 826**
in CHF thousand	-	550 000	4 325 000	375 000	**5 250 000**

Type of instrument:	Nominal value as at 31 December 2010				
	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
IRS in PLN thousand	-	5 075 000	905 000	-	**5 980 000**
IRS					
in PLN thousand	-	-	1 128 686	-	**1 128 686**
in EUR thousand	-	-	285 000	-	**285 000**
CIRS					
in PLN thousand	158 195	1 740 145	14 158 453	1 423 755	**17 480 548**
in CHF thousand	50 000	550 000	4 475 000	450 000	**5 525 000**

The nominal values were translated using the average NBP rate as at 31 December 2011 and as at 31 December 2010 respectively.

(in PLN thousand)

Other comprehensive income as regards cash flow hedges	31.12.2011	31.12.2010
Other comprehensive income at the beginning of the period	269 042	147 254
Gains or losses transferred to other comprehensive income in the period	1 290 335	(145 504)
Amount transferred from other comprehensive income to profit and loss, of which transferred to:	(1 112 235)	267 292
- interest income	(814 275)	(649 116)
- net foreign exchange gains	(297 960)	916 408
Other comprehensive income at the end of the period (gross)	**447 142**	**269 042**
Tax effect	**(84 957)**	**(51 118)**
Other comprehensive income at the end of the period (net)	**362 185**	**217 924**
Ineffective part of hedging cash flows recognised through profit and loss (Note 6)	**(64 342)**	**(82 879)**
Effect on other comprehensive income in the period (gross)	**178 100**	**121 788**
Deferred tax on cash flow hedges	**(33 839)**	**(23 140)**

20. Financial assets designated upon initial recognition at fair value through profit and loss

	31.12.2011	31.12.2010
Debt securities	**12 467 201**	**10 758 331**
issued by central banks, of which:	8 593 791	3 997 780
NBP money market bills	8 593 791	3 997 780
issued by the State Treasury, of which:	3 620 515	6 631 702
Treasury bills	2 180 148	1 893 058
Treasury bonds PLN	1 318 278	4 738 644
Treasury bonds EUR	122 089	-
issued by local government bodies, of which:	252 895	128 849
Municipal bonds PLN	108 922	-
Municipal bonds EUR	143 973	128 849
Total	**12 467 201**	**10 758 331**

As at 31 December 2011 and 31 December 2010, the portfolio of financial instruments designated upon initial recognition at fair value through profit and loss comprised of the following:

By nominal amount	31.12.2011	31.12.2010
NBP money market bills	8 600 000	4 000 000
Treasury bills	2 196 950	1 932 960
Treasury bonds PLN	1 361 669	4 834 445
Treasury bonds EUR	110 420	-
Municipal bonds EUR	110 420	99 008
Municipal bonds PLN	100 000	-

As at 31 December 2011, the average yield on debt securities issued by the State Treasury which are included in the portfolio of financial instruments designated upon initial recognition at fair value through profit and loss was 4.73%. As at 31 December 2010, the average yield on such securities amounted to: 4.57%.

(in PLN thousand)

Financial assets designated upon initial recognition at fair value through profit and loss by carrying amount – by maturity

As at 31 December 2011	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
Debt securities	**8 974 505**	**2 180 148**	**512 243**	**547 410**	**252 895**	**12 467 201**
issued by central banks	8 593 791	-	-	-	-	**8 593 791**
issued by the State Treasury	380 714	2 180 148	512 243	547 410	-	**3 620 515**
issued by local government bodies	-	-	-	-	252 895	**252 895**
Total	**8 974 505**	**2 180 148**	**512 243**	**547 410**	**252 895**	**12 467 201**

As at 31 December 2010	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
Debt securities	**3 997 780**	**430 435**	**4 105 431**	**2 095 836**	**128 849**	**10 758 331**
issued by central banks	3 997 780	-	-	-	-	**3 997 780**
issued by the State Treasury	-	430 435	4 105 431	2 095 836	-	**6 631 702**
issued by local government bodies	-	-	-	-	128 849	**128 849**
Total	**3 997 780**	**430 435**	**4 105 431**	**2 095 836**	**128 849**	**10 758 331**

(in PLN thousand)

21. Loans and advances to customers

	31.12.2011	31.12.2010
Gross loans and advances to customers, of which:	**145 041 439**	**133 198 613**
financial entities	3 215 123	4 252 573
corporate, of which:	3 215 123	4 252 573
receivables due to repurchase agreement	92 836	1 576 814
deposits of Brokerage House in the Stock Exchange Guarantee Fund and initial deposit	6 891	12 892
non-financial entities	135 828 141	124 523 942
corporate, of which:	41 295 058	36 973 879
contributions to equity of subsidiaries	186 943	121 363
mortgage	70 551 334	62 182 879
consumer	23 981 749	25 367 184
State budget entities	5 043 786	3 820 961
corporate	5 043 786	3 820 320
mortgage	-	641
Interest	954 389	601 137
Impairment allowances on loans and advances to customers	(4 982 790)	(4 265 484)
Net loans and advances to customers	**140 058 649**	**128 933 129**

	31.12.2011	31.12.2010
Loans and advances granted		
Valued with the individual method, of which:	5 145 413	5 059 607
impaired	4 459 538	4 686 388
not impaired	685 875	373 219
Valued with the portfolio method	5 936 241	4 803 630
impaired	5 936 241	4 803 630
Valued with the group method (IBNR)	133 959 785	123 335 376
Loans and advances granted - gross	**145 041 439**	**133 198 613**
Allowances on exposures valued with the individual method, of which:	(1 498 059)	(1 276 776)
impaired	(1 498 059)	(1 276 776)
Allowances on exposures valued with the portfolio method	(2 832 217)	(2 508 826)
Allowances on exposures valued with the group method (IBNR)	(652 514)	(479 882)
Allowances - total	**(4 982 790)**	**(4 265 484)**
Loans and advances granted – net	**140 058 649**	**128 933 129**

	31.12.2011	31.12.2010
Loans and advances granted – gross, of which:	**145 041 439**	**133 198 613**
retail and private banking	21 550 479	23 045 719
mortgage banking	65 342 083	57 765 485
small and medium enterprises	15 344 788	14 339 941
housing market loans	7 886 768	6 971 069
corporate	33 636 213	28 702 880
receivables due to repurchase agreement	92 836	1 576 814
contributions to equity of subsidiaries	186 943	121 363
other receivables	46 940	74 205
Interests	954 389	601 137
Impairment allowances on loans and advances	(4 982 790)	(4 265 484)
Loans and advances granted – net	**140 058 649**	**128 933 129**

A detailed description of changes allowance has been presented in the Note 10.

As at 31 December 2011, the share of impaired loans amounted to 7.2% (as at 31 December 2010: 7.1%), whereas the coverage ratio for impaired loans (calculated as total impairment allowances on loans and advances to customers divided by gross carrying amount of impaired loans) amounted to 47.9% (as at 31 December 2010: 44.9%).

(in PLN thousand)

As at 31 December 2011, the share of loans overdue by more than 90 days in the gross amount of loans and advances was 4.0% (as at 31 December 2010: 3.6%).

An increase in the volume of loans valued with the portfolio method in 2011 by PLN 1 132 611 thousand resulted mainly from the increase in delays in repayment in the portfolio of mortgage loans and corporate loans (mainly small and medium enterprises).

22. Investment securities available for sale

	31.12.2011	31.12.2010
Debt securities available for sale gross	**14 104 181**	**9 817 952**
issued by the State Treasury	8 310 429	5 486 623
Treasury bonds PLN	8 298 709	5 486 623
Treasury bonds EUR	11 720	-
issued by local government bodies - municipal bonds	3 458 356	2 824 173
issued by non-financial institutions	2 132 269	1 448 119
corporate bonds	2 129 507	1 445 357
bills of exchange	2 762	2 762
issued by other financial institutions - corporate bonds	152 257	8 179
issued by banks - corporate bonds	50 870	50 858
Impairment of debt securities available for sale	**(12 998)**	**(13 045)**
corporate bonds	(10 236)	(10 283)
bills of exchange	(2 762)	(2 762)
Total net debt securities available for sale	**14 091 183**	**9 804 907**
Equity securities available for sale gross	**80 254**	**71 878**
Equity securities admitted to public trading	39 357	60 866
Equity securities not admitted to public trading	40 897	11 012
Impairment of equity securities available for sale not admitted to public trading	**(2 504)**	**(533)**
Total net equity securities available for sale	**77 750**	**71 345**
Total net investment securities available for sale	**14 168 933**	**9 876 252**

Change in investment securities available for sale

	2011	2010
Balance at the beginning of the period	**9 876 252**	**7 965 697**
Currency translation differences	732	240
Increases (purchase)	12 824 607	9 885 297
Decreases (redemption)	(8 505 058)	(7 959 519)
of which change in impairment allowance	1 924	1 998
Change in fair value in relation to other comprehensive income	(27 600)	(15 463)
Balance at the end of the period	**14 168 933**	**9 876 252**

Risk related to investment securities available for sale has been described in the Note 50.2 'Credit risk management'.

(in PLN thousand)

Investment debt securities available for sale by the maturity date by carrying amount as at 31 December 2011

As at 31 December 2011	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
Debt securities available for sale						
issued by the State Treasury	134 663	-	890 499	4 989 562	2 295 705	**8 310 429**
issued by local government bodies	5 136	7 486	236 506	1 260 119	1 949 109	**3 458 356**
issued by non-financial institutions	376 277	41 698	53 585	1 464 517	183 194	**2 119 271**
issued by other financial institutions	9 958	142 299	-	-	-	**152 257**
issued by banks	-	-	-	-	50 870	**50 870**
Total	**526 034**	**191 483**	**1 180 590**	**7 714 198**	**4 478 878**	**14 091 183**

The average yield of available for sale securities as at 31 December 2011 amounted to 5.23%.

As at 31 December 2011, the portfolio of debt securities available for sale, at nominal values, comprised the following:

- Treasury bonds PLN 8 319 451
- Municipal bonds 3 402 338
- Corporate bonds 2 306 651
- Treasury bonds EUR 10 600
- Bills of exchange 2 762

(in PLN thousand)

Investment debt securities available for sale by the maturity date by carrying amount as at 31 December 2010

As at 31 December 2010	up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	over 5 years	Total
Debt securities available for sale						
issued by banks	-	-	-	-	50 858	**50 858**
issued by other financial institutions	-	8 179	-	-	-	**8 179**
issued by non-financial institutions	175 489	-	256 087	802 709	200 789	**1 435 074**
issued by the State Treasury	-	-	2 834 440	312 638	2 339 545	**5 486 623**
issued by local government bodies	3 130	5 248	216 534	1 050 709	1 548 552	**2 824 173**
Total	**178 619**	**13 427**	**3 307 061**	**2 166 056**	**4 139 744**	**9 804 907**

The average yield of available for sale securities as at 31 December 2010 amounted to 5.16%.

As at 31 December 2010 the portfolio of debt securities available for sale, at nominal values, comprised the following:

- Treasury bonds 5 537 770
- Municipal bonds 2 814 845
- Corporate bonds 1 479 200
- Bills of exchange 2 762

(in PLN thousand)

23. Investments in subsidiaries, jointly controlled entities and associates

As at 31 December 2011, the Bank's investments in subsidiaries, jointly controlled entities and associates have been recognised at acquisition cost adjusted by impairment allowances.

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

As at 31 December 2011	Gross value	Impairment	Carrying amount
Subsidiaries			
KREDOBANK SA	935 619	(423 723)	511 896
PKO BP BANKOWY PTE SA	205 786	-	205 786
PKO Towarzystwo Funduszy Inwestycyjnych S.A.	186 989	-	186 989
Centrum Finansowe Puławska Sp. z o.o. – in liquidation	167 288	-	167 288
Bankowy Fundusz Leasingowy S.A.	70 000	-	70 000
Inteligo Financial Services S.A.	59 602	-	59 602
Centrum Elektronicznych Usług Płatniczych 'eService' S.A.	55 500	-	55 500
Fort Mokotów Inwestycje Sp. z o.o.[1]	43 546	-	43 546
Bankowe Towarzystwo Kapitałowe S.A.	21 566	(10 666)	10 900
PKO BP Finat Sp. z o.o.	11 693	-	11 693
Qualia Development Sp. z o.o.[2]	4 503	-	4 503
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	1 482	-	1 482
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	(39 780)	106 720
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	(1 500)	-
Agencja Inwestycyjna CORP-SA SA	29	-	29
Total	**1 973 644**	**(475 669)**	**1 497 975**

1) Value does not include capital contribution of PKO Bank Polski SA presented in the statement of financial position as loans and advances to customers in the amount of PLN 8 053 thousand.
2) Value does not include capital contributions of PKO Bank Polski SA, presented in the statement of financial position as loans and advances to customers in the total amount of PLN 178 890 thousand.

As at 31 December 2010	Gross value	Impairment	Carrying amount
Subsidiaries			
KREDOBANK SA	935 619	(423 723)	511 896
PKO BP BANKOWY PTE SA	205 786	-	205 786
PKO Towarzystwo Funduszy Inwestycyjnych SA	186 989	-	186 989
Centrum Finansowe Puławska Sp. z o.o.	128 288	-	128 288
Bankowy Fundusz Leasingowy SA	70 000	-	70 000
Inteligo Financial Services SA	59 602	-	59 602
Centrum Elektronicznych Usług Płatniczych 'eService' SA	55 500	-	55 500
Fort Mokotów Inwestycje Sp. z o.o. [1]	43 546	-	43 546
Bankowe Towarzystwo Kapitałowe SA	18 566	(10 666)	7 900
Qualia Development 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	(15 073)	131 427
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	1 500	(1 500)	-
Agencja Inwestycyjna CORP-SA SA	29	-	29
Total	**1 918 469**	**(450 962)**	**1 467 507**

1) Value does not include capital contribution of PKO Bank Polski SA presented in the statement of financial position as loans and advances to customers in the amount of PLN 8 053 thousand.
2) Value does not include capital contribution of PKO Bank Polski SA, presented in the statement of financial position as loans and advances to customers in the total amount of PLN 113 310 thousand.

(in PLN thousand)

Selected information on associates

	Total assets	Total liabilities	Total revenue	Net profit	% share
31.12.2011					
Bank Pocztowy SA	5 213 258	4 889 505	457 996	26 613	25.0001
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	17 672	147	513	21	33.33
Agencja Inwestycyjna CORP-SA SA	3 874	1 833	12 459	1 109	22.31
Total	**5 234 804**	**4 891 485**	**470 968**	**27 743**	**X**
31.12.2010					
Bank Pocztowy SA	4 156 609	3 835 948	369 797	14 412	25.0001
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	16 896	45	604	32	33.33
Agencja Inwestycyjna CORP-SA SA	3 017	1 593	13 007	503	22.31
Total	**4 176 522**	**3 837 586**	**383 408**	**14 947**	**X**

Financial data concerning Bank Pocztowy SA, presented in the above table is derived from consolidated financial statements prepared in accordance with the IFRS/IAS. Data about other companies are 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/IAS are not significant from the perspective of the financial statements of the Bank. Data for the year 2010 are derived from audited financial statements.

In 2011, the Bank increased an impairment allowance in respect of shares of Bank Pocztowy SA of PLN 24 707 thousand. The impairment allowance in respect of the shares of Bank Pocztowy SA was formed on the basis of an estimate of the recoverable amount of the Company's shares, i.e. their value in use calculated based on the discounted cash flows model for the years 2012-2016 and the fair value estimated based on the market ratios of the peer group of banks.

As at 31 December 2011 and 31 December 2010 the Bank had no share in contingent liabilities of associates acquired jointly with other investors.

Changes to the entities of the Group, jointly controlled entities and associates

In 2011 the following events, concerning subsidiaries (directly and indirectly), affecting the structure of the PKO Bank Polski SA Group took place:

1) concerning Bankowe Towarzystwo Kapitałowe SA

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

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

As at 31 December 2011, the interest of PKO Bank Polski SA in the share capital and in the votes at the General Shareholders' Meeting of the Company was 100%.

2) concerning PKO BP Factoring SA

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

All shares in the increased share capital were acquired by Bankowe Towarzystwo Kapitałowe SA, a subsidiary of PKO Bank Polski SA, for PLN 3 000 thousand, while PLN 1 500 thousand was recognised in the Company's reserve capital.

Following the registration of the above-mentioned share issue, the interest of BTK SA in the share capital and in the votes at the General Shareholders' Meeting of the Company is 99.9889%.

3) concerning the process of liquidation of Centrum Finansowe Puławska Sp. z o. o.

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

All shares in the increased share capital were acquired by PKO Bank Polski SA for a price equal to the nominal value of the shares taken up. The funds raised as a result of the above-mentioned capital increase were used for early repayment of the loan with PKO Bank Polski SA.

In the result of the above-mentioned share issue, the interest of PKO Bank Polski SA in the share capital and in the votes at the General Shareholders' Meeting of the Company is still 100%.

On 1 July 2011, PKO Bank Polski SA, as the sole shareholder of Centrum Finansowe Puławska Sp. z o.o., passed a resolution on the Company's winding up and opening its liquidation as of 1 July 2011. The relevant motion was filed with the National Court Register on 4 July 2011.

The winding up of the Company will not result in any changes to the scope of activities of the PKO Bank Polski SA Group – in the Bank, activities related to the acquisition of management of the Centrum Finansowe Puławska building in Warsaw together with the property are carried out, which is the main activity conducted by the Company.

4) concerning the takeover of direct control of PKO BP Finat Sp. z o.o. by PKO Bank Polski SA

As part of the process related to the takeover of direct control of PKO BP Finat Sp. z o.o. by the Bank, on 12 September 2011 PKO BP Finat Sp. z o.o. repaid to PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA capital contribution in the amount of PLN 2 500 thousand.

In the third quarter of 2011 PKO Bank Polski SA bought from its subsidiaries all shares of PKO BP Finat Sp. z o.o., of which:

– On 24 August 2011 bought from Inteligo Financial Services SA 75 999 shares of PKO BP Finat Sp. z o.o. with a total nominal value of PLN 7 599.9 thousand, purchase price of the above-mentioned shares amounted to PLN 9 392.7 thousand.

– On 13 September 2011 bought from PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA 18 610 shares of PKO BP Finat Sp. z o.o. with a total nominal value of PLN 1 861 thousand, purchase price amounted to PLN 2 300 thousand.

As a result of the above-mentioned transaction, PKO Bank Polski SA holds directly shares of PKO BP Finat Sp. z o.o. which represent 100% interest in the share capital of the Company and entitle to 100% of the votes at the General Shareholders' Meeting.

5) concerning Bankowy Leasing Sp. z o.o.

On 27 January 2011, the increase in the share capital of Bankowy Leasing Sp. z o.o of PLN 6 600 thousand was registered in the National Court Register. All the shares were acquired by Bankowy Fundusz Leasingowy SA – a subsidiary of the Bank – for a price equal to the nominal value of the shares taken up.

On 11 May 2011, the increase in the share capital of Bankowy Leasing Sp. z o.o of PLN 12 700 thousand was registered in the National Court Register. All the shares were acquired by Bankowy Fundusz Leasingowy SA – a subsidiary of the Bank – for a price equal to the nominal value of the shares taken up.

On 28 September 2011 Bankowy Fundusz Leasingowy SA bought from PKO Bank Polski SA 1 share in Bankowy Leasing Sp. z o.o. The purchase price was PLN 0.8 thousand. As a result of the above transaction Bankowy Fundusz Leasingowy SA became the sole shareholder in the company Bankowy Leasing Sp. z o.o.

On 30 December 2011 with National Court Register was registered:

- the increase in the share capital of Bankowy Leasing Sp. z o.o. of PLN 15 414.5 thousand by the share issue, which were granted to Bankowy Fundusz Leasingowy SA as a sole shareholder in the company BFL Nieruchomości Sp. z o.o. (acquiree) in a merger of the subsidiaries of Bankowy Fundusz Leasingowy SA,

- the merger of the subsidiaries of Bankowy Fundusz Leasingowy SA, as a result of which the whole property of the company BFL Nieruchomości Sp. z o.o. was transferred to the company Bankowy Leasing Sp. z o.o.

As at 31 December 2011 share capital of the Company amounted to PLN 57 414.5 thousand and consist of 114 829 shares of a nominal value of PLN 500 each.

6) concerning BFL Nieruchomości Sp. z o.o.

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

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

On 28 September 2011 Bankowy Fundusz Leasingowy SA bought from PKO Bank Polski SA 1 share in BFL Nieruchomości Sp. z o.o. The purchase price was PLN 0.8 thousand. As a result of the above transaction, Bankowy Fundusz Leasingowy SA became the sole shareholder in BFL Nieruchomości Sp. z o.o.

On 30 December 2011 the merger of the subsidiaries of Bankowy Fundusz Leasingowy SA was registered with the National Court Register, as a result of it all the assets of BFL Nieruchomości Sp. z o.o. was transferred to Bankowy Leasing Sp. z o.o., and BFL Nieruchomości Sp. z o.o. was removed from the register.

7) concerning the Qualia Development Sp. z o.o. Group (till 10 May 2011 under the name of the PKO BP Inwestycje Sp. z o. o. Group)

In 2011, the Qualia Development Sp. z o.o. Group carried out actions aimed at implementing a new concept of development activities within the Group structure, which consists mainly of limited partnerships established to execution of investment projects, in which Qualia Development Sp. z o.o. acts as a limited partner and Qualia Sp. z o.o. acts as a general partner.

As a part of above mentioned actions:

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

  The Company's share capital amounts to PLN 5 thousand and consists of 100 shares, each of PLN 50 nominal value. On the day of the Company's establishment, its shares with a nominal value of PLN 4 950 thousand were taken up by Qualia Development Sp. z o.o., and 1 share with a nominal value of PLN 50 was taken up by Qualia – Rezydencja Flotylla Sp. z o.o. – a subsidiary of Qualia Development Sp. z o.o. Since 28 April 2011 the sole shareholder in the company is Qualia Development Sp. z o.o. which repurchased the 1 share for a price equal to the nominal value of the share.

– Qualia spółka z ograniczoną odpowiedzialnością - Sopot Spółka komandytowa was formed (the Partnership was registered in the National Court Register on 11 March 2011).

  The partners are: Qualia Sp. z o.o. (general partner, amount of contribution: PLN 1 thousand) and Qualia Development Sp. z o.o. (limited partner, the limited partner's amount of contribution and limit of liability: PLN 4 700 thousand, increased from PLN 1 thousand by the partners' resolution of 31 March 2011). The activities of Qualia spółka z ograniczoną odpowiedzialnością - Sopot Spółka komandytowa comprise the preparation and execution of the investment project in Sopot at Bohaterów Monte Cassino Street.

- On 6 April 2011, Qualia Sp. z o.o. bought from PKO Bank Polski SA 1 share in PKO BP Inwestycje – Nowy Wilanów Sp. z o.o. for PLN 21.4 thousand.
- PKO BP Inwestycje – Nowy Wilanów Sp. z o.o. was transformed into a limited partnership and changed its name to Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Spółka komandytowa (on 1 July 2011 the above mentioned changes were registered in the National Court Register).

  The partners are: Qualia Development Sp. z o.o. (limited partner, the limited partner's amount of contribution: 3 999 thousand) and Qualia Sp. z o.o. (general partner, amount of contribution: PLN 1 thousand).
- On 6 April 2011 Qualia Sp. z o.o. bought from PKO Bank Polski SA 1 share in PKO BP Inwestycje - Neptun Park Sp. z o.o. for PLN 0.8 thousand.
- PKO BP Inwestycje – Neptun Park Sp. z o.o. was transformed into a limited partnership and change its name to Qualia spółka z ograniczoną odpowiedzialnością – Neptun Park Spółka komandytowa (on 1 July 2011 the above mentioned changes were registered in the National Court Register).

  The partners are: Qualia Development Sp. z o.o. (limited partner, the limited partner's amount of contribution: PLN 3 999.9 thousand) and Qualia Sp. z o.o. (general partner, amount of contribution: PLN 0.1 thousand).
- Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Spółka komandytowa was formed (the Partnership was registered in the National Court Register on 21 July 2011).

  The partners are: Qualia Development Sp. z o.o. (limited partner, the limited partner's amount of contribution: PLN 1 thousand) and Qualia Sp. z o.o. (general partner, amount of contribution: PLN 1 thousand).
- Qualia spółka z ograniczoną odpowiedzialnością – Projekt 1 Spółka komandytowa was formed (the Partnership was registered in the National Court Register on 29 July 2011).

  The partners are: Qualia Development Sp. z o.o. (limited partner, the limited partner's amount of contribution: PLN 1 thousand) and Qualia Sp. z o.o. (general partner, amount of contribution: PLN 1 thousand).
- Qualia – Residence Sp. z o.o was formed (the Company was registered in the National Court Register on 6 October 2011).

  The Company's share capital amounts to PLN 5 thousand and consists of 100 shares, each of PLN 50 nominal value. On the day of the Company's establishment, its shares with a nominal value of PLN 4.95 thousand were taken up by Qualia Development Sp. z o.o., and 1 share with a nominal value of PLN 50 was taken up by Qualia Sp. z o.o. Since 13 October 2011 the sole shareholder in the Company is Qualia Development Sp. z o.o., which repurchased the 1 share for a price equal to the nominal value of the share.
- Qualia Hotel Management Sp. z o.o was formed (the Company's Notarial Deed was signed on 28 November 2011)

  The Company's share capital amounts to PLN 50 thousand and consists of 1 000 shares, each of PLN 50 nominal value. Shares with a nominal value of PLN 49.95 were taken up by Qualia Development Sp. z o.o., and 1 share with a nominal value of PLN 50 was taken up by Qualia Sp. z o.o. The Company was registered in the National Court Register on 4 January 2012. The activities of the Company are operating activities in the area of hotel suites.

and

- liquidation of Fort Mokotów Sp. z o.o. was commenced

  On 28 July 2011, the Extraordinary Shareholders' Meeting of Fort Mokotów Sp. z o.o. – a subsidiary of Qualia Development Sp. z o.o. – passed a resolution to dissolve the Company and open its liquidation as of 28 July 2011. The liquidation is carried out in connection with the completion of the execution of a development project.

In 2011, the following companies changed their names:

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

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

- PKO Bank Polski SA made additional contributions to Qualia Development Sp. z o.o. in the total amount of PLN 65 580 thousand (of which: PLN 5 340 thousand on 25 March, PLN 5 800 thousand on 1 June and PLN 54 440 thousand on 21 November),
- on 7 April 2011 Qualia Development Sp. z o. o. made an additional contribution to Qualia Sp. z o.o. of PLN 25 thousand,
- on 28 November 2011 Qualia Development Sp. z o.o. made an additional contribution to Qualia Residence Sp. z o.o. of PLN 42 025 thousand.

8) concerning the acquisition of a new company Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.

PKO Bank Polski SA acquired 1 share with a nominal value of UAH 3 101 thousand in Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. with its head office in Kiev from Kompania Finansowa 'Centrum Usług Faktoringowych' Sp. z o.o., which represents 100% interest in the share capital of the Company and entitle to 100% of the votes at the General Shareholders' Meeting. The acquisition price was PLN 1 482 thousand.

On 29 November 2011, PKO Bank Polski SA was registered with the State Ukrainian Register of Businesses as the Company's sole shareholder.

In December 2011 the Company purchased from KREDOBANK SA in three bundles the sectioned off impaired loans portfolio in the total amount of UAH 1 645 million (PLN 700 million at the average NBP rate as of the last day of 2011). The purchase was financed with loan received from PKO Bank Polski SA in the amount of USD 63 million (PLN 215 million at the average NBP rate as of the last day of 2011).

Receiveables will be subject to the debt collection activity conducted through the company 'Inter-Risk Ukraine' Spółka z dodatkową odpowiedzialnością (additional liability company).

and the following events relating to jointly controlled entities and associates:

- On 28 September 2011, a decrease in the share capital of Centrum Majkowskiego Sp. z o.o. was registered in the National Court Register – a subsidiary of Centrum Haffnera Sp. z o.o. (a jointly controlled entities of PKO Bank Polski SA). The share capital was reduced from PLN 6 609 thousand to PLN 3 833.2 thousand by reducing the nominal value of each share,
- On 30 September 2011, the Extraordinary Shareholders' Meeting of Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o. – a subsidiary of Bank Pocztowy SA (an associate of PKO Bank Polski SA) made a decision to increase the Company's share capital from PLN 2 000 thousand to PLN 2 679.8 thousand by increasing the nominal value of the shares. The above-mentioned capital increase was registered in the National Court Register on 10 January 2012.

(in PLN thousand)

24. Intangible assets

For the year ended 31 December 2011	Software	Other, including capital expenditure	Total
Net carrying amount as at the beginning of the period	1 248 339	279 928	1 528 267
Purchase	-	196 589	196 589
Transfers	362 620	(362 620)	-
Amortisation	(201 012)	(2 148)	(203 160)
Other changes	1 482	(610)	872
Net carrying amount as at the end of the period	**1 411 429**	**111 139**	**1 522 568**
As at 1 January 2011 (the beginning of the period)			
Carrying amount – gross	2 411 233	301 931	2 713 164
Accumulated amortisation and impairment allowance	(1 162 894)	(22 003)	(1 184 897)
Net carrying amount	**1 248 339**	**279 928**	**1 528 267**
As at 31 December 2011 (the end of the period)			
Carrying amount – gross	2 775 173	130 560	2 905 733
Accumulated amortisation and impairment allowance	(1 363 744)	(19 421)	(1 383 165)
Net carrying amount	**1 411 429**	**111 139**	**1 522 568**

The most significant item of intangible assets of the Bank relates to expenditures on the Integrated Information System (ZSI). The cumulative capital expenditures incurred for the ZSI system during the years 2003 – 2011 amounted to PLN 1 134 893 thousand (during the years 2003 – 2010, they amounted to PLN 1 066 066 thousand).

Net carrying amount of the Integrated Information System (ZSI) amounted to PLN 707 925 thousand as at 31 December 2011. The expected useful life of the ZSI system is 15 years. As at 31 December 2011, the remaining useful life is 10 years.

For the year ended 31 December 2010	Software	Other, including capital expenditure	Total
Net carrying amount as at the beginning of the period	1 206 816	61 965	1 268 781
Purchase	-	464 154	464 154
Impairment allowances	-	(2 644)	(2 644)
Transfers	240 563	(240 563)	-
Amortisation	(182 784)	(1 845)	(184 629)
Other changes	(16 256)	(1 139)	(17 395)
Net carrying amount as at the end of the period	**1 248 339**	**279 928**	**1 528 267**
As at 1 January 2010 (the beginning of the period)			
Carrying amount – gross	2 200 662	79 479	2 280 141
Accumulated amortisation and impairment allowance	(993 846)	(17 514)	(1 011 360)
Net carrying amount	**1 206 816**	**61 965**	**1 268 781**
As at 31 December 2010 (the end of the period)			
Carrying amount – gross	2 411 233	301 931	2 713 164
Accumulated amortisation and impairment allowance	(1 162 894)	(22 003)	(1 184 897)
Net carrying amount	**1 248 339**	**279 928**	**1 528 267**

Bank does not produce any software internally. In the period from 1 January 2011 to 31 December 2011, PKO Bank Polski SA incurred capital expenditures for the purchase of fixed assets and intangible assets in the amount of PLN 400 292 thousand (in the period from 1 January 2010 to 31 December 2010: PLN 546 789 thousand).

In the years ended 31 December 2011 and 31 December 2010 respectively, there were no restrictions on the Bank's right to use its intangible assets as a result of pledges.

(in PLN thousand)

25. Tangible fixed assets

For the year ended 31 December 2011	Land and buildings	Machinery and equipment	Means of transport	Assets under construction	Investment properties	Other	Total
Gross value of tangible fixed assets as at the beginning of the period	**2 077 369**	**1 969 206**	**2 902**	**82 838**	**793**	**404 230**	**4 537 338**
Increases, of which:	**5 982**	**1 424**	**-**	**203 703**	**-**	**893**	**212 002**
Purchases and other changes	5 982	1 424	-	203 703	-	893	212 002
Decreases, of which:	**(31 736)**	**(180 814)**	**(1 529)**	**(18 549)**	**-**	**(26 659)**	**(259 287)**
Disposals and sales	(20 363)	(177 889)	(1 529)	-		(24 417)	(224 198)
Transfers from fixed assets to fixed assets held for trading	(6 328)	-	-	-	-	-	(6 328)
Other	(5 045)	(2 925)	-	(18 549)	-	(2 242)	(28 761)
Transfers from capital expenditure on fixed assets	**29 526**	**98 021**	**-**	**(134 484)**	**-**	**6 937**	**-**
Gross value of tangible fixed assets at the end of the period	**2 081 141**	**1 887 837**	**1 373**	**133 508**	**793**	**385 401**	**4 490 053**
Accumulated depreciation as at the beginning of the period	**(654 114)**	**(1 466 473)**	**(1 866)**	**-**	**(534)**	**(318 830)**	**(2 441 817)**
Increases, of which:	**(67 970)**	**(156 609)**	**(225)**	**-**	**(11)**	**(29 475)**	**(254 290)**
Depreciation for the period	(65 139)	(155 546)	(225)	-	(11)	(28 618)	(249 539)
Other	(2 831)	(1 063)	-	-	-	(857)	(4 751)
Decreases, of which:	**16 320**	**177 703**	**1 182**	**-**	**-**	**24 306**	**219 511**
Disposal and sales	12 699	174 922	1 182	-	-	22 153	210 956
Classification of fixed assets held for sale	1 993	-	-	-	-	-	1 993
Other	1 628	2 781	-	-	-	2 153	6 562
Accumulated depreciation at the end of the period	**(705 764)**	**(1 445 379)**	**(909)**	**-**	**(545)**	**(323 999)**	**(2 476 596)**
Impairment allowances at the beginning of the period	(1 133)	(2)	-	(17 246)	-	-	(18 381)
Increases, of which:	**(16)**	**-**	**-**	**-**	**-**	**-**	**(16)**
other	(16)	-	-	-	-	-	(16)
Decreases, of which:	**1 006**	**2**	**-**	**17 246**	**-**	**-**	**18 254**
other	1 006	2	-	17 246	-	-	18 254
Impairment allowances at the end of the period	**(143)**	**-**	**-**	**-**	**-**	**-**	**(143)**
Net carrying amount at the beginning of the period	**1 422 122**	**502 731**	**1 036**	**65 592**	**259**	**85 400**	**2 077 140**
Net carrying amount at the end of the period	**1 375 234**	**442 458**	**464**	**133 508**	**248**	**61 402**	**2 013 314**

As at 31 December 2011 the off-balance sheet value of machinery and equipment used under operating lease agreements and operating lease with purchase options contracts amounted to PLN 54 037 thousand (as at 31 December 2010: PLN 48 425 thousand). In the years ended 31 December 2011 and 31 December 2010, 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 2010	Land and buildings	Machinery and equipment	Means of transport	Assets under construction	Investment properties	Other	Total
Gross value of tangible fixed assets as at the beginning of the period	**2 064 032**	**2 120 753**	**3 813**	**160 362**	**731**	**406 545**	**4 756 236**
Increases, of which:	**329**	**1 409**	**-**	**86 233**	**118**	**1 324**	**89 413**
Purchases and other changes	329	1 409	-	86 233	118	1 324	89 413
Decreases, of which:	**(21 346)**	**(268 944)**	**(911)**	**(1 953)**	**(56)**	**(15 101)**	**(308 311)**
Disposals and sales	(14 594)	(241 045)	(760)	-	(56)	(11 566)	(268 021)
Transfers from fixed assets on fixed assets held for sale	(6 347)	(26 288)	(151)	-	-	-	(32 786)
Other	(405)	(1 611)	-	(1 953)	-	(3 535)	(7 504)
Transfers from capital expenditure on fixed assets	**34 354**	**115 988**	**-**	**(161 804)**	**-**	**11 462**	**-**
Gross value of tangible fixed assets at the end of the period	**2 077 369**	**1 969 206**	**2 902**	**82 838**	**793**	**404 230**	**4 537 338**
Accumulated depreciation as at the beginning of the period	**(596 851)**	**(1 558 555)**	**(2 517)**	**-**	**(409)**	**(304 789)**	**(2 463 121)**
Increases, of which:	**(71 319)**	**(175 079)**	**(222)**	**-**	**(126)**	**(27 756)**	**(274 502)**
Depreciation for the period	(71 100)	(162 181)	(222)	-	(126)	(27 731)	(261 360)
Classification of fixed assets held for sale	-	(12 021)	-	-	-	-	(12 021)
Other	(219)	(877)	-	-	-	(25)	(1 121)
Decreases, of which:	**14 056**	**267 161**	**873**	**-**	**1**	**13 715**	**295 806**
Disposal and sales	12 373	240 580	745	-	1	10 519	264 218
Classification of fixed assets held for sale	1 639	25 088	126	-	-	-	26 853
Other	44	1 493	2	-	-	3 196	4 735
Accumulated depreciation at the end of the period	**(654 114)**	**(1 466 473)**	**(1 866)**	**-**	**(534)**	**(318 830)**	**(2 441 817)**
Impairment allowances at the beginning of the period	**(1 163)**	**(3)**	**-**	**-**	**-**	**-**	**(1 166)**
Increases, of which:	**(149)**	**(12 023)**	**-**	**(17 246)**	**-**	**-**	**(29 418)**
classification of fixed assets held for sale	-	(12 021)	-	-	-	-	(12 021)
other	(149)	(2)	-	(17 246)	-	-	(17 397)
Decreases, of which:	**179**	**12 024**	**-**	**-**	**-**	**-**	**12 203**
classification of fixed assets held for sale	-	12 021	-	-	-	-	12 021
other	179	3	-	-	-	-	182
Impairment allowances at the end of the period	**(1 133)**	**(2)**	**-**	**(17 246)**	**-**	**-**	**(18 381)**
Net carrying amount at the beginning of the period	**1 466 018**	**562 195**	**1 296**	**160 362**	**322**	**101 756**	**2 291 949**
Net carrying amount at the end of the period	**1 422 122**	**502 731**	**1 036**	**65 592**	**259**	**85 400**	**2 077 140**

In 2011 and 2010 the Bank did not recognise in the income statement any compensation from third parties due to impairment or loss of tangible fixed assets.

(in PLN thousand)

26. Other assets

	31.12.2011	31.12.2010
Settlements of payment cards transactions	162 452	204 530
Settlements of financial instruments	143 845	47 279
Trade receivables	36 746	23 853
Receivables from other transactions with financial, non-financial entities	26 538	11 088
Accruals and prepayments	22 862	28 219
Inventory related to utilisation, auxiliary operations and investment	20 160	13 047
Receivables from unsettled transactions related to derivatives	6 134	7 121
Receivables from the State budget due to distribution of court fee stamps	3 350	9 311
Receivables and settlements of securities turnover	1 730	8 020
Other*	58 973	47 904
Total	**482 790**	**400 372**
of which financial assets**	380 795	311 202

*An item 'Other' includes mainly 'Receivables from internal operations', 'Receivables from fee and commissions', 'Receivables from bails and guarantees'
** Financial assets include all items of 'Other assets', with the exception of 'Accruals and prepayments', 'Inventories related to utilisation, auxiliary operations and investment' and 'Other'.

27. Amounts due to the central bank

	31.12.2011	31.12.2010
Up to 1 month	3 454	3 370
Total	**3 454**	**3 370**

28. Amounts due to banks

	31.12.2011	31.12.2010
Loans and advances received	3 443 872	2 999 116
Bank deposits	1 372 635	972 758
Current accounts	421 939	43 901
Amounts due from repurchase agreement	-	54 744
Other money market deposits	82 944	93 662
Total	**5 321 390**	**4 164 181**

29. Amounts due to customers

	31.12.2011	31.12.2010
Amounts due to retail clients	**103 424 136**	**94 347 108**
Term deposits	54 897 173	47 744 721
Current accounts and overnight deposits	48 054 921	46 308 729
Other money market deposits	472 042	293 658
Amounts due to corporate entities	**42 784 326**	**34 895 145**
Term deposits	24 012 372	18 039 764
Current accounts and overnight deposits	11 187 998	11 139 468
Loans and advances received*	6 453 092	5 020 400
Amounts due from repurchase agreement	644 005	446 175
Other money market deposits	486 859	249 338
Amounts due to state budget entities	**3 822 219**	**6 046 802**
Current accounts and overnight deposits	2 241 309	2 689 361
Term deposits	1 516 981	3 349 821
Other money market deposits	63 929	7 620
Total	**150 030 681**	**135 289 055**

*As at 31 December 2011, In 'Loans and advances received' there is included a loan of EUR 800 000 thousand and a loan of CHF 250 000 thousand from PKO Finance AB, the Bank's subsidiary, as funds gathered through Eurobonds issue (as at 31 December 2010: EUR 800 000 thousand).

(in PLN thousand)

	31.12.2011	31.12.2010
Amounts due to clients, of which:	**150 030 681**	**135 289 055**
retail and private banking	99 631 256	90 860 454
small and medium enterprises	8 932 110	8 592 537
housing market clients	5 405 545	5 083 490
corporate	28 873 527	25 153 687
loans and advances received	6 453 092	5 020 400
amounts due from repurchase agreement	644 005	446 175
other liabilities	91 146	132 312
Total	**150 030 681**	**135 289 055**

30. Debt securities in issue

	31.12.2011	31.12.2010
Debt securities in issue		
Financial instruments designated at fair value through profit and loss - Bank securities issued by PKO Bank Polski SA	175 615	-
Financial instruments measured at amortised cost – Bank bonds issued by PKO Bank Polski SA	2 929 973	-
Total	**3 105 588**	**-**

	31.12.2011	31.12.2010
Debt securities in issue by maturity:		
from 1 month to 3 months	2 929 973	-
from 1 year to 5 years	175 615	-
Total	**3 105 588**	**-**

In 2011 the Bank issued bank securities and bank bonds at nominal value of PLN 5 080 647 thousand classified respectively as liabilities designated to be measured at fair value through profit and loss, in accordance with IAS 39.11A.a and measured at amortised cost. In 2011, bank securities and bank bonds with nominal value of PLN 1 951 454 thousand were redeemed.

31. 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 6M WIBOR plus a margin of 100 bp.

As at 31 December 2011

Subordinated liabilities	Nominal value	Currency	Interest rate (%)	Maturity date	Balance
Subordinated bonds	1 600 700	PLN	5.92%	30.10.2017	1 614 377

As at 31 December 2010

Subordinated liabilities	Nominal value	Currency	Interest rate (%)	Maturity date	Balance
Subordinated bonds	1 600 700	PLN	5.05%	30.10.2017	1 611 779

(in PLN thousand)

Change in subordinated liabilities

	2011	2010
As at the beginning of the period	**1 611 779**	**1 612 178**
Increases of accrued interest	87 125	82 191
Decreases due to repayment of interest	(84 527)	(82 590)
Subordinated liabilities as at the end of the period	**1 614 377**	**1 611 779**

32. Other liabilities

	31.12.2011	31.12.2010
Accounts payable	241 918	236 504
Deferred income	277 150	312 480
Other liabilities relating to:	**1 637 455**	**1 238 615**
interbank settlements	580 998	174 854
liabilities relating to settlements of security transactions	279 204	181 456
liabilities relating to investment activities and internal operations	182 955	196 671
liabilities arising from social and legal transactions	141 261	277 830
liabilities arising from foreign currency activities	140 546	131 849
financial instruments settlements	82 861	39 851
liabilities due to suppliers	54 794	46 965
liabilities related to payment cards	32 972	20 187
liabilities due to insurance companies	24 821	25 465
liabilities due to UOKiK (the Competition and Consumer Protection Office)	16 597	22 310
liabilities arising from sale of value marks	12 626	14 375
settlement of acquisition of machines, materials, works and services regarding construction of tangible assets and their usage	10 265	4 613
liabilities arising from transactions with financial and non-financial institutions	10 102	21 121
other*	67 453	81 068
Total	**2 156 523**	**1 787 599**
including financial liabilities**	1 670 659	1 116 221

* Item 'other' includes: other liabilities related to bail and guarantees and liabilities related to trade of securities.
** Financial liabilities include all items of 'Other liabilities' with the exception of 'Deferred income', 'Social and legal transactions' and 'Other'.

As at 31 December 2011 and 31 December 2010, PKO Bank Polski SA had no overdue contractual liabilities.

33. Provisions

For the year ended 31 December 2011	Provision for legal claims	Provisions for anniversary bonuses and retirement benefits	Provisions for liabilities and guarantees granted	Other provisions*	Total
As at 1 January 2011, of which:	**6 311**	**410 723**	**216 137**	**81 267**	**714 438**
Short term provision	**6 311**	**29 537**	**81 965**	**81 267**	**199 080**
Long term provision	**-**	**381 186**	**134 172**	**-**	**515 358**
Increase/reassessment of provision	-	36 000	188 826	8 399	233 225
Use of provision	-	-	(144 956)	(2 259)	(147 215)
Release of provision	(4 057)	(19 750)	(148 498)	(12 914)	(185 219)
Other changes and reclassifications	-	-	260	-	260
As at 31 December 2011, of which:	**2 254**	**426 973**	**111 769**	**74 493**	**615 489**
Short term provision	**2 254**	**38 069**	**111 769**	**74 493**	**226 585**
Long term provision	**-**	**388 904**	**-**	**-**	**388 904**

*Included in 'Other provisions' is: restructuring provision of PLN 63 636 thousand and provision of PLN 3 946 thousand for potential claims on impaired loans portfolios sold.

(in PLN thousand)

For the year ended 31 December 2010	Provision for legal claims	Provisions for anniversary bonuses and retirement benefits	Provisions for liabilities and guarantees granted	Other provisions*	Total
As at 1 January 2010, of which:	**6 841**	**367 291**	**110 642**	**113 852**	**598 626**
Short term provision	**6 841**	**27 277**	**110 642**	**113 852**	**258 612**
Long term provision	**-**	**340 014**	**-**	**-**	**340 014**
Increase/reassessment of provision	-	43 432	272 125	6 482	322 039
Use of provision	(194)	-	-	(3 436)	(3 630)
Release of provision	(336)	-	(166 632)	(35 631)	(202 599)
Other changes and reclassifications	-	-	2	-	2
As at 31 December 2010, of which:	**6 311**	**410 723**	**216 137**	**81 267**	**714 438**
Short term provision	**6 311**	**29 537**	**81 965**	**81 267**	**199 080**
Long term provision	**-**	**381 186**	**134 172**	**-**	**515 358**

* Included in "Other provisions' is: restructuring provision of PLN 65 861 thousand and provision of PLN 11 430 thousand for potential claims on sold impaired loans portfolios.

Provisions for legal claims were recognised in the amount of expected outflow of economic benefits.

34. Share capital

The structure of PKO Bank Polski SA share capital

Series	Type	Number	Nominal value of 1 share	Issue amount by nominal value
Series A	ordinary, registered shares	312 500 000	PLN 1	PLN 312 500 000
Series A	ordinary, bearer shares	197 500 000	PLN 1	PLN 197 500 000
Series B	ordinary, bearer shares	105 000 000	PLN 1	PLN 105 000 000
Series C	ordinary, bearer shares	385 000 000	PLN 1	PLN 385 000 000
Series D	ordinary, bearer shares	250 000 000	PLN 1	PLN 250 000 000
Total	---	**1 250 000 000**	---	**PLN 1 250 000 000**

In 2011, there were no changes in the amount of the share capital of PKO Bank Polski SA.

At the request of the State Treasury shareholder and in connection with the amendment in the Bank's Memorandum of Association pursuant to the Resolution No. 26/2011 passed by the Ordinary General Shareholders' Meeting of the Bank on 30 June 2011 on amending the Bank's Memorandum of Association, on 24 November 2011, 197 500 000 ordinary registered shares were converted to 197 500 000 ordinary bearer shares.

As at 31 December 2011, the share capital of PKO Bank Polski SA amounted to PLN 1 250 000 thousand and consisted of 1 250 000 thousand ordinary shares with nominal value of PLN 1 each (as at 31 December 2010: PLN 1 250 000 thousand, 1 250 000 thousand ordinary shares with nominal value of PLN 1 each) – shares fully paid. Issued shares of PKO Bank Polski SA are not preferred shares.

35. Other capital

	31.12.2011	31.12.2010
Other capital, of which:		
Reserve capital	12 898 111	12 098 111
Other reserves	3 319 621	3 283 412
General banking risk fund	1 070 000	1 070 000
Total other reserves	**17 287 732**	**16 451 523**
Financial assets available for sale	(51 164)	(28 808)
Cash flow hedges	362 185	217 924
Total other capital from comprehensive income	**311 021**	**189 116**
Total other capital	**17 598 753**	**16 640 639**

(in PLN thousand)

OTHER NOTES

36. Transferred financial assets which do not qualify for derecognition from statement of financial position

As at 31 December 2011 and 31 December 2010, PKO Bank Polski 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 from statement of financial position.

37. Pledged assets

PKO Bank Polski SA has the following pledged assets:

37.1 Liabilities from negative valuation of financial instruments

The collateral due to negative valuation of financial instruments comprises placements with banks. The amount of these assets as at 31 December 2011 amounted to PLN 435 957 thousand (as at 31 December 2010 PLN 825 718 thousand).

37.2 Liabilities from sell-buy-back transactions (SBB)

	31.12.2011	31.12.2010
Treasury bonds:		
nominal value	665 043	458 322
carrying amount	643 483	445 460

37.3 Bank deposit guarantee fund

PKO Bank Polski 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 (unified text Journal of Laws 2009, No. 84, item 711 with subsequent amendments).

	31.12.2011	31.12.2010
Value of the fund	535 226	489 891
Nominal value of pledge	565 000	515 000
Type of pledge	Treasury bonds	Treasury bonds
Maturity of the pledge	25.01.2021	25.01.2021
Carrying value of the pledged asset	555 135	506 992

The Bank's contribution to the Bank Guarantee 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.

37.4 Guarantee Fund for the Settlement of Stock Exchange Transactions

Cash pledged as collateral for securities' transactions conducted by Dom Maklerski PKO BP SA are deposited in the National Depository for Securities (KDPW SA), as part of the Guarantee Fund for the Settlement of Stock Exchange Transactions.

	31.12.2011	31.12.2010
Guarantee Fund for the Settlement of Stock Exchange Transactions	3 923	6 950

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)

38. Contingent liabilities

Underwriting programs

As at 31 December 2011, the Bank's underwriting agreements covered the following securities (maximum liability of the Bank to acquire securities):

Issuer of securities underwritten	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreement	Contract period	Sub-issue type
Company A	corporate bonds	423 000	31.07.2013	Bonds Issue Agreement*
Company B	corporate bonds	136 013	31.12.2024	Bonds Issue Agreement*
Company C	corporate bonds	102 700	31.10.2013	Bonds Issue Agreement*
Company D	corporate bonds	24 900	30.12.2015	Bonds Issue Agreement*
Company E	corporate bonds	20 000	02.01.2012	Bonds Issue Agreement*
Total		**706 613**		

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

As at 31 December 2010, the Bank's underwriting agreements covered the following securities (maximum liability of the Bank to acquire securities):

Issuer of securities underwritten	Type of underwritten securities	Off-balance sweet liabilities resulting from underwriting agreement	Contract period	Sub-issue type
Company A	corporate bonds	304 000	31.07.2013	Bonds Issue Agreement*
Company E	corporate bonds	200 000	02.01.2012	Bonds Issue Agreement*
Company B	corporate bonds	155 000	31.12.2024	Bonds Issue Agreement*
Company D	corporate bonds	74 900	30.12.2015	Bonds Issue Agreement*
Company F	corporate bonds	13 000	31.12.2018	Bonds Issue Agreement*
Entity A	municipal bonds	4 000	31.12.2025	Bonds Issue Agreement*
Total		**750 900**		

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

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

Contractual commitments

As at 31 December 2011 the value of contractual commitments concerning intangible assets amounted to PLN 98 233 thousands (as at 31 December 2010 the value of commitments amounted to PLN 1 100 thousand).

Granted loan commitments

	31.12.2011	31.12.2010
Financial entities	1 609 576	1 139 573
Non-financial entities	28 238 271	27 790 351
State budget entities	823 897	1 005 614
Total	**30 671 744**	**29 935 538**
of which: irrevocable loan commitments	6 569 014	7 001 338

Granted loan commitments have been presented in nominal values.

(in PLN thousand)

Guarantees issued

	31.12.2011	31.12.2010
Financial entities	1 214 684	2 504 479
Non-financial entities	6 014 910	5 494 578
State budget entities	174 459	253 771
Total	**7 404 053**	**8 252 828**

In the years ended on 31 December 2011 and 31 December 2010 respectively, 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 33 'Provisions'.

Contingent liabilities by maturity as at 31 December 2011

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Loan commitments	15 247 959	957 788	4 885 157	4 215 505	5 365 335	**30 671 744**
Guarantee liabilities issued	102 662	337 260	1 769 827	4 003 958	1 190 346	**7 404 053**
Total	**15 350 621**	**1 295 048**	**6 654 984**	**8 219 463**	**6 555 681**	**38 075 797**

Contingent liabilities by maturity as at 31 December 2010

	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Total
Loan commitments	16 629 361	291 994	3 999 554	3 320 204	5 694 425	**29 935 538**
Guarantee liabilities issued	1 649 125	971 746	1 828 734	3 313 539	489 684	**8 252 828**
Total	**18 278 486**	**1 263 740**	**5 828 288**	**6 633 743**	**6 184 109**	**38 188 366**

Off-balance sheet liabilities received (by nominal amount)

	31.12.2011	31.12.2010
financial	375 428	395 625
guarantees	1 905 208	2 231 427
Total	**2 280 636**	**2 627 052**

Assets pledged as collateral for contingent liabilities

As at 31 December 2011 and 31 December 2010 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 2011 and 31 December 2010, 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.

39. Legal claims

As 31 December 2011, the total value of court proceedings in which the Bank is a defendant was PLN 337 557 thousand (as at 31 December 2010: PLN 308 304 thousand), while the total value of court proceedings in which the Bank is the plaintiff was PLN 135 358 thousand (as at 31 December 2010: PLN 60 207 thousand).

(in PLN thousand)

The most significant legal claims of PKO Bank Polski 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 Organisation (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 Bank Polski SA, in the amount of PLN 16 597 thousand. On 20 December 2011 a hearing was held during which no factual resolution of the appeals was reached. The Court obligated MasterCard to submit explanations concerning the issue and set the date for another sitting of the Court for 31 January 2012. The date of the hearing was appointed for 9 February 2012. In connection with the application of the plaintiffs' attorney, including PKO Bank Polski SA, the court postponed the heating date for 24 April 2012. As at 31 December 2011 and as at 31 December 2010, the Bank had a liability in the amount stated above.

b) re-privatisation claims relating to properties held by the Bank

As at the date of these financial statements, five 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-privatisation claims being raised against the Bank and one administrative proceeding for the establishment of perpetual usufruct right to a property owned by 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).

In the opinion of the Management Board of PKO Bank Polski SA, in 2012 the probability of significant claims arising against the Bank in relation to the above mentioned proceedings is remote.

40. 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 banks, as well as other cash equivalents with maturities up to 3 months from the date of acquisition.

	31.12.2011	31.12.2010
Cash and balances with the central bank	9 060 280	6 112 562
Current receivables from banks	2 100 386	2 087 435
Total	**11 160 666**	**8 199 997**

Cash flow from interests and dividends, both received and paid

Interest income - received	2011	2010
Income from loans and advances	7 986 135	6 890 834
Income from securities at fair value through profit and loss	595 372	473 152
Income from placements	238 055	163 871
Income from investment securities	450 283	432 045
Income from trading securities	74 675	133 245
Other interest received	1 395 039	2 592 896
Total	**10 739 559**	**10 686 043**

(in PLN thousand)

Dividend income - received	2011	2010
Dividend income from subsidiaries, jointly controlled entities and associates	87 228	104 232
Dividend income from other entities	6 800	5 663
Total	**94 028**	**109 895**

Interest expense – paid	2011	2010
Interest expense on deposits - paid	(2 965 701)	(3 002 080)
Interest expense on loans and advances - paid	(146 602)	(39 366)
Interest expense on debt securities in issue - paid	(109 020)	(82 871)
Other (mainly premium from debt securities, interest expense on cash collateral liabilities, interest expense on current account of special purpose funds)	(1 118 600)	(1 408 065)
Total	**(4 339 923)**	**(4 532 382)**

Dividend expenses - paid	2011	2010
Dividend paid to shareholders	(2 475 000)	(2 375 000)
Total	**(2 475 000)**	**(2 375 000)**

Cash flow from operating activity – other adjustments

	2011	2010
Interest accrued, discount, premium on debt securities	(568 650)	(476 599)
Hedge accounting	144 261	98 648
Valuation of debt securities in issue	39 799	-
Valuation and impairment allowances for investments in jointly controlled entities and associates	24 707	15 073
Disposal and impairment allowances for tangible fixed assets and intangible assets	17 119	56 123
Total	**(342 764)**	**(306 755)**

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

(Gains) losses on sale and disposal of tangible fixed assets and intangible assets under investing activities	2011	2010
Income from sale and disposal of tangible fixed assets and intangible assets	(15 087)	(6 820)
Costs of sale and disposal of tangible fixed assets and intangible assets	7 757	2 873
Total	**(7 330)**	**(3 947)**

Interests and dividends	2011	2010
Interest from investment securities of the available for sale portfolio presented under investing activities	(450 283)	(432 046)
Dividends received, presented under investing activities	(93 644)	(109 643)
Total	**(543 927)**	**(541 689)**

Change in amounts due from banks	2011	2010
Change in the balance of the statement of financial position	58 696	(325 472)
Change in impairment allowances on amounts due from banks	(795)	(5 461)
Exclusion of a change in the balance of cash and cash equivalents	12 951	463 439
Total	**70 852**	**132 506**

(in PLN thousand)

Change in loans and advances to customers	2011	2010
Change in the balance of the statement of financial position	(11 125 520)	(14 507 340)
Change in the impairment allowances on amounts due from customers	(717 306)	(850 539)
Total	**(11 842 826)**	**(15 357 879)**

Change in other assets and non-current assets held for sale	2011	2010
Change in the balance of the statement of financial position	(83 044)	19 055
Total	**(83 044)**	**19 055**

Change in amounts due to banks	2011	2010
Change in the balance of the statement of financial position	1 157 293	(5 755)
Total	**1 157 293**	**(5 755)**

Change in amounts due to customers	2011	2010
Change in the balance of the statement of financial position	14 741 626	11 244 655
Transfer of loans and advances received from other than banks financial entities/repayment of these loans and advances - to financing activities	(854 325)	(3 457 895)
Total	**13 887 301**	**7 786 760**

Change in impairment allowances and provisions	2011	2010
Change in the balance of the statement of financial position	(98 949)	115 812
Impairment allowances on amounts due from banks	1 140	5 461
Impairment allowances on loans and advances to customers	717 306	850 539
Change in the balance of deferred tax provisions related to valuation of an available-for-sale portfolio included in deferred income tax	28 595	20 202
Total	**648 092**	**992 014**

Change in other liabilities and subordinated liabilities	2011	2010
Change in the balance of the statement of financial position	371 522	467 283
Transfer of interests payments on advances received from other than banks financial institution to financing activities	146 601	39 332
Transfer of interest paid on own issue	108 743	82 590
Total	**626 866**	**589 205**

41. Transactions with the State Treasury and related entities

The State Treasury has control over the Bank as it holds a 40.99% interest in the Bank's share capital. The Bank's shareholding structure is described in detail in Note 1 'General Information' to these financial statements.

Receivables, securities and liabilities arising from transactions conducted with the State Treasury and other state budgetary agencies are disclosed in the Bank's statement of financial position.

In accordance with the 30 November 1995 Act in relation to State support in the repayment of certain mortgage loans, reimbursement of guarantee premium paid and amendments of several acts (Journal of Laws, 2003, No. 119, item 1115 with subsequent amendments) PKO Bank Polski SA receives payments from the State budget in respect of interest receivable on mortgage loans.

(in PLN thousand)

	2011	2010
Income due to temporary redemption by the State budget of interest on mortgage loans from the 'old' portfolio recognised for this period	152 960	120 371
Income due to temporary redemption by the State budget of interest on mortgage loans from the 'old' portfolio received in cash	106 392	106 608
Difference between income recognised for this period and income received in cash – 'Loans and advances to customers'	46 568	13 763

The Act on the coverage of repayment of certain mortgage loans by State Treasury (Journal of Laws, 2000, No. 122 item 1310 with subsequent amendments) guarantees was passed on 29 November 2000 and came into force on 1 January 2001. In execution of the provisions of the Act, on 3 August 2001 PKO Bank Polski SA signed an agreement with the Minister of Finance acting on behalf of the State Treasury under which the Bank was granted a pledge of repayment of debt arising from mortgage loans in the so-called 'old' portfolio. On 29 December 2011, the validity period of the agreement (originally until 31 December 2011) was extended until 31 December 2017. The coverage of the so-called 'old' portfolio mortgage loan receivables by the guarantees of the State Treasury results in the neutralisation of the default risk on these loans. The State Treasury guarantees are realised 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 realisation 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.

PKO Bank Polski SA receives commission for settlements relating to redemption of interest by the State Treasury on mortgage loans.

	2011	2010
Fee and commission income	4 578	6 590

As of 1 January 1996 the Bank became the general distributor of value marks. The Bank receives commissions in this respect from the State Treasury.

	2011	2010
Fee and commission income	18 625	26 255

Dom Maklerski PKO Bank Polski SA (the Brokerage House of PKO Bank Polski 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 Bank Polski SA receives a fee for providing the services of an agent for the issue of bonds.

	2011	2010
Fee and commission income	29 669	31 842

(in PLN thousand)

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

The transactions were concluded at arm's length.

Entity	31.12.2011						31.12.2010					
	Total receivables	Total liabilities	Contingent liabilities and commitments – financial and guarantee	Interest income	Fee and commission income	Interest expenses	Total receivables	Total liabilities	Contingent liabilities and commitments – financial and guarantee	Interest income	Fee and commission income	Interest expenses
Entity 1	399 939	-	368 959	4 980	909	(301)	349 633	-	260 851	5 067	639	(15)
Entity 2	178 132	15 474	144 912	3 898	578	(45)	57 438	-	24 562	4 366	38	(381)
Entity 3	132 802	150 000	477 545	13 039	2 797	(3 182)	154 846	128 924	407 670	19 133	883	(2 222)
Entity 4	130 940	-	-	18 230	245	(6 988)	195 894	-	2 428	-	-	-
Entity 5	102 811	-	20 357	6 228	605	(5)	91 040	-	8 002	3 518	270	(2)
Entity 6	85 306	12 543	60 000	5 731	156	(2 995)	-	76 923	30 000	6 486	189	(2 799)
Entity 7	58 103	7 000	136 013	2 923	11	(774)	66 421	38 943	155 000	3 219	9	(137)
Entity 8	54 758	11 045	95 264	3 420	783	(1 370)	60 246	28 101	89 754	2 699	355	(766)
Entity 9	48 749	45 850	-	565	5	(1 158)	39 603	-	-	353	5	(7)
Entity 10	41 060	10 000	50 000	2 927	97	(3 259)	58 340	6 827	50 000	-	-	-
Entity 11	25 048	-	-	1 507	8	(114)	34 011	-	-	1 812	6	(81)
Entity 12	21 700	12 009	100	1 406	116	(1)	23 620	-	580	1 484	29	(176)
Entity 13	20 115	5 105	6 000	1 441	32	(645)	18 000	8 221	18 000	-	-	-
Entity 14	19 556	-	3 434	1 340	76	-	23 790	-	3 601	1 424	72	-
Entity 15	18 207	70 000	-	1 657	10	(17 116)	36 409	65 092	-	2 407	10	(1 498)
Other significant exposures	132 392	1 898 747	2 930 663	23 970	3 945	(129 133)	209 958	1 526 433	3 463 905	40 341	5 957	(77 245)
Total	**1 469 618**	**2 237 773**	**4 293 247**	**93 262**	**10 373**	**(167 086)**	**1 419 249**	**1 879 464**	**4 514 353**	**92 309**	**8 462**	**(85 329)**

As at 31 December 2011 and as at 31 December 2010 respectively, no significant impairment allowances were recognised for above-mentioned receivables.

42. Related party transactions

All transactions with subsidiaries, jointly controlled entities and associates presented below were arm's length transactions. Repayment terms are within a range from 1 month to 10 years.

(in PLN thousand)

31 December 2011

Entity	Receivables	including loans	Liabilities	Total income	including interest and fee and commission income	Total expense	including interest and fee and commission expense	Contingent liabilities and commitments
Agencja Inwestycyjna CORP-SA SA	-	-	76	691	-	2 552	-	-
Bank Pocztowy SA	-	-	983	346	325	486	481	24 974
Bankowe Towarzystwo Kapitałowe SA	-	-	355	23	3	19	19	7 000
Bankowy Fundusz Leasingowy SA	177 829	25 231	24 177	9 972	8 295	12 214	980	1 043 235
Bankowy Leasing Sp. z o.o.	1 205 779	1 205 697	14	65 594	65 547	48	5	224 454
BFL Nieruchomości Sp. z o.o.	394 295	394 295	58	19 312	19 312	27	27	9 650
Centrum Elektronicznych Usług Płatniczych 'eService' SA	568	-	28 243	14 250	13 737	54 172	53 780	23 500
Centrum Finansowe Puławska Sp. z o.o. – in liquidation	-	-	18 983	1 149	1 148	41 966	582	-
CENTRUM HAFFNERA Sp. z o.o.	-	-	2 797	18	18	-	-	-
Centrum Majkowskiego Sp. z o.o.	-	-	7 350	13	13	245	245	-
Centrum Obsługi Biznesu Sp z o.o.	33 625	33 625	21 447	993	993	635	635	-
Centrum Operacyjne Sp. z o.o.	-	-	156	5	5	-	-	-
Finansowa Kompania 'Prywatne inwestycje' Sp. z o.o.	214 957	214 957	-	541	541	-	-	-
Fort Mokotów Inwestycje Sp. z.o.o.	8 053	-	1 410	3	3	82	82	-
Fort Mokotów Sp. z o.o. – in liquidation	-	-	5 252	2	2	226	226	-
Inteligo Financial Services SA	14 530	-	130 667	1 735	20	52 038	5 243	-
Kamienica Morska Sp. z o.o.	-	-	-	13	13	-	-	-
Kolej Gondolowa Jaworzyna Krynicka SA	8 479	8 479	217	479	479	58	58	2 976
KREDOBANK SA	130 285	118 234	1 012	7 260	7 260	-	-	172 346
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	13	-	1 605	2 664	2 492	156	156	-
PKO BP Faktoring SA	179 249	179 249	228	7 534	7 285	-	-	70 751
PKO BP Finat Sp. z o.o.	-	-	3 361	10	10	240	174	593
PKO Finance AB	-	-	4 475 542	-	-	139 833	139 833	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	12 798	-	21 585	175 676	175 378	360	360	467
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	1 047	2	2	907	907	-
Promenada Sopocka Sp. z o.o.	49 162	49 162	1 477	1 496	1 496	20	20	-
Qualia - Residence Sp. z o.o.	-	-	747	1	1	-	-	-
Qualia - Rezydencja Flotylla Sp. z o.o.	39 695	39 695	311	2 057	2 057	-	-	28 973
Qualia Development Sp. z o.o.	178 890	-	15 542	7	-	-	-	17 763
Qualia Hotel Management Sp. z o.o.	-	-	49	-	-	-	-	-
Qualia Sp. z o.o.	-	-	1	2	2	-	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Sp. k.	124 617	124 617	15 314	8 510	8 510	265	265	820
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k.	122 088	122 088	13 638	9 159	9 159	689	689	77 912
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp. k.	-	-	-	1	1	-	-	-
Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Sp. k.	-	-	1	1	1	-	-	-
Qualia Spółka z ograniczoną odpowiedzialnością - Sopot Sp. k.	782	782	6	84	84	-	-	7 173
Sarnia Dolina Sp. z o.o.	16 121	16 121	4	935	935	-	-	-
Sopot Zdrój Sp. z o.o.	235 466	235 466	3 318	7 322	7 322	71	71	-
TOTAL	**3 147 281**	**2 767 698**	**4 796 973**	**337 860**	**332 449**	**307 309**	**204 838**	**1 712 587**

Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o. was not presented in the table due to lack of intercompany balances with the Bank.

(in PLN thousand)

31 December 2010

Entity	Receivables	including loans	Liabilities	Total income	including interest and fee and commission income	Total expense	including interest and fee and commission expense	Contingent liabilities and commitments
Agencja Inwestycyjna CORP-SA SA	61	-	87	628	-	2 425	-	-
Bank Pocztowy SA	-	-	105	146	131	1 962	419	1 330
Bankowe Towarzystwo Kapitałowe SA	3 000	-	4 175	4	4	108	108	7 000
Bankowy Fundusz Leasingowy SA	50 467	41 652	26 882	8 496	5 855	10 799	272	807 665
Bankowy Leasing Sp. z o.o.	946 242	946 169	230	35 654	35 442	6	6	126 889
BFL Nieruchomości Sp. z o.o.	307 305	307 305	1 501	13 210	13 210	15	15	5 071
Centrum Elektronicznych Usług Płatniczych 'eService' SA	864	-	27 342	5 110	5 110	37 908	37 907	2 500
Centrum Finansowe Puławska Sp. z o.o.	64 940	64 810	28 744	2 935	2 935	43 802	891	-
CENTRUM HAFFNERA Sp. z o.o.	-	-	2 478	9	9	59	59	-
Centrum Majkowskiego Sp. z o.o.	-	-	4 765	6	6	93	93	-
Centrum Obsługi Biznesu Sp. z o.o.	30 799	30 799	22 285	753	752	558	557	-
Fort Mokotów Inwestycje Sp. z.o.o.	8 053	-	3 591	1	1	108	108	-
Fort Mokotów Sp. z o.o.	-	-	6 293	1	1	211	211	-
Inteligo Financial Services SA	7 822	-	120 044	1 741	22	50 838	4 512	-
Kamienica Morska Sp. z o.o.	-	-	66	6	6	-	-	-
Kolej Gondolowa Jaworzyna Krynicka SA	5 824	5 824	538	74	74	9	9	8 375
KREDOBANK SA	247 819	130 096	25	9 827	9 827	-	-	489 427
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne SA	121	-	234	3 317	3 195	400	400	-
PKO BP Faktoring SA	92 542	92 542	1 196	3 911	3 911	-	-	157 476
PKO BP Finat Sp. z o.o.	-	-	5 856	7	7	168	168	-
PKO Finanse AB	-	-	3 188 019	-	-	22 892	22 664	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	15 557	-	3 686	162 142	161 752	248	248	467
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	-	-	16 178	1	1	152	141	-
Promenada Sopocka Sp. z o.o.	43 805	43 805	691	1 165	1 165	-	-	-
Qualia - Rezydencja Flotylla Sp. z o.o.	13 909	13 909	89	1 461	1 461	-	-	54 759
Qualia Development Sp. z o.o.	113 310	-	1 509	9	9	638	203	1 500
Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Sp. k.	132 016	131 500	14 802	8 090	8 090	298	298	-
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k.	132 088	132 088	20 020	9 168	9 168	120	120	67 912
Sarnia Dolina Sp. z o.o.	15 260	15 260	149	828	828	-	-	50 000
Sopot Zdrój Sp. z o.o.	209 785	209 785	4 049	5 617	5 617	60	60	-
WISŁOK Inwestycje Sp. z o.o.	-	-	-	337	337	-	-	-
TOTAL	**2 441 589**	**2 165 544**	**3 505 629**	**274 654**	**268 926**	**173 877**	**69 469**	**1 780 371**

(in PLN thousand)

43. Personal related party transactions

As at 31 December 2011, two entities were related to the Bank through the key management personnel of PKO Bank Polski SA or the close family members of the key management personnel (one entity as at 31 December 2010).

In 2011 and 2010, no intercompany transactions were concluded with these entities.

44. Remuneration – PKO Bank Polski SA key management

a) short-term employee benefits*

Remuneration received from PKO Bank Polski SA

Name	Title	2011	2010
	The Management Board of the Bank		
Zbigniew Jagiełło	President of the Bank's Management Board	1 931	1 071
Piotr Alicki	Vice-President of the Bank's Management Board	1 010	160
Bartosz Drabikowski	Vice-President of the Bank's Management Board	1 511	1 025
Andrzej Kołatkowski	Vice-President of the Bank's Management Board	694	-
Jarosław Myjak	Vice-President of the Bank's Management Board	1 510	1 009
Jacek Obłękowski	Vice-President of the Bank's Management Board	484	-
Jakub Papierski	Vice-President of the Bank's Management Board	1 457	753
Remuneration of the Management Board Members who ceased their functions in 2011 or 2010			
Mariusz Zarzycki	Vice-President of the Bank's Management Board	-	688
Krzysztof Dresler	Vice-President of the Bank's Management Board	1 229	1 064
Wojciech Papierak	Vice-President of the Bank's Management Board	1 111	1 061
Total short-term employee benefits of the Bank's Management Board		**10 937**	**6 831**
	The Supervisory Board of the Bank		
Cezary Banasiński	Chairman of the Bank's Supervisory Board	192	107
Tomasz Zganiacz	Vice-Chairman of the Bank's Supervisory Board	168	96
Mirosław Czekaj	Secretary of the Bank's Supervisory Board	144	86
Jan Bossak	Member of the Bank's Supervisory Board	120	75
Krzysztof Kilian	Member of the Bank's Supervisory Board	51	-
Błażej Lepczyński	Member of the Bank's Supervisory Board	70	75
Piotr Marczak	Member of the Bank's Supervisory Board	120	52
Zbigniew Alojzy Nowak	Member of the Bank's Supervisory Board	70	75
Ireneusz Fąfara	Member of the Bank's Supervisory Board	-	55
Ewa Miklaszewska	Member of the Bank's Supervisory Board	51	-
Marek Mroczkowski	Member of the Bank's Supervisory Board	51	-
Ryszard Wierzba	Member of the Bank's Supervisory Board	51	-
Total short-term employee benefits of the members of the Supervisory Board		**1 088**	**621**
Total		**12 025**	**7 452**

Remuneration received from related entities (other than the State Treasury and entities related to the State Treasury)

Name	Title	2011	2010
The Management Board of the Bank			
Zbigniew Jagiełło	President of the Bank's Management Board	8	39
Bartosz Drabikowski	Vice-President of the Bank's Management Board	-	19
Krzysztof Dresler	Vice-President of the Bank's Management Board	-	19
Wojciech Papierak	Vice-President of the Bank's Management Board	7	37
Jakub Papierski	Vice-President of the Bank's Management Board	32	-
Mariusz Zarzycki	Vice-President of the Bank's Management Board	-	23
Total short-term employee benefits		**47** **	**137** ***

* Includes remuneration from the Bank and the Bank's subsidiaries, unless stated otherwise.
** Includes remuneration from associates in the amount of PLN 47 thousand.
*** Includes remuneration from associates in the amount of PLN 76 thousand.

(in PLN thousand)

b) post-employment benefits

In the years ended 31 December 2011 and 31 December 2010 no post-employment benefits were paid.

c) other long-term benefits

In the years ended 31 December 2011 and 31 December 2010 no 'other long-term benefits' were paid.

d) benefits due to termination of employment

As at 31 December 2011, benefits paid due to termination of employment amounted to PLN 1 920 thousand, as at 31 December 2010, benefits paid due to termination of employment amounted to PLN 1 440 thousand.

e) share-based payments

In the years ended 31 December 2011 and 31 December 2010 no benefits were granted in the form of share-based payments.

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

	31.12.2011	31.12.2010
The Management Board members	130	199
The Supervisory Board members	2 415	2 400
Total	**2 545**	**2 599**

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

45. Fair value of financial assets and financial liabilities

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

45.1 Categories of valuation at fair value of financial assets and liabilities measured at fair value in the statement of financial position

On the basis of applied methods of valuation at fair value, the Bank classifies financial assets and liabilities to the following categories:

1) **Level 1:** Financial assets and liabilities which fair value is stated directly at prices quoted (not adjusted) from active markets for identical assets and liabilities. The Bank classified to that category the following items:
   - debt securities valued at fixing from Bondspot platform,
   - debt and equity securities in the Brokerage House (Dom Maklerski) portfolio,
   - debt and equity securities which are traded on regulated market.
2) **Level 2:** Financial assets and liabilities which fair value is determined with use of valuation models, where all significant entry data are observable on the market directly (as prices) or indirectly (based on prices). The Bank classified to that category the following items:
   - debt securities valuated to the curve or those whose price comes from Bloomberg platform or brokerages pages in Reuters system but for which market is not active,
   - non-treasury debt securities issued by other financial entities, local government bodies, non-financial entities quoted on the stock exchange or not traded on a regulated market,
   - derivative instruments.
3) **Level 3:** Financial assets and liabilities which fair value is determined with use of valuation models, for which available data is not derived from observable markets. The Bank classified to this category shares that are not quoted on the Warsaw Stock Exchange.

(in PLN thousand)

Note 2 'Summary of significant accounting policies including estimates and judgements' provides detailed information on the method of fair value calculation.

The table below presents a classification of financial assets and liabilities presented in the financial statements at fair value divided into 3 levels as at 31 December 2011.

Assets and liabilities valued at fair value as at 31.12.2011	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	**17**	**1 311 089**	**1 261 687**	**49 402**	**-**
Debt securities		1 300 164	1 250 762	49 402	-
Shares in other entities		10 925	10 925	-	-
Derivative financial instruments	**18**	**3 065 149**	**5 066**	**3 060 083**	**-**
Hedging instruments		516 925	-	516 925	-
Trade instruments		2 548 224	5 066	2 543 158	-
Financial instruments designated upon initial recognition at fair value through profit and loss	**20**	**12 467 201**	**1 318 278**	**11 148 923**	**-**
Debt securities		12 467 201	1 318 278	11 148 923	-
Investment securities available for sale	**22**	**14 168 933**	**8 340 552**	**5 792 474**	**35 907**
Debt securities		14 091 183	8 298 709	5 792 474	-
Equity securities		77 750	41 843	-	35 907
Financial assets at fair value - total		**31 012 372**	**10 925 583**	**20 050 882**	**35 907**
Derivative financial instruments	**18**	**2 645 281**	**816**	**2 644 465**	**-**
Hedging instruments		342 598	-	342 598	-
Trade instruments		2 302 683	816	2 301 867	-
Debt securities in issue	**30**	**175 615**	**-**	**175 615**	**-**
Financial instruments designated at fair value through profit and loss		175 615	-	175 615	-
Financial liabilities at fair value - total		**2 820 896**	**816**	**2 820 080**	**-**

Financial assets available for sale as at 31.12.2011 (Note 17)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	1 300 164	1 250 762	49 402	-
treasury bills	49 402	-	49 402	-
treasury bonds	1 219 069	1 219 069	-	-
corporate bonds	15 186	15 186	-	-
municipal bonds	14 783	14 783	-	-
BGK bonds	1 724	1 724	-	-
Shares in other entities	10 925	10 925	-	-
TOTAL	**1 311 089**	**1 261 687**	**49 402**	**-**

Financial assets designated upon initial recognition at fair value through profit and loss as at 31.12.2011 (Note 20)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	12 467 201	1 318 278	11 148 923	-
NBP money market bills	8 593 791	-	8 593 791	-
treasury bills	2 180 148	-	2 180 148	-
treasury bonds PLN	1 318 278	1 318 278	-	-
treasury bonds EUR	122 089	-	122 089	-
municipal bonds PLN	108 922	-	108 922	-
municipal bonds EUR	143 973	-	143 973	-
TOTAL	**12 467 201**	**1 318 278**	**11 148 923**	**-**

(in PLN thousand)

Investment securities available for sale as at 31.12.2011 (Note 22)	Carrying amount	Level 1	Level 2	Level 3
Debt securities available for sale	14 091 183	8 298 709	5 792 474	-
treasury bonds PLN	8 298 709	8 298 709	-	-
treasury bonds EUR	11 720	-	11 720	-
municipal bonds	3 458 356	-	3 458 356	-
corporate bonds	2 322 398	-	2 322 398	-
Equity securities	77 750	41 843	-	35 907
TOTAL	**14 168 933**	**8 340 552**	**5 792 474**	**35 907**

The table below presents a classification of financial assets and liabilities presented in the financial statements at fair value divided into 3 levels of the fair value hierarchy as at 31 December 2010.

Assets and liabilities valued at fair value as at 31.12.2010	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	**17**	**1 503 649**	**1 448 815**	**54 834**	**-**
Debt securities		1 491 053	1 436 219	54 834	-
Shares in other entities		12 596	12 596	-	-
Derivative financial instruments	**18**	**1 719 764**	**718**	**1 719 046**	**-**
Hedging instruments		153 921	-	153 921	-
Trade instruments		1 565 843	718	1 565 125	-
Financial instruments designated upon initial recognition at fair value through profit and loss	**20**	**10 758 331**	**3 048 210**	**7 710 121**	**-**
Debt securities		10 758 331	3 048 210	7 710 121	-
Shares in other entities		-	-	-	-
Investment securities available for sale	**22**	**9 876 252**	**5 548 693**	**4 318 284**	**9 275**
Debt securities		9 804 907	5 486 623	4 318 284	-
Equity securities		71 345	62 070	-	9 275
Financial assets at fair value - total		**23 857 996**	**10 046 436**	**13 802 285**	**9 275**
Derivative financial instruments	**18**	**2 404 795**	**-**	**2 404 795**	**-**
Hedging instruments		555 983	-	555 983	-
Trade instruments		1 848 812	-	1 848 812	-
Financial liabilities at fair value - total		**2 404 795**	**-**	**2 404 795**	**-**

Financial assets available for sale as at 31.12.2010 (Note 17)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	1 491 053	1 436 219	54 834	-
treasury bonds	1 483 144	1 428 310	54 834	-
corporate bonds	519	519	-	-
municipal bonds	7 390	7 390	-	-
Shares in other entities	12 596	12 596	-	-
TOTAL	**1 503 649**	**1 448 815**	**54 834**	**-**

Financial assets designated upon initial recognition at fair value through profit and loss as at 31.12.2010 (Note 20)	Carrying amount	Level 1	Level 2	Level 3
Debt securities	10 758 331	3 048 210	7 710 121	-
NBP money market bills	3 997 780	-	3 997 780	-
treasury bills	1 893 058	-	1 893 058	-
treasury bonds PLN	4 738 644	3 048 210	1 690 434	-
municipal bonds EUR	128 849	-	128 849	-
TOTAL	**10 758 331**	**3 048 210**	**7 710 121**	**-**

Investment securities available for sale as at 31.12.2010 (Note 22)	Carrying amount	Level 1	Level 2	Level 3
Debt securities available for sale	9 804 907	5 486 623	4 318 284	-
treasury bonds PLN	5 486 623	5 486 623		-
treasury bonds EUR	-	-	-	-
municipal bonds	2 824 173	-	2 824 173	-
corporate bonds	1 494 111	-	1 494 111	-
Equity securities	71 345	62 070	-	9 275
TOTAL	**9 876 252**	**5 548 693**	**4 318 284**	**9 275**

(in PLN thousand)

Between 2011 and 2010 there was a change in the approach to the Polish Treasury bonds denominated in Polish zloty for which there is no BondSpot fixing, including the bonds which in line with the principles of the BondSpot market do not have BondSpot fixing due to the short term to maturity. In 2010, the prices for such bonds were obtained from Bloomberg websites or from broker sites in the Reuters system. As from 2011, the revaluation price for the above-mentioned bonds is the market price in the regulated BondSpot market. Apart from the above change, there were no significant transfers between levels 1 and 2 in 2011 and 2010.

The table below presents the classification of financial assets and liabilities measured in the period (1 January 2011 - 31 December 2011 and 1 January 2010 – 31 December 2010) at fair value divided into a three-level hierarchy

	Investment securities available for sale	Total
Opening balance as at 1 January 2011	**9 275**	**9 275**
Total gains or losses recognised	732	732
in financial result	732	732
Purchase	25 900	25 900
Closing balance as at 31 December 2011	**35 907**	**35 907**
Total gains or losses for the period presented in the financial result for assets held at the end of the period	**732**	**732**

	Investment securities available for sale	Total
Opening balance as at 1 January 2010	**5 868**	**5 868**
Total gains or losses recognised	2 638	2 638
in financial result	1 718	1 718
in other comprehensive income	920	920
Purchase	4 858	4 858
Sale	(3 060)	(3 060)
transfer to or from level 3	(1 029)	(1 029)
Closing balance as at 31 December 2010	**9 275**	**9 275**
Total gains or losses for the period presented in the financial result for assets held at the end of the period	**1 718**	**1 718**

45.2 Financial assets and liabilities not presented at the fair value in the statement of financial position

The Bank holds certain financial instruments which are not presented at fair value in the statement of financial position.

Where there is no market value of financial instruments available, their fair values have been estimated with use of 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. All model calculations include certain simplifying assumptions and therefore are 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 financial instruments:

(in PLN thousand)

- loans and advances to clients: a portion of the mortgage loans portfolio (the so called 'old' portfolio), loans with no specified repayment schedule, which are due at the moment of valuation,
- amounts due to clients: liabilities with no specified payment schedule, other specific products for which no active market exists, such as saving books 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 on interbank market with a variable interest rate (change of interest rate maximum on a three month basis),
- cash and funds in central bank and amounts due to the central bank,
- other financial assets and liabilities.

With regard to loans and advances to customers, 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 on instruments with similar credit risk concluded in the last quarter of the year.

The fair value of deposits and other amounts due to customers other than banks, which specified maturities have 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 basing on the expected future cash flows discounted using the zero coupon yield curve.

The fair value of debt securities issued by PKO Bank Polski SA has been estimated basing on the expected future cash flows discounted using the current interbank interest rates.

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.

The table below shows a summary of the carrying amounts and fair values for particular groups of financial instruments which have not been presented at fair value in the Bank's statement of financial position as at 31 December 2011 and 31 December 2010:

	31.12.2011		31.12.2010	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash and balances with the central bank	9 060 280	9 060 280	6 112 562	6 112 562
Amounts due from banks	2 320 198	2 319 568	2 379 239	2 382 884
Loans and advances to customers	140 058 649	133 292 770	128 933 129	130 639 024
corporate loans	47 615 606	46 021 898	43 375 099	44 258 462
consumer loans	22 797 176	22 370 513	24 061 792	24 233 330
mortgage loans	69 645 867	64 900 359	61 496 238	62 147 232
Other financial assets	380 795	380 795	311 202	311 202
Amounts due to the central bank	3 454	3 454	3 370	3 370
Amounts due to banks	5 321 390	5 316 737	4 164 181	4 163 898
Amounts due to customers	150 030 681	150 052 214	135 289 055	135 077 234
due to corporate entities	42 784 326	42 784 292	34 895 145	34 686 487
due to state budget entities	3 822 219	3 822 219	6 046 802	6 046 888
due to retail clients	103 424 136	103 445 703	94 347 108	94 343 859
Debt securities in issue	3 105 588	3 107 502	-	-
Subordinated liabilities	1 614 377	1 618 446	1 611 779	1 617 238
Other financial liabilities	1 670 659	1 670 659	1 116 221	1 116 221

46. Fiduciary 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 investment accounts, services transactions on the domestic and foreign markets, and provides fiduciary services and performs depository role for pension and investment funds. Assets placed in the Bank within fiduciary services are not included in these financial statements as they do not meet the criteria of an asset.

Moreover, as a member of the Council of Depositary Banks and the Council of Non-treasury Debt Securities by the Polish Bank Association, PKO Bank Polski SA takes part in developing regulations and market standards.

47. Sale of impaired loan portfolios

The Bank did not enter any securitisation transactions, although:

- in 2010, the Bank performed a sale of 100 thousand retail receivables classified as ‘loss’ in relation to individuals who do not conduct business activities. The debt portfolio exposure amounted to PLN 1 127 million and 1.4 thousand of receivables from institutional clients classified as 'loss', with a total value of PLN 307 million,
- in the first half of 2011, the Bank carried out another packaging sale of 51 thousand retail receivables classified as ‘loss’ in relation to individuals who do not conduct business activities. The sale covered a bundle with a total debt of PLN 565 million.
- in the second half of 2011 the Bank carried out the subsequent bundle sales for which sales agreements were signed in 2011:
  a) in the third quarter, over 49 thousand retail receivables classified as ‘loss’ in relation to individuals who do not conduct business activities. The sale covered a portfolio with a total debt of PLN 418 million;
  b) in the fourth quarter, over 43 thousand retail receivables classified as ‘loss’ in relation to individuals who do not conduct business activities. The sale covered a portfolio with a total debt of PLN 533 million;
  c) in the fourth quarter, over 4 thousand receivables from institutional customers in the impaired loans portfolio classified as ‘loss’ with a total value of PLN 520 million;
- the total carrying amount of provision for potential claims on impaired loans portfolios sold as at 31 December 2011 is PLN 3 946 thousand (as at 31 December 2010 it amounted to PLN 11 430 thousand). The Bank did not receive any securities on account of the above-mentioned transactions.

48. Differences between previously published financial statements and these financial statements

In 2011 there were no changes in relation to previously published financial statements.

49. Influence of macroeconomic situation on the Bank’s results

The macroeconomic situation, including the continued economic revival in the conditions of high uncertainty related to the fiscal crisis in the euro zone, had a significant effect on the activities and financial standing of the Bank in 2011. In 2011, the increased volatility of financial markets continued, it was mainly related to the deterioration in the economic growth perspectives in the largest global economies and the escalation of the debt crisis in euro zone countries. The highest scale of volatility occurred in the third quarter of 2011, as a result of the deterioration in global economy growth perspectives, the increased risk of Greece's insolvency and the downgraded credit rating of the USA. In response to the further deterioration in conditions on the financial markets, the euro zone countries continued working on mechanisms that would stabilise public finance and on another financial support programme for Greece. In recent months, the European Central Bank has also announced a number of actions aimed at relaxing the monetary policy and stabilising the situation in the banking sector, including a 3-year LTRO (Long-Term Refinancing Operation) loan, which significantly reduced the systemic risk for the European banking system.

The economic growth in Poland accelerated to 4.3% in 2011 (from 3.9% in 2010), making Poland one of the leaders in economic growth in Europe. The economic growth dynamics were stimulated by stable private consumption in conditions of a stabilised situation on the labour market and the continuation of public investments in infrastructure. On the other hand, the continued uncertainty which was mainly related to the situation in Poland's external environment determined prudent investment activities of enterprises. The increase in the risk premium in the third quarter of 2011 was a cause for the weakening of the Euro and Polish zloty exchange rates.

PKO Bank Polski SA has positively passed the pan-European stress tests carried out in the middle of 2011 by the European Banking Authority (EBA) in cooperation with national supervision authorities. The tests which constituted a theoretical test of resistance in the event of a potential macroeconomic downturn, showed that the Bank considerably exceeded the minimum ratios adopted for the tests. The Bank has also successfully passed the stress tests carried out by the Polish Financial Supervision Authority and an examination carried out by the EBA concerning the effect of introducing the minimum level of equity in relation to risk-weighted assets (Common Equity Tier 1 ratio) at a level of 9%. It is worth noting that the Bank does not have exposures in debt securities issued by governments of the euro zone peripheral countries and the Hungarian government. The results for 2012, including the level of dividend paid, may be significantly affected by the expectation formulated by the PFSA in December 2011 concerning maintaining the capital adequacy ratio on a level above 12%.

Taking into account the impact of the macroeconomic situation on the condition of the customers of PKO Bank Polski, the Bank strictly follows a conservative approach to risk by recognising impairment losses whose scale and structure reflects the impact of the current macroeconomic situation on the Bank's financial statements.

In 2011, the Bank achieved the best financial results in its history. At the same time, the Bank is the leader of the banking sector in terms of total assets, equity, loans granted and deposits accepted.

In 2011, PKO Bank Polski SA developed its business activities based on a safe and effective structure of financing. The dynamic development of the loan activity was financed with the increase in amounts due to customers (including funds from the issue of Eurobonds) and the increase in amounts due in respect of own issue of debt securities to the domestic market.

Good financial results have been achieved with considerable growth dynamics of net interest income compared with the prior year, accompanied by an increase in administrative expenses. At the same time, the aggregate dynamics of the Bank's income items considerably exceeded the growth dynamics of administrative expenses, which translated into the increased effectiveness of the Bank's operations.

The financial results achieved by the Bank are an important component of the 'Leader' Strategy of PKO Bank Polski SA adopted by the Management Board of the Bank and approved by its Supervisory Board in February 2010. The strategy set out two main strategic objectives for 2010-2012: PKO Bank Polski SA being a clear leader of the Polish banking sector and being a stable, profitable and effective bank. The strategy, focused on fulfilling the needs of the Bank's customers, as well as the expectations of its owners and employees, provides for the continuation of sustainable growth, synergies and leveraging the potential of the entire Group. PKO Bank Polski SA is the central entity of an efficient Group, offering comprehensive services to its customers. The actions undertaken as part of the Bank's Strategy include a number of initiatives aimed at fully utilising the potential of all the subsidiaries in order to optimise the business benefits.

Due to the exposure in Ukrainian companies, in particular KREDOBANK SA, the Group is exposed to the effects or risks characteristic to the Ukrainian market. In 2011, economic growth in the Ukraine accelerated to 5.2% y/y. The favourable economic situation and the drop in dynamics of prices resulted in maintaining a strong real increase in salaries. At the same time, the actions undertaken by the central bank ensured the stability of the exchange rate, in spite of the disturbances on the international financial markets. In the context of a good economic condition, the situation of the banking sector improved gradually, which was expressed in a growth in the profitability ratios and a drop in the ratio of impaired loans to the total loan portfolio.

PKO Bank Polski SA continues to implement measures aimed at ensuring the safe functioning of its companies in Ukraine in the environment of the current macroeconomic situation in the Ukraine. These measures include strengthening oversight activities, monitoring funds transferred to the Companies by the Bank and the development of the regulatory requirements determined by the National Bank of Ukraine in KREDOBANK SA.

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS

50. Risk management in the PKO Bank Polski SA

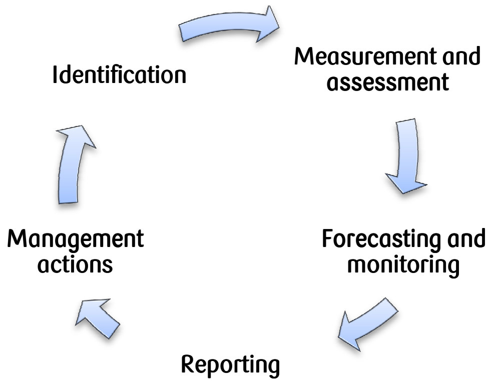
Risk management is one the most important internal processes in PKO Bank Polski SA. Risk management aims at ensuring an appropriate level of security and profitability of business activity in the changing legal and economic environment and the level of the risks plays an important role in the planning process.

At the Bank, the following types of risk have been identified, which are subject to management: credit risk, interest rate risk, currency risk, liquidity risk, price risk of equity instruments, operational risk, compliance risk, business risk (including strategic risk), and reputation risk. Derivatives risk is a subject to a special control due to the specific characteristics of these instruments.

The process of banking risk management in PKO Bank Polski SA consists of the following stages:

- risk identification – the identification of actual and potential sources of risk and estimation of the significance of the potential influence of a given type of risk on the financial situation in the Bank. Within the risk identification process, types of risk perceived as material in the banking activity are identified,
- risk measurement and assessment – defining risk assessment tools adequate to the type and significance of the risk, data availability and quantitative risk assessment by means of defined tools, as well as risk assessment aimed at identifying the scale or scope of risk, taking into account the achievement of goals of risk management. Within risk measurement, stress-test are being conducted on the basis of assumption providing a fair risk assessment,
- risk forecasting and monitoring – preparing risk level forecasts and monitoring deviances from forecasts and adopted reference points (e.g. limits, thresholds, plans, measurements from the previous period, issued recommendations and suggestions). Risk monitoring is performed with the frequency adequate to the materiality and volatility of a specific risk type,
- risk reporting – periodic informing the Management of the Bank about the results of risk assessment, taken actions and recommendations, scope, frequency and the form of reporting is adjusted to the managing level of the recipients,
- management actions – including, among others, issuing internal regulations, establishing the level of risk tolerance, establishing limits and thresholds, issuing recommendations, making decisions about the use of tools supporting risk management. The objective of taking management actions is to form the risk management and credit risk level.

The risk management process is described on the chart below.



Risk management in the PKO Bank Polski SA is based specially on the following principles:

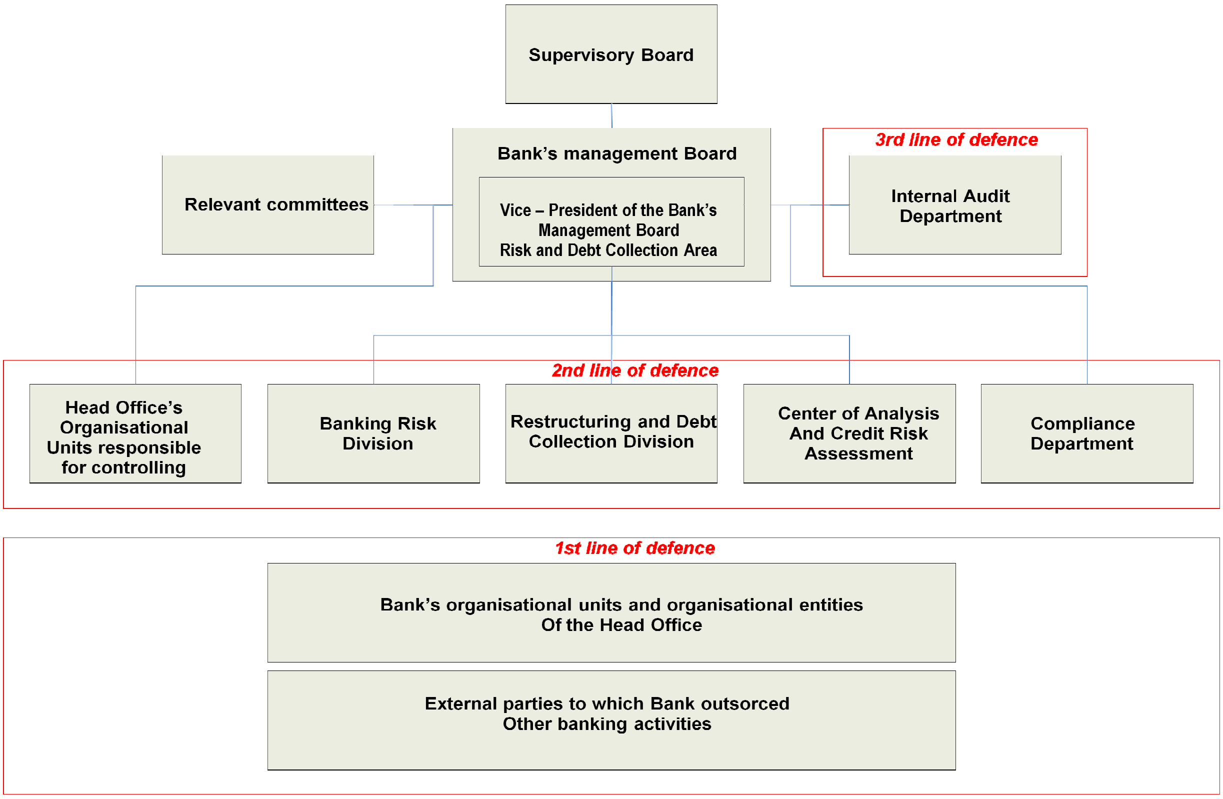
- the Bank manages all of the identified types of banking risk,
- the risk level is monitored on a current basis,
- the risk management process is appropriate to the scale of the operations and to the materiality, scale and complexity of a given risk and tailored to new risk factors and sources on a current basis,
- the risk management methods (in particular the models and their assumptions) and the risk measurement systems are tailored to the scale and complexity of the risk and verified and validated on a periodical basis,

- the risk management process supports the pursuit of the Bank's strategy in keeping with the risk management strategy, in particular with regard to the level of tolerance of the risk,
- the area of risk and debt recovery remains organisationally independent of business activities,
- risk management is integrated with the planning and controlling systems.

Risk management in the Bank takes place in all of the organisational units of the Bank.

The organisation of risk management is presented in the chart below:

The organisation of risk management chart



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

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

The risk management process is carried out in three, mutually independent lines of defence:
1) the first line of defence, which is functional internal control that ensures using risk controls and compliance of the activities with the generally applicable laws,
2) the second line of defence, which is the risk management system, including risk management methods, tools, process and organisation of risk management,
3) the third line of defence, which is an internal audit.

The independence of the lines of defence consists of preserving organisational independence in the following areas:
- the function of the second line of defence as regards creating system solutions is independent of the function of the first line of defence,
- the function of the third line of defence is independent of the functions of the first and second lines of defence,
- the function of managing the compliance risk reports directly to the Chairman of the Management Board of the Bank.

The first line of defence is effected in the organisational units of the Bank, the organisational units of the Head Office and the external entities which the Bank commissioned to carry out the activities related to banking activity and concerns the activities of those units and entities which may generate risk. The units and entities are responsible for identifying risks, designing and implementing appropriate controls, including in the external entities, unless controls have been implemented as part of the measures taken in the second line of defence.

The second line of defence is effected, in particular, in the Risk and Debt Collection Area, the specialist organisational units of the Bank responsible for credit analyses, the organisational unit of the Head Office managing the compliance risk, as well as the organisational units of the Head Office responsible for controlling.

The third line of defence is effected as part of internal audit, including the audit of the effectiveness of the system of managing the risk relating to the Bank's activities.

The organisational units of the Head Office of the Bank that are grouped within the Banking Risk Division, the Restructuring and Debt Collection Division, and the Credit Risk Assessment Department manage risk within the limits of competence assigned to them.

The Banking Risk Division is responsible for:

- identifying risk factors and sources,
- measuring, assessing, and monitoring and reporting risk levels (material risks) on a regular basis,
- measuring and assessing capital adequacy,
- preparing recommendations for the Management Board of the Bank or committees regarding the acceptable level of risk,
- creating internal regulations on managing risk and capital adequacy,
- developing IT systems dedicated to supporting risk and capital adequacy management.

The Restructuring and Debt Collection Department is responsible for:

- recovering receivables from difficult clients swiftly and increasing the effectiveness of such measures,
- effective and early monitoring of delays in the collection of receivables of retail market clients,
- selling difficult receivables effectively and outsourcing the tasks carried out, as well as effective management of assets taken over as a result of recovering the Bank's receivables.

The Analysis and Credit Risk Assessment Centre is responsible for evaluating and verifying the level of credit risk level assessed in respect of individual credit exposures, which due to the scale of the exposure, client's segment or risk level required independent assessment. In connection with the implementation of the T Recommendation by the Bank, the Analysis and Credit Risk Assessment Centre takes lending decisions in respect of individual clients.

Risk management is supported by the following committees:

- Risk Committee (RC),
- Assets & Liabilities Committee (ALCO),
- Bank's Credit Committee (BCC),
- Central Credit Committee (CCC),
- Operating Risk Committee (ORC),
- credit committees which operate in the regional retail and corporate branch offices.

RC monitors the integrity, adequacy and efficiency of the bank risk management system, as well as capital adequacy and implementation of the risk management policies consistent with the Bank's Strategy, and analyses and evaluates the application of strategic risk limits specified in the PKO Bank Polski SA's Bank Risk Management Strategy.

RC supports the Supervisory Board in the bank risk management process by formulating recommendations and making decisions concerning capital adequacy and the efficiency of the bank risk monitoring system.

ALCO makes decisions within the scope of granted authorisations and issues recommendations to the Bank's Management Board with regard to portfolio credit risk management, interest rate risk management, currency risk, liquidity risk and the Bank's asset and liabilities management. This committee is chaired by the President of the Bank's Management Board.

BCC makes loan decisions with regard to significant individual loan exposures, or issues recommendations in this respect to the Bank's Management Board.

CCC supports the decisions taken by the relevant managing directors and the Bank's Management Board members with its recommendations and the credit committees operating in the regions support branch directors and directors of the Regional Corporate Branches in matters bearing a higher risk level.

ORC supports the Bank's Management Board in the process of managing operating risk by:

- giving recommendations, i.a. as to the Bank's Management Board approval of the level of operating risk tolerance, operating risk limits reserved for the competences of the Bank's Management Board, defining operating risk stress-tests and other activities related to systemic management of the operating risk,
- taking decisions in respect of thresholds and critical values of key risk indicators (KRI), operating risk limits reserved for the competences of ORC, values of key parameters used in calculating value at risk (VaR) in respect of operating risk, and individual approach to outliers.

PKO Bank Polski SA's top priority is to maintain its strong capital position and to further increase in its stable sources of financing underlying the stable development of business activity, while maintaining the priorities of efficiency and effective cost control.

On 21 June 2011, PKO Bank Polski SA obtained approval from the Polish Financial Supervision Authority to apply, as from 30 June 2011, the statistical approach to calculating capital requirements in respect of operating risk (AMA), with a temporary limitation (until the conditions set by the PFSA have been met) on the drop of the capital requirement by not more than up to a level of 75% of the requirement calculated under the standardised approach.

In 2011, PKO Bank Polski participated in stress tests arranged by the EBA (European Banking Authority) and the PFSA. The results of both these tests confirmed the strong capital position of PKO Bank Polski SA and the Bank's considerable immunity to the realisation of negative market scenarios. In each of the scenarios developed by the PFSA, the Bank recorded a net profit and the value of capital adequacy measures remained above the external limits.

50.1 Identification of significant types of risk

The significance of the individual types of risk is established at the Bank's level. When determining criteria of classifying a given type of risk as significant, an influence of a given type of risk on the Bank's activities are taken into account, whereas three types of risk are recognised:

- considered as significant a priori – being managed actively,
- potentially significant – for which significance monitoring is being made,
- other non-defined or non-occurring in the Bank types of risk (insignificant and non-monitored).

Based on quantitative and qualitative information, an assessment of significance of given types of risk is performed in the Bank periodically. As a result of assessment, a given type of risk is being classified as significant/insignificant. In particular, monitoring is conducted if significant change in activities took place or the profile of the Bank or the Group changed.

50.2 Credit risk management

Credit risk is defined as a risk of occurrence of losses due to 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 counterparty's ability to repay amounts due to the Bank.

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

The Bank 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 particularly by geographical location, by industry, by product and by clients,
– expected credit risk is mitigated by setting collateral, 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 (IRB), i.e. advanced credit risk management method, which can be used while calculating capital requirements for credit risk after being approved by the Financial Supervision Authority.

Measurement of credit risk

Credit risk measurement methods

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 (according to IFRS),
– coverage ratio of non-performing loans with impairment allowances (according to IFRS)
– cost of risk.

PKO Bank Polski SA extends regularly the scope of credit risk measures used, taking into account the internal rating-based method (IRB) requirements, and extends the use of risk measures to fully cover the whole Bank's 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 products, determine the optimum cut-off levels and determine impairment allowances.

The Bank performs analysis and stress-tests regarding the influence of potential changes in macroeconomic environment on the quality of Bank's loan portfolio. The test results are reported to the Bank's Executives. The above-mentioned information enables the Bank to identify and take measures to limit the negative influence of unfavourable market changes on the Bank's performance.

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 application software. The scoring method is defined by Bank's internal regulations whose main aim is to ensure uniform and objective assessment of credit risk during the credit process.

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 2011, the parameters for assessing the creditability of individual customers were adapted to the amended provisions of the Recommendation S, in particular as regards the following:
- changing the method of determining disposable income for foreign currency loan transactions drawn to finance real property and foreign currency loan transactions secured by mortgage,

(in PLN thousand)

- changing (shortening) the maximum lending period adopted in the assessment of creditability,
- taking into account the probability that the level of the borrower's income will change after the acquisition of pension entitlement in the assessment of creditability.

The evaluation of credit risk related to financing institutional clients is performed in two dimensions: in respect of the client and of the transaction. The assessment measures comprise ratings of clients and transactions. The comprehensive measure of credit risk which reflects both risk factors is the aggregate rating. A scoring method for credit risk evaluation of clients in the SME segment, and a dedicated software application has been used in the Bank since 1 September 2010. This method is available apart from the rating method. Its implementation resulted in shortening the assessment process of loan applications as well as improvement of credit risk management effectiveness. As a result of the positive scoring of the institutional clients' portfolio in November 2011 the scoring procedure was extended.

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 in the credit risk assessment and reporting system.

In order to reduce the period of response as regards warning signals suggesting an increase in credit risk level, the Bank implemented a dedicated application the Early Warning System (EWS) in August 2010. In 2011 this tool was being developed, in result of which in June 2011 the automatic identification of adverse events was implemented. In 2011 in its rating system the Bank took into consideration the identification of default events, achieving consistency between the rating system and the system for identifying individual premises for impairment of credit exposures. The scale of rating non-financial customers was also expanded: in place of 8 rating classes, 10 rating classes were introduced and at the same time it was decided that credit exposures which had been classified into the rating class 'G' (due to the low likeliness of default) were not to be automatically considered to be individually impaired. Moreover, as a rule the terms and conditions for determining availability of financing were maintained.

In 2011, in determining the write-downs in respect of the portfolio of mortgage loans for individuals, the Bank used the portfolio parameters estimated on the basis of the methodology for estimating parameters for the purpose of calculating the capital requirements using the IRB method. The new methodology takes into account intense restructuring processes conducted in respect of the above-mentioned portfolio and allows more precise assessment of the related credit risk.

Forecasting and monitoring of credit risk

Exposure of the Bank to credit risk

Amounts due from banks	Exposure	
	31.12.2011	31.12.2010
Amounts due from banks impaired, of which:	42 280	42 720
assessed with an individual method	42 166	42 250
Amounts due from banks not impaired, of which	2 311 628	2 369 089
neither past due nor impaired	2 311 628	2 368 738
past due but not impaired	-	351
past due up to 4 days	-	351
Gross total	**2 353 908**	**2 411 809**
Impairment allowance	**(33 710)**	**(32 570)**
Net total by carrying amount	**2 320 198**	**2 379 239**

(in PLN thousand)

Loans and advances to customers	Exposure	
	31.12.2011	31.12.2010
Loans and advances impaired, of which:	10 395 779	9 490 018
assessed with an individual method	4 459 538	4 686 388
Loans and advances not impaired, of which:	134 645 660	123 708 595
neither past due nor impaired	131 102 983	119 904 124
past due but not impaired	3 542 677	3 804 471
past due up to 4 days	774 863	2 025 979
past due over 4 days	2 767 814	1 778 492
Gross total	**145 041 439**	**133 198 613**
Impairment allowances	**(4 982 790)**	**(4 265 484)**
Net total by carrying amount	**140 058 649**	**128 933 129**

Investment securities available for sale – debt securities	Exposure	
	31.12.2011	31.12.2010
Debt securities impaired, of which:	12 998	13 045
assessed with an individual method	12 998	13 045
Debt securities not impaired, of which:	14 091 183	9 804 907
neither past due nor impaired	14 091 183	9 804 907
with external rating	8 361 299	5 537 481
with internal rating	5 729 884	4 267 426
Gross total	**14 104 181**	**9 817 952**
Impairment allowances	**(12 998)**	**(13 045)**
Net total by carrying amount	**14 091 183**	**9 804 907**

Other assets – other financial assets	Exposure	
	31.12.2011	31.12.2010
Other assets impaired	102 127	124 455
Other assets not impaired, of which:	369 341	304 212
neither past due nor impaired	368 348	303 920
past due but not impaired	993	292
Gross total	**471 468**	**428 667**
Impairment allowances	**(90 673)**	**(117 465)**
Net total by carrying amount	**380 795**	**311 202**

(in PLN thousand)

Level of exposure to credit risk

The table below presents maximum exposure to credit risk of the Bank as at 31 December 2011 and as at 31 December 2010.

Items of the statement of financial position	31.12.2011	31.12.2010
Current account in the central bank	**6 845 759**	**3 782 717**
Amounts due from banks	**2 320 198**	**2 379 239**
Trading assets – debt securities	**1 300 164**	**1 491 053**
issued by banks	1 724	-
issued by other financial institutions	239	10
issued by non-financial institutions	14 947	509
issued by the State Treasury	1 268 471	1 483 144
issued by local government bodies	14 783	7 390
Derivative financial instruments	**3 065 149**	**1 719 764**
Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities	**12 467 201**	**10 758 331**
issued by the State Treasury	3 620 515	6 631 702
issued by central banks	8 593 791	3 997 780
issued by local government bodies	252 895	128 849
Loans and advances to customers	**140 058 649**	**128 933 129**
financial entities (other than banks)	3 211 630	4 247 208
corporate loans	3 211 630	4 247 208
non-financial entities	131 796 369	120 848 557
consumer loans	22 797 176	24 061 792
mortgage loans	69 645 867	61 495 594
corporate loans	39 353 326	35 291 171
state budget entities	5 050 650	3 837 364
corporate loans	5 050 650	3 836 720
mortgage loans	-	644
Investment securities available for sale - debt securities	**14 104 181**	**9 804 907**
issued by the State Treasury	8 310 429	5 486 623
issued by other banks	50 870	50 858
issued by other financial institutions	152 257	8 179
issued by non-financial institutions	2 132 269	1 435 074
issued by local government bodies	3 458 356	2 824 173
Other assets - other financial assets	**380 795**	**311 202**
Total	**180 542 096**	**159 180 342**

Off-balance sheet items	31.12.2011	31.12.2010
Irrevocable liabilities granted	6 569 014	7 001 338
Guarantees granted	5 657 237	5 048 902
Letters of credit granted	418 383	229 946
Guarantees of issue (underwriting)	1 328 433	2 973 980
Total	**13 973 067**	**15 254 166**

Credit quality of financial assets which are neither past due nor impaired

Exposures to corporate clients who are not individually impaired are classified according to customer rating as part of the individual rating classes, from A to G (in respect of financial institutions from A to F).

The following loan portfolios are covered by the rating system:

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

(in PLN thousand)

Financial assets neither past due nor impaired	31.12.2011	31.12.2010
Amounts due from banks	**2 311 628**	**2 368 738**
of which:		
with rating	2 056 450	2 277 715
without rating	255 178	91 023
Loans and advances to customers	**131 102 983**	**119 904 124**
with rating – financial, non-financial and public sector (corporate loans)	40 866 390	38 486 951
A (first rate)	1 269 043	1 118 776
B (very good)	2 377 152	2 683 977
C (good)	4 248 073	6 165 665
D (satisfactory)	8 937 711	11 047 664
E (average)	10 092 736	8 755 152
F (acceptable)	11 088 797	8 715 717
G (poor)*	2 852 878	-
with rating – non-financial sector (consumer and mortgage loans)	83 438 089	77 841 071
A (first rate)	39 006 051	43 929 181
B (very good)	28 255 664	13 666 144
C (good)	6 770 389	12 303 034
D (average)	3 224 042	3 536 471
E (acceptable)	6 181 943	4 406 241
without rating – financial, non-financial and public sector (consumer, mortgage and other loans)	6 798 504	3 576 102
Other assets – other financial assets	**368 348**	**303 920**
Total	**133 782 959**	**122 576 782**

* In 2011 the Bank reclassified the catalogue of premises for individual loan impairment consisting specifically of discontinuing to recognise the premise of 'deterioration in the customer's financial position during the crediting period' in respect of customers who until then were in the group and are characterised by a relatively low probability of default.

Loans and advances which are not individually impaired and are not rated, are characterised with a satisfactory level of the credit risk. It concerns, in particular, retail loans (including mortgage loans) which are not individually significant and thus do not create significant credit risk.

Structure of debt securities and amounts due from banks, neither past due nor impaired by external rating class is presented below:

Trading debt securities

Rating/ portfolio	31.12.2011				31.12.2010			
	issued by the State Treasury	issued by local government bodies	issued by other financial institutions	issued by non-financial institutions	issued by the State Treasury	issued by local government bodies	issued by other financial institutions	issued by non-financial institutions
A- to A+	1 268 471	-	-	-	1 483 144	-	-	-
without rating	-	14 783	1 963	14 947	-	7 390	10	509
Total	**1 268 471**	**14 783**	**1 963**	**14 947**	**1 483 144**	**7 390**	**10**	**509**

Debt securities designated upon initial recognition at fair value through profit and loss

Rating/ portfolio	31.12.2011			31.12.2010		
	issued by the State Treasury	issued by local government bodies	issued by central banks	issued by the State Treasury	issued by local government bodies	issued by central banks
A- to A+	3 620 515	-	8 593 791	6 631 702	-	3 997 780
without rating	-	143 973	-	-	128 849	-
Total	**3 620 515**	**143 973**	**8 593 791**	**6 631 702**	**128 849**	**3 997 780**

(in PLN thousand)

Debt securities available for sale

Rating/portfolio	31.12.2011		31.12.2010	
	issued by State Treasury	issued by banks	issued by State Treasury	issued by banks
A- to A+	8 310 429	-	5 486 623	-
BBB- to BBB+	-	50 870	-	50 858
TOTAL	**8 310 429**	**50 870**	**5 486 623**	**50 858**

Amounts due from banks

Rating/portfolio	31.12.2011	31.12.2010
AAA	8 308	-
AA- to AA+	291 712	404 269
A- to A+	1 489 587	1 286 609
BBB- to BBB+	135 914	350 469
BB- to BB+	-	1 897
B- to B+	130 929	234 471
without rating	255 178	91 023
TOTAL	**2 311 628**	**2 368 738**

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

Debt securities available for sale

Entities with rating	31.12.2011	31.12.2010
	carrying amount	carrying amount
A (first rate)	25 293	10 233
B (very good)	341 104	304 834
C (good)	758 732	987 295
D (satisfactory)	2 320 579	1 216 372
E (average)	1 241 433	959 992
F (acceptable)	755 049	573 439
G (poor)	84 180	215 261
H (bad)	203 514	-
TOTAL	**5 729 884**	**4 267 426**

Debt securities designated upon initial recognition at fair value through profit and loss

Entities with rating	31.12.2011	31.12.2010
	carrying amount	carrying amount
C (good)	108 922	-
TOTAL	**108 922**	**-**

Concentration of credit risk within the Bank

PKO Bank Polski SA 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 business entities,
- the largest capital groups,
- industries,
- geographical regions,
- currencies,
- exposures with established mortgage collateral.

(in PLN thousand)

Concentration by the largest 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 25% of the Bank's own funds.

As at 31 December 2011 and 31 December 2010, those concentration limits had not been exceeded.

As at 31 December 2011, the level of concentration risk with respect to individual exposures was low – the largest exposure to a single entity was equal to 9.8%*, 8.2%* and 8.2% of the Bank's own funds.

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

31.12.2011				31.12.2010		
No.		Exposure*	Share in the loan portfolio**	No.	Exposure*	Share in the loan portfolio**
1.		1 258 272	0.87%	1.	736 873	0.56%
2.	***	1 205 697	0.84%	2.	464 247	0.35%
3.		541 970	0.38%	3.	350 441	0.27%
4.		484 761	0.33%	4.	334 671	0.25%
5.		399 939	0.28%	5.	326 815	0.25%
6.	***	394 293	0.27%	6.	297 702	0.23%
7.		342 022	0.24%	7.	287 418	0.21%
8.		325 542	0.22%	8.	281 790	0.21%
9.		323 299	0.22%	9.	256 297	0.19%
10.		313 271	0.22%	10.	250 000	0.19%
11.		294 361	0.20%	11.	243 947	0.19%
12.		293 060	0.20%	12.	230 999	0.18%
13.		262 785	0.18%	13.	229 921	0.17%
14.		244 256	0.17%	14.	223 904	0.17%
15.		237 574	0.16%	15.	218 157	0.17%
16.		236 898	0.16%	16.	214 447	0.16%
17.		235 466	0.16%	17.	212 636	0.16%
18.		220 566	0.15%	18.	209 785	0.16%
19.		213 811	0.15%	19.	199 078	0.15%
20.		212 868	0.15%	20.	195 894	0.15%
Total		**8 040 711**	**5.55%**	**Total**	**5 765 022**	**4.37%**

*Total exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees and interest receivable.
** Loan portfolio does not include off-balance sheet and capital exposures.
*** Concentration in respect of the entities exempted from concentration limits under the Article 71.3 of the Banking Law.

Concentration by the largest capital groups

The largest concentration of the PKO Bank Polski SA into the capital group is 2.12% of the loan portfolio of the Bank.

As at 31 December 2011, the concentration risk level by the largest capital groups was low. The greatest exposure of Bank towards a capital group amounted to 17.3%* and 11.1% of the Bank's own funds.

* Concentration in respect of the entities exempted from concentration limits

(in PLN thousand)

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

31.12.2011			31.12.2010		
No.	**Exposure***	**Share in the loan portfolio****	**No.**	**Exposure***	**Share in the loan portfolio****
***1	3 075 880	2.12%	1	1 183 394	0.90%
2	1 928 808	1.33%	2	898 546	0.68%
3	1 725 766	1.19%	3	892 191	0.68%
4	1 226 346	0.85%	4	871 694	0.66%
5	950 453	0.66%	5	848 561	0.64%
Total	**8 907 253**	**6.15%**	**Total**	**4 694 386**	**3.56%**

*Total exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable, debt securities, off-balance sheet and capital exposures.
** Loan portfolio does not include off-balance sheet and capital exposures.
*** Concentration in respect of the entities exempted from concentration limits under the Article 71.3 of the Banking Law.

Concentration by industry

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

As compared with 31 December 2010 the exposure of the PKO Bank Polski SA in industry sectors has increased by PLN 7.0 billion. The total exposure in the four largest industry sectors: 'Industrial processing', 'Wholesale and retail trade (...)', 'Maintenance of real estate' and 'Construction' amounted to approx. 64% of the total loan portfolio covered by an analysis of the sector.

Analysis of exposure to industry segments as at 31 December 2011 and 31 December 2010 is presented in the table below.

Section	**Description**	**31.12.2011**		**31.12.2010**	
		Exposure	**Number of entities**	**Exposure**	**Number of entities**
C	Industrial processing	18.89%	12.02%	21.87%	12.38%
G	Wholesale and retail trade, repair of motor vehicles, including motorcycles	16.41%	25.62%	16.91%	26.11%
L	Maintenance of real estate	16.11%	10.75%	13.79%	12.37%
F	Construction	12.54%	13.87%	14.70%	12.64%
O	Public administration and national defence obligatory social security	8.69%	0.51%	7.34%	0.55%
D	Electricity, gas, water, hot water and air to the mechanical systems production and supply	1.57%	0.19%	1.57%	0.15%
Other exposure		25.79%	37.04%	23.82%	35.80%
Total		**100.00%**	**100.00%**	**100.00%**	**100.00%**

Concentration of credit risk by geographical regions

The Bank's loan portfolio is diversified in terms of geographical location.

As at 31 December 2011, the largest concentration of the Bank's loan portfolio was in the mazowiecki region. More than half of the Bank's loan portfolio is concentrated in four regions: mazowiecki, śląsko-opolski, wielkopolski and małopolsko-świętokrzyski, which is consistent with the regions' domination both in terms of population and economy in Poland.

(in PLN thousand)

Region	31.12.2011	31.12.2010
Poland		
mazowiecki	18.36%	17.53%
śląsko-opolski	11.71%	13.10%
wielkopolski	10.55%	10.40%
małopolsko-świętokrzyski	9.55%	9.51%
dolnośląski	7.78%	7.85%
lubelsko-podkarpacki	7.08%	6.91%
zachodnio-pomorski	6.79%	7.08%
łódzki	6.50%	6.57%
pomorski	6.44%	6.52%
kujawsko-pomorski	5.02%	4.95%
warmińsko-mazurski	3.63%	3.60%
podlaski	3.22%	3.15%
other	3.37%	2.83%
Total	**100.00%**	**100.00%**

Concentration of credit risk by currency

As at 31 December 2011, the share of currency exposures, other than PLN, in the total credit portfolio of the Bank amounted to 23.5%. The greatest parts of currency exposures of PKO Bank Polski SA are those in CHF.

An increase in currency exchange rates in 2011 was the only important factor, which had an influence on the increase in the share of loans denominated in foreign currencies in 2011.

Currency	31.12.2011	31.12.2010
PLN	76.46%	77.17%
Foreign currencies, of which:	23.54%	22.83%
CHF	16.96%	17.31%
EUR	5.46%	4.51%
USD	1.10%	1.00%
GBP	0.02%	0.01%
Total	**100.00%**	**100.00%**

Other types of concentration

In accordance with the Recommendation S and T of the Polish Financial Supervision Authority, the Bank uses internal limits on credit exposures related to the Bank's customers defining the appetite for credit risk.

As at 31 December 2011, these limits have not been exceeded.

Renegotiated receivables

The purpose of the restructuring activity of the Bank is to maximise 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 and a timely service of 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.

(in PLN thousand)

Financial assets for which terms had been renegotiated (or otherwise they would be considered as past due or impaired).

Past due financial assets

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

Financial assets	31.12.2011				31.12.2010			
	up to 1 month	1 - 3 months	over 3 months	Total	up to 1 month	1 - 3 months	over 3 months	Total
Loans and advances to clients:	2 230 404	1 222 418	89 855	**3 542 677**	2 988 943	815 528	-	**3 804 471**
financial sector	4 469	153	-	**4 622**	-	-	-	**-**
non-financial sector	2 181 445	1 222 265	89 855	**3 493 565**	2 387 042	815 528	-	**3 202 570**
public sector	44 490	-	-	**44 490**	601 901	-	-	**601 901**
Amounts due from banks	-	-	-	**-**	351	-	-	**351**
Other assets – other financial assets	477	-	516	**993**	-	292	-	**292**
Total	**2 230 881**	**1 222 418**	**90 371**	**3 543 670**	**2 989 294**	**815 820**	**-**	**3 805 114**

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

The Bank made an assessment which proved that for the above-mentioned financial assets the expected cash flows fully cover the carrying amount of these exposures.

Financial assets individually determined to be impaired for which individual impairment allowance has been recognised by carrying amount gross

	31.12.2011	31.12.2010
Amounts due from banks	**42 166**	**42 250**
Loans and advances to customers	**4 459 538**	**4 686 388**
Non-financial sector	4 451 987	4 678 866
consumer loans	75 337	88 303
mortgage loans	1 108 920	764 065
corporate loans	3 267 730	3 826 498
Public sector	7 551	7 522
corporate loans	7 551	7 522
Investments securities assets available for sale	**12 998**	**13 045**
issued by non-financial entities	12 998	13 045
Total	**4 514 702**	**4 741 683**

Financial assets individually determined to be impaired were secured by the following collaterals established for the PKO Bank Polski SA:

– for loans and advances to customers: ceiling mortgages and ordinary mortgages, registered pledges, promissory notes and transfers of receivables. The financial effect of collaterals held in respect of the amount that best represents the maximum exposure to credit risk as at 31 December 2011 amounted to PLN 2 758 659 thousand (as at 31 December 2010 it amounted to PLN 2 883 393 thousand respectively).
– for investment securities available for sale: blank promissory notes, registered pledges on the bank account and on debtor's shares.

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 (with respect to non-financial clients 'H1' rating, with respect to financial institutions – G, H rating),
- restructuring actions taken and payment reliefs applied,
- additional impairment indicators identified for exposures to housing cooperatives arising from mortgage 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.

Allowances for credit losses

PKO Bank Polski SA performs a monthly review of loan exposures in order to identify credit exposures threatened with impairment, measure the impairment of loan exposures and record impairment charges or provisions. The process of determining the impairment charges and provisions consists of the following stages:

- identifying the indications of impairment and events significant from the point of view of identifying those indications,
- registering in the Bank's IT systems the events that are material from the point of view of identifying indications of impairment of credit exposures,
- determining the method of measuring impairment,
- measuring impairment and determining an impairment charge or provision,
- verifying and aggregating the results of the impairment measurement,
- recording the results of impairment measurement.

The method of determining the amount of impairment charges is dependent on the type of indications of impairment identified and the individual significance of a credit exposure. The events considered as indications of individual impairment are, in particular, as follows:

- a loan being overdue for at least 3 months,
- a significant deterioration in a customer's internal rating,
- entering into restructuring agreement or granting a discount concerning debt repayment (the indication of impairment will be recognised, if the convenience granted to the consumer is a result of its difficult legal or economic position).

When determining the overdue period of a loan, the amounts of interest not paid according to the schedule or instalment payments exceeding accepted thresholds are taken into account.

PKO Bank Polski SA applies three methods of estimating impairment:

- the individualised method applied in respect of individually significant loans, which show the indications of impairment or having the need for individual opinion because of transactions specifics, from which they are becoming and from events determining the repayment of exposition,
- the portfolio method applied in respect of individually insignificant loans, in the case of which indications of individual impairment have been recognised,
- the group method (IBNR) applied in respect of the loans in the case of which indications of individual impairment have not been identified, but there is a possibility of losses incurred but not recognised occurring.

Impairment allowances in respect of a loan exposure correspond to the difference between the carrying amount of the exposure and the present value of the expected future cash flows from a given exposure:

- while calculating impairment allowances under the individualised method, the expected future cash flows are estimated for each loan exposure individually, taking into account the possible scenarios relating to contract execution, weighted by the probability of their realisation,
- an impairment charge in respect of loan exposures under the portfolio method or the group method corresponds to the difference between the carrying amount of the exposures and the present value of the expected future cash flows estimated using statistical methods, based on historic observations of

exposures from homogenous portfolios.

A provision for off-balance sheet loan exposures is recorded in an amount equal to the resulting expected (and possible to estimate) loss of economic benefits.

When determining a provision for off-balance sheet loan exposures, PKO Bank Polski SA:

– uses the individualised method in respect to the individually significant credit exposures on unconditional liabilities with objective evidence of individual impairment or those relating to debtors whose other exposures show such evidence, and the individually significant exposures which do not show objective evidence of individual impairment, for which determining provisions using the portfolio parameters would not be reasonable,
– the portfolio method (if an exposure shows indications of individual impairment) or the group method (if an exposure only shows indications of group impairment) - in the case of the remaining off-balance sheet loan exposures.

The provision is determined as the difference between the expected amount of exposure in the statement of financial position, which will arise as a result of an off-balance sheet commitment (from the date at which the assessment is performed till the date of overdue amounts due arising considered as constituting an indication of individual impairment) and the present value of the expected future cash flows obtained from the exposure in the statement of financial position arising out of the commitment.

When determining a provision under the individualised method, the expected future cash flows are estimated for each loan exposure separately.

When determining a provision under the portfolio method or the group method, the portfolio parameters are used, estimated using statistical methods, based on the historic observation of exposures with the same features.

The structure of the loan portfolio and the impairment allowances of PKO Bank Polski SA's loan exposures are presented in Note 21 'Loans and advances to customers'.

(in PLN thousand)

Credit risk of financial institutions

As at 31 December 2011, the largest exposures of PKO Bank Polski SA on the interbank market were as follows:

Interbank portfolio*			
Counterparty	**Type of instrument**		**Total**
	Deposits	**Derivatives**	
Counterparty 1	485 944	1 918	487 862
Counterparty 2	366 725	7 854	374 579
Counterparty 3	338 336	(26 002)	338 336
Counterparty 4	130 420	5 636	136 056
Counterparty 5	-	112 015	112 015
Counterparty 6	-	104 000	104 000
Counterparty 7	-	93 667	93 667
Counterparty 8	-	91 009	91 009
Counterparty 9	77 000	(44 328)	77 000
Counterparty 10	-	68 449	68 449
Counterparty 11	62 702	18	62 720
Counterparty 12	-	57 548	57 548
Counterparty 13	-	54 471	54 471
Counterparty 14	-	47 737	47 737
Counterparty 15	-	41 021	41 021
Counterparty 16	-	33 652	33 652
Counterparty 17	-	32 208	32 208
Counterparty 18	-	22 147	22 147
Counterparty 19	-	21 203	21 203
Counterparty 20	-	17 601	17 601

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

(in PLN thousand)

The table below presents the greatest exposures of PKO Bank Polski SA on the interbank market as at 31 December 2010:

Interbank portfolio*			
Counterparty	Type of instrument		Total
	Deposits	Derivatives	
Counterparty 21	396 030	-	396 030
Counterparty 22	229 437	5 285	234 722
Counterparty 14	-	61 291	61 291
Counterparty 23	-	55 803	55 803
Counterparty 11	16 308	(157)	16 308
Counterparty 24	-	12 895	12 895
Counterparty 25	-	12 347	12 347
Counterparty 17	-	11 393	11 393
Counterparty 10	213	8 377	8 590
Counterparty 26	6 711	-	6 711
Counterparty 27	-	6 500	6 500
Counterparty 1	5 527	5	5 532
Counterparty 28	-	4 641	4 641
Counterparty 29	-	2 496	2 496
Counterparty 12	-	2 220	2 220
Counterparty 15	-	2 165	2 165
Counterparty 30	-	1 419	1 419
Counterparty 31	-	1 331	1 331
Counterparty 32	-	993	993
Counterparty 13	-	862	862

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

For the purpose of determining exposures, placements and securities issued by the counterparties, are stated at nominal values, while derivative instruments are stated at market values, excluding the collateral established by the counterparty. Total exposure to each counterparty ('Total') is the sum of exposures arising from placements and securities, increased by the exposure arising from derivative instruments, if it is positive (otherwise the exposure arising from derivatives is not included in total exposure). Exposure arising from all instruments is calculated from the moment of entering into transaction.

As at 31 December 2011 the Bank had signed master agreements (in accordance with ISDA/ Polish Banks Association standards) with 27 local banks and 51 foreign banks and credit institutions. Additionally the Bank was a party of 55 CSA agreements (Credit Support Annex)/Polish Banks Association Agreements with established collateral and 4 ISMA agreements (International Securities Market Association).

Geographical localisation of counterparties

The counterparties generating the 20 largest exposures as at 31 December 2011 and as at 31 December 2010 come from the following countries (classified by location of registered office):

No.	Country	Counterparty
1.	Austria	Counterparty 2
2.	Belgium	Counterparty 28
3.	Denmark	Counterparty 10
4.	France	Counterparty 9, Counterparty 13, Counterparty 15
5.	Netherlands	Counterparty 27
6.	Canada	Counterparty 32
7.	Germany	Counterparty 6, Counterparty 20
8.	Norway	Counterparty 1
9.	Poland	Counterparty 3, Counterparty 4, Counterparty 12, Counterparty 14, Counterparty 18, Counterparty 19, Counterparty 22, Counterparty 23, Counterparty 24
10.	Switzerland	Counterparty 17
11.	Sweden	Counterparty 26
12.	USA	Counterparty 31
13.	UK	Counterparty 5, Counterparty 7, Counterparty 8, Counterparty 11, Counterparty 16, Counterparty 25, Counterparty 29, Counterparty 30
14.	Italy	Counterparty 21

Counterparty structure by rating

Exposure 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 for counterparties 1 to 32 was accepted as at 31 December 2011.

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

Credit risk of financial institutions on retail markets

In addition to the interbank market exposure discussed above, as at 31 December 2011 the Bank had an exposure to financial institutions on the retail market (over PLN 5 million). The structure of this exposure is presented in the table below:

	Nominal value of exposure (in PLN thousand)		Country of the counterparty
	Statement of financial position item	Off-balance	
Counterparty 33	50 000	200 000	Poland
Counterparty 34	-	170 870	Ukraine

Management of foreclosed collateral

Foreclosed collaterals as a result of restructuring or debt collection activities are either used by the PKO Bank Polski SA for internal purposes or designated for sale. Details of the foreclosed assets are analysed 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 2011 and 31 December 2010, respectively, were designated for sale.

Activities undertaken by the Bank are aimed at selling assets as soon as possible. In individual and justified 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. In addition, PKO Bank Polski 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 realisation of collateral.

The carrying amounts of nonfinancial assets held by the Bank, gained as a result of collateral as at 31 December 2011 amounted to PLN 3 447 thousand and 31 December 2010 amounted to PLN 1 243 thousand. The above mentioned amounts are presented in Note 26, 'Other assets' in line item 'Other'.

Credit risk reporting

The Bank prepares monthly and quarterly credit risk reports for i.a. ALCO, BCC, the Bank's Management Board and the Bank's Supervisory Board. The reporting of credit risk covers specifically cyclic information on the results of risk measurement and the scale of risk exposure of the credit portfolio. In addition to the information concerning the Bank, the reports also contain information about the credit risk level for Group entities (KREDOBANK SA and the BFL SA Group), which have significant credit risk levels.

Management decisions concerning credit risk

Basic credit risk management tools used by the Bank include:

– minimum transaction requirements determined for a given type of transaction (e.g. minimum LTV, maximum loan amount, required collateral),
– 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,
– concentration limits – the limits defined in §71, clause 1 of the Banking Law,
– industry-related limits – limits which limit the risk level related to financing institutional clients that conduct business activities in industries characterised by high level of credit risk,
– limits on credit exposures related to the Bank's customers – the limits defining the appetite for credit risk as result of among other the recommendations of S and T,
– credit limits defining the Bank's maximum exposure to a given client or country in respect of wholesale operations and settlement limits and limits for the period of exposure,
– 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 organisational structure),

– 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.

Collateral management policy plays a significant role in establishing minimum transaction terms as regards credit risk. The Bank's collateral management is meant to secure properly the credit risk, to which the Bank is exposed, including first of all the fact of establishing collateral that will ensure the highest possible level of recovery in the event of realisation of collateral.

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 tangible 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.

The policy regarding legal collateral is defined by the Bank's internal regulations.

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 as mortgage on the property. Until an effective mortgage is established, the following types of collateral are used (depending on type and amount of loan): an increased credit margin or/and a collateral in the form of a cession of receivables related to the construction agreement, bill of exchange, guarantee or an insurance of receivables.

With regard to retail banking loans for individuals, 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 i.a.: trade receivables, bank accounts, movable property, real estate or securities.

50.3 Interest rate risk management

The interest rate risk is a risk of incurring losses on the Bank's balance and off-balance sheet items sensitive to interest rate fluctuations, as a result of changes in the interest rates on the market.

The objective of interest rate risk management is to mitigate the risk of incurring losses arising from market interest rate changes to an acceptable level by shaping the structure of balance and off-balance sheet items.

Measurement of interest rate risk

In the process of interest rate risk management, PKO Bank Polski SA uses, in particularly, the Value at Risk (VaR) model, interest income sensitivity measure, stress tests and a repricing gap.

The value at risk (VaR) is defined as a potential loss arising from the maintained structure of balance and off-balance sheet items and the volatility of interest rates, with the assumed probability level and taking into account the correlation between the risk factors.

The sensitivity of interest income is a measure showing changes in interest income resulting from abrupt changes in the interest rates. This measure takes into account the diversity of revaluation dates of the individual interest-bearing items in each of the selected time horizons.

Stress-tests are used to estimate potential losses arising from a held structure of the statement of financial position and off-balance sheet items 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 particular currencies by ±50 b.p., by ±100 b.p. and by ±200 b.p.,
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 largest historical non-parallel fluctuation of the interest rate curves for securities and derivative instruments that hedge them.

The repricing gap shows the difference between the present value of assets and liabilities exposed to interest rate risk, subject to revaluation in a given time range, and these balances are recognised on the transaction date.

Repricing Gap	0-1month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 Years	>5 years	Total
PLN (in PLN thousand)								**31.12.2011**
Periodic gap	50 553 647	14 208 211	(20 596 512)	(22 364 351)	(4 513 351)	1 131 958	79 727	**18 499 329**
Cumulative gap	50 553 647	64 761 858	44 165 346	21 800 995	17 287 644	18 419 602	18 499 329	**-**
PLN (in PLN thousand)								**31.12.2010**
Periodic gap	40 603 280	16 992 290	(23 909 590)	(13 445 830)	(2 969 000)	497 640	329 000	**18 097 790**
Cumulative gap	40 603 280	57 595 570	33 685 980	20 240 150	17 271 150	17 768 790	18 097 790	-

Repricing Gap	0-1month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 Years	>5 years	Total
USD (in USD thousand)								**31.12.2011**
Periodic gap	559 012	27 693	(294 729)	(356 503)	(47 280)	21	37	**(111 749)**
Cumulative gap	559 012	586 705	291 976	(64 527)	(111 807)	(111 786)	(111 749)	-
USD (in USD thousand)								**31.12.2010**
Periodic gap	350 450	(117 590)	(139 590)	(138 470)	(870)	20	20	**(46 030)**
Cumulative gap	350 450	232 860	93 270	(45 200)	(46 070)	(46 050)	(46 030)	-

Repricing Gap	0-1month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 Years	>5 years	Total
EUR (in EUR thousand)								**31.12.2011**
Periodic gap	288 707	(92 609)	(20 657)	(14 396)	(43 981)	(352 641)	(663)	**(236 240)**
Cumulative gap	288 707	196 098	175 441	161 045	117 064	(235 577)	(236 240)	-
EUR (in EUR thousand)								**31.12.2010**
Periodic gap	659 050	(305 770)	87 580	(220 140)	9 960	(605 320)	26 230	**(348 410)**
Cumulative gap	659 050	353 280	440 860	220 720	230 680	(374 640)	(348 410)	-

Repricing Gap	0-1month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 Years	>5 years	Total
CHF (in CHF thousand)								**31.12.2011**
Periodic gap	(681 810)	548 598	(15 430)	(38 121)	1 427	(29 085)	7 345	**(207 076)**
Cumulative gap	(681 810)	(133 212)	(148 642)	(186 763)	(185 336)	(214 421)	(207 076)	-
CHF (in CHF thousand)								**31.12.2010**
Periodic gap	312 490	(562 620)	(3 600)	(4 460)	(40)	1 520	6 770	**(249 940)**
Cumulative gap	312 490	(250 130)	(253 730)	(258 190)	(258 230)	(256 710)	(249 940)	-

As at the end of 2011 and 2010, PKO Bank Polski SA had a positive cumulative gap in PLN in all the time spans.

Forecasting and monitoring of interest rate risk

Exposure of the PKO Bank Polski SA to interest rate risk was as at 31 December 2011, within accepted limits. The Bank was mainly exposed to PLN interest rate risk, which represents about 77% of Bank's Value at Risk (VaR) as at 31 December 2011. Interest rate risk was determined mainly by the risk of a mismatch between the repricing of interest rates of Banks assets and liabilities.

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

Name of sensitivity measure	31.12.2011	31.12.2010
VaR for a 10-day time horizon (in PLN thousand)	62 661	39 004
Parallel movement of interest rate curves by 200 b.p. (in PLN thousand) (stress tests)	486 121	475 091

As at 31 December 2011, the Bank's interest rate VaR for the 10-day time horizon (10-day VaR) amounted to PLN 62 661 thousand, which accounted for approximately 0.36% of the value of the Bank's own funds. As at 31 December 2010, VaR for the Bank amounted to PLN 39 004 thousand, which accounted for approximately 0.24% of the Bank's own funds*.

Reporting of the interest rate risk

The Bank prepares daily, weekly, monthly and quarterly reports addressing interest rate risk. Reports present the information on interest rate risk exposure and usages of available limits regarding the risk. Reports are prepared mainly for ALCO, RC, the Bank's Management Board and the Bank's Supervisory Board.

Management decisions as regards interest rate risk

The main tools used in interest rate risk management in PKO Bank Polski SA include:

– procedures for interest rate risk management,
– limits and thresholds for interest rate risk,
– defining allowable transactions based on interest rates.

The Bank established limits and thresholds for interest rate risk comprising the following: price sensitivity, interest income sensitivity, limits and threshold for losses and limits on instruments sensitive to interest rate fluctuations.

50.4 Currency risk management

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

The objective of managing the currency risk is to mitigate the risk of incurring losses arising from the exchange rate fluctuations to an acceptable level by shaping the structure of balance and off-balance sheet items.

Measurement of the currency risk

PKO Bank Polski SA measures currency risk using the Value at Risk (VaR) model and stress tests.

The value at risk (VaR) is defined as a potential loss arising from currency position and foreign exchange rate volatility under the assumed confidence level and taking into account the correlation between the risk factors.

Stress-tests and crash-tests 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:

* Own funds calculated in accordance with regulations concerning calculation of the capital adequacy ratio.

1) hypothetical scenarios – which assume a hypothetical appreciation or depreciation of currency rates (by 20 percent and 50 percent),
2) historical scenarios – based on the behaviour of currency rates observed in the past.

Forecasting and monitoring of currency risk

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

Name of sensitivity measure	31.12.2011	31.12.2010
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)	1 470	3 171
Change in CUR/PLN by 20% (in PLN thousand) (stress-tests)*	2 969	5 272

*The table presents the value of the most adverse stress-test of the scenarios: PLN appreciation by 20% and PLN depreciation by 20%. Data as at the end of 2010 was brought to the comparability.

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

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

	31.12.2011	31.12.2010
	Currency Position	Currency Position
USD	(13 151)	(60 735)
GBP	49	48 110
CHF	(36 795)	(19 038)
EUR	70 224	(13 120)
Other (Global Net)	10 985	18 424

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 in the statement of financial position (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 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 as at the end of 2011 amounted to approx. 0.01%).

(in PLN thousand)

Currency structure

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

	Currency translated to PLN – 31.12.2011				
	PLN	**EUR**	**CHF**	**Other**	**Total**
Assets, of which:					
Cash and balances with the central bank	8 453 599	344 819	28 725	233 137	**9 060 280**
Amounts due from banks	378 318	1 030 890	204 172	740 528	**2 353 908**
Loans and advances to customers	111 057 016	7 899 058	24 569 554	1 515 811	**145 041 439**
Securities	27 653 173	309 552	-	-	**27 962 725**
Tangible assets	9 369 430	-	-	-	**9 369 430**
Other assets and derivatives	3 737 098	261 014	41 031	85 269	**4 124 412**
Total assets (gross)	160 648 634	9 845 333	24 843 482	2 574 745	**197 912 194**
Depreciation / amortisation / impairment	(8 718 665)	(187 163)	(527 939)	(105 737)	**(9 539 504)**
Total assets (net)	**151 929 969**	**9 658 170**	**24 315 543**	**2 469 008**	**188 372 690**
Liabilities and equity, of which:					
Amounts due to the central bank	3 454	-	-	-	**3 454**
Amounts due to banks	1 035 519	710 879	3 443 872	131 120	**5 321 390**
Amounts due to customers	132 705 731	10 237 739	2 227 079	4 860 132	**150 030 681**
Debt securities in issue	3 105 588	-	-	-	**3 105 588**
Subordinated liabilities	1 614 377	-	-	-	**1 614 377**
Provisions	597 897	13 835	434	3 323	**615 489**
Other liabilities and derivatives and provision for deferred tax liabilities	4 486 308	316 645	4 523	71 860	**4 879 336**
Equity	22 802 375	-	-	-	**22 802 375**
Total liabilities and equity	**166 351 249**	**11 279 098**	**5 675 908**	**5 066 435**	**188 372 690**
Contingent liabilities granted	**32 642 150**	**3 731 493**	**157 150**	**1 545 004**	**38 075 797**

	Currency translated to PLN – 31.12.2010				
	PLN	**EUR**	**CHF**	**Other**	**Total**
Assets, of which:					
Cash and balances with the central bank	5 549 373	364 200	17 417	181 572	**6 112 562**
Amounts due from banks	243 047	1 121 015	621 532	426 215	**2 411 809**
Loans and advances to customers	103 345 706	5 927 535	22 827 853	1 097 519	**133 198 613**
Securities	22 017 842	133 968	-	-	**22 151 810**
Tangible assets	9 168 971	-	-	-	**9 168 971**
Other assets and derivatives	2 611 308	120 390	491	39 443	**2 771 632**
Total assets (gross)	142 936 247	7 667 108	23 467 293	1 744 749	**175 815 397**
Depreciation / amortisation / impairment	(8 039 112)	(95 134)	(352 037)	(90 195)	**(8 576 478)**
Total assets (net)	**134 897 135**	**7 571 974**	**23 115 256**	**1 654 554**	**167 238 919**
Total liabilities and equity, of which:					
Amounts due to the central bank	3 370	-	-	-	**3 370**
Amounts due to other banks	689 461	443 957	3 024 714	6 049	**4 164 181**
Amounts due to customers	123 166 413	8 649 236	1 069 806	2 403 600	**135 289 055**
Subordinated liabilities	1 611 779	-	-	-	**1 611 779**
Provisions	570 975	6 110	669	136 684	**714 438**
Other liabilities and derivatives and provision for deferred tax liability	3 908 774	246 192	1 079	98 203	**4 254 248**
Equity	21 201 848	-	-	-	**21 201 848**
Total liabilities and equity	**151 152 620**	**9 345 495**	**4 096 268**	**2 644 536**	**167 238 919**
Contingent liabilities granted	**34 264 882**	**2 522 631**	**148 314**	**1 252 539**	**38 188 366**

(in PLN thousand)

Reporting of the currency risk

The Bank prepares daily, weekly, monthly, and quarterly reports addressing currency risk. Reports gather the information on currency risk exposure and updates on available limits regarding the risk. Reports are prepared mainly for ALCO, RC, the Bank's Management Board and the Bank's Supervisory Board.

Management decisions concerning currency risk

Main tools used in currency risk management in the Bank include:
- procedures for currency risk management,
- limits and thresholds for currency risk,
- defining allowable types of transactions in foreign currencies and the exchange rates used in such transactions.

The Bank has set 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.

50.5 Liquidity risk management

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

The objective of liquidity risk management is to pay present and future debts (also potential) on time, taking into account the nature of performed activities and requirements which may occur due to changes in market environment, by shaping the structure of the Bank's statement of financial position and contingent liabilities and commitments.

PKO Bank Polski SA's policy concerning liquidity is based on keeping a portfolio of liquid securities and increasing stable sources of financing (stable deposits, in particular). In its liquidity risk management policy, the Bank also uses money market instruments, including NBP open market operations.

Measurement of the liquidity risk

The Bank makes use of the following liquidity risk measures:
- the contractual liquidity gap method and the liquidity gap in real terms,
- liquidity reserve,
- measure of stability of deposit and loan portfolios,
- stress tests (liquidity stress tests).

Forecasting and monitoring of liquidity risk

Liquidity gaps presented below include among others the Bank's items of the statement of financial position in real terms concerning the following: permanent balances on deposits of non-financial sector and their maturity, permanent balances on loans in current accounts for non-financial entities and their maturity and liquid securities and their maturity.

	a'vista	0 - 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	24 - 60 months	over 60 months
31.12.2011								
Adjusted gap in real terms	7 426 100	12 228 512	(1 386 297)	1 477 225	(1 254 297)	10 195 400	15 701 903	(44 388 546)
Cumulative adjusted gap in real terms	7 426 100	19 654 612	18 268 315	19 745 540	18 491 243	28 686 643	44 388 546	-
31.12.2010								
Adjusted gap in Real terms	3 220 646	14 309 944	(711 294)	(65 793)	3 965 229	5 019 030	(1 317 240)	(24 420 522)
Cumulative adjusted gap in real terms	3 220 646	17 530 590	16 819 296	16 753 503	20 718 732	25 737 762	24 420 522	-

In all time horizons, PKO Bank Polski SA's cumulative adjusted liquidity gap in real terms as at 31 December 2011 and as at 31 December 2010 was positive. This means a surplus of assets receivable over liabilities payable.

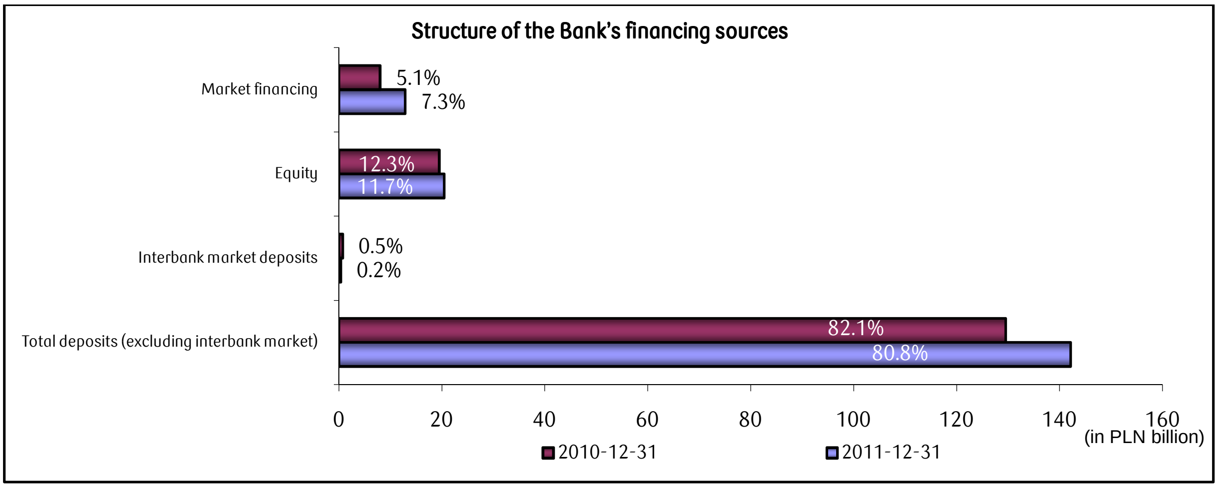
The table below presents liquidity reserve of the Bank as at 31 December 2011 and as at 31 December 2010:

Name of sensitivity measure	31.12.2011	31.12.2010
Liquidity reserve up to 1 month* (in PLN million)	17 723	10 151

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

As at 31 December 2011 the level of permanent balances on deposits constituted ca. 94.8% of all deposits in the Bank (excluding for interbank market), which means a decrease by approximately 0.4 pp. as compared to the end of 2010.

The chart below presents the structure of the Bank's sources of financing as at 31 December 2011 and as at 31 December 2010.



The contractual flows of the Bank's liabilities excluding derivative financial instruments as at 31 December 2011 and 2010 respectively, by maturity

The tables below show the contractual maturity analysis presenting the outstanding contractual maturity dates by individual categories of balance sheet and off-balance sheet liabilities, excluding derivative financial instruments as at 31 December 2011 and 2010 respectively.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2011 and 31 December 2010. The amounts disclosed comprise non-discounted future flows, both in respect of principal and interest (if applicable), in accordance with the contract, for the entire period to the date of the liability's maturity. In situations where the party to whom the Bank has a liability is able to select the settlement deadline, it has been assumed that the earliest date on which the Bank is obliged to settle the liability shall be taken into account. In situations where the Bank is obliged to settle the liabilities in instalments, each instalment is allocated to the earliest period in which the Bank might be obligated to settle. In the case of liabilities where the instalment date is not fixed, the terms binding as at the reporting date have been adopted.

(in PLN thousand)

Contractual flows of the Bank's liabilities as at 31 December 2011 by maturity

	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	3 454	-	-	-	-	3 454	**3 454**
Amounts due to other banks	2 176 374	209 010	3 446 741	-	-	5 832 125	**5 321 390**
Amount due to customers	92 633 327	15 019 129	35 092 306	8 059 411	1 715 026	152 519 198	**150 030 681**
Debt securities in issue	-	2 950 000	-	179 193	-	3 129 193	**3 105 588**
Subordinated liabilities	-	-	96 383	369 881	1 699 775	2 166 039	**1 614 377**
Other liabilities	1 612 533	382 901	95 112	26 229	39 748	2 156 523	**2 156 523**
Off-balance sheet financial liabilities – granted	15 247 959	957 788	4 885 157	4 215 505	5 365 335	30 671 744	-
Off-balance sheet guarantee liabilities – issued	102 662	337 260	1 769 827	4 003 958	1 190 346	7 404 053	-

Contractual flows of the Bank's liabilities as at 31 December 2010 by maturity

	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	3 370	-	-	-	-	3 370	**3 370**
Amounts due to other banks	1 109 587	2 304	6 990	4 064 602	-	5 183 483	**4 164 181**
Amount due to customers	82 185 269	17 198 795	31 504 824	5 437 904	1 523 160	137 849 952	**135 289 055**
Subordinated liabilities	-	-	80 835	323 563	1 762 592	2 166 990	**1 611 779**
Other liabilities	1 787 451	-	-	148	-	1 787 599	**1 787 599**
Off-balance sheet financial liabilities – granted	16 629 361	291 994	3 999 554	3 320 204	5 694 425	29 935 538	-
Off-balance sheet guarantee liabilities – issued	1 649 125	971 746	1 828 734	3 313 539	489 684	8 252 828	-

(in PLN thousand)

The contractual flows related to derivative financial instruments as at 31 December 2011 and 2010 respectively, by maturity dates

Derivative financial instruments settled in net amounts

Derivative financial instruments settled by the Bank on a net basis include:

- interest rate swap (IRS),
- Forward Rate Agreement (FRA),
- Non Deliverable Forward (NDF),
- options.

The tables below show the contractual maturity analysis presenting the outstanding contractual maturity dates by individual categories of derivative financial instruments in respect of which the balance sheet date valuation was negative (a liability) as at 31 December 2011 and as at 31 December 2010 respectively.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2011 and 31 December 2010. In the case of IRS transactions, non-discounted future net cash flows in respect of interest have been presented and in the case of the remaining derivative instruments settled on a net basis, the amount of the valuation as at 31 December 2011 and as at 31 December 2010 respectively was adopted as the value of cash flows.

Moreover, in the table the cash flows from IRS transactions which constitute cash flow hedges in respect of loans with variable interest rates are shown separately.

31 December 2011	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value
Derivative financial instruments - liabilities:						
- Interest Rate Swap (IRS) transactions, of which:	(86 181)	(446 346)	(102 476)	(519 508)	(65 127)	(1 219 640)
- derivative hedging instruments	(720)	(43 123)	(125 667)	(2 643)	-	(172 153)
- other derivative hedging instruments: options, FRA, NDF	(13 321)	(31 074)	(63 496)	(67 089)	(3 424)	(178 404)

31 December 2010	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value
Derivative financial instruments - liabilities:						
- Interest Rate Swap (IRS) transactions, of which:	(105 205)	(163 410)	2 734	(324 556)	(37 553)	(627 990)
- derivative hedging instruments	(26 310)	(33 432)	155 030	3 071	-	98 359
- other derivative hedging instruments: options, FRA, NDF	(7 054)	(16 545)	(35 648)	(8 188)	-	(67 435)

Derivative financial instruments settled in gross amounts

Derivative financial instruments settled by the Bank on a gross basis include:

- foreign currency swap,
- foreign currency forward,
- Cross Currency IRS (CIRS).

The tables below show the contractual maturity analysis, presenting the outstanding contractual maturity dates by individual categories of derivative financial instruments (inflows and outflows) in respect of which the balance sheet date valuation was negative (a liability) as at 31 December 2011 and 31 December 2010 respectively.

The amounts denominated in foreign currencies have been translated using the average NBP exchange rate as at 31 December 2011 and as at 31 December 2010. The amounts disclosed comprise non-discounted future cash flows, both in respect of principal and interest (if applicable).

In the table below cash flows from CIRS transactions which constitute cash flow hedges in respect of mortgage loans denominated in CHF and deposits negotiated in PLN are shown separately.

(in PLN thousand)

31 December 2011	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value
Derivative financial instruments:						
- outflows, of which:	(4 648 404)	(1 171 801)	(2 714 512)	(8 556 597)	(293 894)	(17 385 208)
- derivative hedging instruments	(107)	(79)	(1 283 493)	(5 831 422)	(181 665)	(7 296 766)
- inflows, of which:	4 757 021	1 259 677	2 905 469	8 381 329	308 220	17 611 716
- derivative hedging instruments	13 780	8 815	1 297 074	5 424 579	178 425	6 922 673

31 December 2010	Up to 1 month	1 - 3 months	3 months - 1 year	1 - 5 years	Over 5 years	Contractual value
Derivative financial instruments:						
- outflows, of which:	(4 769 951)	(1 117 732)	(2 671 901)	(11 263 845)	(1 003 961)	(20 827 390)
- derivative hedging instruments	(2 774)	(160 404)	(1 329 956)	(9 662 916)	(986 358)	(12 142 408)
- inflows, of which:	4 785 673	1 209 276	2 928 744	11 794 926	972 125	21 690 744
- derivative hedging instruments	56 848	193 084	1 515 203	9 789 602	943 602	12 498 339

Current and non-current assets and liabilities of the Bank as at 31 December 2011

	Short-term	Long-term	Impairment allowances	Total carrying amount
Assets				
Cash and balances with the central bank	9 060 280	-	-	**9 060 280**
Amounts due from banks	2 224 379	129 529	(33 710)	**2 320 198**
Financial assets held for trading	638 321	672 768	-	**1 311 089**
Derivative financial instruments	1 305 142	1 760 007	-	**3 065 149**
Financial assets instruments at fair value through profit and loss	11 666 896	800 305	-	**12 467 201**
Loans and advances to customers	36 042 051	108 999 388	(4 982 790)	**140 058 649**
Investment securities available for sale	1 954 712	12 229 723	(15 502)	**14 168 933**
Other assets	1 607 868	4 979 081	(665 758)	**5 921 191**
Total assets	**64 499 649**	**129 570 801**	**(5 697 760)**	**188 372 690**

Liabilities				
Amounts due to the central bank	3 454	-	-	**3 454**
Amounts due to other banks	5 321 363	27	-	**5 321 390**
Derivate financial instruments	883 657	1 761 624	-	**2 645 281**
Amounts due to customers	140 943 018	9 087 663	-	**150 030 681**
Debt securities in issue	2 929 973	175 615	-	**3 105 588**
Subordinated liabilities	-	1 614 377	-	**1 614 377**
Other liabilities	2 394 663	454 881	-	**2 849 544**
Total liabilities	**152 476 128**	**13 094 187**	**-**	**165 570 315**
Equity	**-**	**22 802 375**	**-**	**22 802 375**
Total liabilities and equity	**152 476 128**	**35 896 562**	**-**	**188 372 690**

(in PLN thousand)

Current and non-current assets and liabilities of the Bank as at 31 December 2010

	Short-term	Long-term	Impairment allowances	Total carrying amount
Assets				
Cash and balances with the central bank	6 112 562	-	-	**6 112 562**
Amounts due from banks	2 177 832	233 977	(32 570)	**2 379 239**
Financial assets held for trading	873 046	630 603	-	**1 503 649**
Derivative financial instruments	653 319	1 066 445	-	**1 719 764**
Financial instruments at fair value through profit and loss	8 533 646	2 224 685	-	**10 758 331**
Loans and advances to customers	24 732 023	108 466 590	(4 265 484)	**128 933 129**
Investment securities available for sale	3 512 329	6 377 501	(13 578)	**9 876 252**
Other assets	1 622 393	4 989 749	(656 149)	**5 955 993**
Total assets	**48 217 150**	**123 989 550**	**(4 967 781)**	**167 238 919**
Liabilities				
Amounts due to the central bank	3 370	-	-	**3 370**
Amounts due to other banks	1 154 440	3 009 741	-	**4 164 181**
Derivative financial instruments	843 773	1 561 022	-	**2 404 795**
Amounts due to customers	123 278 062	12 010 993	-	**135 289 055**
Subordinated liabilities	-	1 611 779	-	**1 611 779**
Other liabilities	2 048 533	515 358	-	**2 563 891**
Total liabilities	**127 328 178**	**18 708 893**	**-**	**146 037 071**
Equity	**-**	**21 201 848**	**-**	**21 201 848**
Total liabilities and equity	**127 328 178**	**39 910 741**	**-**	**167 238 919**

Reporting of the liquidity risk

The Bank prepares daily, weekly, monthly, and quarterly reports addressing liquidity risk. Reports present the information on liquidity risk exposure and usages of available limits regarding the risk. Reports are prepared mainly for RC, ALCO, the Bank's Management Board and the Bank's Supervisory Board.

Management decisions concerning liquidity risk

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

- procedures for liquidity risk management, in particular emergency plans,
- limits and thresholds mitigating liquidity risk,
- deposit, investment and derivative transactions, including structural currency transactions and transactions for sale or purchase of securities,
- transactions ensuring long-term financing of Bank's lending activities.

To ensure an adequate liquidity level, the PKO Bank Polski SA has accepted limits and thresholds for liquidity risk. The limits and thresholds were set for short, medium and long-term liquidity measures.

50.6 Management of price risk of equity securities

The price risk of equity securities is the risk of incurring a loss due to changes in the prices of equity securities on the public market or stock exchange indices, generated by maintaining open positions in instruments sensitive to changes in these market parameters.

The price risk of equity securities results from operations conducted as part of trading activities (DM PKO Bank Polski SA), investing activities and from other operations as part of banking activities generating a position inequity securities.

Managing the equity securities risk is aimed at limiting possible losses due to changes in the prices of equity securities on the public market or stock exchange indices to a level acceptable to the Bank, by optimising the positions taken in instruments sensitive to changes in these market parameters.

The risk is managed by imposing limits on the activities of Dom Maklerski PKO Bank Polski SA divided into the banking portfolio and the trading portfolio, and by monitoring the utilisation thereof.

The effect of the price risk of equity securities on the financial position of the Bank was assessed as immaterial. The positions taken in equity securities and index instruments are limited, and the Bank does not expect them to increase significantly.

Other price risks

Taking into consideration other price risks, at the end of the year 2011, the Bank was exposed to price risk of investment fund participation units in collective investment funds.

This risk is also immaterial – a capital requirement, pursuant to the Resolution No 76/2010 of the Polish Financial Supervision Authority (with subsequent amendments)*, to cover the above mentioned risk was at the end of the year 2011 lower than PLN 1 million.

50.7 Management of derivative instruments risk

The risk of derivative instruments is a risk resulting from the Bank's taking up a position in financial instruments, which meet all of the following conditions:

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

The derivative risk management is integrated in the Bank with management of the following types of risk: interest rate risk, currency risk, liquidity risk, credit risk. However, due to the specific nature of derivatives it is subject to special control specified in the internal regulations of the Bank.

Measurement of the derivative instruments risk

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 in section on currency risk, depending on the risk factor which affects the value of the instrument.

Forecasting and monitoring the risk of the derivative instruments

Monitoring the risk of derivative instruments takes place as part of monitoring of other types of financial and credit risk. The Bank pays particular emphasis to monitor financial risk related to the maintenance of currency options portfolio and customer credit risk resulting from amounts due to the Bank in respect of derivative instruments.

Reporting the risk of the derivative instruments

The Bank prepares daily, weekly, monthly, and quarterly reports addressing the risk of derivative instruments. Reports present the information on the derivative risk exposure and updates on available limits regarding the risk. Reports are prepared mainly for ALCO, RC, the Bank's Management Board and the Bank's Supervisory Board.

Management decisions concerning risk of derivative instruments

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

- written procedures for derivative risk management,
- limits and thresholds set for the risk related to derivative instruments,
- master agreements specifying i.al. settlement mechanisms.
- collateral agreement, under which selected clients of the Bank are required to establish a collateral on exposures due to derivative instruments.

Risk management is carried out by imposing limits on derivative instruments included in the Bank's trading and banking portfolios, monitoring limits 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

* Amendments to the Resolution No. 76/2010 were introduced by the following PFSA resolutions: Resolution No. 369/2010 dated 12 October 2010, PFSA Resolution No. 153/2011 dated 7 June 2011, PFSA Resolution No. 206/2011 dated 22 August 2011 and PFSA Resolution No. 324/2011 dated 20 December 2011.

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).

50.8 Operational risk management

Operational risk is defined as the risk of occurrence of a loss due to non-compliance or unreliability of internal processes, people and systems or external events.

The objective of operational risk management is to optimise 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.

Measurement of the operational risk

Measurement of operational risk at the Bank aims at defining the scale of threats related to the existence of operational risk with the use of defined risk measures. The measurement of operational risk comprises:

- KRI calculation,
- calculation of VaR for operating risk,
- scenario-based analyses (stress-tests).

Identification and assessment of operational risk comprises operational risk appearing in the existing products, processes and IT applications of the Bank, the above is conducted with the use of:

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

Forecasting and monitoring of operational risk

The Bank regularly monitors:

- utilisation level of strategic tolerance limits on operational risk,
- utilisation level of operational risk losses,
- effectiveness and timeliness of actions taken to reduce or transfer the operational risk,
- setting threshold and critical values of Key Risk Indicators (KRI),
- operating events and their effects,
- effects of actions taken following external control recommendations or internal audits,
- quality of the internal functional controls.

Reporting of operational risk

The Bank prepares reports concerning operating risk on a quarterly basis. The reports are addressed to the Operational Risk Committee, the Bank's Management Board and the Bank's Supervisory Board. The reports contain among others:

- information on the operational risk profile of the Bank resulting from the process of identifying and assessing the threats for products, processes and IT software of the Bank,
- information on the results of measuring and monitoring operating risk,
- information on operating events and their financial effects,
- the most important projects and initiatives as regards operational risk management.
- recommendation or proposal of actions for the Operational Risk Committee or the Bank's Management Board,
- information about utilisation level of strategic tolerance limit and losses limits on operational risk.

Each month, information on operational risk is prepared and forwarded to members of the Bank's Management Board and organisational units of the Bank responsible for system-based operating risk management. The scope of information is diversified and tailored to the scope of responsibilities of individual recipients of the information.

Management decisions concerning operational risk

Operational risk management is performed through systemic solutions as well as regular ongoing management of the risk. Systemic operational risk management is centralised at the PKO Bank Polski SA Head Office level. The ongoing operational risk management is conducted by every organisational unit of the Bank.

In order to manage the operational risk, the Bank gathers internal and external data about operating events and their causes, data on the operating environment, and data related to the quality of internal functional controls.

In order to mitigate exposure of operational risk, the following tools are used by the Bank:
1) control instruments,
2) human resources management instruments (proper staff selection, enhancement of professional qualification of employees, motivation packages),
3) setting threshold values of Key Risk Indicators (KRI),
4) tolerance and operational risk limits,
5) contingency plans,
6) insurance,
7) outsourcing.

The instruments used for mitigating operating risk are selected among other things depending on:

1) availability and adequacy of risk-mitigating instruments,
2) the nature of operations or of the process in which the operating risk was identified,
3) materiality of the risk,
4) the cost of using the instrument.

Additionally, the Bank's internal regulations stipulate the duty to refrain from excessively risky operations, and if such operations are being conducted – to withdraw from them or to limit their scope. The level of operating risk is deemed to be excessive when the potential benefits from a given type of operation are lower than the potential operating losses.

If the level of operational risk is too high, the Bank takes the following actions:

– risk avoidance – withdrawing from too risky activity or resigning from undertaking it if there is no possibility of managing it,
– reducing the scale of activities characterised by too high level of risk, if it can be possibly managed and it is possible to take actions reducing risk,
– risk transfer – insurance against the risk of occurring operational events ensuring the maintenance of operational risk on such a level that the Bank's activities are not threatened.

50.9 Compliance risk management

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

The Compliance Department is responsible for finding systemic solutions in the area of ensuring the Bank's compliance with the binding regulations and operating standards, and development of the methods for evaluating, monitoring and reporting the Bank's compliance risk. The Compliance Department is a unit which was granted independence and which reports directly to the Chairman of the Bank's Management Board.

Compliance risk management involves in particular:

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

In order to identify and assess compliance risk, information on cases of non-compliance and their origins is being used, including information based on internal audits results, functional control and external controls.

Identification and assessment of compliance risk is mainly based on:

– estimating the most probable number of typical cases of non-compliance arising during the year,
– estimating the severity of the potential cases of non-compliance,
– assessing the existence of any additional factors of compliance risk.

While performing an assessment a character and potential losses are defined together with methods of reducing or eliminating compliance risk. Assessment is held through workshops.

The Bank is carried out monitoring of compliance risk, which includes i.a.:

– the results of the identification and assessment of compliance risk,
– instances of non-compliance identified at the Bank and within the banking, their causes and effects,
– changes in the key legal regulations or standards affecting on the Bank's activity,
– actions undertaken as part of managing the compliance risk, execution of internal audit and external inspection recommendations and execution of the recommendations of the Compliance Department.

The Bank prepares reports concerning compliance risk on a quarterly basis. The reports are addressed to the Bank's Management Board, the Supervisory Board's Audit Committee and the Bank's Supervisory Board. The reports contain information about among others:

– the results of the identification and assessment of compliance risk,
– instances of non-compliance identified at the Bank and within the banking sector in Poland,
– the most important changes in the regulatory environment and measures undertaken at the Bank to adapt to new regulations and standards,
– the results of external controls carried out in the Bank,
– the progress in executing the recommendations issued by the PFSA based on inspections carried out at the Bank,
– significant correspondence with external supervision and inspection authorities.

The Bank has adopted a zero tolerance policy against compliance risk, which means that the Bank focuses its actions towards eliminating this risk.

50.10 Strategic risk management

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

Managing the strategic risk is aimed at maintaining, on an acceptable level, the negative financial consequences resulting from bad decisions, decisions made on the basis of an incorrect assessment or failing to make appropriate decisions on the direction of the strategic development of the Bank.

In measuring the strategic risk, the Bank takes into account an impact of selected types of factors, distinguished in the activity and in the environment, which comprise in particular:

– external factors,
– factors related to the growth and development of the banking operations,
– factors related to the management of human resources,
– factors related to investment activities,
– factors related to the organisation's culture.

Monitoring of the strategic risk level is performed in the Bank on an annual basis at minimum.

Strategic risk reporting is conducted annually in the Bank. Reports on strategic risk are prepared mainly for the Bank's Management Board and for managing directors of the Bank's Head Office.

Management of strategic risk in the Bank is mainly applied in the form of actions undertaken if an elevated level of strategic risk occurs.

50.11 Reputation risk management

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

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

Reputation risk ratios are calculated based on annual assessment of negative image-related events identified in a given calendar year for particular types of image-related events. Main tools used to determine the Bank's reputation risk level are:

– a catalogue of image-related events categories containing a list of image-related categories with appropriate weights assigned,
– a register of image-related events containing a list of negative image-related events that occurred grouped by image-related events categories.

Monitoring of image-related events is performed on an ongoing basis and includes:

– monitoring the external and internal communication channels of the Bank with the environment in terms of identifying the negative impact of image-related events,
– gathering and analyzing information related to the occurrence or a possibility of occurrence of image related events,
– recording data on the identified negative impact of image-related events.

The reports on the level of reputation risk are prepared in the Bank on an annual basis. The reports are addressed to the organisational units of the Banking Risk Division.

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

51. Capital adequacy

Capital adequacy is the maintenance of a level of capital by PKO Bank Polski SA which exceeds the sum of regulatory capital requirements (the so-called Pillar 1) and the sum of 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:

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

The main measures of capital adequacy are:

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

The level of capital adequacy of the Bank as at 31 December 2011 remained on a safe level significantly above the statutory limits.

51.1 Own funds calculated for capital adequacy purposes

Own funds for the purposes of capital adequacy are calculated based on the provisions of the Banking Law and the Resolution No. 325/2011* of the Polish Financial Supervision Authority of 20 December 2011 on decreasing core funds, (PFSA Journal of Laws No. 13* item 49 as of 30 December 2011).

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) unappropriated profits from previous years,
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 Law, Article 127.2, Point 2) c).

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 and other receivables classified as available for sale,
4) negative currency translation differences from foreign operations,

*Resolution No. 325/2011 of the Polish Financial Supervision Authority of 20 December 2011 on other deductions from the primary funds - their value, scope and methods of application, other balance sheet items included in complementary funds – their value, scope and methods of allocation to the bank's additional funds, deductions from the additional funds – their value, scope and methods of application, the scope and method of considering the bank's activities in groups while calculating own funds.

(in PLN thousand)

5) negative amounts in respect of adjustments on revaluation of assets in the trading portfolio.

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 80% of their pre-tax value,
3) positive currency translation differences from foreign operations.

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 excess above the value of the supplementary funds is subtracted from the basic funds.

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

As at 31 December 2011, the Bank's own funds for the purposes of capital adequacy increased by PLN 785 015 thousand, mainly due to the recognition of profit earned by the Bank in 2010 after anticipated charges deduction to the Bank's own funds (in the amount of PLN 836 209 thousand). At the same time, compared with the balance as at the end of 2010, the value of the item decreasing own funds in respect of unrealised losses on debt and equity instruments in the DDS portfolio increased by PLN 61 352 thousand and equity exposures of the Bank by PLN 9 788 thousand.

The structure of the Bank's own funds for the purpose of capital adequacy is presented in the table below:

BANK'S OWN FUNDS	31.12.2011	31.12.2010
Basic funds (Tier 1)	**16 225 262**	**15 449 560**
Share capital	1 250 000	1 250 000
Reserve capital	12 898 111	12 098 111
Other reserves	3 319 621	3 283 412
General banking risk fund for unidentified banking activities risk	1 070 000	1 070 000
Unrealised losses on debt and equity instruments and other receivables classified as available for sale	(127 287)	(65 935)
Assets valuation adjustments	(143)	(183)
Intangible assets	(1 522 568)	(1 528 267)
Equity exposures	(662 472)	(657 578)
Supplementary funds (Tier 2)	**989 525**	**967 418**
Subordinated liabilities classified as supplementary funds	1 600 700	1 600 700
Unrealised profits on debt and equity instruments classified as available for sale (up to 80% of their values before tax)	51 297	24 296
Equity exposures	(662 472)	(657 578)
Short-term equity (Tier 3)	**133 134**	**145 928**
TOTAL EQUITY	**17 347 921**	**16 562 906**

51.2 Capital requirements (Pillar 1)

PKO Bank Polski SA calculates capital requirements in accordance with the Resolution No. 76/2010 of the Polish Financial Supervision Authority dated 10 March 2010 on scope and detailed principles of setting capital requirements in connection with the individual risk types (Polish Financial Supervision Authority's Journal of Laws No 2, item 11 dated 9 April 2011 with subsequent amendments): in respect of the Bank's operational risk – using the standard method, in respect of operating risk - starting from 30 June 2011 using the advanced method (AMA) (for the year 2010 using the standard method (TSA)) and in respect of market risk - using the basic methods.

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,

(in PLN thousand)

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.

The table below presents the Bank's capital requirements as regards particular types of risk.

Capital requirements	31.12.2011	31.12.2010
Credit risk	**10 486 573**	**9 625 972**
credit risk (banking book)	10 363 885	9 560 923
counterparty risk (trading book)	122 688	65 049
Market risk	**390 863**	**465 911**
equity securities risk	1 604	767
specific risk of debt instruments	294 836	379 948
general risk of interest rates	94 423	85 196
Operational risk	**757 943**	**957 564**
Total capital requirements	**11 635 379**	**11 049 447**
Capital adequacy ratio	**11.93%**	**11.99%**

An increase in the capital requirement in respect of credit risk by PLN 861 million (an increase of 8.9%) to the level of PLN 10 487 million, resulted mainly from an increase in 2011 in the volume of loan portfolio (in statement of financial position and off-balance sheet exposure by approx. 6.6%).

A decrease in the capital requirement in respect of market risk by 16.1% to the level of PLN 391 million resulted mainly from a decrease in the value of issue underwriting, whereas an increase in the value of corporate bonds (total decrease in the requirements on bonds approx. by 28%).

The Bank's capital requirements in respect of operating risk as at 31 December 2011 has been calculated under the advanced measurement approach (AMA). On 21 June 2011, the Bank obtained approval from the PFSA for implementing this approach with a temporary limitation (until the conditions set by the PFSA have been met) on the drop in the capital requirement by no more than up to a level of 75% of the requirement calculated under the standardised approach (TSA). As a consequence, in December 2011 the requirement in respect of operating risk for the Bank compared with the value as at the end of December 2010 (calculated under the TSA approach) dropped by PLN 200 million to PLN 758 million.

As at 31 December 2011, compared with 31 December 2010, the Bank's capital adequacy ratio dropped by 0.06 pp. to 11.93%. This was due to the increase in the capital requirement in respect of credit risk and the drop in the capital requirement in respect of market and operating risks.

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

- in case of statement of financial position items – a product of a carrying amount, a risk weight of the exposure calculated according to the standardized method of credit risk requirement and 8% (considering collateral),
- in case of granted contingent liabilities and commitments – a product of nominal value of liability (considering value of allowances on the liability), a risk weight of the product, a risk weight of exposure calculated according to the standardized method of credit risk requirement and 8% (considering recognized collateral),
- in case of off-balance sheet transactions (derivative instruments) – a product of risk weight of the exposure calculated according to the standardized method of credit risk requirement, equivalent in the statement of financial position of off-balance sheet transaction and 8% (the value of the equivalent in the statement of financial position is calculated in accordance with the mark-to-market method).

Risk-weighted amount divided into portfolios (on account of credit risk of instruments included into banking book, counterparty credit risk and specific risk of instruments from the trading portfolio) as at 31 December 2011 is as follows:

(in PLN thousand)

Type of instrument	Carrying amount	Risk - weighted value
Bank portfolio	181 238 879	115 326 183
Trading portfolio	7 133 811	2 795 143
Total instruments in the statement of financial position	**188 372 690**	**118 121 326**

Type of instrument	Nominal value	Statement of financial position equivalent	Risk - weighted value
Bank portfolio	36 747 364	14 248 937	13 271 454
Trading portfolio	1 323 433	1 323 433	910 357
Total off-balance sheet instruments	**38 070 797**	**15 572 370**	**14 181 811**

Type of instrument	Nominal value	Statement of financial position equivalent	Risk - weighted value
Bank portfolio	83 382 850	2 448 267	950 931
Trading portfolio	318 555 114	2 919 573	1 533 595
Total derivative instruments	**401 937 964**	**5 367 840**	**2 484 526**

Risk-weighted amount divided into portfolios (on account of credit risk of instruments included into banking book, counterparty credit risk and specific risk of instruments from the trading portfolio) as at 31 December 2010 is as follows:

Type of instrument	Carrying amount	Risk - weighted value
Bank portfolio	161 467 844	108 109 577
Trading portfolio	5 771 075	1 985 072
Total instruments in the statement of financial position	**167 238 919**	**110 094 649**

Type of instrument	Nominal value	Statement of financial position equivalent	Risk - weighted value
Bank portfolio	35 214 386	11 939 871	10 944 167
Trading portfolio	2 973 980	2 973 980	2 773 866
Total off-balance sheet instruments	**38 188 366**	**14 913 851**	**13 718 033**

Type of instrument	Nominal value	Statement of financial position equivalent	Risk - weighted value
Bank portfolio	65 615 762	1 401 166	457 802
Trading portfolio	212 224 402	1 995 550	813 106
Total derivative instruments	**277 840 164**	**3 396 716**	**1 270 908**

51.3 Internal capital (Pillar 2)

PKO Bank Polski SA calculates internal capital in accordance with the Resolution No 258/2001 of the Polish Financial Supervision Authority of 4 October 2011* 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 (Polish Financial Supervision Authority's Journal of Laws as at 23 November 2011, No. 11, item 42).

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 Bank Polski SA is intended to cover each of the significant risk types:

- credit risk (as regards default risk),
- currency risk,
- interest rate risk,
- liquidity risk,
- operational risk,
- business risk (including strategy risk).

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

The internal capital for covering the individual risk types is determined using the methods specified in the internal regulations. In the event of performing internal capital estimates based on statistical models, the annual forecast horizon is adopted and a 99.9% confidence level.

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 Bank adopts a prudent approach to the aggregation of risks and does not rely on the diversification effect.

In 2011, the relation of the Bank's own funds to its internal capital remained on a level exceeding both the threshold set by the law and the Bank's internal limits.

51.4 Disclosures (Pillar 3)

In accordance with § 6 of the Resolution 385/2008 of the Polish Financial Supervision Authority dated 17 December 2008, 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 (Polish Financial Supervision Authority's Journal of Laws 2008, No. 8, item 39 with subsequent amendments), the PKO Bank Polski SA, which is the parent 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 authorisation of the annual financial statements by the Ordinary General Shareholders' Meeting.

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

INFORMATION ON THE ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS AND EVENTS AFTER THE REPORTING PERIOD

52. Information on the entity authorised to audit financial statements

Entity authorised to audit financial statements with which PKO Bank Polski SA concluded an agreement is PricewaterhouseCoopers Sp. z o.o. The agreement concerns auditing the financial statements of PKO Bank Polski SA as well as auditing the consolidated financial statements of PKO Bank Polski SA Group. The above agreement was concluded on 14 April 2011.

* As at 31 December 2010 PKO Bank Polski SA calculates internal capital in accordance with Resolution No. 383/2008 of the Financial Supervision Authority dated 17 December 2008 (Financial Supervision Authority's Journal of Laws 2008, No. 8, item 37).

Total net remuneration of PricewaterhouseCoopers Sp. z o.o. for the audit of the separate financial statements and consolidated financial statements of PKO Bank Polski SA amounted in 2011 to PLN 1 140 thousand (2010: PLN 1 140 thousand), total net remuneration of PricewaterhouseCoopers Sp. z o.o. for the certifying services, including the review of the financial statements amounted in 2011 to PLN 1 910 thousand (2010: PLN 560 thousand).

Total net remuneration of PricewaterhouseCoopers Sp. z o.o. related to rendering PKO Bank Polski SA other services amounted in 2011 to PLN 2 031 thousand (2010: PLN 1 066 thousand).

53. Events after the reporting period

On 9 January 2012, in the Qualia Development Sp. z o.o. Group new companies agreements were concluded: Qualia Spółka z ograniczoną odpowiedzialnością - Władysławowo Spółka Komandytowa, Qualia Spółka z ograniczoną odpowiedzialnością - Zakopane Spółka Komandytowa, Qualia Spółka z ograniczoną odpowiedzialnością- Jurata Spółka Komandytowa. These companies were created in order to realisation of investment projects. Ongoing registration of above-mentioned companies in the National Court Register.

On 16 January 2012, PKO Bank Polski SA was registered with the State Ukrainian Register of Businesses as the sole shareholder of 'Inter-Risk Ukraina' Additional Liability Company with its seat in Kiev (the additional liability means that the shareholder is responsible for the company's liabilities up to 103% of its share). PKO Bank Polski SA acquired 1 share constituting 100% of the Company's share capital which entitles it to 100% of votes at the shareholders' meeting. The acquisition price was PLN 2 500 thousand. On 30 January 2012, the Bank made a capital contribution of UAH 43 million (PLN 17 212.9 thousand) to the above mentioned Company. The main purpose of acquiring and subsequently the operation of the Company is to use it to perform effective debt collection of the impaired loans portfolio of KREDOBANK SA and the impaired loans portfolio purchased by Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.

On 27 January 2012 Qualia Development Sp. z o.o. made an additional payment to the company Qualia Residence Sp. z o.o. amounted to PLN 13 000 thousand.

On 31 January 2012 was signed a sales agreement of a Holiday and Recreation Center 'Daglezja' in Zakopane by the Bank with the company Qualia Residence Sp. z o.o

On 31 January 2012, the increase in the share capital of Bankowy Leasing Sp. z o.o. in the total amount of PLN 9 500 thousand, was registered with the National Court Register. All the shares were taken up by Bankowy Fundusz Leasingowy SA – the Bank's subsidiary- for the price equal to the nominal value of the shares taken up.

In January and February 2012, PKO Bank Polski SA made a capital contribution to Qualia Development Sp. z o.o. totalling PLN 35 319 thousand.

In 2012 during the period to the publication of the report the Bank conducted activities connected with the liquidation of Centrum Finansowe Puławska Sp. z o.o. On 1 March 2012, in order to take over its assets, including property, in which is the Bank's Head Office registered office is located.

In February 2012, PKO Bank Polski SA carried out a transaction consisting of selling 2% interest in Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. to 'Inter-Risk Ukraina' Spółka z dodatkową odpowiedzialnością (additional liability company). The above-mentioned transaction was carried out as part of the process of transforming Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. into a subsidiary of 'Inter-Risk Ukraina' Spółka z dodatkową odpowiedzialnością.

(in PLN thousand)

On 10 February 2012, the Bank carried out an issue of own bonds based on the Scheme for Issuing bonds for the domestic market. The nominal value of the bonds issued as part of the Issue is PLN 1 500 000 thousand. The nominal value of one bond is PLN 100 thousand. The bonds issued as part of the Issue are bearer zero-coupon discount bonds. The redemption of the bonds issued as part of the Issue will be performed at their nominal value.

Signatures of all Members of the Management Board of the Bank

23.02.2012	Zbigniew Jagiełło	President of the Mangement Board	.... (signature)
23.02.2012	Piotr Alicki	Vice-President of the Management Board	.... (signature)
23.02.2012	Bartosz Drabikowski	Vice-President of the Management Board	.... (signature)
23.02.2012	Andrzej Kołatowski	Vice-President of the Management Board	.... (signature)
23.02.2012	Jarosław Myjak	Vice-President of the Management Board	.... (signature)
23.02.2012	Jacek Obłękowski	Vice-President of the Management Board	.... (signature)
23.02.2012	Jakub Papierski	Vice-President of the Management Board	.... (signature)

Signature of person responsible for maintaining the books of account

23.02.2012

Danuta Szymańska

Director of the Bank

....
(signature)